

Condensed Interim Financial Statements
(Expressed in Canadian dollars)

NEXJ SYSTEMS INC.

Three months ended March 31, 2019 and 2018
(Unaudited)

NEXJ SYSTEMS INC.

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

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,005	\$ 10,951
Accounts receivable	3,612	4,876
Prepaid expenses and other assets (note 3)	2,235	1,688
Total current assets	17,852	17,515
Non-current assets:		
Property and equipment	1,181	1,181
Right-of-use assets (note 3)	5,943	—
Goodwill	1,753	1,753
Contract costs (note 4)	194	227
Other assets (note 3)	1,059	260
Total non-current assets	10,130	3,421
Total assets	\$ 27,982	\$ 20,936
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 2,471	\$ 2,689
Deferred revenue	6,864	4,786
Provisions (note 3)	—	51
Lease liabilities (note 3)	1,672	12
Total current liabilities	11,007	7,538
Non-current liabilities:		
Provisions (note 3)	—	13
Lease liabilities (note 3)	6,065	—
Deferred revenue	36	—
Total non-current liabilities	6,101	13
Total liabilities	17,108	7,551
Shareholders' equity:		
Share capital (note 5)	82,925	82,905
Share purchase loans (note 5)	(3,598)	(3,598)
Contributed surplus (note 6)	8,466	8,366
Deficit	(76,919)	(74,288)
Total shareholders' equity	10,874	13,385
Total liabilities and shareholders' equity	\$ 27,982	\$ 20,936

See accompanying notes to the condensed interim financial statements.

NEXJ SYSTEMS INC.

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

	Three months ended March 31,	
	2019	2018
Revenue:		
License fees	\$ 409	\$ 680
Professional services	1,525	3,026
Maintenance and support	2,334	2,194
	4,268	5,900
Cost of revenues	1,876	2,387
Gross profit	2,392	3,513
Expenses:		
Research and development, net	2,754	2,079
Sales and marketing	769	923
General and administrative, net (note 3)	1,353	1,833
	4,876	4,835
Loss from operations	(2,484)	(1,322)
Foreign exchange gain (loss)	(95)	300
Finance income	39	39
Finance expense (note 3)	(91)	—
	(147)	339
Net loss and comprehensive loss	\$ (2,631)	\$ (983)
Loss per share (note 8):		
Basic and diluted	\$ (0.13)	\$ (0.05)
Weighted average number of common shares outstanding, in thousands (note 8):		
Basic and diluted	20,532	20,532

See accompanying notes to the condensed interim financial statements.

NEXJ SYSTEMS INC.

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

Three months ended March 31, 2019	Common shares		Share purchase loans*	Contributed surplus	Deficit	Total shareholders' equity
	Number*	Amount				
Balance, January 1, 2019	20,168	\$ 82,905	\$ (3,598)	\$ 8,366	\$ (74,288)	\$ 13,385
Comprehensive loss	—	—	—	—	(2,631)	(2,631)
Share-based payment expense (note 6(a))	—	—	—	122	—	122
Exercise of employee stock options (note 6(a))	4	20	—	(22)	—	(2)
Balance, March 31, 2019	20,172	\$ 82,925	\$ (3,598)	\$ 8,466	\$ (76,919)	\$ 10,874

*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements are not recognized as outstanding until such time as payments are received on the loan balances. At March 31, 2019, 942 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total outstanding common shares of 21,114.

Three months ended March 31, 2018	Common shares		Share purchase loans*	Contributed surplus	Deficit	Total shareholders' equity
	Number*	Amount				
Balance, January 1, 2018	20,082	\$ 82,445	\$ (3,622)	\$ 8,663	\$ (70,571)	\$ 16,915
Impact of IFRS 15	—	—	—	—	174	174
Comprehensive loss	—	—	—	—	(983)	(983)
Share-based payment expense (note 6(a))	—	—	—	43	—	43
Exercise of employee stock options (note 6(a))	26	35	—	(56)	—	(21)
Repayment of share purchase loans by employees (note 5(a))	8	—	24	—	—	24
Repurchase of common shares (note 5(b))	(35)	(101)	—	—	—	(101)
Balance, March 31, 2018	20,081	\$ 82,379	\$ (3,598)	\$ 8,650	\$ (71,380)	\$ 16,051

*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements are not recognized as outstanding until such time as payments are received on the loan balances. At March 31, 2018, 942 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total outstanding common shares of 21,023.

See accompanying notes to the condensed interim financial statements.

NEXJ SYSTEMS INC.

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

	Three months ended March 31,	
	2019	2018
Cash flows from (used in) operating activities:		
Net loss	\$ (2,631)	\$ (983)
Adjustments for:		
Depreciation and amortization of property, equipment and right-of-use assets	480	98
Amortization of contract costs	33	14
Share-based payment expense	122	43
Finance income	(39)	(39)
Finance expense	91	—
Foreign exchange gain	(7)	(120)
Change in non-cash operating working capital:		
Accounts receivable	1,264	(267)
Prepaid expenses and other assets	(45)	768
Accounts payable and accrued liabilities and provisions	(151)	(692)
Deferred revenue	2,114	1,427
Net cash flows from operating activities	1,231	249
Cash flows from (used in) financing activities:		
Proceeds from repayment of share purchase loans	—	24
Repurchase of common shares	—	(101)
Costs of exercise of stock options	(2)	(21)
Payment of lease liability (completed contract)	(12)	(37)
Payment of lease liability (ongoing contract)	(201)	—
Net cash flows used in financing activities	(215)	(135)
Cash flows from (used in) investing activities:		
Purchase of property and equipment	(8)	(14)
Interest received	39	39
Net cash flows from investing activities	31	25
Effects of exchange rates on cash and cash equivalents	7	120
Increase in cash and cash equivalents	1,054	259
Cash and cash equivalents, beginning of period	10,951	14,784
Cash and cash equivalents, end of period	\$ 12,005	\$ 15,043
Supplemental cash flow information:		
Acquisition of property and equipment not yet paid	\$ 80	\$ 17

See accompanying notes to the condensed interim financial statements.

NEXJ SYSTEMS INC.

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

Three months ended March 31, 2019 and 2018
(Unaudited)

1. Reporting entity:

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

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

2. Basis of preparation:

(a) Statement of compliance:

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Accounting Standard ("IAS") 34, Interim Financial Reporting and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies as described in the Company's December 31, 2018 financial statements except for new policies adopted in the year as described in note 3. The notes presented in these condensed interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed interim financial statements should be read in conjunction with the annual audited financial statements, including the notes thereto, for the years ended December 31, 2018 and 2017.

These condensed interim financial statements were approved by the Board of Directors on April 25, 2019.

(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.

Certain 2018 information has been reclassified to conform with the financial statement presentation adopted in 2019.

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

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3. Changes in significant accounting policies:

Except as described below, the accounting policies applied in these unaudited condensed interim financial statements are the same as those applied in the Company's annual audited financial statements as at and for the years ended December 31, 2018 and 2017.

The Company has initially adopted IFRS 16, Leases, from January 1, 2019, using the modified retrospective approach. A number of other new standards are effective from January 1, 2019 but they don't have a material effect on the Company's financial statements.

The changes in accounting policies will also be reflected in the Company's annual financial statements as at and for the year ending December 31, 2019.

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

Effective January 1, 2019, the Company adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single accounting model, requiring the recognition of assets and liabilities for all major leases, previously classified as "operational leases" under the principles of IAS 17, Leases ("IAS 17"), and related interpretations.

(i) The Company's accounting policy under IFRS 16 is as follows:

(a) Definition of a lease:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to grandfather the lease definition for existing contracts on transition. It applied the definition of a lease under IFRS 16 to existing contracts as of January 1, 2019.

The Company has also elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

(b) As a lessee:

The Company leases its office space, based on lease agreement having a fixed duration until December 31, 2022.

NEXJ SYSTEMS INC.

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

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3. Changes in significant accounting policies (continued):

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, based on the initial amount of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically adjusted for certain remeasurements of the lease liability, if the case may be.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for (1) short-term leases, that have a lease term of 12 months or less, as well as for (2) leases of low value assets. The lease payments associated with these leases are recognized as expenses on a straight-line basis over the lease term.

NEXJ SYSTEMS INC.

Notes to Condensed Interim Financial Statements (continued)
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3. Changes in significant accounting policies (continued):

(c) Sub-lease:

When the Company is an intermediate lessor, it determines at lease inception date whether each sub-lease is a finance lease or an operating lease based on whether the contract transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the sub-lease is a financial lease; if not, then it is an operational lease.

For financial leases, and when the Company acts as intermediate lessor, it recognizes a sublease receivable and derecognizes the right-of-use assets relating to the head lease that it transfers to the sub lessees. Right-of-use assets and lease receivables relating to the sub leases are measured in the same way as the right-of-use assets and lease liabilities for the head lease, using the same discount rate for the actualization of future payments to be received.

The Company presents accretion expense in the head lease net of accretion income from the sub-leases.

(ii) Impact of transition to IFRS 16:

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. The cumulative effect of initial application is recognized in deficit at January 1, 2019. Comparative amounts for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease receivables and/or lease liabilities. Lease receivables and liabilities have been measured by discounting future lease payments at the incremental borrowing rate at January 1, 2019. The incremental borrowing rate applied was 5.5% per annum and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment. As of the initial date of application of IFRS 16, the remaining non-cancelable period of the head lease was four years, while non-cancelable periods for the subleases were four years and fifteen months respectively.

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Notes to Condensed Interim Financial Statements (continued)
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3. Changes in significant accounting policies (continued):

The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The Company has elected to apply the practical expedient for (1) excluding the initial direct costs for the measurement of right-of-use assets at the date of initial application, as well as for (2) using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table summarizes the impacts of adopting IFRS 16 at January 1, 2019:

	January 1, 2019 prior to adoption of IFRS 16	Adjustments	January 1 2019 after adoption of IFRS 16
Current assets:			
Prepaid expenses and other assets	\$ 1,688	\$ 383	\$ 2,071
Non-current assets:			
Right-of-use assets	\$ –	\$ 6,335	\$ 6,335
Other assets	260	901	1,161
Current liabilities:			
Provisions	\$ 51	\$ (51)	\$ –
Lease liabilities	–	1,584	1,584
Accounts payable and accrued liabilities	2,689	(255)	2,434
Non-current liabilities:			
Provisions	\$ 13	\$ (13)	\$ –
Lease liabilities	–	6,354	6,354

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Notes to Condensed Interim Financial Statements (continued)
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3. Changes in significant accounting policies (continued):

The application of IFRS 16 to leases, previously classified as operating leases under IAS 17, resulted in the recognition of right-of-use assets, finance lease liabilities and finance lease receivables. Right-of-use assets and lease obligations of \$7,938, relating to the lease of the Company's office space (head lease), were recorded as of January 1, 2019, with no net impact on deficit. Also, the Company derecognized right-of-use assets relating to the head lease that it transfers to sub lessees (for the sublease of a part of its office space) and recognizes receivables from the subleases for a total amount of \$1,284, with no net impact on deficit. On initial application of the standard, the Company reversed, against right-of-use asset, provisions for lease-exit charges amounting to \$64 and rent inducement accrued liabilities amounting to \$255, previously recorded as per IAS 17.

In the condensed interim statements of financial position, lease liabilities relating to leases previously classified as financial leases under IAS 17 and previously presented within Current portion of finance lease liabilities, are now presented within Finance lease liabilities. There has been no change in the liabilities recognized.

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

Three months ended March 31, 2019 and 2018
(Unaudited)

3. Changes in significant accounting policies (continued):

(iii) Impact for the period:

The following tables summarizes the impacts of adopting IFRS 16 on the Company's condensed interim financial statements for the three months ended March 31, 2019:

	March 31, 2019 as reported	Adjustments	March 31, 2019 without adoption of IFRS 16
Current assets:			
Prepaid expenses and other assets	\$ 2,235	\$ (391)	\$ 1,844
Non-current assets:			
Right-of-use assets	\$ 5,943	\$ (5,943)	\$ –
Other assets	1,059	(799)	260
Current liabilities:			
Accounts payable and accrued liabilities	\$ 2,471	\$ 422	\$ 2,893
Provisions	–	51	51
Lease liabilities	1,672	(1,672)	–
Non-current liabilities:			
Provisions	\$ –	\$ –	\$ –
Lease liabilities	6,065	(6,065)	–
Shareholders' equity:			
Deficit	\$ (76,919)	\$ 131	\$ (76,788)
Expenses:			
General and administrative, net	\$ 1,353	\$ (40)	\$ 1,313
Finance expense:			
Accretion expense	\$ 91	\$ (91)	\$ –

NEXJ SYSTEMS INC.

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

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3. Changes in significant accounting policies (continued):

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

	Head lease	Offices subleases	Total right-of-use assets
Balance, January 1, 2019	\$ 7,618	\$ (1,284)	\$ 6,334
Depreciation	(496)	105	(391)
Balance, March 31, 2019	\$ 7,122	\$ (1,179)	\$ 5,943

As a result of applying IFRS 16, the Company has recognized depreciation and net accretion expenses, instead of lease expense. During the three months ended March 31, 2019, the Company recognized \$391 of depreciation expense and \$91 of net accretion expense from these leases.

4. Contract costs:

	2019	2018
Balance, January 1 (note 3(a))	\$ 227	\$ 331
Contract costs incurred	38	302
Amortization	(71)	(406)
Balance, end of period	\$ 194	\$ 227

The Company's total capitalized contract costs net of accumulated depreciation are \$194 as at March 31, 2019 (December 31, 2018 - \$227) and relates to incremental commission fees paid to certain sales and marketing employees as a result of obtaining client contracts.

NEXJ SYSTEMS INC.

Notes to Condensed Interim Financial Statements (continued)
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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 months ended March 31, 2019, amortization amounting to \$71 (2018 - \$14) was recognized as part sales and marketing in the condensed interim statements of comprehensive loss.

5. Share capital:

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

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

During the three months ended March 31, 2019, the Company received repayment of \$nil (2018 - \$24) for nil common shares (2018 - 8,437) with respect to the share loan and pledge agreements. At March 31, 2019, 941,835 common shares (December 31, 2018 - 941,835) for proceeds of \$3,598 (December 31, 2018 - \$3,598) were held as security by the Company with respect to the share loan and pledge agreements.

NEXJ SYSTEMS INC.

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

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5. Share capital (continued):

(b) The Company has had a Normal Course Issuer Bid ("NCIB") in place in 2017, 2018 and 2019 and has repurchased its common shares through the NCIB. For each of the NCIB in 2017 and 2018 approved by the Toronto Stock Exchange ("TSX") in the prior August of each respective year, the Company can purchase its common shares through all available markets and/or alternative trading systems, including the facilities of the TSX. Each NCIB is valid for one year and the maximum number of common shares which can be purchased, pursuant to each NCIB, aggregated to 1,000,000 common shares per NCIB, representing approximately 4.7% of the number of common shares issued and outstanding.

During the three months ended March 31, 2019, the Company repurchased and cancelled nil (2018 - 35,128) of its common shares through trades on the TSX for an aggregate purchase price of \$nil (2018 - \$101), which was recorded as a reduction of share capital.

6. Share-based payment arrangements:

At March 31, 2019, the Company had the following share-based payment arrangements:

(a) Stock option plan:

The total share-based payment expense and the amount credited to contributed surplus for the three months ended March 31, 2019 was \$122 (2018 - \$43). The following table outlines the activity for stock options for the three months ended March 31, 2019 and 2018:

	2019		2018	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding, beginning of period	1,951	\$ 1.87	1,475	\$ 1.78
Granted	145	1.47	155	2.86
Exercised	(20)	1.35	(65)	1.45
Cancelled	(13)	2.64	(10)	3.16
Outstanding, end of period	2,063	1.84	1,555	1.89
Exercisable, end of period	1,269	\$ 1.76	1,327	\$ 1.72

NEXJ SYSTEMS INC.

Notes to Condensed Interim Financial Statements (continued)
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6. Share-based payment arrangements (continued):

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

At March 31, 2019, the following table provides the outstanding options at their respective exercise prices and the related weighted average remaining contractual life:

Exercise price	Number outstanding (000s)	Weighted average remaining contractual life (years)
\$1.00 - \$2.00	1,660	4.62
\$2.01 - \$3.00	310	3.91
\$3.01 - \$4.00	74	0.94
\$4.01 - \$4.50	19	4.98
	2,063	4.38

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

The Company grants DSUs to the independent members of the Board of Directors as their annual remuneration for the services rendered as directors on the Company's board. These DSUs vest immediately and are settled with equity when the board member is no longer rendering service to the Company.

NEXJ SYSTEMS INC.

Notes to Condensed Interim Financial Statements (continued)
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6. Share-based payment arrangements (continued):

The following table outlines the activity for the DSUs for the three months ended March 31, 2019 and 2018:

	2019		2018	
	Number (000s)	Amount	Number (000s)	Amount
Outstanding, beginning of period	362	\$ 1,167	446	\$ 1,661
Outstanding, end of period	362	\$ 1,167	446	\$ 1,661

7. Restructuring costs:

During the year ended December 31, 2018, the Company executed a restructuring plan whereby certain employees of the Company were severed. An amount of \$402 was recorded as restructuring costs, which relates primarily to employee severance costs. During the three months ended March 31, 2019, the Company paid \$93 (2018 - \$nil) in restructuring costs. The remaining amount of \$87 recorded under accounts payable and accrued liabilities on the statements of financial position as at March 31, 2019, will be paid out during the 2019 fiscal year.

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Notes to Condensed Interim Financial Statements (continued)
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8. Loss per share:

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

	Three months ended March 31,	
	2019	2018
Numerator:		
Net loss	\$ (2,631)	\$ (983)
Denominator:		
Weighted average number of shares (in thousands):		
Basic and diluted	20,532	20,532
Loss per share:		
Basic and diluted	\$ (0.13)	\$ (0.05)

During the three months ended March 31, 2019, there were 137 (2018 - 697) stock options that were excluded from the computation of diluted loss per share.

9. Related party transactions:

(a) Interim loan agreement:

Pursuant to the completed plan of arrangement in 2016 between the Company, NexJ Health Inc. and NexJ Health Holdings Inc., the Company entered into an interim loan agreement with NexJ Health Inc. that provides that the Company will advance funds to NexJ Health Inc. as required from time to time up to a maximum of \$1,000; the loan bears annual interest at prime rate, as published by the Royal Bank of Canada. The loan receivable is repayable on the date of the closing of a rights offering or other such financing by NexJ Health Inc., or such later date as agreed to by the parties. Management evaluated the recoverability of the loan, including the financial position of NexJ Health Inc. as at December 31, 2016 and concluded that it is impaired and recorded a provision of \$994 in the condensed interim statements of comprehensive loss for the year ended December 31, 2016. During the three months ended March 31, 2019, no further advances were made to NexJ Health Inc. and the loan continues to be impaired as at March 31, 2019.

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9. Related party transactions:

(b) Shared services agreement:

Pursuant to the completed plan of arrangement in 2016 between the Company, NexJ Health Inc. and NexJ Health Holdings Inc., the Company also entered into a shared services agreement with NexJ Health Inc. under which the Company was to provide services and support functions relating to facilities, human resources, finance and IT services for a monthly fee agreed upon between the parties. The Company charged \$636 for these services for the year ended December 31, 2016. Management evaluated the recoverability of these charges, including the financial position of NexJ Health Inc. as at December 31, 2016 and concluded that it was impaired and recorded a provision of \$636 in the condensed interim statements of comprehensive loss for the year ended December 31, 2016. These amounts continue to be impaired as at March 31, 2019.

On January 1, 2019, the parties entered into an agreement for the sublease of the office space occupied by NexJ Health Inc. The Company classifies the sublease in accordance with the provision of IFRS 16 "Leases" and consequently has derecognized right-of-use asset and lease receivable relating to the sublease. Right-of-use asset has been measured based on lease payments to be received, discounted using the Company's incremental borrowing rate, as explained in note 3.

Currently, the Company charges for the sublease of office space, based on agreement signed between the parties, as well as for any third party costs paid on behalf of NexJ Health Inc. Accordingly, the Company charged \$99 (2018 - \$132) for the three months ended March 31, 2019. These amounts are recorded under prepaid expenses and other assets in the condensed interim statements of financial position and have to be paid by NexJ Health Inc. subsequent to their respective period end.

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

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Notes to Condensed Interim Financial Statements (continued)
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10. Financial instruments and capital management:

(a) Classification and fair values of financial instruments:

As required by IFRS 9, at the date of initial application, the Company has classified its financial assets and financial liabilities as measured at amortized cost. The following table sets out the Company's classification and carrying amount, together with the fair value, for each type of financial asset and financial liability as at March 31, 2019 and December 31, 2018:

Classification	March 31, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Amortized cost:				
Cash equivalents	\$ 7,865	\$ 7,865	\$ 9,809	\$ 9,809
Accounts receivable	3,612	3,612	4,876	4,876
Financial liabilities:				
Amortized cost:				
Accounts payable and accrued liabilities	2,471	2,471	2,689	2,689
Provisions	—	—	64	64
Lease liability	7,737	7,737	12	12

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

NEXJ SYSTEMS INC.

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

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10. Financial instruments and capital management (continued):

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 March 31, 2019 and December 31, 2018 in the condensed interim financial statements are summarized below:

March 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 7,865	\$ –	\$ –	\$ 7,865

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 9,809	\$ –	\$ –	\$ 9,809

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

NEXJ SYSTEMS INC.

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

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10. Financial instruments and capital management (continued):

(b) Market risk:

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of these risks as at March 31, 2018:

(i) Credit risk:

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

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

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

	Revenue	
	Number of customers	% of total
Three months ended March 31, 2019	4	66
Three months ended March 31, 2018	3	62

	Accounts receivable	
	Number of customers	% of total
As at March 31, 2019	2	79
As at December 31, 2018	1	84

NEXJ SYSTEMS INC.

Notes to Condensed Interim Financial Statements (continued)
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10. Financial instruments and capital management (continued):

(ii) Liquidity risk:

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

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

(iii) Foreign exchange risk:

The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar and Australian dollar. Currently, the Company does not enter into foreign exchange contracts to manage this exposure, but may do so in the future. The Company has foreign currency exposure with respect to cash equivalents, accounts receivable and accounts payable denominated in U.S. dollars and Australian dollars. It is also exposed to foreign currency risk on revenue and expenses where it invoices or procures in U.S. dollars and Australian dollars. During the three months ended March 31, 2019, the Company recorded a foreign exchange loss of \$95 (2018 - a gain of \$300). At March 31, 2019, U.S. dollar-denominated net monetary assets totalled approximately U.S. \$5,311 (2018 - U.S. \$7,195). At March 31, 2019, Australian dollar-denominated net monetary assets totalled approximately AUD \$929 (2018 - AUD \$1,090).

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 \$798 due to the fluctuation and this would be recorded in the condensed interim statements of comprehensive loss.

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Notes to Condensed Interim Financial Statements (continued)
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10. Financial instruments and capital management (continued):

(iv) Interest rate risk:

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

(c) Capital management:

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

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

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

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

NEXJ SYSTEMS INC.

Notes to Condensed Interim Financial Statements (continued)
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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 March 31,	
	2019	2018
United States of America	\$ 3,104	\$ 3,464
Canada	177	190
EMEA	690	1,771
Asia Pacific	297	475
	<u>\$ 4,268</u>	<u>\$ 5,900</u>

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