

NexgenRx Inc.

Financial Statements
For the years ended
**December 31, 2016 and
2015**
(expressed in Canadian dollars)



Grant Thornton

Independent auditor's report

To the shareholders of
NexgenRx Inc.

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We have audited the accompanying financial statements of **NexgenRx Inc.** (the “Company”), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income (loss), statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of NexgenRx Inc. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of NexgenRx Inc. for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on March 24, 2016.

Grant Thornton LLP

Mississauga, Canada
March 31, 2017

Chartered Professional Accountants
Licensed Public Accountants

NexgenRx Inc.

Statements of Financial Position
As at December 31, 2016 and 2015
(expressed in Canadian dollars)

	December 31, 2016	Restated December 31, 2015	Restated January 1, 2015
	\$	\$	\$
Assets			
<i>Current assets</i>			
Cash	681,353	324,001	302,948
Restricted Funds on deposit (notes 5, 17)	6,662,594	5,876,616	5,680,638
Accounts receivable	61,053	33,661	86,970
Prepaid expenses	78,607	79,568	109,916
	<u>7,483,607</u>	<u>6,313,846</u>	<u>6,180,472</u>
<i>Non-current assets</i>			
Property and equipment (note 7)	123,526	106,640	98,051
Intangible assets (note 8)	358,418	95,521	74,578
Other assets (note 9)	44,732	44,732	44,732
Deferred tax (note 20)	175,000	-	-
	<u>701,676</u>	<u>246,893</u>	<u>217,361</u>
Total Assets	<u>8,185,283</u>	<u>6,560,739</u>	<u>6,397,833</u>
Liabilities			
<i>Current liabilities</i>			
Accounts payable and accrued liabilities (note 10)	424,968	393,284	180,374
Client Funds (notes 5, 17)	6,662,594	5,876,616	5,680,638
Deferred office rent incentives (note 18)	17,926	16,428	16,428
Notes payable to shareholders (note 12)	61,386	80,000	70,000
Notes payable to a third party	-	-	50,000
Convertible debenture	-	-	489,046
	<u>7,166,874</u>	<u>6,366,328</u>	<u>6,486,486</u>
<i>Non-current liabilities</i>			
Deferred office rent incentives and other liabilities (note 18)	110,353	128,340	375,897
Notes payable to shareholders (note 12)	150,000	150,000	-
	<u>260,353</u>	<u>278,340</u>	<u>375,897</u>
Total Liabilities	<u>7,427,227</u>	<u>6,644,668</u>	<u>6,862,383</u>
Shareholders' Equity (Deficiency)			
Share capital (note 13)	16,815,316	16,575,316	16,025,316
Contributed surplus	3,898,059	4,149,605	5,111,709
Deficit	(19,955,319)	(20,808,850)	(21,601,575)
Total Shareholders' Equity (Deficiency)	<u>758,056</u>	<u>(83,929)</u>	<u>(464,550)</u>
Total Liabilities and Shareholders' Equity (Deficiency)	<u>8,185,283</u>	<u>6,560,739</u>	<u>6,397,833</u>

The accompanying notes are an integral part of these financial statements.

NexgenRx Inc.

Statements of Income (Loss) and Comprehensive Income (Loss)
For the years ended December 31
(expressed in Canadian dollars)

	December 31, 2016	December 31, 2015
	\$	\$
Revenues		
Transaction fees	4,179,390	3,497,385
Administration fees	1,181,636	1,025,985
Commission	128,924	72,974
Consulting	221,513	66,085
Other income	43,273	29,593
	<u>5,754,736</u>	<u>4,692,022</u>
Cost of sales	<u>1,110,899</u>	<u>982,012</u>
Gross profit	4,643,837	3,710,010
Expenses		
Compensation and external contractors	2,988,817	2,922,683
Rent (note 18)	210,400	204,853
Professional fees	162,901	153,423
Office expenses	196,975	229,027
Marketing	300,900	262,135
Insurance	132,278	124,414
Postage	45,259	37,263
Bank charges	80,274	72,092
Interest expense	23,833	10,268
Interest expense on convertible debentures	-	8,994
Accretion of discount on convertible debentures	-	10,954
Depreciation of intangible assets (note 8)	41,477	40,708
Depreciation of property and equipment (note 7)	33,738	33,769
Stock based compensation (note 13)	14,181	18,946
Gain on extinguishment of bank charges liability (note 15)	-	(231,194)
	<u>4,231,033</u>	<u>3,898,335</u>
Deferred tax recovery	<u>175,000</u>	<u>-</u>
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>587,804</u>	<u>(188,325)</u>
Basic and diluted earnings (loss) per share (note 14)	0.010	(0.003)

The accompanying notes are an integral part of these financial statements.

NexgenRx Inc.

Statements of Changes in Shareholders' Equity (Deficiency)
 For the years ended December 31, 2016 and 2015
 (expressed in Canadian dollars)

	Share capital	Contributed surplus (restated)	Deficit restated	Shareholders' equity (deficiency)
	\$	\$	\$	\$
Balance - January 1, 2015 (note 5)	16,025,316	4,251,725	(20,741,591)	(464,550)
Net loss for the year			(188,325)	(188,325)
Reclassification of expired stock options (note 5)		(102,120)	102,120	
Proceeds from the issuance of common shares	550,000			550,000
Stock-based compensation (note 13)			18,946	18,946
Balance - December 31, 2015	16,575,316	4,149,605	(20,808,850)	(83,929)
Net Income for the year			587,804	587,804
Reclassification of expired stock options (note 5)		(251,546)	251,546	
Proceeds from the issuance of common shares	240,000			240,000
Stock-based compensation (note 13)			14,181	14,181
Balance - December 31, 2016	16,815,316	3,898,059	(19,955,319)	758,056

The accompanying notes are an integral part of these financial statements.

NexgenRx Inc.

Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(expressed in Canadian dollars)

	December 31, 2016	Restated December 31, 2015
	\$	\$
Cash flow provided by (used in)		
Operating activities		
Net income (loss) for the year	587,804	(188,325)
Adjustments for:		
Gain on extinguishment of bank charges liability	-	(231,194)
Amortization of intangible assets (note 8)	41,477	40,708
Depreciation of property and equipment (note 7)	33,738	33,769
Accretion of discount on convertible debentures	-	10,954
Change in Deferred office lease incentives	(16,489)	(16,363)
Deferred income taxes	(175,000)	-
Stock based compensation	14,181	18,946
Changes in items of working capital:		
Accounts receivable	(27,392)	53,309
Restricted funds on deposit	785,978	195,978
Prepaid expenses	961	30,348
Client Funds	(785,978)	(195,978)
Accounts payable and accrued liabilities	31,684	212,910
Net cash generated from (used in) operating activities	490,964	(34,938)
Investing activities		
Purchase of property and equipment (note 7)	(50,624)	(42,358)
Capitalized development costs (note 8)	(304,374)	(61,651)
Net cash used in investing activities	(354,998)	(104,009)
Financing activities		
Repayment of notes payable to third parties	-	(50,000)
Proceeds from notes payable to shareholders	-	230,000
Repayment of notes payable to shareholders	(18,614)	(70,000)
Repayment of the convertible debenture	-	(500,000)
Proceeds from common shares issuance	240,000	550,000
Net cash provided by financing activities	221,386	160,000
Increase in cash	357,352	21,053
Cash– Beginning of the period	324,001	302,948
Cash– End of the year	681,353	324,001

The accompanying notes are an integral part of these financial statements.

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

1. Description of business

NexgenRx Inc. (the company) was incorporated in March 2003 under the laws of Ontario, is domiciled in Canada and is listed on the TSX Venture Exchange (NXG.V). The company administers, adjudicates and pays drug, dental and other extended health-care claims for the beneficiaries of health benefit plans underwritten by its customers, using proprietary computer software and also provides ancillary services. The address of the company's registered office is 185 The West Mall, Suite 600, Toronto, Ontario, Canada.

2. Basis of preparation

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements and related notes have been reviewed by the company's audit committee and approved by the company's board of directors on March 31, 2017.

3. Changes to accounting standards

Accounting standards issues and not yet applied

The following changes to accounting standards will apply to financial statements for periods beginning on or after January 1, 2018.

IFRS 15, Revenue from Contracts with Customers (IFRS 15), is a new standard effective for fiscal years beginning on or after January 1, 2018 and may be early adopted. The standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The company intends to adopt IFRS 15 in its financial statement for annual periods beginning on January 1, 2018. The company is assessing the impact of adoption of the standard.

IFRS 16, Leases, was issued in January 2016 and is intended to replace International Accounting Standard (IAS) 17, Leases, and related IFRIC's. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019. The company is assessing the impact of adoption of the standard.

IFRS 9, Financial Instruments, is effective for fiscal years beginning on or after January 1, 2018 and may be early adopted which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 fundamentally rewrites the accounting rules for financial instruments. IFRS 9 introduces a new approach for financial asset classification, a more-forward looking expected loss model, and major new requirements on hedge accounting. The company is assessing the impact of adoption of this standard.

IAS 12, Income Taxes, is effective for fiscal years beginning on or after January 1, 2017. Amendments have been made in regards to the recognition of deferred tax assets for unrealized losses in order to clarify issues surrounding the recognition of deferred tax assets related to debt instruments measured at fair value. The company is assessing the impact of adoption of this standard.

4. Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are described below.

Basis of measurement

The financial statements have been prepared under the historical cost convention.

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments and has been identified as the Chief Executive Officer of the company. The company has only one operating segment.

Revenue

Transaction revenue is recorded based on the 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 costs 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 and monthly billing services. 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. Administrative and other fees are charged on a monthly basis and are recognized each month as services are provided. Specific IT projects for clients are consulting revenues. Commission revenues are generated from the sale of insured products.

In addition, the company is entitled to interest revenue from the restricted funds on deposit, which represents amounts received or receivable from customers to settle specific health-care claims and related costs, adjudicated on their behalf and which are payable to the providers of the health-care or other services with respect to these claims.

Cost of sales

Cost of sales includes communication costs for the delivery of electronic claims from the health-care provider to the company, the costs related to the off-site hosting of the company's adjudication computer hardware and related technology support, the cost of adjudication software development and maintenance, commissions and administration costs.

Foreign currency

The functional currency of the company is the Canadian dollar, which is the same as the presentation currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recognized in the statements of income and comprehensive income.

Cash

Cash includes cash on hand and deposits held with banks.

Restricted Funds on Deposit

Restricted funds on deposit represent client deposits held for the purpose of paying claims, taxes and fees.

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise cash and trade receivables and are included in current assets as they are expected to be settled within 12 months due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to their fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

- Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities, notes payable to a third party and notes payable to shareholders. Financial liabilities are initially recognized at fair value net of any transaction costs and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months or they are due on demand. Otherwise, financial liabilities are presented as non-current liabilities.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3).

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates.

Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates.

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

The three levels are based on the significance and reliability of the inputs to the respective valuation techniques.

The input levels are defined as follows:

- Level 1 – quoted prices
Represents unadjusted quoted prices for identical instruments exchanged in active markets.
- Level 2 – significant other observable inputs
Includes directly or indirectly observable inputs other than quoted prices for identical instruments exchanged in active markets.
- Level 3 – significant unobservable inputs
Includes inputs that are not based on observable market data.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of any incentives received from the lessor) are charged to the statements of income (loss) and comprehensive income (loss) on a straight-line basis over the period of the lease. The company leases office space and certain property and equipment. These leases are classified as operating leases.

Deferred lease incentive

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. In the event lease incentives are received, such incentives are recognized as a liability. The aggregate benefit of the incentives is recognized as a reduction of rental expense on a straight-line basis over the period of the lease.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statements of loss and comprehensive loss during the years in which they incurred.

The major categories of property and equipment are depreciated on a straight-line basis as follows:

Furniture & Computer equipment	3 years
Leasehold improvements	term of lease

The company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income (loss) and comprehensive income (loss).

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

Intangible assets

The company's identifiable intangible assets are stated at cost less accumulated amortization and include acquired computer software licenses with finite useful lives. This capitalized asset is amortized on a straight-line basis in the statements of income (loss) and comprehensive income (loss) over the period of their expected useful lives of one to five years.

In determining the cost of intangible assets the company first assesses whether the expenditures will result in an identifiable asset with future economic benefits. The company evaluates the intangible asset against the following six restrictive requirements;

1. The technical feasibility of completing the intangible asset so that it will be available for use or sale;
2. its intention to complete the intangible asset and either use it or sell it;
3. its ability to use or sell the intangible asset;
4. the mechanism by which the intangible will generate probable future economic benefits;
5. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
6. the enterprise's ability to reliably measure the expenditure attributable to the intangible asset during its development.

Costs that are capitalized include internally specifically identified costs and third party contract costs.

NexgenRx NexMobile, the company's mobile app, is scheduled to be launched in the Apple Store in 2017. The company will amortize this product over five years on a straight-line basis.

Impairment of non-financial assets

Long-lived assets, including property and equipment and intangible assets, are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. In the current year, the company noted no such events or changes in circumstances that would indicate impairment of these assets.

Long-lived assets that are not yet available for use are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units (CGUs)). The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The impairment loss, if any, is charged to the statements of loss and comprehensive loss in the year it arises. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Stock-based compensation

The company grants stock options to certain employees and directors. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact recognized immediately.

Provisions and contingent liabilities

Provisions, where applicable, are recognized in other liabilities when the company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

period and are discounted to present value where the effect is material. The company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Income taxes

In assessing the ability to realize deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be utilized in the foreseeable future. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible.

Income taxes comprise current and deferred income taxes. Income tax is recognized in the statement of loss and comprehensive loss, except to the extent that it relates to items recognized directly in equity in the statements of changes in shareholders' equity (deficiency), in which case the income taxes are also recognized directly in the statements of changes in shareholders' equity (deficiency).

In general, deferred income taxes are recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statements of financial position dates and are expected to apply when the deferred tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable the assets can be recovered.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity in the statements of changes in shareholders' deficiency.

Preferred shares, which are not convertible into a fixed number of common shares, are classified as liabilities. The dividends on these preferred shares, if applicable, would be recognized in the statements of income (loss) and comprehensive income (loss) as interest expense.

The warrants granted related to the issuance of shares are recorded at the fair value using a valuation pricing model and recorded within share capital.

Income/Loss per share

Basic income/loss per share is calculated by dividing the net loss/income attributable to shareholders by the weighted average number of common shares outstanding during each of the years presented.

Diluted income/loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The company has two categories of dilutive potential common shares: warrants and stock options.

5. Changes in accounting policy

During the year, the company changed its policy in regards to the recording of amounts related to stock options that had expired. Historically, the company recorded the stock option expense within contributed surplus, and did not reallocate any amounts related to the expiration of those options. In fiscal 2016, the company changed its policy to reallocate the contributed surplus on expiration. As a result, the company retrospectively adjusted the opening fiscal 2015 contributed surplus and shareholder deficiency. The total effect of this change was that opening contributed surplus decreased by \$1,213,650 and the retained deficit reduced by the equivalent amount.

During the year, the company changed its policy to report the Restricted Funds on Deposit and the related liability on the statement of financial position (see note 17).

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

6. 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 financial statements. These significant estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

Intangible assets

Valuation of technology requires management to assess whether such expenditures to develop or maintain are current expenses or have an extended life that should be recognized as an asset and accordingly amortized over the estimated asset life. Costs include the contribution of company time which has been estimated based on the relative contributions of individuals within the Company in addition to external costs incurred related to the development phase.

Valuation of stock-based compensation and warrants issued

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

Income taxes

The company has significant tax losses available to offset future taxable income. The ability to recognize a tax asset requires an annual assessment of the future, sustainable profitability of the company. Accordingly, recognizing a tax asset is subject to material change and is evaluated conservatively.

NexgenRx Inc.

Notes to Financial Statements
December 31, 2016 and 2015
(expressed in Canadian dollars)

7. Property and equipment

	Furniture & Computer equipment	Leasehold improvements	Total
	\$	\$	\$
Cost			
Balance at December 31, 2014	406,957	269,076	676,033
Additions	15,086	27,203	42,289
Balance at December 31, 2015	422,043	296,279	718,322
Additions	29,984	20,822	50,806
Disposals	(182)	-	(182)
Balance at December 31, 2016	451,845	317,101	768,946
Accumulated Depreciation			
Balance at December 31, 2014	385,521	192,433	577,954
Depreciation expense	20,999	12,729	33,728
Balance at December 31, 2015	406,520	205,162	611,682
Depreciation expense	16,415	17,323	33,738
Balance at December 31, 2016	422,935	222,485	645,420
Net Book Value			
December 31, 2015	15,523	91,117	106,640
December 31, 2016	28,910	94,616	123,526

NexgenRx Inc.

Notes to Financial Statements
December 31, 2016 and 2015
(expressed in Canadian dollars)

8. Intangible assets

	Intangible Assets
Cost	
Balance at December 31, 2014	814,196
Additions - external costs	<u>58,542</u>
Balance at December 31, 2015	872,738
Additions - external costs	56,505
Additions - internal costs	247,869
Disposals	-
Balance at December 31, 2016	<u>1,177,112</u>
Accumulated Depreciation	
Balance at December 31, 2014	736,509
Depreciation expense	<u>40,708</u>
Balance at December 31, 2015	777,217
Depreciation expense	<u>41,477</u>
Balance at December 31, 2016	<u>818,694</u>
Net Book Value	
December 31, 2015	95,521
December 31, 2016	<u>358,418</u>

9. Other assets

Other assets consist of a last month's rent deposit and security deposits in the amount of \$44,732 (2015 - \$44,732)

10. Financial liabilities

			Restated
	2016		2015
	Current	Non-current	Total
	\$	\$	\$
Trade payable	424,968	-	424,968
Client funds	6,662,594	-	6,662,594
Interest payable	1,386	-	1,386
	<u>7,088,948</u>	-	<u>7,088,948</u>
Notes payable to shareholders (note 11)	60,000	150,000	210,000
	<u>7,148,948</u>	<u>150,000</u>	<u>7,298,948</u>

The table above analyzes the company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the statements of financial position dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The company's trade payable includes all the outstanding invoices and accruals as at December 31, 2016.

The interest payable includes the interest payable on the notes payable to shareholders (note 12) and the notes payable to a third party (note 11).

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

11. Notes payable to a third party

In May 2009, a third party issued a loan to the company for \$150,000. The loan accrued interest at the prime interest rate and both interest and principal were repayable on demand. The company paid \$100,000 of the principal and the interest of \$19,367 during 2013 and paid off the remaining \$50,000 and the interest of \$2,468 on June 17, 2015. The balance of the loan is \$nil as at December 31, 2016.

These financial liabilities are reported at amortized cost. Amortized cost approximates fair value for these liabilities due to their short-term nature.

12. Notes payable to related parties

	<u>2016</u>	<u>2015</u>
	\$	\$
Opening balance	230,000	70,000
Proceeds	60,000	230,000
Repayment of debt	<u>(80,000)</u>	<u>(70,000)</u>
Closing balance of principal	210,000	230,000
Accrued interest	1,386	-
Closing balance of principal	<u>211,386</u>	<u>230,000</u>

In December 2016, a shareholder of the company issued a loan to the company in the amount of \$60,000. Principal and annualized interest of 8% on the loan is payable in 10 monthly instalments of \$10,000 with a final payment due on October 15, 2017. Amortized cost approximates fair value for this liability due to its short-term nature.

In December 2015, two shareholders of the company issued an unsecured loan to the company in the amount of \$150,000. The loan is payable on December 15, 2020 with an annualized interest rate of 8% payable monthly on the unpaid amounts of the loan.

13. Share Capital

Authorized

Unlimited Class A preferred shares, 8% cumulative, voting, convertible, redeemable, retractable

Unlimited Class B preferred shares, non-voting, convertible, redeemable, retractable

Unlimited Class C preferred shares, non-voting, convertible, redeemable, retractable

Unlimited Class D preferred shares, non-voting, convertible, redeemable, retractable

Unlimited Class E preferred shares, non-voting, convertible, redeemable, retractable

Unlimited common shares

There were no outstanding Class A, B, C, D and E preferred shares as at December 31, 2016 and 2015.

On December 30th, 2016 warrant holders exercised 1,200,000 warrants at an exercise price of \$0.20 per share for gross proceeds of \$240,000. There were no commissions associated with the exercise of the warrants.

On June 29, 2015, the company completed a private placement financing in which the company issued and sold 3,235,294 units, where each unit consisted of one common share and one-half of one common share purchase warrant for aggregate gross proceeds of \$550,000. Each warrant entitles the holder to acquire on

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

additional common share at a price of \$0.20 for a period of two years from closing. The warrants were valued using a valuation pricing model with the following assumptions: risk-free interest rate of 0.58; expected life of two years; expected volatility of 50%; and expected annual dividend yield of nil%. The value of the common share purchase warrants was determined to be \$37,156 on a relative fair value basis and the remainder of the total consideration received was recorded as common shares.

Issued

	Number of shares	Total \$
Common shares - no par value		
Opening balance - January 1, 2015	55,539,002	16,025,316
Issued during the year	<u>3,235,294</u>	<u>550,000</u>
Balance - December 31, 2015	58,774,296	16,575,316
Issued during the year	<u>1,200,000</u>	<u>240,000</u>
Balance - December 31, 2016	<u>59,974,296</u>	<u>16,815,316</u>

Employee stock options

During 2014, the shareholders of the company approved the stock option plan (the Plan), as required on an annual basis by the TSX Venture Exchange in respect of rolling stock option plans. Stock options granted under the Plan (options) are equity settled and will have an exercise price that is not less than the price allowed by the relevant regulatory authorities, will be non-transferable and will be exercisable for a period not to exceed five years. Stock options either vest evenly over the related service period of five years or immediately on issuance.

NexgenRx Inc.

Notes to Financial Statements
December 31, 2016 and 2015
(expressed in Canadian dollars)

The following provides a summary of the status of the Plan as at December 31, 2016:

Options Outstanding

	Number of stock options	Weighted Exercise Price \$
Options outstanding - December 31, 2014	4,645,000	0.24
Expired during the year	(1,075,000)	
Forfeited during the year	(100,000)	
Options outstanding - December 31, 2015	3,470,000	0.24
Expired during the year	(2,355,000)	
Forfeited during the year	(265,000)	
Options outstanding - December 31, 2016	<u>850,000</u>	<u>0.22</u>

Grant Date	Expiry Date	Exercise price	Number outstanding	Weighted average remaining contractual life (in years)	Number Exercisable
March 2013	March 2018	0.22	<u>850,000</u>	1.25	<u>365,800</u>
			<u>850,000</u>		<u>365,800</u>

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate – 1.25; volatility – 50%; and expected life – five years.

Compensation expense is recognized over the years in which entitlement to the compensation vests. Stock based compensation expense for 2016 was \$14,181 (\$18,946 – 2015). The expected volatility is based on the historical volatility of comparable companies, which may not necessarily be the actual outcome.

14. Income per common share

Basic

	2016 \$	2015 \$
Net income (loss) attributable to shareholders	587,804	(158,732)
Weighted average number of common shares issued	<u>58,777,584</u>	<u>57,187,672</u>
Basic income (loss) per share	<u>0.010</u>	<u>(0.003)</u>

Diluted

	2016 \$	2015 \$
Net income (loss) attributable to shareholders	587,804	(158,732)
Weighted average number of common shares issued	<u>59,625,196</u>	<u>57,187,672</u>
Fully diluted income (loss) per share	<u>0.010</u>	<u>(0.003)</u>

NexgenRx Inc.

Notes to Financial Statements
December 31, 2016 and 2015
(expressed in Canadian dollars)

15. Other liabilities

The company had an agreement with one of its large clients to be reimbursed for certain banking fees related to 2010 and prior periods. These charges were recorded as bank expenses and as a liability. During 2015, the agreement was reconsidered and the client agreed to forgive the liability, resulting in a one-time gain on extinguishment of \$231,194.

16. Related party transactions

Compensation of key management

Key management includes the company's directors and members of the management team. Compensation awarded to key management included:

	2016	2015
	\$	\$
Salaries and short-term employee benefits	775,395	667,287
Share based payments	<u>10,437</u>	<u>15,445</u>
	<u>785,832</u>	<u>682,732</u>

In December 2015, two shareholders of the company issued a loan to the company in the amount of \$80,000. The loan was repaid on October 10, 2016 with equal monthly principal payments and an annualized interest rate of 8%. Payments were made the 15th of each month with a final payment October 10, 2016. Amortized cost approximates fair value for these liabilities due to their short-term nature.

In addition, in December 2016, one shareholder of the company issued an unsecured loan to the company in the amount of \$60,000. Principal is repayable at \$6,000 per month plus interest at an annualized rate of 8% payable. This transaction was in the normal course of operations.

17. Restricted Funds on deposit and Client Deposits

Acting as paying agent, the company had \$6,662,594 in restricted funds on deposit and a corresponding liability for client deposits as at December 31, 2016 (2015 - \$5,876,616), which represented amounts received 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. Restricted client funds are segregated in a separate bank account, controlled by the company, from which the company earns interest. The company cannot utilize the restricted funds outside of the scope of the client contracts. The client contracts clearly state the permitted uses of funds, which as noted above is for payment of claims, related taxes and other fees as detailed in contracts.

18. Commitments and contingencies

Operating leases

On June 5, 2012, the company entered into a lease agreement with its landlord to lease office space at 185 The West Mall, Suite 600, Toronto, Ontario, Canada, effective August 1, 2012, with a commencement date of October 1, 2012. The lease expires on September 30, 2022 with a five-year option to extend. Under the agreement, the company received a lease inducement of \$197,000, which was recorded as a liability.

Rent expense (including the service element) under this agreement is \$19,933 per month.

NexgenRx Inc.

Notes to Financial Statements
December 31, 2016 and 2015
(expressed in Canadian dollars)

Future minimum lease payments under non-cancellable operating leases for office space and computer support services over the next five fiscal years and thereafter in aggregate are as follows:

	Office space	Computer support services
	\$	\$
Less than one year	240,892	200,175
One year to five years	1,168,393	303,506
	<u>1,409,285</u>	<u>503,681</u>

Contingencies

In the normal course of business, the company becomes involved in various claims and legal proceedings. As at December 31, 2016, it is the opinion of management that there is no claim or legal proceeding that will have a material adverse effect on the company's financial position.

19. Economic dependence

The company's revenue is concentrated in a small number of large clients. For the year ended December 31, 2016, 67% (2015-79%) of the company's revenue was derived from three clients. The loss of any one of these clients could have significant impacts on the company's future revenue.

20. Income taxes

	2016	2015
	\$	\$
Current income taxes	-	-
Deferred income taxes	175,000	-
	<u>175,000</u>	<u>-</u>

In the current year, the Company recognized a deferred tax asset of \$175,000. This asset represents the amount of future taxable profit that the Company has determined to be probable to be applied against unused tax losses.

	2016	2015
	\$	\$
Income taxes at statutory rate	(109,000)	(49,000)
Non-deductible expense	45,000	38,000
Stock-based compensation expense	3,000	5,000
Change in unrecognized deferred income tax assets	236,000	6,000
	<u>175,000</u>	<u>-</u>

In assessing the ability to realize deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be utilized in the foreseeable future. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. As at December 31, 2016, the company evaluated its taxable positions for previous years, the current year and anticipated future years. In this evaluation process, the company determined that it expects to be taxable and accordingly, has recorded a deferred tax asset and corresponding recovery in deferred income tax expense based on amounts that can be reasonably projected at the present time. The majority of unrecognized deferred income tax

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

assets of \$3,458,000 (2015 - \$3,719,000) relate to non-capital losses of \$3,106,000 (2015 - \$3,377,000) and property and equipment of \$316,000 (2015 - \$296,000).

As at December 31, 2016, the company has gross non-capital income tax losses of approximately \$12,128,000 (2015 - \$12,741,000), which may be carried forward to reduce future income for income tax purposes. For the fiscal year ending December 31st 2016, \$175,000 of benefit of these losses has been recognized in these financial statements. These losses expire between 2026 and 2034.

	\$
2026	1,580,000
2027	3,170,000
2028	1,724,000
2029	895,000
2030	440,000
2031	2,555,000
2032	671,000
2034	1,093,000
	<hr/>
	12,128,000
	<hr/> <hr/>

21. Financial instruments and capital management

Foreign currency risk

Foreign currency risk arises because of fluctuations in foreign currency exchange rates. The company has insignificant financial liabilities denominated in foreign currencies and as a result the effect from any change in foreign currency exchange rates would be immaterial.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates on the notes payable to shareholders are fixed and, have no interest rate risk.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with its financial liabilities. Management believes the company will have adequate resources to support all of its financial liabilities and contractual commitments with current resources. If required, the company will reach out to its investor base for additional capital. Cash flow analysis is performed on a regular basis, and includes tracking of commitments and monitoring of receipts to identify significant variations from forecast cash balances.

Credit risk

The company's financial instruments exposed to concentrations of credit risk consist primarily of cash and accounts receivable. The company minimizes the credit risk of cash by depositing with only reputable financial institutions. The company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. Of the company's accounts receivable, there are no balances greater than 31 days past due. The company does not have an allowance for doubtful accounts and all amounts are considered fully collectible.

NexgenRx Inc.

Notes to Financial Statements

December 31, 2016 and 2015

(expressed in Canadian dollars)

Management of capital

The company's objective of managing capital (comprising share capital and notes payable to shareholders) is to ensure its continued ability to operate as a going concern. The company manages its capital structure and makes changes to it based on economic conditions. With approval from the board of directors, management will adjust its capital structure through the issue of new shares, convertible debentures, debt or other activities deemed appropriate under the specific circumstances. Management and the board of directors review the company's capital management approach on an ongoing basis and believe this approach, given the relative size of the company, is reasonable. The company is not subject to externally imposed capital requirements and the company's strategy with respect to capital risk management has not changed since the end of the fiscal year ended December 31, 2015. It is the company's standard business practice to ensure that clients maintain adequate restricted funds on deposit to meet the estimated costs associated with their contract. Restricted funds are monitored to ensure compliance with these contracts.