



**September 30, 2017**  
**Management's Discussion and Analysis**

# NexgenRx Inc.

For the three months ended September 30, 2017

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# NexgenRx Inc.

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## **President's Message**

Dear Shareholders,

I am pleased to present our Q3 2017 results showing revenue for the quarter was \$1,399,179, which was essentially the same as the comparable quarter in 2016.

We continue to devote significant time and resources to market our services to potential clients that we consider have a higher probability of success. We have done this by hiring additional experienced sales, marketing and client relationship professionals. The results of our efforts has been an increase of new client prospects that we will continue to devote time and effort in turning into clients. The cost associated with this strategy will negatively impact the bottom line until such time as prospects are converted into clients and begin generating revenue.

### Product Development

We are making an ongoing investment in the development of our leading-edge technology. During this period we completed a major project to address the evolution of multiple web-browsers so that plan members have easy and seamless compatibility with our interactive plan member-based websites. The plan member experience continues to evolve through our full mobile technology through **neXmobile®** our iPhone and Android mobile app. Our technology reach is being rapidly expanded by enrolling more targeted healthcare providers to submit claims via our proprietary secure web-portal, ***theclaimsXchange.com***

### Looking Forward

Our focus for the future is on new product development and our enhanced sales strategy, creating a pipeline of prospects that continues to grow with new opportunities. Our technology-driven offering is recognized as a differentiator for customers seeking more cost effective solutions for their drug, extended health and dental benefits programs. NexgenRx is the only independent full service claims adjudicator with full front end administration capability. This capability allows NexgenRx to provide solutions to segments of our defined market that need sophisticated health benefit technology applications, in a cost-effective manner. NexgenRx is committed to building partnerships with organizations looking to exceed the expectations of their clients and deliver superior administration and claims processing solutions at a competitive cost.

NexgenRx is well positioned to capitalize on the market's demand for an alternative to the traditional group benefits offerings and we look forward to the sustained growth of our business.

As always, thanks to our Customers, staff, Board members and Shareholders for your continued loyalty, support and confidence in NexgenRx.

Sincerely,

Ronald C. Loucks  
President and CEO

# NexgenRx Inc.

For the three months ended September 30, 2017

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## Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of NexgenRx Inc. (the "Company" or "NexgenRx") has been prepared by management as of November 29, 2017. The Company's financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") on a going-concern basis and do not include any adjustments to the amounts and classifications that might be necessary should the Company be unable to continue business.

This MD&A may contain forward-looking statements in respect of various matters, including upcoming events. The results or events predicted in these forward-looking statements may differ materially from actual results or events. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or other factors.

The financial statements and related notes, and this MD&A have been reviewed by the Company's Audit Committee, and approved by the Company's Board of Directors.

## Business Overview

The Company earns revenue on the sale of its administration and health benefit claims adjudication services to various organizations who manage health benefit plans on behalf of a number of plan sponsors (employers, associations, etc.) and to a lesser extent, directly to large Canadian plan sponsors who wish to provide an Administrative Services Only ("ASO") health benefit plan to their plan members. Health benefit claims include drug, dental, extended health and health care spending account claims. This service is sold on a fee-per-transaction basis, in addition to per member administration fees.

The Company's revenue from administration and transaction fees is directly linked to the number of plan members whose health claim benefits are adjudicated and paid by the Company. NexgenRx provides claims adjudication services covering three major benefit classes; drug, dental and extended health care, plus a healthcare spending account. A client may select any combination of these as part of their benefit plan.

Contracts with clients can extend over several years, and are reviewed by management prior to renewal. Plans sold directly to plan sponsors often renew annually and can be terminated after a specified notice period ranging from one to six months. The Company does not anticipate that it will experience any material bad debts on any termination, as it collects the funds required in advance of processing any claims for a particular plan sponsor. The Company has no obligation to pay any claim on behalf of a plan sponsor should it have insufficient funds on hand from that plan sponsor. All such funds received are held by the Company in a segregated general funds in transit account. Funds are maintained in this account, until paid out on account for claims made under the relevant health benefit plan, fee revenue due to the Company or other authorized disbursements.

## The Industry

The Canadian group health benefit market is dominated by a relatively small number of federally incorporated and regulated insurance companies. These insurers are the only providers of certain insurance products (including life insurance, disability insurance, accidental death and dismemberment insurance and/or out of province travel medical emergency insurance) that comprise a significant portion of all health benefit plans. Over time, these companies have extended their product offering into the provision of drug, dental and extended health care benefits and the administration of health benefit plans on both an insured and an ASO basis.

Although some insurers have the technology to enable them to receive and adjudicate both paper and electronic claims made under the health benefit plans managed by them, most insurers (including each of

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the five largest insurers in Canada) have further outsourced the adjudication of electronic claims, or pay direct card claims, to third party electronic transaction companies.

Intermediaries such as employee benefit consultants and brokers are principally responsible for the design and placement of health benefit plan coverage. Due to their expert knowledge, plan sponsors value and, generally, follow their advice in respect of benefit matters. These intermediaries typically seek out price quotes for various benefit products on an annual basis and make recommendations to their plan sponsor clients.

Distribution to large Canadian groups (over 500 plan members) is dominated by the major consulting firms, most of which are subsidiaries of United States based firms where cost containment is the dominant theme. These firms tend to operate on a national basis with offices in most major Canadian cities and follow standards set by national practice leaders within each firm.

Management believes that small and medium sized employers (10 to 500 employees/members) are more likely to deal with independent brokers that sell across all insurance lines, including health benefits. These brokerages range from one-person shops to fairly significant regional operations. Certain insurance companies have sought to bypass the brokers and seek a direct relationship with plan sponsors.

A trend that started with union trustee plans and now extends to traditional employer plans is the role of a Third-Party Administrator. By retaining a Third-Party Administrator, plan sponsors are able to control their own employee or member data independent of any one insurance company. This allows for the use of multiple carriers to provide a group benefits plan. An employer can utilize the best carrier for the life insurance component, for example, while utilizing a specialty carrier for other insurance coverage. Use of a Third-Party Administrator also enables the employer to find the best provider of health benefit administration services, such as NexgenRx, since the Third-Party Administrator handles all of the back-office administration including enrolment data and premium allocation. Third Party Administrators give greater flexibility to employers in this consolidated carrier market and their use is well suited to the carve-out of health and dental coverage.

## **NexgenRx Strategy**

NexgenRx with its technology based platform provides leading administration, claims adjudication and web based solutions to effectively manage benefit costs from plan sponsors and their members. The Company's immediate and long-term objective is to capitalize on its scalable infrastructure by offering cost effective solutions. The infrastructure is capable of handling significant volume increases. The objective is to increase the number of plan members under administration and the volume of health care claims adjudicated by the Company through various distribution channels. Significant growth in volume can be achieved while maintaining a transactions fee price structure that provides a competitively priced offering and an adequate gross margin contribution.

## **NexgenRx Advantage**

Management believes that the Company has a number of significant competitive advantages that will help it to achieve its strategic goals. These advantages include:

- (i) *Pricing* – Compared to a traditional insured benefit model, the Company provides a significant cost advantage for Plan Sponsors.
- (ii) *Technology* – The Company utilizes Adjudication Software which allows complex plan designs to be set up to automatically adjudicate drug, dental and extended health care claims on a single software platform. This is advantageous in the health benefits management industry where health benefit plan designs are becoming increasingly complex and manual adjudication is not

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uncommon. Most insurers in Canada use a different adjudication platform for health benefit claims received electronically than they do for health benefit claims received in paper form. The Company uses the same Adjudication Software for both types of health benefit claims and offers real-time services such as the electronic adjudication of health care claims made under an integrated health care spending account, cross benefit deductibles (where one deductible may apply to both drug and dental benefits) and yearly or per visit maximums. The service also includes the proactive intervention tools comprising the NexgenRx Intervention Suite;

- (iii) *Flexibility* – The Company is able to adapt to new business methods, different adjudication philosophies, and unique support requirements as a result of its rules-based adjudication engine and experienced and dedicated professional staff. Each client receives dedicated support from the conversion planning stage through to the renewal process, ensuring a personal experience that meets that client's particular business needs; and
- (iv) *Control* – The Company recognized the need in the marketplace to enable traditional group plan sponsors to have control of their own administration without having to disrupt their existing broker/consultant relationship. NexAdmin® responds to that need. By allowing traditional plan sponsors to utilize our web-based application. The ability to offer self-administered enrolment, eligibility and billing changes to interface with a variety of group carriers for their insured benefits such as Life, AD&D, and LTD and still take advantage of the transaction based health and dental benefits administered by NexgenRx. This streamlines the process for dealing with employee eligibility, salary or dependent status changes in a cost effective manner, independent of any one insurer. The ability of a plan sponsor to control their own eligibility and billing data is the key to having the most competitive pricing and design opportunities at all times.
- (v) *Conversion Experience* – The Company is skilled in converting benefit plans and their members from an existing Third Party Administrators' manual or computer system to the the Company's systems. It is critical that changeovers have minimal impact upon plan members. Conversion utilities for eligibility and claims history have been built, template project plans have been written and testing methods and structure have been created;

## **Risks and Uncertainties**

### **Market Demand**

The Health Benefit Management industry is highly competitive and is characterized by changing technology in both products and delivery and by competitive pricing. The Company competes with a number of established companies which enjoy significant market share in segments of the Health Benefit Management market. In order to maintain and improve its position in the industry, the Company must continue to develop its software technology, enhance its current products and services, and develop or acquire new products and product extensions. The Company must also remain very nimble to meet customized needs of its customer base. Custom service, customization and responsiveness are necessary for the Company to compete with large established competitors.

### **Technology Development**

The Company's success is dependent on the ongoing development and enhancement of the Adjudication Software and the Company's other proprietary software technologies. The Company primarily relies on a combination of trade secret, copyright and trademark laws, non-disclosure agreements and contractual provisions to establish and protect its proprietary rights to its products.

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## Service Providers

The health care claims received by the Company electronically are transmitted over dedicated networks. Such transmission may be interrupted as a result of cable damage or other cause. Based upon management's experience and the service standards which the principal network provider strives to maintain, management anticipates that any such interruption will not often occur or last for any material length of time. However, there can be no assurance that this will be the case, or that any such interruptions, if frequent and prolonged, would not have a material adverse effect on the Company's business. The Company is similarly dependent upon third parties, known and unknown, for the maintenance of the interconnectivity of the Internet. A loss of Internet connectivity would adversely affect, or preclude, plan sponsor and TPA customers of the Company, plan members, health care providers and others from accessing the services which the Company intends to deliver to each of these persons through its website, and would interrupt the receipt and transmission of electronic mail, among other consequences. Management does not anticipate that any such loss of Internet connectivity would have a material adverse effect upon its business, but there can be no assurance that this would be the case.

## Cyber Security

Cyber security risk is a high priority area of the company given the core of the company's business involves sensitive personal information, such as medical records, that is electronically transmitted over dedicated networks, as noted above. By the nature of the company's business, personal medical and other information is maintained and subject to electronic data exchange. If the company's data were to be compromised the company could face serious reputational damage, loss of customer confidence and potentially impact future opportunities.

The Company is aware that cybersecurity is an ever-changing environment and that constant monitoring and diligence is required to keep up with day-to-day threats and ever-changing technologies. The Company has contracted an outside cybersecurity firm to assist with protecting both systems and data from cybersecurity attacks. Using patented technology, constant scanning and monitoring of all servers and firewall traffic is done. This technology hardware/software alerts both the cyber security firm and the Company of any vulnerabilities or attacks along with action items and solutions. The Company also recognizes that a significant risk for cybersecurity breach is that of Company employees. Email phishing, spam and pharming are the largest threats to the Company.

The Company realizes other threats such as social engineering and malware/viruses or other cybersecurity attacks to be aware of. To mitigate any possible threat posed by Company employees, the Company is constantly training and informing employees about cybersecurity safe practices and conducting training and awareness meetings that employees must attend. Should there ever be a cybersecurity breach at the Company, a cybersecurity incident response plan has been developed. This plan is revised quarterly and all participants of the plan must attend quarterly walk-throughs.

To mitigate this risk, the company has a dedicated technical team that has implemented preventative measures and monitors cyber risks continuously. Testing against cyber risk is also carried out regularly to ensure the potential threat is as low as possible.

## Revenue Concentration

For the six months ended September 30, 2017, 69% of the company's revenue was derived from three clients (2016 - 69%). The loss of any one of these clients could have a significant impact on the company's future revenue. At the same time, it should be noted that the scalar nature of the infrastructure architecture and the organization design provide significant mitigation against this risk.

Market conditions are extremely competitive and every client is a potential target. Stop-loss experience is

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constantly under attack as more high cost drugs are coming to market and negatively affecting claims experience and the cost of insuring that risk. We monitor our stop loss pool in an effort to contain client costs. As we noted, the industry is dominated by large insurers that can quote predatory pricing. Our competitive strengths, include, but are not limited to, responsiveness, dedicated customer relation staff, flexible structuring of offerings, ability to react and accommodate specific needs very quickly, customize our systems to meet client needs, to name a few. As would be expected, we are making every effort to retain the business in the best interests of the Company and the client.

To reduce this risk and exposure, the Company has and continues to make a concerted effort to add new customers. We expect to accomplish this with increased customer centric service and sales staff and continued investment in our technology. The goal is to reduce exposure to any one particular client, develop new revenue channels, and increase revenues in all areas. Increasing the number of clients will reduce concentration risks as well. Progress has been made by targeting higher potential client wins and persistently marketing and quoting on prospective clients that seek our offering.

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## Summary of Selected Quarterly Information

Prepared in accordance with IFRS

	<b>Q1, 2017</b>	<b>Q2, 2017</b>	<b>Q3, 2017</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	
Total Revenue	1,504,926	1,437,167	1,399,179	
Net income	17,042	(109,453)	(161,847)	
Basic Income per common share	0.000	(0.002)	(0.003)	
Total Assets *	8,563,160	8,922,184	9,041,916	
Total Liabilities *	7,762,330	8,169,828	8,450,102	
Shareholders' Equity / (Deficiency)	800,830	752,356	591,814	
	<b>Q1, 2016</b>	<b>Q2, 2016</b>	<b>Q3, 2016</b>	<b>Q4, 2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total Revenue	1,411,929	1,565,891	1,397,440	1,379,476
Net income	47,843	89,363	28,657	421,941
Basic Income per common share	0.001	0.002	0.00	0.007
Total Assets *	7,681,593	8,082,699	8,301,531	8,185,283
Total Liabilities *	7,712,599	8,020,892	8,207,618	7,427,227
Shareholders' Equity / (Deficiency)	(31,006)	61,807	93,913	758,056
	<b>Q1, 2015</b>	<b>Q2, 2015</b>	<b>Q3, 2015</b>	<b>Q4, 2015</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total Revenue	1,201,317	1,171,611	1,188,545	1,130,549
Net income / (loss)	4,560	109,306	(118,195)	(183,996)
Basic Income per common share	-	0.002	(0.002)	(0.003)
Total Assets *	6,541,520	7,003,086	6,999,529	7,244,862
Total Liabilities *	6,991,969	6,787,573	6,897,784	7,328,791
Shareholders' Equity / (Deficiency)	(450,449)	215,513	101,745	(83,929)

\* restated for change in disclosure adoption in 2016 for Restricted Funds on deposit and client funds liabilities.

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## Total Assets / Liabilities

A policy decision was made to report the Restricted Funds on deposit and the related liability on the statement of financial position. The historical quarterly results, detailed above, reflect this policy decision. This decision is consistent with specific IFRS reports. In addition, in connection with the year end audit the Company recognized a deferred tax asset of \$175,000 and capitalized a portion of internal costs to intangibles. The effect of these two changes resulted in 2016 fourth quarter income that was significantly greater than the comparable and prior quarters. In the nine months of 2017 there was no change to the deferred tax asset. We capitalized certain internal development costs relating to intangible assets in the amount of \$17,445.

In addition, at the end of the year and at the end of the first and second quarters warrants were exercised. This added \$240,000 cash at year end, \$23,000 at the end of the first quarter and \$60,000 at the end of second quarter. Subsequent to the third quarter, the Company borrowed \$300,000. The term of this unsecured loan is four years with a straight line principal repayment of \$6,125 per month plus 8% interest. The purpose of the loan was directly correlated with our external technology investment cost which totaled \$316,965 as at September 30<sup>th</sup>. Further technology investments will be completed by year end. Additional technological enhancements are under consideration for 2018.

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>4 – 5 years</b>	<b>After 5 years</b>
Debt	157,183	7,183	150,000		
Operating Leases	1,582,742	437,812	652,975	491,955	
Total Contractual Obligations	1,739,925	444,995	802,975	491,955	nil

Operating leases include premises, long term technology services and equipment.

## Results of Operations

Revenue for the quarter ending September 30, 2017 was virtually unchanged as compared to the quarter ending September 30, 2016. The revenue mix changed year over year with an increase in IT consulting in Q3 2017 vs. Q3 2016. Offsetting was a reduction in administration revenues which was a result of client renewal rates less than prior years. The rate reductions were driven by competitive pressures and will persist in subsequent quarters.

The overall impact of flat revenues was that the company was unprofitable. Flat revenues and increased staffing compared to the same quarter last year will continue to weigh on the company until prospects are converted into clients. The timing of approval and implementation for several of these prospects is uncertain and there can be no assurance of approval. Management continues to make a concerted effort to convert prospects into clients. Specifically, to convert prospects to new clients, the Company has hired additional senior experienced staff to execute on the conversion and to ensure smooth implementations and an excellent customer experience.

Below is a summary of our revenues. Revenue consists primarily of fees per health benefit claim transaction adjudicated. Both electronic and paper-based health benefit claims are adjudicated, with fees set by contract with each plan sponsor or TPA.

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	For the quarters ending			
	Sept 30, 2017	Sept 30, 2016	dollar change	% change
<b>Revenues</b>				
Transaction fees	1,038,275	1,021,789	16,486	1.61%
Administration fees	295,281	305,332	(10,051)	-3.29%
Commission	31,609	33,758	(2,149)	-6.37%
Consulting	21,997	9,847	12,150	123.39%
Other income	12,016	26,714	(14,698)	-55.02%
	<b>1,399,179</b>	<b>1,397,440</b>	<b>1,739</b>	<b>0.12%</b>

Transaction revenue is recorded based on actual number of claims processed according to the rates specified in each customer agreement. Transaction fee revenue is recognized on the company's completion of the adjudication process when it is probable that the economic benefits associated with the transaction will flow to the company, the amount of revenue can be measured reliably, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the transaction costs incurred to complete the transaction can be measured reliably. These criteria are generally met on completion of the adjudication process. The majority of the transaction fees are charged on all claims processed, regardless of the outcome of the adjudication process (i.e. whether the actual claim is approved or declined).

Administration and other fees are the fees charged to provide the initial enrolment, ongoing eligibility tracking, monthly billing services and contract windups. Administration revenue is recorded based on the actual number of members per month as at the first of the month according to the rates specified in each customer agreement. During the quarter some renewal rates were reduced due to competitive pressures. The impact of these revised rates will continue to be reflected in subsequent quarters.

Commissions are earned from the sale of third party insured products to customers. Our commission revenue remains flat for both the third quarter and year to date, compared to the same periods last year. We have added resources to target this area for revenue growth.

Consulting revenues are derived from contracted technological changes from our client base which can significantly vary from year to year. The Company has the opportunity to grow its consulting and commission revenues as it brings on new customers. In 2016, Other income, had a foreign exchange gain which did not re-occur in 2017. During the quarter the company earned interest of \$7,516 (2016 - \$6,021) on its funds on deposit and is recorded in Other Income.

In line with revenue reporting standards we have further delineated in our financial statements this year the sources of revenue on a comparable basis with the prior year.

Cost of sales includes variable communication costs for the delivery of electronic claims from the health care provider to the Company. A portion of cost of sales is fixed such as off-site hosting of the Company's adjudication computer hardware and related technology support. Other components of cost of sales includes the cost of adjudication and administration software, development and maintenance of software and commissions related to earned revenue.

Cost of sales of \$265,989 for the quarter ended was essentially unchanged compared with the same period in the prior year. As a percentage of revenue, cost of sales was unchanged at 19% in the September 2017 and 2016 quarters. For the year to date period, cost of sales as a percentage of revenues is 19.64% for 2017 as compared with 19% in 2016 which is a reflection of revenues not varying significantly year over year.

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	For the quarters ending		
	Sept 30, 2017	Sept 30, 2016	dollar change
Compensation and external contractors	950,373	832,137	118,236
General and administrative / other	344,664	270,588	74,076
	<u>1,295,037</u>	<u>1,102,725</u>	<u>192,312</u>

Overall quarter expenses of \$1,295,037 increased by \$192,312 compared to the same quarter in the prior year. The increase in compensation / external contractors was due to increased staffing in the sales / customer service area as well as additional contractors. Independent contractors are used for specialist roles and provides the company with flexible costing. Management compensation in 2017 was higher by \$215,000 due to a combination of additional staffing allocated to this category and higher general cost for comparable staff. As noted in our overall comment on the operations, there has been a purposeful strategy of investing in additional staff. The result has been a steady increase in potential new contracts. The additional staff will be needed for onboarding of new clients, account management of clients, continual IT process improvements and sales / marketing efforts. The Company works to maintain a balance between new hires and new client contracts.

While the aggregate general and administrative expenses have increased, in fact, in 2016 there was a one time reversal of over accrued professional fees in the amount of \$70,018. Otherwise, expenses were consistent and in line with the prior year. In terms of some specific expense areas, marketing expenses increased marginally as planned as the Company continues to pursue and execute on its growth plan. Insurance costs were reduced on renewal of our corporate policies.

Depreciation of computer software license and property and equipment is determined on a straight-line basis over their expected useful lives. Capital additions to computers, equipment and office slightly exceeded amortization as there were no major initiatives for the first two quarters of 2017. Work on the mobile application "nexmobile" resulted in a significant addition to the cost of intangibles which was recognized in the fourth quarter of 2016 and accounts for the doubling of depreciation when compared to the same quarter of 2016. The mobile app is complete and continues to gain acceptance by plan sponsors.

Overall, in terms of cash flow, while new staffing had some impact the more significant utilization came from expenditures on external software development costs to enhance web compatibility, accounting interfaces and customer experience. For the nine month period ended September 30, 2017, the external capitalized cost is \$316,965 with the cash outlay occurring over the second and third quarters. To offset this cash outflow the company arranged and closed a private debt placement on November 1<sup>st</sup> in the amount of \$300,000. The loan is repayable over 48 months with fixed monthly principal payments of \$6,250 per month plus 8% interest. The loan is unsecured and open for repayment.

## Transactions with Related Parties

During the year ended December 31, 2016, the company entered into a related party transaction whereby a shareholder of the company issued a loan to the company in the amount of \$60,000. The loan is unsecured and payable in ten equal payments of \$6,000 and an annualized interest rate of 8% on the remaining balance due on the 15th of each month, ending October 30, 2017. The balance outstanding as at September 30, 2017 was \$6,299 (2016 - \$8,752). This transaction was in the normal course of operations. On October 15, 2017 the company entered into a related party transaction with the same

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shareholder of the company who issued a loan to the company in the amount of \$60,000. The loan is unsecured and payable in ten equal principal payments of \$6,000 plus an annualized interest rate of 8%. Payments are due on the 15th of each month, ending October 15, 2018.

### **Outstanding Share Data**

As at September 30, 2017, the authorized share capital of the Company consisted of an unlimited number of common shares, an unlimited number of Class A preferred shares, an unlimited number of Class B preferred shares, an unlimited number of Class C preferred shares, an unlimited number of Class D preferred shares and an unlimited number of Class E preferred shares, of which 60,391,943 common shares were issued and outstanding at September 30, 2017. The Company has granted an aggregate of 3,175,000 options under the employee stock option plan, of which 440,000 were exercisable, but unexercised, as September 30, 2017. Of the total options, 2,625,000 were issued September 29<sup>th</sup> with an exercise price of \$0.23 vesting equally over three years with a 10 year term.

### **Liquidity and Capital Resources**

While overall cash continued to decrease it was the result of continued investing in our technology, operating losses and paying down debt. To offset the outflow, an unsecured private loan of \$300,000 was arranged and funded November 1<sup>st</sup>. As sales prospects have not converted on a timely basis the above noted loan was arranged. To this effect, management has a demonstrated track record over several years of raising capital when required on favourable terms. A historical review of our financial statements demonstrate this fact. We continue to maintain very good relations with past investors and current investors. Given our sales cycle is lengthy the Company periodically, such as now, experiences cash deficiencies. It is necessary to have the people and technical resources in place to onboard growth. We expect the deficiencies to continue for the current quarter and into the new year. Fiscal 2016 and year to date 2017, we've expended over \$600,000 on technology projects to better serve our market. This spend will be finished by the end of this current fiscal year. While the technology cash flows will stop by year end, should additional funding be required for regular operations, whether debt or equity, we are in communication with funders to assist as needed. Our potential funders are both private and institutional.

### **Financial Instruments and Other Instruments**

As at September 30, 2017 all monies are held in cash at a major financial institution.

### **Plan Sponsor Funds on Deposit Arrangements**

The company had \$7,631,422 in funds on deposit as at September 30, 2017 (2016 - \$6,662,594), which represented amounts received or receivable from customers to settle specific health-care claims and related costs, adjudicated on their behalf, which are payable to the providers of the health-care or other services with respect to these claims. The increase from December 31, 2016 to June 30th 2017 was due to the fact that towards the end of the calendar year claims are higher as members utilize benefits before a new benefit year commences. Both the asset and an equal corresponding liability have been recorded on the balance sheet this year in recognition of increasing focus by customers and to provide greater transparency on the asset / liability flows of the Company.

### **Critical Accounting Estimates**

The compilation of financial results requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the

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date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas that require the use of judgment are the valuation of common share purchase warrants, valuation of convertible debentures, valuation of notes payable to shareholders, valuation of stock compensation. Actual results could differ from these estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known.

## **Significant accounting judgments and estimation uncertainties**

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are estimates and judgments applied by management that most significantly impact the interim financial statements. These significant estimates and judgments have a risk of causing a material adjustment to the carrying amounts of assets and liabilities.

### **Property and equipment – estimated useful lives**

Management estimates the useful lives of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

### **Valuation of stock based compensation and warrants issued**

Valuation of stock based compensation and warrants require management to make estimates regarding the inputs for option pricing models, such as expected share price volatility. Actual results could differ from these estimates. These estimates are considered for each new grant of stock options or warrants.

### **Additional information**

Additional information related to NexgenRx Inc., including material change reports, press releases and other information is available at [www.sedar.com](http://www.sedar.com).

*This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion other than statements of historical facts, that address future acquisitions and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.*