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 unaudited condensed interim financial statements for the quarter and six months ended June 30, 2019, which we prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A should also be read in conjunction with our annual MD&A and audited financial statements for the years ended December 31, 2018 and 2017, which we prepared in accordance with IFRS and are available on SEDAR at www.sedar.com. 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 July 25, 2019, 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.

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 costs 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 is the pioneer of Intelligent Customer Management. 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.

On April 16, NexJ demonstrated its ongoing commitment to innovation and relentless desire to create value for our clients by formalized a partner program. The program invites services-specific consulting and solutions partners to expand our implementation capabilities and broaden our product offering. NexJ will be providing partners with the tools, training, and support needed to create critical long-term value, boost growth, and increase revenue.

Pursuant to our intent of delivering technology that augments the intelligence of wealth management advisors, NexJ entered in to an agreement with Boosted.ai. NexJ and Boosted.ai are coming to market with a product that will guide financial advisors to improve client investment outcomes through timely, optimized recommendations while ensuring that portfolios are compliant.

Leveraging the success achieved with world's largest financial services firms, NexJ is launching a new product initially targeted to Small- and Medium-Enterprise wealth managers. An Early Access Program was introduced in June in order to establish customer references ahead of general availability of the product which is scheduled for release in October.

Our revenue consists primarily of software license fees, professional service fees, and maintenance and support fees. All NexJ products are licensed either as a one-time purchase (perpetual license) or subscription fee. NexJ's solutions can be deployed on premise, hosted in an external data center or hosted as a managed service. Pricing for NexJ's on-premise solution is based on a perpetual software license model. NexJ's hosted solution is priced as a monthly subscription fee per user. Subscription fees are paid annually, in advance. A minimum three (3) year commitment is required. This option includes maintenance and support. Professional services revenue consists of fees charged for customization, 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. Maintenance fee arrangements generally include ongoing customer support and rights to certain unspecified product updates. Our customers typically purchase a combination of software, maintenance and professional services, although the type, mix and quantity of each varies by customer.

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 revenue earned from 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.

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.

Results of Operations

The following table sets forth a summary of our results of operations for the quarters and six months ended June 30, 2019 and 2018:

(In thousands of dollars, except percentages and per share amounts)	Quarter ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2019	2018	$	%	2019	2018	$	%
Revenue	$4,373	$5,042	(669)	(13)	$8,641	$10,942	$(2,301)	(21)
Cost of revenue (1)	1,869	1,977	(108)	(5)	3,724	4,361	(637)	(15)
Gross profit	2,504	3,065	(561)	(18)	4,917	6,581	(1,664)	(25)
Operating Expenses								
Research and development, net (2)	2,470	2,446	24	1	5,201	4,519	682	15
Sales and marketing (3)	708	951	(243)	(26)	1,474	1,873	(399)	(21)
General and administrative, net (4)(5)	948	1,048	(100)	(10)	1,985	2,647	(662)	(25)
Total operating expenses	4,126	4,445	(319)	(7)	8,660	9,039	(379)	(4)
Adjusted EBITDA	(1,622)	(1,380)	(242)	(18)	(3,743)	(2,458)	(1,285)	(52)
Share-based payment expense	119	46	73	159	241	89	152	171
Depreciation and amortization (5)	242	94	148	157	483	192	291	152
Lease-exit charges, net	—	—	—	—	—	103	(103)	(100)
Deferred share unit expense	—	225	(225)	(100)	—	225	(225)	(100)
Restructuring costs	614	331	283	85	614	331	283	85
Foreign exchange loss (gain)	92	(110)	202	(184)	187	(410)	597	(146)
Finance income	(37)	(38)	1	(3)	(76)	(77)	1	(1)
Finance expense (5)	38	—	38	n/m	76	—	76	n/m
Loss before income taxes	(2,690)	(1,928)	(762)	(40)	(5,268)	(2,911)	(2,357)	(81)
Income taxes	—	—	—	—	—	—	—	—
Net loss	**$(2,690)**	**$(1,928)**	**$(762)**	**(40)**	**$(5,268)**	**$(2,911)**	**$(2,357)**	**(81)**
n/m – not meaningful								
Weighted average number of common shares outstanding (000's)								
Basic and diluted	20,531	20,535			20,531	20,534		
Net loss per share								
Basic and diluted	$ (0.13)	$ (0.09)			$ (0.26)	$ (0.14)		
Adjusted EBITDA per share								
Basic and diluted	$ (0.08)	$ (0.07)			$ (0.18)	$ (0.12)		

(1) Cost of revenues for the quarter and six months ended June 30, 2019 exclude share-based payment expense of $25 and $46 (2018 - $nil and $3) respectively.
(2) Research and development expenses for the quarter and six months ended June 30, 2019 exclude share-based payment expense of $19 and $42 (2018 - $4 and $10) respectively.
(3) Sales and marketing expenses for the quarter and six months ended June 30, 2019 exclude share-based payment expense of $3 and $6 (2018 - $1 and $2) respectively.
(4) General and administrative expenses for the quarter and six months ended June 30, 2019 exclude share-based payment expense of $72 and $147 (2018 - $41 and $74) respectively, depreciation and amortization of $242 and $483 (2018 - $94 and $192) respectively, lease-exit charges of $nil and $nil (2018 - $nil and $103) respectively, and deferred share unit expense of $nil and $nil (2018 - $225 and $225) respectively.
(5) Certain figures have been adjusted for the quarter months 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.

	As at June 30, 2019	As at December 31, 2018
	(In thousands of dollars)	
Selected Statement of Financial Position Data	$	$
Cash and cash equivalents	8,445	10,951
Total assets	18,946	20,936
Deferred revenue	4,832	4,786
Total non-current liabilities	2,584	13
Total liabilities	10,607	7,551
Total shareholders' equity	8,339	13,385

Comparison of the quarters and six months ended June 30, 2019 and 2018

Revenue

The following table sets forth the breakdown of our revenue recognized according to revenue type and the change for the quarters and six months ended June 30, 2019 and 2018:

(In thousands of dollars, except percentages)	Quarter ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2019	2018	$	%	2019	2018	$	%
License fees	$150	$422	(272)	(64)	$559	$1,102	(543)	(49)
Subscription fees	62	—	62	100	62	—	62	100
Professional services	1,836	2,453	(617)	(25)	3,361	5,479	(2,118)	(38)
Maintenance and support	2,325	2,167	158	7	4,659	4,361	298	7
Total	4,373	5,042	(669)	(13)	8,641	10,942	(2,301)	(21)

Total revenue for the quarter ended June 30, 2019 was $4,373, a decrease of $669, or 13%, from $5,042 recognized in the comparative period in 2018. Total revenue for the six months ended June 30, 2019 was $8,641, a decrease of $2,301, or 21%, from $10,942 recognized in the comparative period in 2018. The Company had reduced active software license deployments during the quarter ended June 30, 2019, thereby posting lower license revenue. Also new licenses were not associated with implementation services, consequently negatively impacting professional services revenue as compared to comparative period of 2018.

License fees — License revenue for the quarter ended June 30, 2019 decreased by $272, or 64%, to $150, from $422 recognized in the comparative period in 2018. During the six months ended June 30, 2019, license revenue decreased by $543, to $559, from $1,102 recognized in the comparative period in 2018. The revenue recognized for the quarter and six months ended June 30 2019 was mainly generated from additional licenses purchased by existing customers. In the comparative period, the Company recognized revenue from a new customer arrangement with Emirates NBD, a leading banking group in the MENA region, entered into in the fourth quarter of 2017 as well as from additional software licenses purchased by existing customers.

For our enterprise solutions, we follow contract accounting which involves the use of the percentage of completion method for recognizing revenues relating to the combination of software licenses and professional services for customer arrangements that meet applicable accounting criteria.

Subscription fees — Subscription revenue for the quarter and six months ended June 30, 2019 was $62, as compared to $nil in 2018. The subscription revenue was generated within our existing customers from new service offerings through our partner network.

Professional services — Professional services revenue for the quarter ended June 30, 2019 decreased by $617, or 25%, to $1,836 from $2,453 recognized in the comparative period in 2018. During the six months ended June 30, 2019, professional services decreased by $2,118, or 38%, to $3,361, from $5,479 for the comparative period in 2018. The decrease in professional services revenue was mainly due to a decrease in 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 June 30, 2019 increased by $158, or 7%, to $2,325 from $2,167 for the comparative period in 2018. During the six months ended June 30, 2019, maintenance and support revenue increased by $298, or 7%, to $4,659, from $4,361 for the comparative period in 2018. The increase in maintenance and support revenue for the quarter ended June 30, 2019 relates to the commencement of maintenance and support with an additional customer wherein the software licenses were deployed in the second quarter of 2018, as well as for additional software licenses purchased by existing customers in 2018 and 2019.

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

(In thousands of dollars)	Quarter ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
United States of America	$3,287	$3,098	$6,391	$6,562
Canada	158	186	335	376
EMEA	641	1,431	1,331	3,202
Asia Pacific	287	327	584	802
Total	4,373	5,042	8,641	10,942

Deferred revenue

Deferred revenue balance at June 30, 2019 was $4,832 (December 31, 2018 - $4,786), relating to software licenses, professional services arrangements and annual maintenance and support revenue. The increase was mainly due to the maintenance and support charges invoiced to the customers at the commencement of the 2019 term, offset by the revenue recognized in the quarter and six months ended June 30, 2019.

In the six months ended June 30, 2019, we recognized revenue of $3,288 that was deferred at December 31, 2018, comprised of $2,932 from maintenance and support, $334 from professional services, and $22 from license fees.

Cost of Revenues

(In thousands of dollars, except percentages)	Quarter ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2019	2018	$	%	2019	2018	$	%
Cost of revenues	$1,869	$1,977	(108)	(5)	$3,724	$4,361	(637)	(15)
Gross profit	2,504	3,065	(561)	(18)	4,917	6,581	(1,664)	(25)
Gross profit percentage	57%	61%			57%	60%		

Cost of revenues for the quarter ended June 30, 2019 decreased by $108, or 5%, to $1,869, from $1,977 for the comparative period in 2018. For the quarter ended June 30, 2019, the average full time equivalent employee headcount devoted to cost of revenues was 50, as compared to 47 for the comparative period in 2018. During the six months ended June 30, 2019, cost of revenues decreased by $637, or 15%, to $3,724, compared to $4,361, over the comparative period in 2018. For the six months ended June 30, 2018, the average full time equivalent employee headcount devoted to cost of revenues was 51, as compared to 57 for the comparative period in 2018. The decrease in the expense is a result of the decrease in headcount, as well as the decreased use of short term contractors and a decrease in travel expenses.

Gross profit for the quarter ended June 30, 2019 decreased by $561, or 18%, to $2,504, from $3,065 for the comparative period in 2018. During the six months ended June 30, 2019, gross profit decreased by $1,664, or 25%, to $4,917, compared to $6,581, over the comparative period in 2018. The lower gross profit for the quarter ended June 30, 2019 was the result of reduced revenues, gross profit as percentage of revenues being consistent over the analysed period.

Operating Expenses

The following table sets forth the breakdown of our operating expenses by category and the change for the quarters ended June 30, 2019 and 2018:

(In thousands of dollars, except percentages)	Quarter ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2019	2018	$	%	2019	2018	$	%
Research and development, net	2,470	2,446	24	1	5,201	4,519	682	15
Sales and marketing	708	951	(243)	(26)	1,474	1,873	(399)	(21)
General and administrative, net	948	1,048	(100)	(10)	1,985	2,647	(662)	(25)
Total	4,126	4,445	(319)	(7)	8,660	9,039	(379)	(4)

Research and development, net — Research and development expenses for the quarter ended June 30, 2019 increased by $24, or 1%, to $2,470, from $2,446 for the comparative period in 2018. For the quarter ended June 30, 2019, the average full time equivalent employee headcount devoted to research and development was 91, as compared to 97 employees over the comparative period in 2018. The increase in the expense is as a result of use of short-term contractors, offset by decrease in the headcount. During the six months ended June 30, 2019, research and development expenses increased by $682, or 15%, to $5,201, compared to $4,519, over the comparative period in 2018. For the six months ended June 30, 2018, the average full time equivalent employee headcount devoted to research and development was 91 as compared to 89 the comparative period in 2018. The increase in the expense is a result of the increase in headcount and use of short term contractors.

The increase in Research and Development spend results from ongoing efforts to introduce a new version of NexJ CRM to market. The new product is initially targeted to the small and medium enterprise firms within wealth management with subsequent releases addressing the needs of the remainder of our focus sub-vertical markets within financial services. With a product that is consumable to the broader market NexJ is vastly expanding the number of firms it can sell in to.

Sales and marketing — Sales and marketing expenses for the quarter ended June 30, 2019 decreased by $243, or 26%, to $708, from $951 for the comparative period in 2018. For the quarter ended June 30, 2019, the average full time equivalent employee headcount devoted to sales and marketing was 14, as compared to 17 for the comparative period in 2018. During the six months ended June 30, 2019, sales and marketing expenses decreased by $399, or 21%, to $1,474, compared to $1,873, over the comparative period in 2018. For the six months ended June 30, 2019, the average full time equivalent employee headcount devoted to sales and marketing was 14, as compared to 18 employees over the comparative period in 2018. The decrease in the expense for the quarter and six months ended June 30, 2019 is mainly due to the decrease of payroll expenses as well as variable compensation relating to revenues.

General and administrative, net — General and administrative ("G&A") expenses for the quarter ended June 30, 2019 decreased by $100, or 10%, to $948, from $1,048 for the comparative period in 2018. For the quarter ended June 30, 2019, the average fulltime equivalent employee headcount devoted to general and administrative was 18, as compared to 23 for the comparative period in 2018. During the six months ended June 30, 2019, G&A expenses decreased by $662, or 25%, to $1,985, compared to $2,647, over the comparative period in 2018. For the six months ended June 30, 2019 the average full time equivalent employee headcount devoted to general and administrative was 18, as compared to 23 for the comparative period in 2018. The decrease in the expense for the quarter and six months ended June 30, 2019 was not only due to the decrease in the employee headcount but also due to the change in the accounting for leases now presented as depreciation of right-of-use assets and financial expense following the adoption of IFRS 16, effective January 1, 2019, as well as due to the refund of realty taxes with respect to the Company's leased office premises which was recorded as a credit in the second quarter of 2018.

Share-based payment expense

For the quarter ended June 30, 2019, share-based payment expense increased by $73, to $119 from $46 recognized in the same period of 2018. During the six months ended June 30, 2019, share-based payment expense increase by $152, to $241, from $89 recognized in the comparative period in 2018.

The increase in the expense for the quarter and six months ended June 30, 2019 was as a result of new options granted by the Company to its officers and employees in 2018 and 2019 as well as due 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 June 30, 2019, depreciation and amortization increased by $148, to $242, from $94 recognized in the comparative period in 2018. During the six months ended June 30, 2019, depreciation and amortization increased by $291, to $483, from $192 for the comparative period in 2018. The increase resulted from the adoption of IFRS 16 "*Leases*", effective January 1, 2019, wherein the Company has recorded depreciation of right-of use assets for the quarter and six months ended June 30, 2019 as compared to the lease office expense recorded in general and administrative expenses for the quarter and six months ended June 30, 2018.

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 vest immediately and could only be settled in cash and be paid when the board member is no longer rendering service to the Company. Accordingly, the Company has in the past treated these arrangements as cash-settled awards and 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.

On June 20, 2018, the Company issued 109,224 DSUs to the directors representing their annual remuneration for the fiscal 2018 and recorded a deferred share unit expense of $225 with credit to contributed surplus for the quarter and six months ended June 30, 2018. The DSU grant for 2019 has not taken place as yet.

Restructuring costs

During the quarter ended June 30, 2019, the Company undertook restructuring whereby certain employees of the Company were severed. For the quarter and six months ended June 30, 2019, a total of $614 and $614, respectively was recorded as restructuring costs, which relates primarily to employee severance costs. During the quarter and six months ended June 30, 2019, the Company paid $98 and $98, respectively, in restructuring costs. The remaining amount of $516 recorded under accounts payable and accrued liabilities on the statement of financial position as at June 30, 2019, will be paid out within a one year period.

For the quarter and six months ended June 30, 2018, a total of $331 was recorded as restructuring costs, which relates primarily to employee severance costs. During the quarter and six months ended June 30, 2019, the Company paid $68 and $161, respectively, in restructuring costs. The remaining amount of $19 recorded under accounts payable and accrued liabilities on the statement of financial position as at June 30, 2019, will be paid out during the 2019 fiscal year.

Lease-exit charges, net

For the quarter and six months ended June 30, 2019, and following the adoption of IFRS 16 "*Leases*", lease-exit charges, pertaining to exit of portion of the leased office premises, previously recorded under general and administrative expenses are currently presented as part of depreciation and amortisation expense. In addition, effective January 1, 2019, provisions for lease-exit charges previously recognized with respect to unused portion of the leased office premises have been derecognized and such amounts have been factored into the measurement of right-of-use assets, finance lease receivables and liabilities as a result of the adoption of IFRS 16.

Foreign exchange loss (gain)

For the quarter ended June 30, 2019, our foreign exchange loss was $92 compared to a foreign exchange gain of $110 for the comparative period in 2018. For the six months ended June 30, 2019, our foreign exchange loss was $187 compared to a foreign exchange gain of $410 for the same period in 2018.

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 June 30, 2019 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 June 30, 2019, the U.S. dollar weakening by approximately 2% against the Canadian dollar from C$1.3363 to C$1.3087 as compared to the U.S. dollar strengthening by 2% from C$1.2894 to C$1.3168 for the comparative period in 2018. The Australian dollar weakening by 3% against the Canadian dollar from C$0.9483 to C$0.9177 in the second quarter of 2019 as compared to weakened by approximately 2% against the Canadian dollar from C$0.9902 to C$0.9733 for the comparative period in 2018.

For the six months ended June 30, 2019, the US dollar weakened by 4% against the Canadian dollar from C$1.3642 to C$1.3087 as compared to strengthening by 5% from C$1.2545 to C$1.3168 for the comparative period in 2018. Additionally, the Australian dollar weakened by 5% against the Canadian dollar from C$0.9616 to C$0.9177 in the six months ended June 30, 2019 as compared to weakening from C$0.9801 to C$0.9733 for the comparative period in 2018.

As at June 30, 2019, U.S. dollar denominated net monetary assets were US$3,744 as compared to US$5,870, as at June 30, 2018. As at June 30, 2019, Australian dollar denominated net monetary assets were AU$967 as compared to AU$1,147 as at June 30, 2018.

Finance income

For the quarter ended June 30, 2019, the Company posted similar finance income of $37, as compared to $38 in the comparative period in 2018. During the six months ended June 30, 2019, finance income was similar at $76, as compared to $77 recognized in the comparative period in 2018. 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 and six months ended June 30, 2019, and following the adoption of IFRS 16 “Leases”, the Company recorded finance expense of $38 and $76 representing 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 the two subleases of a portion of the leased office space.

Net loss

We reported a net loss of $2,690, or $(0.13) per share (basic and diluted), for the quarter ended June 30, 2019 compared to net loss of $1,928, or $(0.09) per share (basic and diluted) for the comparative period in 2018. For the six months ended June 30, 2018, we reported a net loss of $5,268, or $(0.26) per share (basic and diluted), compared to a net loss of $2,911, or $(0.14) per share (basic and diluted), for the comparative period in 2018.

Adjusted EBITDA

Adjusted EBITDA for the quarter ended June 30, 2019 was a loss of $1,622, or $(0.08) per share (basic and diluted) as compared to an Adjusted EBITDA loss of $1,380 or $(0.07) per share (basic and diluted), in the comparative period in 2018. For the six months ended June 30, 2019, Adjusted EBITDA was a loss of $3,743, or $(0.18) per share (basic and diluted), as compared to $2,458, or $(0.12) per share (basic and diluted), for the comparative period in 2018. 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. See “Non-IFRS Measures” for a description of Adjusted EBITDA.

Reconciliation of Adjusted EBITDA

The following table reconciles the Adjusted EBITDA to net loss:

(in thousands of dollars, except percentages)	Quarter ended June 30, 2019	Quarter ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Total revenue	**$4,373**	**$5,042**	**$8,657**	**$10,942**
Net loss	**$(2,690)**	**$(1,928)**	**$(5,268)**	**$(2,911)**
Add back (deduct):				
Share-based payment expense	119	46	241	89
Depreciation and amortization	242	94	483	192
Lease-exit charges, net	—	—	—	103
Deferred share unit expense	—	225	—	225
Restructuring costs	614	331	614	331
Foreign exchange loss (gain)	92	(110)	187	(410)
Finance income	(37)	(38)	(76)	(77)
Finance expense	38	—	76	—
Adjusted EBITDA	**$(1,622)**	**$(1,380)**	**$(3,743)**	**$(2,458)**
Adjusted EBITDA margin	**(37)%**	**(27)%**	**(43)%**	**(22)%**

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 June 30, 2019. 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.

	Quarter Ended							
	Jun. 30, 2019	**Mar. 31, 2019 (1)**	**Dec. 31, 2018**	**Sept. 30, 2018**	**Jun. 30, 2018**	**Mar. 31, 2018**	**Dec. 31, 2017**	**Sept. 30, 2017**
	(In thousands of dollars, except share and per share figures) (Unaudited)							
Revenue	$4,373	$4,268	$6,172	$5,320	$5,042	$5,900	$6,247	$5,703
Net income (loss)	(2,690)	(2,578)	15	(995)	(1,928)	(983)	(689)	(1,153)
Weighted average number of shares outstanding (000`s):								
Basic	20,531	20,532	20,530	20,586	20,535	20,532	20,570	20,626
Diluted	20,531	20,532	20,994	20,586	20,535	20,532	20,570	20,626
Net income (loss) per share:								
Basic	$ (0.13)	$ (0.13)	$ 0.00	$ (0.05)	$ (0.09)	$ (0.05)	$ (0.03)	$ (0.06)
Diluted	$ (0.13)	$ (0.13)	$ 0.00	$ (0.05)	$ (0.09)	$ (0.05)	(0.03)	$ (0.06)

(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 June 30, 2019, we held cash and cash equivalents of $8,445. 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)	Six months ended June 30,	
	2019	**2018**
Net cash flows used in operating activities	$ (1,964)	$ (1,077)
Net cash flows used in financing activities	(184)	(191)
Net cash flows from (used in) investing activities	(282)	38
Effect of exchange rate changes on cash and cash equivalents	(76)	135
Decrease in cash and cash equivalents	(2,506)	(1,095)
Beginning cash and cash equivalents	10,951	14,784
Ending cash and cash equivalents	8,445	13,689

Net cash flows used in operating activities

We used cash of $1,964 in operating activities for the six months ended June 30, 2019. We generated cash of $2,395 attributable to movements in non-cash working capital mainly due to decreases in accounts receivable. This was offset by $4,359 of cash used in operating activities.

We used cash of $1,077 in operating activities for the six months ended June 30, 2018. We generated cash of $1,504 attributable to movements in non-cash working capital with a change arising from increases accounts payable and accrued liabilities and deferred revenue, and decreases in accounts receivable and prepaid expenses and other assets. This was offset by $2,581 of cash used in operating activities.

Net cash flows used in financing activities

For the six months ended June 30, 2019, net cash used in financing activities was $184. This consisted of payment of finance lease of $172, repurchase of common shares of $10 and cost of exercise of stock options of $2.

For the six months ended June 30, 2018, net cash used in financing activities was $191. This consisted of repayment of share purchase loans of $24 offset by the repurchase of common shares of $117, payment of finance lease for computer equipment of $74 and cost of exercise of stock options of $24.

The Company has had a Normal Course Issuer Bid ("NCIB") in place in 2017, 2018 and 2019 and has repurchased its common shares through the NCIB. For each of the NCIB in 2017, 2018 and 2019 approved by the Toronto Stock Exchange ("TSX") in the 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 six months ended June 30, 2019, the Company repurchased and cancelled 8,808 (2018 – 41,628) of its common shares through trades on the TSX for an aggregate purchase price of $10 (2018 – $117), which was recorded as a reduction of share capital.

Net cash flows from (used in) investing activities

For the six months ended June 30, 2019, net cash used in investing activities was $282, which consisted of purchase of equity investments of $269, and purchase of property and equipment of $89, offset by interest received of $76.

For the six months ended June 30, 2018, net cash generated in investing activities was $38, which consisted of interest received of $77, offset by the purchase of property and equipment of $39.

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.

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. The Company advanced $994 as of June 30, 2016. The loan receivable is repayable on the date of the closing of a rights offering or other such financing by NexJ Health Inc., or such later date as agreed to by the parties. Management evaluated the recoverability of the loan, including the financial position of NexJ Health Inc. as at December 31, 2016 and concluded that it is impaired and recorded a provision of $994 in the statements of comprehensive income (loss) for the year ended December 31, 2016. During the quarter and six months ended June 30, 2019, no further advances were made to NexJ Health Inc. and the loan continues to be impaired as at June 30, 2019.

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 and the amounts continue to be impaired as at June 30, 2019.

The amounts are due on demand and non-interest bearing. The terms of the agreements above and the related amounts being charged were agreed upon by the parties.

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 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.

Currently, the Company charges for the sublease of office space, based on the agreement signed between the parties, as well as for any third party costs paid on behalf of NexJ Health Inc. and, accordingly, the Company charged $110 (2018 - $90) and $209 (2018 - $222) for the quarter and six months ended June 30, 2019. Outstanding receivables amounting to $380 (2018 - $99) have been recorded under prepaid expenses and other assets in the statements of financial position and are to be paid by NexJ Health Inc. subsequent to their respective period end.

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 $579 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 June 30, 2019	3	61%
Six months ended June 30, 2019	4	68%
Quarter ended June 30, 2018	5	74%
Six months ended June 30, 2018	3	57%

	Accounts receivable	
	Number of customers	% of total
As at June 30, 2019	5	84%
As at December 31, 2018	1	84%

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, 2018 and 2017 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 except for the effects of the recently adopted accounting pronouncement as described below, there have been no significant changes in our critical accounting estimates for the quarter ended June 30, 2019 from the years presented in our annual financial statements for the years ended December 31, 2018 and 2017.

Recently Adopted Accounting Pronouncement

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,* and related interpretations.

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 January 1, 2019, 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 two subleases were four years and fifteen months respectively.

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.

Right-of-use assets and lease obligations of $3,394, relating to the lease of the Company's office space (head lease), were recorded as of January 1, 2019, with no net impact on opening deficit. The Company also derecognized right-of-use assets relating to the head lease that it transferred to the two sub-lessees (for the sublease of a part of its office space) and recognized receivables from the subleases for an aggregate amount of $540, with no net impact on opening deficit. In addition, on initial application of the standard, the Company reversed, against right-of-use assets, provisions for lease-exit charges of $64 and rent inducement accrued liabilities aggregating to $255, previously recorded as per IAS 17.

As a result of applying IFRS 16, the Company has recognized depreciation and net accretion expenses, instead of lease rent expense. During the quarter and six months ended June 30, 2019, the Company recognized $153 and $306 of depreciation expense and $38 and $76 of net accretion expense in the condensed statements of comprehensive loss with respect to the lease arrangements.

Outstanding Share Data

As of July 25, 2019, 21,105,749 Common Shares were issued and outstanding. In addition, as of June 30, 2019, there were 2,205,965 stock options outstanding with exercise prices ranging from $1.11 to $4.50 per share.

As at June 30, 2019, there were 361,712 deferred share units ("DSUs") outstanding under the Company's deferred share unit plan for members of the Board of Directors, each of which represents the right to acquire one common share when the Board member is no longer rendering service to the Company.

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 June 30, 2019, 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 June 30, 2019, 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 ended June 30, 2019 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 is the pioneer of Intelligent Customer Management. 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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