

NEXJ SYSTEMS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis of financial condition and results of operations (the "MD&A") should be read in conjunction with the audited financial statements for the year ended December 31, 2020 and 2019, which we prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Caution Regarding Forward-Looking Statements" and "Risk Factors". The information in this discussion is provided as of February 18, 2021, unless we indicate otherwise.

Where we say "we", "us", "our", "NexJ" or "the Company", we mean NexJ Systems Inc.

Unless otherwise indicated, all dollar amounts are expressed in thousands of Canadian dollars, except per share amounts and percentages.

Caution Regarding Forward - Looking Statements

This MD&A contains forward-looking statements that relate to the Company's current expectations and views of future events.

In some cases, these forward-looking statements can be identified by words or phrases such as "may", "will", "expect", "anticipate", "aim", "estimate", "intend", "plan", "seek", "believe", "potential", "continue", "is/are likely to" or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs.

These forward-looking statements include, among other things, statements relating to:

- the Company's expectations regarding its revenue, expenses and operations;*
- the Company's anticipated cash needs and its need for additional financing;*
- the Company's ability to protect, maintain and enforce its intellectual property rights;*
- third-party claims of infringement or violation of, or other conflicts with, intellectual property rights by the Company;*
- the Company's plans for and timing of expansion of its solutions and services;*
- the Company's future growth plans;*
- the acceptance by the Company's customers and the marketplace of new technologies and solutions;*
- the Company's ability to attract new customers and develop and maintain existing customers;*
- the Company's ability to attract and retain personnel;*
- the Company's expectations with respect to advancement in its technologies, including the ability to address trends in artificial intelligence;*
- the Company's competitive position and its expectations regarding competition;*
- the Company's expectations with respect to the strategic value, synergies, ability to leverage relationships, ability to cross-sell, revenue growth, expenses and liabilities with respect to acquired businesses;*
- the Company's beliefs that its solutions are well positioned to address trends in artificial intelligence;*
- our ability to successfully integrate and manage acquired businesses, offerings and people;*
- regulatory developments and the regulatory environments in which the Company operates; and*
- anticipated trends and challenges in the Company's business and the markets in which it operates.*

Forward-looking statements are based on certain assumptions and analysis made by the Company based on its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect. Given these risks, uncertainties and assumptions, current and prospective investors should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as required by law, the Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

This MD&A should be viewed in conjunction with the Company's other publicly available filings including the Annual Information Form, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Risks and Uncertainties

A complete description of the risks and uncertainties affecting the Company is included in the most recently filed Annual Information Form. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

Non-IFRS Measures

The Company prepares its financial statements in accordance with IFRS. This MD&A also includes certain measures which have not been prepared in accordance with IFRS such as Adjusted EBITDA, Adjusted EBITDA margin and Adjusted EBITDA per share used to evaluate the Company's operating performance as a complement to results provided in accordance with IFRS.

The term "Adjusted EBITDA" refers to net income (loss) before adjusting for share-based payment expense, depreciation and amortization, deferred share unit expense, restructuring costs, foreign exchange (gain) loss, finance income, finance expense and income taxes. We believe that the items excluded from Adjusted EBITDA are not connected to and does not represent the operating performance of the Company. "Adjusted EBITDA margin" refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

"Adjusted EBITDA per share" refers to Adjusted EBITDA divided by the weighted average number of Common Shares outstanding, which we calculate on a basic and diluted basis.

We believe that Adjusted EBITDA, Adjusted EBITDA margin and Adjusted EBITDA per share are useful supplemental information as they provide an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed as well as expenses related to share-based payment expense, impairment charge on non-financial assets, impairment of loan receivable and shared services, deferred share unit expense and the other items listed above. Accordingly, we believe that these measures may also be useful to investors in enhancing their understanding of the Company's operating performance. See "Results of Operations – Adjusted EBITDA".

Adjusted EBITDA, Adjusted EBITDA margin and Adjusted EBITDA per share are not measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted EBITDA per share may not be comparable to similar measures presented by other issuers. Investors are cautioned that Adjusted EBITDA and Adjusted EBITDA margin should not be construed as an alternative to net income (loss) as determined in accordance with IFRS.

Overview

NexJ Systems provides Intelligent Customer Management solutions to the financial services industry. Our award-winning CRM is designed to help financial services firms revolutionize their business. Powered by artificial intelligence, our products help drive productivity, boost client engagement, and increase revenue. NexJ products are designed to address the needs of several vertical markets within the financial services industry, and include:

- NexJ CRM for Wealth Management
- NexJ CRM for Private Banking
- NexJ CRM for Commercial Banking
- NexJ CRM for Corporate Banking
- NexJ CRM for Sales, Trading and Research
- NexJ CRM for Insurance

All NexJ products are delivered on NexJ's Intelligent Customer Management (ICM) Platform that contains all of the tools required to meet the needs of our customers including:

- Artificial Intelligence Services, designed to leverage data to provide actionable recommendations and equip firms to deliver valuable insights to their clients.
- Relationship Management Services, developed to help firms break down complex relationship dynamics and equip them to drive revenue and enhance the client experience.
- Process Management Services, designed to automate and integrate complex processes and equip firms to drive optimization and efficiency.
- Data Management Services, built to integrate all client data across the firm into a single view and equip firms to provide data-first solutions.

Our revenue consists primarily of subscription-based software license fees, professional service fees, and maintenance and support fees derived from previous year's perpetual license sales. NexJ's solutions can be deployed on premise, hosted in an external data center or hosted as a managed service. All products are priced and sold on a subscription license basis irrespective of the mode of deployment and includes, within the subscription fee, a defined maintenance and support agreement. Maintenance and support generally includes ongoing customer support and rights to certain unspecified product updates. Subscription fees are payable annually, in advance and typically sold as a three (3) year contractual term. Professional services revenue consists of fees charged for configuration, implementation, integration and ongoing services associated with our software products. Maintenance and support revenue consists of fees charged for post-delivery customer support on our software products.

Cost of revenues consists of personnel, travel and other overhead costs related to implementation teams supporting initial deployments and subsequent engagements for additional services revenue on customer projects as well as hosting costs. Cost of revenues also includes personnel and overhead costs associated with our customer support team responsible for servicing the maintenance and support commitments to our customers.

Research and development expenses include personnel and related costs for ongoing research, development and product management efforts.

Sales and marketing expenses consist primarily of personnel and related costs for our sales and marketing functions, including salaries and benefits, contract acquisition costs including commissions earned by sales personnel, direct marketing campaigns, webinars, public relations and other promotional activities.

General and administrative expenses consist primarily of personnel and related costs associated with the administrative functions of our business including finance, human resources and internal information system support as well as legal, accounting, other professional fees, occupancy costs and insurance.

On September 10, 2019, NexJ announced that in recognition of the demand within the financial services market for intelligent customer management solutions, and in support of the launch of their innovative cloud CRM and Machine Learning initiatives, the Company's Board of Directors has initiated a review of strategic and financial alternatives to accelerate scale and enhance shareholder value. The Company has appointed a Special

Committee to review and consider alternatives which may include, among others, recapitalization, joint ventures, strategic partnerships or alliances or other possible transactions.

It should be noted that the Company has not set a definitive schedule to complete its evaluation and no decision on any particular transaction or alternative has been reached at this time. Equally, there is no certainty that any transaction or alternative will be undertaken or pursued.

Key Performance Indicators

Key performance indicators that we use to manage our business and evaluate our financial results and operating performance include: revenue, expenses, adjusted EBITDA, adjusted EBITDA margin, adjusted EBITDA per share, and net income (loss). We evaluate our performance on these metrics by comparing our actual results to management budgets, forecasts and prior period performance.

Selected Annual Information

The following table sets out selected financial information for the periods indicated. The selected financial information of the Company as at December 31, 2020 and 2019 and for the fiscal years ended December 31, 2020, 2019 and 2018 has been derived from the Company's audited financial statements.

	Year ended December 31,		
	2020	2019	2018
(In thousands of dollars, except per share amounts)			
Statements of Comprehensive Loss			
Revenue	\$ 16,850	\$ 17,228	\$ 22,434
Cost of revenue.....	4,116	6,281	7,773
Gross profit	12,734	10,947	14,661
Operating expenses			
Research and development	5,556	9,171	9,269
Sales and marketing	2,551	3,188	3,627
General and administrative	4,943	5,341	6,066
Restructuring costs	924	614	402
Total operating expenses	13,974	18,314	19,364
Loss from operations	(1,240)	(7,367)	(4,703)
Foreign exchange gain (loss)	(148)	(296)	667
Finance income.....	47	120	145
Finance expense.....	(144)	(145)	—
Loss before income taxes	(1,485)	(7,688)	(3,891)
Income taxes.....	—	—	—
Net loss from operations	(1,485)	(7,688)	(3,891)
Other comprehensive loss			
Unrealized loss on equity securities	(5)	(9)	—
Net loss and comprehensive loss	(1,490)	(7,697)	\$ (3,891)
Net loss per share			
Basic and diluted	\$ (0.07)	\$ (0.37)	\$ (0.19)
Weighted average number of Common Shares outstanding (000's)			
Basic and diluted	20,888	20,575	20,546

Results of Operations

The following table sets forth a summary of our results of operations for the quarters and fiscal years ended December 31, 2020 and 2019:

(In thousands of dollars, except percentages and per share amounts)	Quarter ended December 31,		Period-Over-Period Change		Year ended December 31,		Period-Over-Period Change	
	2020	2019	\$	%	2020	2019	\$	%
Revenue	\$ 4,247	\$ 4,563	(316)	(7)	\$ 16,850	\$ 17,228	(378)	(2)
Cost of revenue (1)	921	1,185	(264)	(22)	4,082	6,199	(2,117)	(34)
Gross profit	3,326	3,378	(52)	(2)	12,768	11,029	1,739	16
Operating Expenses								
Research and development (2)	1,082	1,813	(731)	(40)	5,514	9,106	(3,592)	(39)
Sales and marketing (3)	610	822	(212)	(26)	2,543	3,176	(633)	(20)
General and administrative (4)	798	907	(109)	(12)	3,726	3,915	(189)	(5)
Total operating expenses	2,490	3,542	(1,052)	(30)	11,783	16,197	(4,424)	(27)
Adjusted EBITDA	836	(164)	1,000	610	985	(5,168)	6,153	119
Share-based payment expense	(20)	79	(99)	n/m	164	412	(248)	(60)
Depreciation and amortization	212	230	(18)	(8)	862	948	(86)	(9)
Deferred share unit expense	—	—	—	—	275	225	50	22
Restructuring costs	(36)	—	(36)	n/m	924	614	310	50
Foreign exchange loss	222	149	73	49	148	296	(148)	(50)
Finance income	(2)	(23)	21	(91)	(47)	(120)	73	(61)
Finance expense	43	33	10	(30)	144	145	(1)	(1)
Income (loss) before income taxes	417	(632)	1,049	n/m	(1,485)	(7,688)	6,203	81
Income taxes	—	—	—	—	—	—	—	—
Net income (loss)	\$ 417	\$ (632)	1,049	n/m	\$ (1,485)	\$ (7,688)	6,203	81
Weighted average number of common shares outstanding (000's)								
Basic and diluted	21,100	20,677			20,888	20,575		
Net income (loss) per share								
Basic and diluted	\$ 0.02	\$ (0.03)			\$ (0.07)	\$ (0.37)		
Adjusted EBITDA per share								
Basic and diluted	\$ 0.04	\$ (0.01)			\$ 0.05	\$ (0.25)		

n/m — not meaningful

(1) Cost of revenues for the quarter and fiscal year ended December 31, 2020 exclude share-based payment expense of \$5 and \$34 (2019 - \$15 and \$82) respectively.

(2) Research and development expenses for the quarter and fiscal year ended December 31, 2020 exclude share-based payment expense of \$8 and \$42 (2019 - \$15 and \$65) respectively.

(3) Sales and marketing expenses for the quarter and fiscal year ended December 31, 2020 exclude share-based payment expense of \$1 and \$8 (2018 - \$3 and \$12) respectively.

(4) General and administrative expenses for the quarter and fiscal year ended December 31, 2020 exclude share-based payment expense of \$(34) and \$80 (2019 - \$46 and \$253) respectively, depreciation and amortization of \$212 and \$862 (2019 - \$230 and \$948) respectively, and deferred share unit expense of \$nil and \$275 (2019 - \$nil and \$225) respectively.

	As at December 31, 2020	As at December 31, 2019
(In thousands of dollars)		
Selected Statement of Financial Position Data		
Cash and cash equivalents	\$ 5,426	\$ 5,123
Total assets	14,802	17,883
Deferred revenue	5,720	6,831
Total non-current liabilities	1,248	2,443
Total liabilities	9,740	11,677
Total shareholders' equity	5,062	6,206

COVID-19 Operational Update

COVID-19 continues to significantly impact Canadians and economies around the world as a second wave of the virus appears to be affecting Canada and other countries worldwide. In March, 2020, the Company took swift action by taking measures to ensure the health and safety of our team members, and to mitigate the business impact on the Company caused by the unprecedented global economic disruption.

The Company successfully adopted a mandatory work-from-home program which will continue to remain in place until such time the Company has clear guidance from government authorities with respect to this pandemic. As substantially all of the Company's day-to-day activities can be fully performed by personnel working remotely, the Company is able to remain fully operational during this period, and continues to seek new revenue opportunities, execute on its product development roadmap and generate consistent revenue from our existing customer base. The Company is in compliance with all federal, provincial and municipal regulations that have been put in place since the beginning of the pandemic. The Company will continue to monitor closely developments in this regard, with the health and safety of the Company's employees and management as the primary concern.

Due to the fluidity of the COVID-19 pandemic and the uncertainty of its magnitude, outcome and duration, the Company is unable to definitively quantify its potential impact. The Company has taken measures to manage costs, including a reduction of operating expenses.

The governments of jurisdictions in which the Company operates have approved legislation with the intent to provide aid to businesses affected by COVID-19. This included the Canada Emergency Wage Subsidy (CEWS), announced by the Government of Canada in April 2020. Subsidies have been made available to qualifying entities to offset certain expenses relating to employee wages, payroll taxes and office rent. For the year ended December 31, 2020, we determined that the Company qualified and submitted claims for \$2,899 from various governments, which have been received and recognized as a reduction to the related expenses in the statements of comprehensive loss.

Comparison of the quarters and fiscal year ended December 31, 2020 and 2019

Revenue

The following table sets forth the breakdown of our revenue recognized according to revenue type and the change for the quarters and fiscal year ended December 31, 2020 and 2019:

(In thousands of dollars, except percentages)	Quarter ended December 31,		Period-Over- Period Change		Year ended December 31,		Period-Over-Period Change	
	2020	2019	\$	%	2020	2019	\$	%
License & subscription fees	\$ 46	\$ 399	(353)	(88)	\$ 156	\$ 1,452	(1,296)	(89)
Professional services	2,058	1,860	198	11	7,779	6,500	1,279	20
Maintenance and support ...	2,143	2,304	(161)	(7)	8,915	9,276	(361)	(4)
Total	4,247	4,563	(316)	(7)	16,850	17,228	(378)	(2)

Total revenue for the quarter ended December 31, 2020 was \$4,247, a decrease of \$316, or 7%, from \$4,563 recognized in the comparative period in 2019. Total revenue for the fiscal year ended December 31, 2020 was \$16,850, a decrease of \$378, or 2%, from \$17,228 recognized in the comparative period in 2019.

License & subscription fees — License & subscription fees revenue for the quarter ended December 31, 2020 decreased by \$353, or 88%, to \$46, from \$399 recognized in the comparative period in 2019. During the fiscal year ended December 31, 2020, license revenue decreased by \$1,296, or 89%, to \$156, from \$1,452 recognized in the comparative period in 2019. The revenue recognized for the quarter and fiscal year ended December 31, 2020 was mainly due to subscription revenue generated within our existing customers from new offerings through our partner network. In the comparative periods, in addition to the subscription revenue, the revenue recognized was also generated from additional licenses purchased by existing customers.

Professional services — Professional services revenue for the quarter ended December 31, 2020 increased by \$198, or 11%, to \$2,058 from \$1,860 recognized in the comparative period in 2019. During the fiscal year ended December 31, 2020, professional services increased by \$1,279, or 20%, to \$7,779, from \$6,500 recognized in the comparative period in 2019. The increase in professional services revenue was mainly due to an increase in ongoing incremental distinct or post-software deployment professional services to some of our existing customers where software license deployment and acceptance had taken place in prior periods.

Maintenance and support — Maintenance and support revenue for the quarter ended December 31, 2020 decreased by \$161, or 7%, to \$2,143 from \$2,304 for the comparative period in 2019. During the fiscal year ended December 31, 2020, maintenance and support revenue decreased by \$361, or 4%, to \$8,915, from \$9,276 for the comparative period in 2019. The decrease in maintenance and support revenue for the quarter and fiscal year ended December 31, 2020 was due to reduction in renewals, partially offset by increases related to additional software licenses purchased by existing customers in 2019 and 2020.

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

(In thousands of dollars)	Quarter ended December 31,		Year ended December,	
	2020	2019	2020	2019
Americas.....	\$2,918	\$3,287	\$11,787	\$13,254
EMEA.....	1,047	334	3,802	1,309
Asia Pacific.....	282	942	1,261	2,665
Total.....	4,247	4,563	16,850	17,228

Cost of Revenues

(In thousands of dollars, except percentages)	Quarter ended December 31,		Period-Over-Period Change		Year ended December 31,		Period-Over-Period Change	
	2020	2019	\$	%	2020	2019	\$	%
Cost of revenues.....	921	1,185	(264)	(22)	4,082	6,199	(2,117)	(34)
Gross profit	3,326	3,378	(52)	(2)	12,768	11,029	1,739	16
Gross profit percentage..	78%	74%			76%	64%		

Cost of revenues for the quarter ended December 31, 2020 decreased by \$264, or 22%, to \$921, from \$1,185 for the comparative period in 2019. For the quarter ended December 31, 2020, the average full time equivalent employee headcount devoted to cost of revenues was 31 as compared to 39 for the comparative period in 2019. The decrease in the expense is primarily a result of the decrease in headcount as well as due to the funding received under CEWS, offset by an increase in short term contractors. During the fiscal year ended December 31, 2020, cost of revenues decreased by \$2,117, or 34%, to \$4,082, compared to \$6,199, over the comparative period in 2019. During the fiscal year ended December 31, 2020, the average full time equivalent employee headcount devoted to cost of revenues was 34, as compared to 46 for the comparative period in 2019. The decrease in the expense is a result of the decrease in headcount, decreased use of short-term contractors and a decrease in travel expenses as well as due to the funding received under CEWS.

Gross profit for the quarter ended December 31, 2020 decreased by \$52, or 2%, to \$3,326, from \$3,378 for the comparative period in 2019. During the fiscal year ended December 31, 2020, gross profit increased by \$1,739, or 16%, to \$12,768, compared to \$11,029, over the comparative period in 2019. The higher gross profit for the quarter and year ended December 31, 2020 was the result of reduced costs of revenues as discussed in the preceding paragraph.

Operating Expenses

The following table sets forth the breakdown of our expenses by category and the change for the quarters and fiscal years ended December 31, 2020 and 2019:

(In thousands of dollars, except percentages)	Quarter ended December 31,		Period-Over-Period Change		Year ended December 31,		Period-Over-Period Change	
	2020	2019	\$	%	2020	2019	\$	%
Research and development..	\$1,082	\$ 1,813	(731)	(40)	5,514	\$ 9,106	(3,592)	(39)
Sales and marketing	610	822	(212)	(26)	2,543	3,176	(633)	(20)
General and administrative	798	907	(109)	(12)	3,726	3,915	(189)	(5)
Total	2,490	3,542	(1,052)	(30)	11,783	16,197	(4,414)	(27)

Total operating expenses for the quarter ended December 31, 2020 decreased by \$1,052, or 30%, to \$2,490, compared to \$3,542 over the comparative period in 2019. During the fiscal year ended December 31, 2020, total operating expenses decreased by \$4,424, or 27%, to \$11,773, compared to \$16,197 over the comparative period

in 2019. The expenses decreased as a result of the Company executing further optimization of its cost structure by reducing costs and driving efficiencies in the business as well as the Company received funding under CEWS.

Research and development — Research and development expenses for the quarter ended December 31, 2020 decreased by \$731, or 40%, to \$1,082, from \$1,813 for the comparative period in 2019. For the quarter ended December 31, 2020, the average full time equivalent employee headcount devoted to research and development was 59, as compared to 74 employees over the comparative period in 2019. During the fiscal year ended December 31, 2020, research and development expenses decreased by \$3,592, or 39%, to \$5,514, compared to \$9,106, over the comparative period in 2019. During the fiscal year ended December 31, 2020, the average full time equivalent employee headcount devoted to research and development was 63 as compared to 84 the comparative period in 2019. The decrease in the expense is a result of the decrease in headcount, decreased use of short term contractors, decrease in travel expenses and funding received under CEWS.

Throughout 2019 the Company focused on accelerating its product development capabilities. As a result of the completion of a major initiative to deliver a significant UX upgrade in Q1, 2020, the Company was able to rationalize the development organization's headcount without significant loss of development capacity to meet the strategic product goals the Company had set for 2020 and beyond. The Company is committed to continually optimizing the efficiency and output of the organization to meet the market demands.

Sales and marketing — Sales and marketing expenses for the quarter ended December 31, 2020 decreased by \$212, or 26%, to \$610, from \$822 for the comparative period in 2019. For the quarter ended December 31, 2020, the average full time equivalent employee headcount devoted to sales and marketing was 11, as compared to 16 for the comparative period in 2019. During the fiscal year ended December 31, 2020, sales and marketing expenses decreased by \$633, or 20%, to \$2,543, compared to \$3,176, over the comparative period in 2019. During the fiscal year ended December 31, 2020, the average full time equivalent employee headcount devoted to sales and marketing was 12, as compared to 15 employees over the comparative period in 2019. The decrease in the expense for the quarter and fiscal year ended December 31, 2020 is mainly due to the decrease of payroll expenses, as well as variable compensation relating to revenues, decrease in travel expenses and funding received under CEWS.

General and administrative — General and administrative ("G&A") expenses for the quarter ended December 31, 2020 decreased by \$109, or 12%, to \$798, from \$907 for the comparative period in 2019. For the quarter ended December 31, 2020, the average full time equivalent employee headcount devoted to general and administrative was 17, as compared to 18 for the comparative period in 2019. The decrease in the expenses is mainly due to the decrease of payroll expenses, as well as due to the funding received under CEWS. During the fiscal year ended December 31, 2020, G&A expenses decreased by \$189, or 5%, to \$3,726, compared to \$3,915, over the comparative period in 2019. During the fiscal year ended December 31, 2020 the average full time equivalent employee headcount devoted to general and administrative was 17, as compared to 18 for the comparative period in 2019. The decrease in the expenses is attributed to a decrease in payroll expenses as well as funding received under CEWS, offset by certain costs incurred in connection with the review of strategic and financial alternatives initiated in September 2019.

Share-based payment expense

For the quarter ended December 31, 2020, share-based payment expense decreased by \$99, to \$(20) from \$79 recognized in the same period of 2019. During the fiscal year ended December 31, 2020, share-based payment expense decreased by \$248, to \$164, from \$412 recognized in the comparative period in 2019.

The decrease in the expense for the quarter and fiscal year ended December 31, 2020 was due to voluntary cancellation of certain share-based options by some of the executive officers of the Company, in addition to the manner in which the estimated fair value of share-based payments are attributed under IFRS, whereby the share-based payment expense is disproportionately attributed to the periods immediately subsequent to the grant-date as each tranche of the award is recognized over the graded vesting period.

Depreciation and amortization

For the quarter ended December 31, 2020, depreciation and amortization of property, equipment, and right-of-use asset decreased by \$18, to \$212, from \$230 recognized in the comparative period in 2019. During the fiscal year ended December 31, 2020, depreciation and amortization of property, equipment, and right-of-use asset decreased by \$86, to \$862, from \$948 in the comparative period in 2019. The decrease in both the periods is primarily due to the declining balance method of depreciation used by the Company in that as the net book value reduces, in the absence of any significant additions, the depreciation expense is expected to reduce over the life of the asset.

Deferred share unit expense

The Company grants Deferred Share Units (“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 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 end date of the payout.

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

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

On September 12, 2019, the Company issued 151,363 equity-settled DSUs to the directors and recorded a DSU expense of \$118 with an offsetting credit to contributed surplus in the condensed interim statements of comprehensive loss for the quarter and nine months ended September 30, 2019.

On September 12, 2019, the Company also issued 137,100 cash-settled DSUs to the directors and recorded a DSU expense of \$107 with an offsetting credit to non-current accrued liabilities on the condensed interim statements of financial position at September 30, 2019.

Restructuring costs

During the quarter ended June 30, 2020, the Company undertook restructuring whereby certain employees of the Company were severed. For the quarter and fiscal year ended December 31, 2020, a total of \$(36) and \$924, respectively was recorded as restructuring costs, which relates primarily to employee severance costs. The decrease of \$36 is based on estimates of the liability as of December 31, 2020. During the quarter and fiscal year ended December 31, 2020, the Company paid \$129 and \$825, respectively, in restructuring costs. The remaining amount of \$99 recorded under accounts payable and accrued liabilities on the statement of financial position as at December 31, 2020, will be paid out within a one-year period.

During the quarter and fiscal year ended December 31, 2019, a total of \$nil and \$614 was recorded as restructuring costs, which related primarily to employee severance costs. During the quarter and fiscal year ended December 31, 2019, the Company paid \$153 and \$464, respectively, in restructuring costs. As at December 31, 2020, there are no remaining amounts outstanding.

Foreign exchange loss

For the quarter ended December 31, 2020, our foreign exchange loss was \$222 compared to a foreign exchange loss of \$149 for the comparative period in 2019. During the fiscal year ended December 31, 2020, our foreign exchange loss was \$148 compared to a foreign exchange loss of \$296 for the comparative period in 2019.

The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar and the Australian dollar. The change in the foreign exchange impact during the quarter ended December 31, 2020 was the result of fluctuations in exchange rates between the Canadian dollar (our functional and reporting currency), the U.S. dollar and the Australian dollar as well as change in the U.S. dollar and Australian dollar denominated monetary assets held by the Company.

For the quarter ended December 31, 2020, the U.S. dollar weakened by approximately 4% against the Canadian dollar from C\$1.3319 to C\$1.2725 as compared to weakening by approximately 2% from C\$1.3243 to C\$1.2988 for the comparative period in 2019. The Australian dollar strengthened by approximately 3% against the Canadian dollar from C\$0.9539 to C\$0.9803 as compared to strengthening by approximately 2% from C\$0.8941 to C\$0.9122 for the comparative period in 2019.

For the fiscal year ended December 31, 2020, the US dollar weakened by approximately 2% against the Canadian dollar from C\$1.2988 to C\$1.2725 as compared to weakening by approximately 5% against the Canadian dollar from C\$1.3642 to C\$1.298 for the comparative period in 2019. The Australian dollar strengthened by approximately 7% against the Canadian dollar from C\$0.9122 to C\$0.9803 in the year ended December 31, 2020 as compared to weakening by approximately 5% from C\$0.9616 to C\$0.9122 for the comparative period in 2019.

As at December 31, 2020, U.S. dollar denominated net monetary assets were US\$5,800 as compared to US\$6,886, as at December 31, 2019. As at December 31, 2020, Australian dollar denominated net monetary assets were AU\$237 as compared to AU\$236 as at December 31, 2019.

Finance income

For the quarter ended December 31, 2020, finance income decreased by \$21, or 91%, to \$2, from \$23 recognized in the comparative period in 2019. During the fiscal year ended December 31, 2020, finance income decreased by \$73, or 61%, to \$47, from \$120 recognized in the comparative period in 2019. The decrease was as a result of reduction in interest rates as well as lower average cash and cash equivalents balances. We maintain excess cash in various bank accounts and in highly liquid instruments with low yield and low risk with short-term maturities.

Finance expense

For the quarter ended December 31, 2020, finance expense increased by \$10, or 30%, to \$43, from \$33 recognized in the comparative period in 2019. During the fiscal year ended December 31, 2020, finance expense decreased by \$1, or 1%, to \$144, from \$145 recognized in the comparative period in 2019. The expense represents accretion expense related to the implied interest on newly recorded lease financial liabilities, associated with the lease of office space, net of implied interest on lease financial receivables in respect to sublease of a portion of the leased office space.

Net income (loss)

We reported a net income of \$417, or \$0.02 per share (basic and diluted), for the quarter ended December 31, 2020 compared to a net loss of \$632, or \$(0.03) per share (basic and diluted) for the comparative period in 2019. During the fiscal year ended December 31, 2020, we reported a net loss of \$1,485, or \$(0.07) per share (basic and diluted), compared to a net loss of \$7,688, or \$(0.37) per share (basic and diluted), for the comparative period in 2019.

Adjusted EBITDA

Adjusted EBITDA for the quarter ended December 31, 2020 was \$836, or \$0.04 per share (basic and diluted) as compared to an Adjusted EBITDA loss of \$164 or \$(0.01) per share (basic and diluted), in the comparative period in 2019. Adjusted EBITDA margin improved to 19% for the current quarter compared to a negative (4%) for the comparative period in 2019.

During the fiscal year ended December 31, 2020, Adjusted EBITDA was \$985, or \$0.05 per share (basic and diluted), as compared to an Adjusted EBITDA loss of \$5,168, or \$(0.25) per share (basic and diluted), for the comparative period in 2019. Adjusted EBITDA margin during the fiscal year ended December 31, 2020 improved to 6% compared to a negative (30%) for the comparative period in 2019.

As the revenues of the Company grow, we expect that the expenses as a percentage of revenues will decline over time which will favourably impact the Adjusted EBITDA and Adjusted EBITDA margin. See “Non-IFRS Measures” for a description of Adjusted EBITDA and Adjusted EBITDA margin.

Reconciliation of Adjusted EBITDA

The following table reconciles the Adjusted EBITDA to net loss:

(in thousands of dollars, except percentages)	Quarter ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Total revenue	\$4,247	\$4,563	\$16,850	\$17,228
Net income (loss)	417	(632)	(1,485)	(7,688)
Add back (deduct):				
Share-based payment expense	(20)	79	164	412
Depreciation and amortization	212	230	862	948
Deferred share unit expense	—	—	275	225
Restructuring costs	(36)	—	924	614
Foreign exchange loss (gain)	222	149	148	296
Finance income	(2)	(23)	(47)	(120)
Finance expense	43	33	144	145
Adjusted EBITDA	836	(164)	985	(5,168)
Adjusted EBITDA margin	20%	(4%)	6%	(30%)

Summary of Quarterly Results

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended December 31, 2020. Our quarterly operating results have historically fluctuated significantly and may continue to fluctuate significantly in the future. Therefore, we believe that past operating results and period-to-period comparisons should not be relied upon as an indication of the Company's future performance.

	Dec. 31, 2020	Sept. 30, 2020	Jun. 30, 2020	Quarter Ended Mar. 31, 2020		Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019 ⁽¹⁾
				(In thousands of dollars, except share and per share figures)					
				(Unaudited)					
Revenue	\$ 4,247	\$ 4,335	\$ 4,287	\$ 3,981	\$ 4,563	\$ 4,024	\$ 4,373	\$ 4,268	
Net income (loss)	417	539	(1,187)	(1,254)	(632)	(1,788)	(2,690)	(2,578)	
Weighted average number of shares outstanding (000's):									
Basic and diluted	21,100	21,108	20,664	20,677	20,677	20,557	20,531	20,532	
Net income (loss) per share:									
Basic and diluted	\$ 0.02	\$ 0.03	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ (0.09)	\$ (0.13)	\$ (0.13)	

(1) Certain comparative figures have been adjusted for the quarter ended March 31, 2019, as a result of an adjustments identified in connection with the Company finalizing the IFRS 16 adjustment. Certain variable lease payments previously recorded as lease assets and obligations have been recorded as operating expenses. This adjustment was not considered material and did not materially affect our revenue or net loss.

In periods where a net loss was incurred, stock options and common shares issued pursuant to the share purchase loan and pledge agreements were considered to be anti-dilutive and excluded from the computation of diluted loss per share.

Key factors that account for the fluctuations in quarterly results include the variability in the Company's license revenue and the impact of currency movements against the Canadian dollar. As the timing of executing larger software license arrangements changes from quarter to quarter, the impact on license revenue has been significant. The movement of the Canadian dollar against the U.S. dollar and the Australian dollar has a direct impact on the Company's financial results as certain amount of our revenues are denominated in U.S. dollars and Australian dollars. As a result, in periods where the Canadian dollar strengthens against the U.S. dollar and the Australian dollar, the Company's revenues are negatively impacted.

Liquidity and Capital Resources

As of December 31, 2020, we held cash and cash equivalents of \$5,426. We believe that ongoing operations, working capital and associated cash flows in addition to our cash resources provide sufficient liquidity to support our ongoing business operations and satisfy our obligations as they become due. Below is a summary of our cash flows from (used in) operating, financing, and investing activities for the periods indicated:

(In thousands of dollars)

	Year ended December 31,	
	2020	2019
Net cash flows from (used in) operating activities	\$ 1,439	\$ (4,828)
Net cash flows used in financing activities	(886)	(829)
Net cash flows used in investing activities	(36)	(271)
Effect of exchange rate changes on cash and cash equivalents	(214)	100
Increase (decrease) in cash and cash equivalents	303	(5,828)
Beginning cash and cash equivalents	5,123	10,951
Ending cash and cash equivalents	5,426	5,123

Net cash flows from (used in) operating activities

We generated cash of \$1,439 from operating activities during the fiscal year ended December 31, 2020. Of the cash generated, \$1,284 is attributable to movements in non-cash working capital with change arising from a decrease in prepaid expenses and other assets, accounts receivable, accounts payable and accrued liabilities, and deferred revenue, with \$155 of cash generated from operating activities.

We used cash of \$4,828 in operating activities during the fiscal year ended December 31, 2019. We generated cash of \$258 attributable to movements in non-cash working capital with change arising from decrease in accounts payable and accrued liabilities, offset by an increase in deferred revenue, a decrease in accounts receivable and prepaid expenses and other assets. This was offset by \$3,761 of cash used in operating activities.

Net cash flows used in financing activities

During the fiscal year ended December 31, 2020, net cash used in financing activities was \$886. This consisted of payment of finance lease of \$850 and cost of exercise of deferred share units of \$36.

During the fiscal year ended December 31, 2019, net cash used in financing activities was \$829. This consisted of payment of finance lease of \$817, the repurchase of common shares of \$10 and cost of exercise of stock options of \$2.

The Company had a Normal Course Issuer Bid ("NCIB") in place in 2019 and repurchased its common shares through the NCIB.

During the fiscal year ended December 31, 2020, the Company repurchased and cancelled nil (2019 – 8,808) of its common shares under the NCIB for an aggregate purchase price of \$nil (2019 – \$10), which was recorded as a reduction of share capital.

Net cash flows used in investing activities

During the fiscal year ended December 31, 2020, net cash used in investing activities was \$36, which consisted of purchase of property and equipment of \$83, offset by interest received of \$47.

During the fiscal year ended December 31, 2019, net cash used in investing activities was \$271, which consisted of purchase of equity investments of \$269, and purchase of property and equipment of \$122, offset by interest received of \$120.

Capital Management

We define capital as the aggregate of shareholders' equity, which is comprised of issued capital, contributed surplus and deficit.

Our objective in managing capital is to ensure sufficient liquidity to pursue our 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 the capital structure, we take into consideration various factors, including the growth of the business and related infrastructure and the up-front cost of taking on new customers. Our officers and senior management are responsible for managing the capital and do so through quarterly meetings and regular review of financial information. Our Board of Directors is responsible for overseeing this process. We manage 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 capital transactions.

We do not have any externally imposed capital requirements.

Contractual Obligations

Our contractual obligations include commitments made with respect to leases for office premises.

The lease for office premises 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, 2020 are as follows:

	\$
Less than 1 year	1,054
Between 1 and 5 years	1,109
Total	2,163

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 \$1,247 for 2021.

Off-Balance Sheet Transactions

As a general practice, we have not entered into off-balance sheet financing arrangements.

Transactions with Related Parties

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 that provided 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. 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 income (loss) for the year ended December 31, 2016.

In addition, and in accordance with the same plan of arrangement from 2016, 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. For the year ended December 31, 2016, the Company charged \$636 for these services. Management evaluated the recoverability of these charges, including the financial position of NexJ Health Inc. as at December 31, 2016 and concluded it is impaired and recorded a provision of \$636 in the statements of comprehensive income (loss) for the fiscal year ended December 31, 2016.

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 parties. As per the terms of separation, the Company wrote off \$994 under the interim loan agreement; the amount owed by NexJ Health Inc. and provided for in the statements of comprehensive loss for the year ended December 31, 2016. The Company also wrote off \$636 under the shared services agreement, the amount owed by NexJ Health Inc. and provided for in the statements of comprehensive loss for the year ended December 31, 2016.

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 right-of-use asset and lease receivable relating to the sublease. Right-of-use assets have 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 termination date of June 30, 2020 and the ongoing obligations of NexJ Health Inc. under the continuing sublease agreement. Accordingly, the Company charged \$87 and \$361 (2019 - \$106 and \$419) for the quarter and fiscal year ended December 31, 2020. The Company received payment of \$207 and \$632 (2019 - \$nil and \$nil), respectively, from NexJ Health Inc. in the quarter and fiscal year ended December 31, 2020. As at December 31, 2020, receivables amounting to \$342 (2019 - \$613) have been recorded under prepaid expenses and other assets in the statements of financial position.

Financial Risk Management

In the normal course of our business, we engage in operating and financing activities that generate risks in the following primary areas:

Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in foreign exchange rates could impact our results from operations. We are exposed to a significant amount of foreign exchange risk, primarily between the Canadian dollar, the U.S. dollar and the Australian dollar. We transact business in multiple currencies, the most significant of which are the U.S. dollar and the Australian dollar. Currently, we do not enter into foreign exchange contracts to manage this exposure, but may do so in the future. As a result, we have foreign currency exposure with respect to items denominated in foreign currencies.

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on our net foreign denominated monetary assets could change by approximately \$761 due to the fluctuation and this would be recorded in profit or loss.

Credit Risk

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

We have credit risk relating to cash and cash equivalents, which we manage by dealing with large chartered Canadian banks and investing in highly liquid investments.

In order to minimize the credit risk on accounts receivables, our extension of credit to customers involves review and approval by senior management, as well as progress payments as contracts are executed and credit checks, where deemed necessary.

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 our total revenue and accounts receivable:

	Revenue	
	Number of customers	% of total
Quarter ended December 31, 2020	3	65
Fiscal year ended December 31, 2020	3	62
Quarter ended December 31, 2019	5	82
Fiscal year ended December 31, 2019	4	71

	Accounts receivable	
	Number of customers	% of total
As at December 31, 2020	2	77
As at December 31, 2019	3	85

We review accounts receivable balances regularly and reduce amounts to their expected realizable values by recognizing an allowance for doubtful accounts in period the account is estimated not to be fully collectible.

Credit reviews take into account the counterparty's financial position, past experience and other factors. The majority of our customers are large financially established organizations and we believe this limits the credit risk relating to customers.

Liquidity Risk

Liquidity risk is the risk that we are not able to meet our financial obligations as they fall due. One of management's primary goals is to manage liquidity risk by continuously monitoring actual and projected cash flows to ensure that we have sufficient liquidity to meet our liabilities when due, under both normal and financially stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The majority of our financial liabilities are comprised of accounts payable and accrued liabilities. Given our available cash resources as compared to the liabilities, we assess the liquidity risk to be low.

We believe that the existing cash and cash equivalents will provide sufficient funding to meet all working capital, contractual commitments and financing needs for at least the next 12 months.

Interest Rate Risk

Interest rate risk arises because of the fluctuation in interest rates. We are, or have been, subject to interest rate risk on our cash and cash equivalents. The impact of change in interest rates has not been, nor is it expected to be, material.

Critical Accounting Policies and Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies and historical experience, and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

Our significant accounting policies are fully described in Note 3 to our financial statements for the years ended December 31, 2020 and 2019 which are available on SEDAR (www.sedar.com). Certain accounting policies are particularly important to the reporting of our financial position and results of operations, and require the application of significant judgment by our management. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different, estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could have a material impact on the financial statements. We believe that there have been no significant changes in our critical accounting estimates for the year ended December 31, 2020.

Revenue recognition

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"). Revenue recognition requirements are very complex and are affected by interpretations of the rules and industry practices, both of which are subject to change. We follow specific and detailed guidelines in measuring revenue; however, certain judgments and current interpretations of rules and guidelines affect the application of our revenue recognition policy.

Contracts with customers often include multiple products and services which we evaluate before deciding 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. The Company also enters into subscription based arrangements which may also include professional services.

Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation. Where a contract consists of more than one performance obligation, revenue is allocated to each based on their relative estimated standalone selling price ("SSP").

Revenue from the license of software arrangements involving significant implementation or customization that includes sale of software that is not distinct is recognized as a combined performance obligation using the percentage-of-completion method to measure the progress to completion. The Company uses the ratio of incurred labour hours to estimated total labour hours as the measure of its progress to completion on each such combined performance obligation. Revisions in estimates are included in the 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.

Maintenance revenue consists of fees charged for customer support on our software products post-delivery, which are determinable based on the price charged for the same or similar PCS support when sold in stand-alone PCS renewals with customers, as substantiated by contractual renewal rates and the Company's renewal experience. Maintenance fee arrangements include ongoing customer support and rights to certain product updates "if and when available". Customer payments for maintenance are generally received in advance and are non-refundable. Maintenance revenue is deferred and recognized on a straight-line basis over the life of the related period, which is typically one year.

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, with the exception of the cases where the amortization period is one year or less. 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 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.

Goodwill - valuation and impairment testing

Goodwill is measured at cost less any subsequent impairment in value. We measure goodwill arising on a business combination as the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Any negative difference is recognized directly in the statements of comprehensive loss. We test for impairment as follows:

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 the same time.

The recoverable amount of an asset or cash-generating unit ("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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets. 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.

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 income (loss).

An impairment loss in respect of goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior periods 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.

Share-based payments

The Company accounts for all share-based payments using the fair value-based method.

The Company uses the Black-Scholes option pricing model to determine fair value of stock options at the grant date. The grant date fair value of stock options granted to employees is recognized as compensation expense, with a corresponding increase to contributed surplus, over the period that the employees become unconditionally entitled to the options. The expense is adjusted to reflect the estimated number of options expected to vest at the end of the vesting period. When options are exercised, the proceeds as well as the related amount in contributed surplus are credited to share capital. 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, expected dividends and the risk-free interest rate. This pricing model requires management to make highly subjective assumptions with respect to expected volatility, dividend yield, expected life, and risk free interest rate. Changes in the input assumptions can materially affect the fair value estimate.

Outstanding Share Data

As of February 18, 2021, 21,326,350 Common Shares were issued and outstanding. In addition, as of December 31, 2020, there were 1,833,450 stock options outstanding with exercise prices ranging from \$0.45 to \$4.50 per share.

As at December 31, 2020, there were 797,181 deferred share units ("DSUs") outstanding under the Company's deferred share unit plan for members of the Board of Directors, 671,254 of which represents the right to acquire one common share per DSU when the Board member is no longer rendering service to the Company, and 125,927 of which will be settled in cash, based on the value of the Company's common shares at the time of settlement.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At December 31, 2020, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

Management is responsible for designing and maintaining internal controls over financial reporting ("ICFR") as defined under National Instrument 52-109. At December 31, 2020, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS using the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Framework (2013).

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the quarter and fiscal year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that its objectives are met. Due to inherent limitations in all systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute assurance that the objectives of our control systems have been met.

About NexJ Systems Inc.

NexJ Systems provides Intelligent Customer Management to the financial services industry. Our award-winning CRM is designed to help Wealth Management, Private Banking, Corporate and Commercial Banking, and Insurance firms revolutionize their business. Powered by artificial intelligence, our products help drive productivity, boost client engagement, and increase revenue. With users in over 60 countries, our customers benefit from our deep expertise across financial services verticals, strategic investment in innovation, and commitment to their success.

NexJ was founded by an executive management team with extensive experience in the successful design and delivery of large-scale, integrated, enterprise software solutions. NexJ is publicly traded on the Toronto Stock Exchange (TSX: NXJ). For further information about the company, please visit www.nexj.com. Additional information relating to the Company is available on SEDAR at www.sedar.com.

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