

Condensed Interim Financial Statements  
(Expressed in Canadian dollars)

## **NEXJ SYSTEMS INC.**

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

# NEXJ SYSTEMS INC.

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

|   | June 30,<br>2021 | December 31,<br>2020 |
|---|------------------|----------------------|
| <b>Assets</b>                                     |                  |                      |
| Current assets:                                   |                  |                      |
| Cash and cash equivalents                         | \$ 6,378         | \$ 5,426             |
| Accounts receivable                               | 898              | 3,546                |
| Prepaid expenses and other assets                 | 1,034            | 1,320                |
| Total current assets                              | 8,310            | 10,292               |
| Non-current assets:                               |                  |                      |
| Property and equipment                            | 692              | 768                  |
| Right-of-use assets (note 3)                      | 1,170            | 1,280                |
| Goodwill  | 1,753            | 1,753                |
| Investments                                       | 248              | 255                  |
| Contract costs (note 4)                           | 70               | 51                   |
| Other assets                                      | 333              | 403                  |
| Total non-current assets                          | 4,266            | 4,510                |
| <b>Total assets</b>                               | <b>\$ 12,576</b> | <b>\$ 14,802</b>     |
| <b>Liabilities and Shareholders' Equity</b>       |                  |                      |
| Current liabilities:                              |                  |                      |
| Accounts payable and accrued liabilities          | \$ 1,860         | \$ 1,874             |
| Deferred revenue                                  | 4,231            | 5,374                |
| Lease liabilities (note 5)                        | 1,095            | 967                  |
| Total current liabilities                         | 7,186            | 8,215                |
| Non-current liabilities:                          |                  |                      |
| Accrued liabilities                               | 77               | 101                  |
| Deferred revenue                                  | –                | 346                  |
| Lease liabilities (note 5)                        | 666              | 1,078                |
| Total non-current liabilities                     | 743              | 1,525                |
| <b>Total liabilities</b>                          | <b>7,929</b>     | <b>9,740</b>         |
| Shareholders' equity:                             |                  |                      |
| Share capital                                     | 83,471           | 83,471               |
| Share purchase loans                              | (3,598)          | (3,598)              |
| Contributed surplus (note 6)                      | 8,718            | 8,664                |
| Accumulated other comprehensive loss              | (21)             | (14)                 |
| Deficit   | (83,923)         | (83,461)             |
| Total shareholders' equity                        | 4,647            | 5,062                |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 12,576</b> | <b>\$ 14,802</b>     |

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<br>June 30, |            | Six months ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2021                           | 2020       | 2021                         | 2020       |
| Revenue:   |                                |            |                              |            |
| License and subscription fees  | \$ 395                         | \$ 26      | \$ 438                       | \$ 50      |
| Professional services  | 1,258                          | 1,972      | 3,058                        | 3,643      |
| Maintenance and support  | 2,113                          | 2,289      | 4,206                        | 4,575      |
|  | 3,766                          | 4,287      | 7,702                        | 8,268      |
| Cost of revenue  | 887                            | 877        | 1,955                        | 2,224      |
| Gross profit   | 2,879                          | 3,410      | 5,747                        | 6,044      |
| Expenses:  |                                |            |                              |            |
| Research and development   | 1,492                          | 1,353      | 2,895                        | 3,371      |
| Sales and marketing  | 518                            | 568        | 1,084                        | 1,358      |
| General and administrative   | 980                            | 1,462      | 2,038                        | 2,903      |
| Restructuring costs (note 7)   | —                              | 960        | —                            | 960        |
|  | 2,990                          | 4,343      | 6,017                        | 8,592      |
| Loss from operations   | (111)                          | (933)      | (270)                        | (2,548)    |
| Foreign exchange gain (loss)   | (50)                           | (239)      | (150)                        | 134        |
| Finance income   | 6                              | 19         | 9                            | 43         |
| Finance expense  | (24)                           | (34)       | (51)                         | (70)       |
|  | (68)                           | (254)      | (192)                        | 107        |
| Net loss for the period  | (179)                          | (1,187)    | (462)                        | (2,441)    |
| Other comprehensive income (loss):   |                                |            |                              |            |
| Items that will not be reclassified to profit or loss:                       |                                |            |                              |            |
| Unrealized gain (loss) loss on equity securities                             | (4)                            | (12)       | (7)                          | 12         |
| Loss for the period and comprehensive loss                                   | \$ (183)                       | \$ (1,199) | \$ (469)                     | \$ (2,429) |
| Loss per share (note 8):   |                                |            |                              |            |
| Basic and diluted  | \$ (0.01)                      | \$ (0.06)  | \$ (0.02)                    | \$ (0.12)  |
| Weighted average number of common shares outstanding, in thousands (note 8): |                                |            |                              |            |
| Basic and diluted  | 21,055                         | 20,664     | 21,055                       | 20,670     |

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)

| Six months ended<br>June 30, 2021          | Common shares<br>Number* | Amount    | Share<br>purchase<br>loans* | Contributed<br>surplus | Accumulated<br>other<br>comprehensive<br>loss | Deficit     | Total<br>share-<br>holders'<br>equity |
|--|--------------------------|-----------|-----------------------------|------------------------|---|-------------|---------------------------------------|
| Balance, January 1, 2021                   | 20,384                   | \$ 83,471 | \$ (3,598)                  | \$ 8,664               | \$ (14)                                       | \$ (83,461) | \$ 5,062                              |
| Comprehensive loss                         | —                        | —         | —                           | —                      | (7)   | (462)       | (469)                                 |
| Share-based payment<br>expense (note 6(a)) | —                        | —         | —                           | 54                     | —   | —           | 54                                    |
| Balance, June 30, 2021                     | 20,384                   | \$ 83,471 | \$ (3,598)                  | \$ 8,718               | \$ (21)                                       | \$ (83,923) | \$ 4,647                              |

\*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 June 30, 2021, 942 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total outstanding common shares of 21,326.

| Six months ended<br>June 30, 2020                         | Common shares<br>Number* | Amount    | Share<br>purchase<br>loans* | Contributed<br>surplus | Accumulated<br>other<br>comprehensive<br>income (loss) | Deficit     | Total<br>share-<br>holders'<br>equity |
|---|--------------------------|-----------|-----------------------------|------------------------|--|-------------|---------------------------------------|
| Balance, January 1, 2020                                  | 20,164                   | \$ 82,915 | \$ (3,598)                  | \$ 8,874               | \$ (9)   | \$ (81,976) | \$ 6,206                              |
| Comprehensive loss  | —                        | —         | —                           | —                      | 12   | (2,441)     | (2,429)                               |
| Share-based payment<br>expense (note 6(a))                | —                        | —         | —                           | 129                    | —  | —           | 129                                   |
| Modification of deferred<br>share unit awards (note 6(b)) | —                        | —         | —                           | (26)                   | —  | —           | (26)                                  |
| Deferred share unit<br>expense (note 6(b))                | —                        | —         | —                           | 244                    | —  | —           | 244                                   |
| Balance, June 30, 2020                                    | 20,164                   | \$ 82,915 | \$ (3,598)                  | \$ 9,221               | \$ 3   | \$ (84,417) | \$ 4,124                              |

\*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 June 30, 2020, 942 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total outstanding common shares of 21,106.

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)

|   | Six months ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2021                         | 2020       |
| Cash flows from (used in) operating activities:         |                              |            |
| Loss for the period                                     | \$ (462)                     | \$ (2,441) |
| Adjustments for:  |                              |            |
| Depreciation and amortization of property and equipment | 108                          | 148        |
| Depreciation of right-of-use assets                     | 334                          | 285        |
| Changes in contract costs                               | (19)                         | 61         |
| Share-based payment expense                             | 54                           | 129        |
| Deferred share unit expense (note 6(b))                 | —                            | 218        |
| Finance income  | (9)                          | (43)       |
| Finance expense   | 51                           | 70         |
| Foreign exchange loss                                   | 81                           | 31         |
| Change in non-cash operating working capital:           |                              |            |
| Accounts receivable                                     | 2,648                        | 4,448      |
| Prepaid expenses and other assets                       | 362                          | 21         |
| Accounts payable and accrued liabilities                | (38)                         | 1,107      |
| Deferred revenue  | (1,494)                      | (1,146)    |
| Net cash flows from operating activities                | 1,616                        | 2,888      |
| Cash flows used in financing activities:                |                              |            |
| Payment of lease liability                              | (557)                        | (323)      |
| Interest paid   | (3)                          | —          |
| Net cash flows used in financing activities             | (560)                        | (323)      |
| Cash flows from (used in) investing activities:         |                              |            |
| Purchase of property and equipment                      | (32)                         | (84)       |
| Interest received                                       | 9                            | 43         |
| Net cash flows used in investing activities             | (23)                         | (41)       |
| Effects of exchange rates on cash and cash equivalents  | (81)                         | (31)       |
| Increase in cash and cash equivalents                   | 952                          | 2,493      |
| Cash and cash equivalents, beginning of period          | 5,426                        | 5,123      |
| Cash and cash equivalents, end of period                | \$ 6,378                     | \$ 7,616   |

See accompanying notes to the condensed interim financial statements.

# NEXJ SYSTEMS INC.

Notes to Condensed Interim Financial Statements

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

Three and six months ended June 30, 2021 and 2020

(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, 2020 financial statements. 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, 2020 and 2019.

These condensed interim financial statements were approved by the Board of Directors on July 29, 2021.

### (b) Basis of presentation:

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

# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 3. Right-of-use assets:

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

|                              | Head<br>lease | Offices<br>subleases | Computer<br>hardware | Total<br>right-of-use<br>assets |
|------------------------------|---------------|----------------------|----------------------|---------------------------------|
| Balance, beginning of period | \$ 1,537      | \$ (257)             | \$ –                 | \$ 1,280                        |
| Additions                    | –             | –                    | 224                  | 224                             |
| Depreciation                 | (384)         | 69                   | (19)                 | (334)                           |
| Balance, end of period       | \$ 1,153      | \$ (188)             | \$ 205               | \$ 1,170                        |

Depreciation of the computer hardware right-of-use asset is recognized using the straight line basis and the Company has estimated the useful life to be five years.

During the three and six months ended June 30, 2021, the Company recognized \$172 and \$334 (2020 - \$146 and \$285), respectively, of depreciation expense.

## 4. Contract costs:

|                              | June 30,<br>2021 | December 31,<br>2020 |
|------------------------------|------------------|----------------------|
| Balance, beginning of period | \$ 51            | \$ 136               |
| Contract costs incurred      | 46               | 3                    |
| Amortization                 | (27)             | (88)                 |
| Balance, end of period       | \$ 70            | \$ 51                |

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

# NEXJ SYSTEMS INC.

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

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(Unaudited)

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## 4. Contract costs (continued):

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 and six months ended June 30, 2021, amortization amounting to \$14 and \$27 (2020 - \$30 and \$61) was recognized as part of sales and marketing in the condensed interim statements of comprehensive loss.

## 5. Lease liabilities:

The Company's leases are for office space and the purchase of computer hardware. These leases contain no renewal options.

During the six months ended June 30, 2021, the Company entered into a 3-year finance lease for the purchase of computer hardware in the amount of \$224. This lease is repayable in monthly payments of \$6 with imputed interest at 3.07% maturing in 2024.

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

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|                               |          |
|-------------------------------|----------|
| Balance, beginning of period  | \$ 2,045 |
| Additions                     | 224      |
| Interest on lease liabilities | 52       |
| Lease payments                | (560)    |
| Balance, end of period        | 1,761    |
| Less current portion          | 1,095    |
| Non-current portion           | \$ 666   |

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During the three and six months ended June 30, 2021, the Company recognized \$25 and \$52 (2020 - \$36 and \$73), respectively, of accretion expense from these leases.



# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 6. Share-based payment arrangements:

At June 30, 2021, the Company had the following share-based payment arrangements:

### (a) Stock option plan:

The total share-based payment expense and the amount credited to contributed surplus for the three and six months ended June 30, 2021 was \$17 and \$54 (2020 - \$58 and \$129), respectively. The following table outlines the activity for stock options for the six months ended June 30, 2021 and 2020:

|                                  | 2021                           |  | 2020                           |  |
|----------------------------------|--------------------------------|--|--------------------------------|--|
|                                  | Number<br>of options<br>(000s) | Weighted<br>average<br>exercise<br>price | Number<br>of options<br>(000s) | Weighted<br>average<br>exercise<br>price |
| Outstanding, beginning of period | 1,833                          | \$ 1.22                                  | 2,047                          | \$ 1.76                                  |
| Granted                          | —                              | —  | 500                            | 0.45                                     |
| Cancelled                        | (46)                           | 1.56                                     | (108)                          | 1.67                                     |
| Expired                          | (76)                           | 2.37                                     | (66)                           | 3.67                                     |
| Outstanding, end of period       | 1,711                          | \$ 1.16                                  | 2,373                          | \$ 1.44                                  |
| Exercisable, end of period       | 1,231                          | \$ 1.36                                  | 1,436                          | \$ 1.71                                  |

At June 30, 2021, 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 remaining<br>contractual life<br>(years) |
|-----------------|---------------------------------|--|
| \$0.45 - \$1.00 | 570                             | 5.86   |
| \$1.01 - \$2.00 | 1,120                           | 2.53   |
| \$2.01 - \$3.00 | 13                              | 3.37   |
| \$3.01 - \$4.00 | —                               | —  |
| \$4.01 - \$4.50 | 8                               | 2.73   |
|                 | 1,711                           | 3.65   |

# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

### (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.

On April 29, 2020, one director of the Board of Directors resigned from their position and effective April 30, 2020, through a resolution of the Board of Directors, the equity-settled DSUs aggregating to 57,908 DSUs pertaining to the resigning director were modified from equity-settled to cash-settled. As a result of the modification, \$26 was reversed from contributed surplus, with an offsetting credit to accrued liabilities during the six months ended June 30, 2020. The cash-settled DSUs were settled on May 1, 2020 with a total payment of \$38. The Company remitted \$11 to Canada Revenue Agency in associated employment taxes.

On June 26, 2020, the Company issued 489,181 equity-settled DSUs to the directors representing their annual remuneration for fiscal 2020. For the three and six months ended June 30, 2020, the Company recorded a DSU expense of \$244, with an offsetting credit to contributed surplus in the condensed interim statements of comprehensive loss.

On June 26, 2020, the Company also issued 60,819 cash-settled DSUs to the directors and recorded a DSU expense of \$31 for the three and six months ended June 30, 2020 with an offsetting credit to non-current accrued liabilities on the condensed interim statements of financial position.

# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

The following table outlines the activity for the DSUs for the six months ended June 30, 2021 and 2020:

|   | 2021   |        | 2020   |          |
|---|--------|--------|--------|----------|
|   | Number | Amount | Number | Amount   |
|   | (000s) |        | (000s) |          |
| Outstanding, beginning of period                        | 797    | \$ 963 | 650    | \$ 1,402 |
| Granted   | —      | —      | 550    | 275      |
| Exercised   | —      | —      | (88)   | (38)     |
| Changes in fair value of cash-settled award             | —      | (24)   | —      | (50)     |
| Changes in fair value as a result of award modification | —      | —      | —      | (52)     |
| Outstanding, end of period                              | 797    | \$ 939 | 1,112  | \$ 1,537 |
| Comprising:   |        |        |        |          |
| Equity-settled award                                    | 671    | \$ 862 | 944    | \$ 1,453 |
| Cash-settled award                                      | 126    | 77     | 168    | 84       |

## 7. Restructuring:

During the year ended December 31, 2020, the Company executed a restructuring plan whereby certain employees of the Company were severed. An estimated amount of \$960 was recorded as restructuring costs for the three and six months ended June 30, 2020, which related primarily to employee severance costs. During the three months ended December 31, 2020, this estimate was finalized and the amount of restructuring costs was reduced to \$924. During the three and six months ended June 30, 2021, the Company paid \$34 and \$95 (2020 - \$529 and \$619) in restructuring costs. As at June 30, 2021, there are no remaining amounts outstanding.

# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 8. Loss per share:

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

|  | Three months ended<br>June 30, |            | Six months ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2021                           | 2020       | 2021                         | 2020       |
| Numerator:   |                                |            |                              |            |
| Loss for the period                                  | \$ (179)                       | \$ (1,187) | \$ (462)                     | \$ (2,441) |
| Denominator:   |                                |            |                              |            |
| Weighted average number of shares<br>(in thousands): |                                |            |                              |            |
| Basic and diluted                                    | 21,055                         | 20,664     | 21,055                       | 20,670     |
| Loss per share:                                      |                                |            |                              |            |
| Basic and diluted                                    | \$ (0.01)                      | \$ (0.06)  | \$ (0.02)                    | \$ (0.12)  |

During the three and six months ended June 30, 2021, there were nil and 9 (2020 - nil and nil) weighted average outstanding stock options excluded from the computation of diluted loss per share.

## 9. Related party transactions:

Shared services agreement:

On June 24, 2020, the Company, NexJ Health Inc. and NexJ Health Holdings Inc. entered into a separation agreement effective June 15, 2020, terminating the interim loan agreement, the shared services agreement as well as the software license agreements between the three parties. As per the terms of separation, the Company wrote off \$994 related to the interim loan and \$636 shared services balances. As noted above, both of these amounts were provided for in the condensed statements of comprehensive loss for the year ended December 31, 2016.

# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
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## 9. Related party transactions (continued):

The sublease agreement between the Company and NexJ Health Inc., effective January 1, 2019 will continue to be in place for the sublease of the office space occupied by NexJ Health Inc. The Company classifies the sublease in accordance with the provisions of IFRS 16, Leases, and consequently has derecognized the 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.

As part of the separation agreement, the parties also agreed on a payment schedule with respect to the shared services amounts due up to the shared services termination date of June 30, 2020 and the ongoing obligations of NexJ Health Inc. under the continuing sublease agreement. Accordingly, the Company charged \$86 and \$173 (2020 - \$84 and \$171) for the three and six months ended June 30, 2021, respectively. During the three and six months ended June 30, 2021, the Company has received payment of \$83 and \$225 (2020 - \$215 and \$215), respectively, from NexJ Health Inc. As at June 30, 2021, the remaining balance of \$276 is recorded under prepaid expenses and other assets in the condensed interim statements of financial position.

## 10. 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 June 30, 2021 and December 31, 2020:

| Classification                           | June 30, 2021  |            | December 31, 2020 |            |
|--|----------------|------------|-------------------|------------|
|  | Carrying value | Fair value | Carrying value    | Fair value |
| Financial assets:                        |                |            |                   |            |
| Amortized cost:                          |                |            |                   |            |
| Cash equivalents                         | \$ 2,435       | \$ 2,435   | \$ 986            | \$ 986     |
| Accounts receivable                      | 898            | 898        | 3,546             | 3,546      |
| FVTOCI:                                  |                |            |                   |            |
| Investments                              | 248            | 248        | 255               | 255        |
| Financial liabilities:                   |                |            |                   |            |
| Amortized cost:                          |                |            |                   |            |
| Accounts payable and accrued liabilities | 1,937          | 1,937      | 1,975             | 1,975      |
| Lease liabilities                        | 1,761          | 1,761      | 2,045             | 2,045      |

# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

The carrying values of cash equivalents, accounts receivable, accounts payable and accrued liabilities 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.

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 June 30, 2021 and December 31, 2020 in the condensed interim financial statements are summarized below:

| June 30, 2021     | Level 1  | Level 2 | Level 3 | Total    |
|-------------------|----------|---------|---------|----------|
| Financial assets: |          |         |         |          |
| Cash equivalents  | \$ 2,435 | \$ –    | \$ –    | \$ 2,435 |
| Investments       | –        | –       | 248     | 248      |

| December 31, 2020 | Level 1 | Level 2 | Level 3 | Total  |
|-------------------|---------|---------|---------|--------|
| Financial assets: |         |         |         |        |
| Cash equivalents  | \$ 986  | \$ –    | \$ –    | \$ 986 |
| Investments       | –       | –       | 255     | 255    |

# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

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 June 30, 2021:

### (i) Credit risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument, in which the Company has an amount owing from the counterparty, failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company.

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

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

|                                  | Revenue             |            |
|----------------------------------|---------------------|------------|
|                                  | Number of customers | % of total |
| Three months ended June 30, 2021 | 2                   | 50         |
| Six months ended June 30, 2021   | 3                   | 60         |
| Three months ended June 30, 2020 | 4                   | 75         |
| Six months ended June 30, 2020   | 4                   | 72         |

# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

|                         | Accounts receivable |            |
|-------------------------|---------------------|------------|
|                         | Number of customers | % of total |
| As at June 30, 2021     | 2                   | 72         |
| As at December 31, 2020 | 2                   | 77         |

### (ii) Liquidity risk:

Liquidity risk is the risk that the Company may not be able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations and the issuance of equity. One of management's primary goals is to manage liquidity risk by continuously monitoring actual and projected cash flows to ensure that the Company has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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

### (iii) Foreign exchange risk:

The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar and Australian dollar. Currently, the Company does not enter into foreign exchange contracts to manage this exposure, but may do so in the future. The Company has foreign currency exposure with respect to cash equivalents, accounts receivable and accounts payable denominated in U.S. dollars and Australian dollars. It is also exposed to foreign currency risk on revenue and expenses where it invoices or procures in U.S. dollars and Australian dollars. During the three and six months ended June 30, 2021, the Company recorded a foreign exchange loss of \$50 and \$150 (2020 - loss of \$239 and gain of \$134), respectively. At June 30, 2021, U.S. dollar-denominated net monetary assets totalled approximately U.S. \$3,014 (2020 - U.S. \$1,965). At June 30, 2021, Australian dollar-denominated net monetary assets totalled approximately AUD \$221 (2020 - AUD \$145).



# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets could change by approximately \$394 due to the fluctuation and this would be recorded in the condensed interim statements of comprehensive loss.

### (iv) Interest rate risk:

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

### (c) Capital management:

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

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund research and development to enhance existing product offerings, as well as develop new ones, undertake selective acquisitions and provide sufficient resources to meet day-to-day operating requirements, while at the same time taking a conservative approach towards financial leverage and management of financial risk.

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

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

# NEXJ SYSTEMS INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 11. Segment reporting:

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

|              | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|--------------|--------------------------------|----------|------------------------------|----------|
|              | 2021                           | 2020     | 2021                         | 2020     |
| Americas     | \$ 2,882                       | \$ 2,977 | \$ 5,617                     | \$ 5,961 |
| EMEA         | 582                            | 944      | 1,495                        | 1,593    |
| Asia Pacific | 302                            | 366      | 590                          | 714      |
|              | \$ 3,766                       | \$ 4,287 | \$ 7,702                     | \$ 8,268 |

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