

Financial statements

(Unaudited – see Notice to Reader)

(Expressed in Canadian dollars)

NexgenRx Inc.

For the three months and nine months ended September 30, 2018 and September 30, 2017

Notice to Reader

These interim consolidated financial statements of NexgenRx Inc. have been prepared by management and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3)(a), released by the Canadian Securities Administrators, the Company discloses that its external auditor has not reviewed these consolidated interim financial statements, notes to consolidated financial statements, or the related Management's Discussion and Analysis.

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NexgenRx Inc.

Consolidated Statements of Financial Position

As at September 30, 2018 and December 31, 2017

(Unaudited – see Notice to reader)

(Expressed in Canadian dollars)

	September 2018	December 2017
	\$	\$
Assets		
Current assets		
Cash	706,622	2,026,993
Restricted funds on deposit (Note 14)	13,843,507	6,473,621
Trade accounts receivable	409,549	48,821
Deferred financing fee (Note 10)	3,063	3,063
Prepaid expenses	58,981	72,755
	15,021,722	8,625,253
Non-current assets		
Property and equipment (Note 6)	140,587	120,336
Intangible assets (Note 7)	3,957,197	694,197
Other assets (Note 8)	44,732	44,732
Goodwill (Note 18)	547,883	-
Deferred financing fee (Note 10)	6,380	8,677
Deferred Tax	175,000	175,000
	4,871,779	1,042,942
Total Assets	19,893,501	9,668,195
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	900,853	630,926
Client funds (Note 14)	13,843,507	6,473,621
Deferred office rent incentives (Note 15)	22,427	22,427
Notes payable to shareholders (Note 10)	1,844,314	126,281
	16,611,101	7,253,255
Non-current liabilities		
Deferred office rent incentives (Note 15)	67,278	84,098
Notes payable to shareholders (Note 10)	1,471,250	368,750
	1,538,528	452,848
Total Liabilities	18,149,629	7,706,103
Shareholders' Equity		
Share capital (Note 11)	18,761,345	18,611,345
Shares to be issued (Note 19)	425,000	-
Contributed surplus	3,988,449	3,906,668
Deficit	(21,430,922)	(20,555,921)
	1,743,872	1,962,092
Total Liabilities and Shareholders' Equity	19,893,501	9,668,195

See accompanying notes to the financial statements.

NexgenRx Inc.

Consolidated Statements of Income and Comprehensive Income

For the three months and nine months period ending September 30, 2018 and 2017
(Unaudited – see Notice to reader)
(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	Sept 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
	\$	\$	\$	\$
Revenues				
Transaction fees	1,032,913	1,038,276	3,271,792	3,257,087
Administration fees	555,904	295,281	1,102,992	912,004
Commission	29,301	31,609	92,375	92,288
Consulting	12,570	21,997	140,671	56,616
Other income	25,212	12,016	58,326	23,277
	1,655,900	1,399,179	4,666,156	4,341,272
Cost of sales	252,080	265,989	829,507	852,437
Gross Profit	1,403,820	1,133,190	3,836,649	3,488,835
Expenses				
Compensation and external contractors	1,274,359	940,211	3,386,860	2,765,100
Rent (Note 15)	62,347	51,249	171,662	155,855
Professional fees	82,486	57,762	230,947	122,390
Office expenses	61,712	57,284	174,158	158,563
Marketing	131,370	82,030	291,710	231,904
Insurance	28,996	28,097	88,726	87,144
Postage	12,255	11,577	33,017	35,805
Bank charges	19,672	19,722	58,709	59,441
Interest expense	27,394	4,023	46,909	15,022
Amortization of intangible assets (Note 7)	60,314	21,002	107,859	66,653
Depreciation of property and equipment (Note 6)	16,594	10,613	39,312	30,572
Stock based compensation (Note 11)	29,983	1,305	87,691	4,485
	1,807,482	1,284,875	4,717,560	3,732,934
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(403,662)	(151,685)	(880,911)	(244,099)
Basic and diluted (loss) earnings per share	(0.006)	(0.003)	(0.013)	(0.004)

See accompanying notes to the financial statements.

NexgenRx Inc.**Consolidated Statements of Changes in Equity**

For the three months and nine months period ending September 30, 2018 and 2017

(Unaudited – see notice to reader)

(Expressed in Canadian dollars)

	Share Capital	Contributed surplus	Deficit	Shareholders' equity (deficiency)
	\$	\$	\$	\$
Balance - January 1, 2017	16,815,316	3,898,059	(19,955,319)	758,056
Net income for the period			(244,099)	(244,099)
Other			4	4
Reclassification of expired stock options		(25,305)	25,305	-
Proceeds from the issuance of common shares	83,529			83,529
Stock-based compensation (note 11)		4,485		4,485
Balance - September 30, 2017	16,898,845	3,877,239	(20,174,109)	601,975
Balance - January 1, 2018	18,611,345	3,906,668	(20,555,921)	1,962,092
Net income for the period			(880,911)	(880,911)
Proceeds from the issuance of common shares	150,000			150,000
Reclassification of expired stock options		(5,910)	5,910	-
Stock-based compensation (note 11)		87,691		87,691
Balance - September 30, 2018	18,761,345	3,988,449	(21,430,922)	1,318,872

See accompanying notes to the financial statements.

NexgenRx Inc.

Consolidated Statements of Cash Flows

For the three months and nine months period ending September 30, 2018 and 2017

(Unaudited – see Notice to reader)

(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	Sept 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
Cash flow (used in) provided by	\$	\$	\$	\$
Operating activities	(403,662)	(151,685)	(880,911)	(244,099)
Net (loss) for the period				
Adjustment for:				
Depreciation of property and equipment	16,594	10,613	39,312	30,572
Amortization of intangible assets	60,314	21,002	107,859	66,653
Amortization of financing fee	766	-	2,297	-
Change in deferred office lease incentives	(5,607)	(4,107)	(16,820)	(12,321)
Stock based compensation	29,983	1,305	87,691	4,485
Changes in items of working capital:				
Accounts receivable	(292,452)	(10,807)	(292,704)	6,405
Restricted funds on deposit	7,530,502	50,951	7,369,886	968,828
Prepaid expenses	49,678	33,752	31,917	9,977
Client funds	(7,530,502)	(50,951)	(7,369,886)	(968,828)
Accounts payable and accrued liabilities	272,734	251,493	493	120,607
Change in interest payable	18,590	-	18,590	-
Net cash (used in) operating activities	(253,062)	151,566	(902,276)	(17,721)
Investing Activities:				
Purchase of property and equipment	(11,458)	(1,321)	(32,498)	(30,390)
Purchase and development of intangible assets	(2,686)	(158,530)	(130,859)	(344,572)
Net cash (used in) investing activities	(14,144)	(159,851)	(163,357)	(374,962)
Financing Activities:				
Repayment of notes payable to shareholders	(30,750)	(18,063)	(104,250)	(54,235)
Proceeds from notes payable to shareholders	1,750,000	-	1,750,000	83,529
Proceeds from share subscriptions	425,000	-	425,000	-
Investment In Canadian Benefit Administrators	(1,590,000)	-	(1,590,000)	-
Investment In My Benetech Inc	(1,060,000)	-	(1,060,000)	-
Cash acquired on acquisition closing	324,512	-	324,512	-
Net cash (used in) provided by financing activities	(181,238)	(18,063)	(254,738)	29,294
Net (decrease) in cash	(448,444)	(26,348)	(1,320,371)	(363,389)
Cash - Beginning of the Period	1,155,066	344,312	2,026,993	681,353
Cash - End of Period	706,622	317,964	706,622	317,964

See accompanying notes to the financial statements.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

1. Nature of operations

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. Statement of compliance

The Company prepares its unaudited condensed interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the Handbook of Chartered Professional Accountants of Canada – Part 1 ("CPA Canada Handbook"), which incorporates IFRS as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), as issued by the IASB. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's annual audited financial statements for the year-ended December 31, 2017.

The policies applied in these unaudited condensed interim consolidated financial statements are based on the IFRS as of November 28, 2018, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year-ended December 31, 2017 could result in the restatement of these unaudited condensed interim consolidated financial statements.

3. Changes to accounting standards

Accounting standards issued and adopted in 2018

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

IFRS 9, Financial Instruments, is effective for fiscal years beginning on or after January 1, 2018 and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is significantly different for certain financial instruments. The Company has assessed the impact of adoption of the standard and has determined no changes are required in how it reports its financial instruments.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

3. Changes to accounting standards (continued)

IFRS 15, Revenue from Contracts with Customers (IFRS 15), is a new standard effective for fiscal years beginning on or after January 1, 2018. 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 adopted IFRS 15 in its financial statements for annual periods beginning on January 1, 2018. The Company has assessed the impact of adoption of the standard and has determined no changes are required in how it reports revenue.

Accounting standards issued and not yet applied

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.

4. Summary of significant accounting policies

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

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements are reported in Canadian dollars which is the functional currency of the reporting entity, NexgenRx Inc.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and the wholly-owned subsidiaries Canadian Benefit Administrators Ltd. ("CBA") and My Benetech Inc. ("MB")

The financial statements of the subsidiaries are prepared from the date of acquisition, August 15th 2018 to September 30, 2018 using consistent accounting policies.

All intercompany transactions and balances have been eliminated in the preparation of these consolidated financial statements.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

CBA and MB have historical March 31st year ends which will be changed to December 31st to match the Company.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

4. Summary of significant accounting policies (continued)

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognized in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units ("CGU's") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill is tested for impairment annually or more frequently when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each CGU to which goodwill relates. here the recoverable amount is less than the carrying value, an impairment loss is recognized.

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.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

4. Summary of significant accounting policies (continued)

Revenue

Transaction fees are 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. This is recorded in other income on the income statement.

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.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

4. Summary of significant accounting policies (continued)

Restricted funds on deposit

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

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets cease to be recognized 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 no longer exist 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 reported at amortized cost.

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.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

4. Summary of significant accounting policies (continued)

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.

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 and comprehensive income 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 amortization 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 income and comprehensive income during the years in which they are incurred.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

4. Summary of significant accounting policies (continued)

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 and comprehensive income.

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 and comprehensive income over the period of its expected useful life of one to five years.

Intangible assets acquired on acquisition include software licence and customer relationships. Values associated with these intangibles are amortized on a straight line basis in the statements of income and comprehensive income over the period of their expected useful life of fifteen 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 requirements:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and either use it or sell it;
- Its ability to use or sell the intangible asset;
- The mechanism by which the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- 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 Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

4. Summary of significant accounting policies (continued)

The major categories of intangible assets are depreciated on a straight-line basis as follows:

Mobile App	5 years
Web browser	5 years
Systems integration upgrades	5 years
Software licence	15 years
Customer relationships	15 years

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date which is regarded as their cost.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

4. Summary of significant accounting policies (continued)

The number of awards expected to vest is reviewed at least annually, with any impact recognized immediately. In the event stock options expire or are forfeited due to option holder departures, the related expense is reclassified in the Statements of Changes in Equity as a reduction in Contributed surplus and a corresponding reduction in the deficit.

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 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.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

4. Summary of significant accounting policies (continued)

(Loss) Income per share

Basic (loss) income 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 (loss) income 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. Significant accounting judgements and estimation uncertainties

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and revenue and expenses. The company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The following are estimates and judgments applied by management that most significantly impact the financial statements. These significant estimates and judgments have a 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 the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

6. Property and equipment

	Furniture & Computer Equipment	Leasehold Improvements	Total
	\$	\$	\$
Cost			
Balance at December 31, 2016	451,845	317,101	768,946
Additions	35,643	2,542	38,185
Disposals	-	-	-
Balance at December 31, 2017	487,488	319,643	807,131
Additions	12,594	19,904	32,498
Additions on acquisition	27,065	-	27,065
Disposals	-	-	-
Balance at September 30, 2018	527,147	339,547	866,694
Accumulated Depreciation			
Balance at December 31, 2016	422,935	222,485	645,420
Amortization expense	23,275	18,100	41,375
Balance at December 31, 2017	446,210	240,585	686,795
Amortization expense	23,549	15,763	39,312
Balance at September 30, 2018	469,759	256,348	726,107
Net Book Value			
December 31, 2016	28,910	94,616	123,526
December 31, 2017	41,278	79,058	120,336
September 30, 2018	57,388	83,199	140,587

NexgenRx Inc.

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7. Intangible assets

	Intangible Assets
	\$
Cost	
Balance at December 31, 2016	1,177,112
Additions - external costs	394,085
Additions - internal costs	30,267
Disposals	-
Balance at December 31, 2017	<u>1,601,464</u>
Additions - external costs	130,859
Additions - internal costs	-
Additions - IP licence, customer relationships acquired	3,240,000
Disposals	-
Balance at September 30, 2018	<u>4,972,323</u>
Accumulated Depreciation	
Balance at December 31, 2016	818,694
Amortiation expense	88,573
Balance at December 31, 2017	<u>907,267</u>
Amortiation expense	107,859
Balance at September 30, 2018	<u>1,015,126</u>
Net Book Value	
December 31, 2016	358,418
December 31, 2017	694,197
September 30, 2018	3,957,197

8. Other assets

Other assets consist of a lease and security deposit in the amount of \$44,732 (2017 - \$44,732).

NexgenRx Inc.

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9. Financial liabilities

			September 30, 2018	December 31, 2017
	Current \$	Non- current \$	Total \$	Total \$
Accounts payable and accrued liabilities	900,853	-	900,853	630,926
Client funds	13,843,507	-	13,843,507	6,473,621
Interest payable	21,377	-	21,377	3,281
	14,765,737	-	14,765,737	7,107,828
Notes payable to shareholders (note 10)	1,822,937	1,471,250	3,294,187	491,750
	16,588,674	1,471,250	18,059,924	7,599,578

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

The Company's accounts payable and accrued liabilities include all the outstanding invoices or accruals as at September 30, 2018.

Client funds represent amounts held for processing of contractual costs.

The interest payable includes the interest on the notes payable to shareholders and the notes payable to a third party (Note 10).

10. Notes payable to shareholders

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

In October 2017, 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 \$6,000 with a final payment on August 15, 2018. Amortized cost approximates fair value for this liability due to its short-term nature. The loan balance is NIL at the reporting date.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

10. Notes payable to shareholders (continued)

In November 2017, a shareholder of the Company issued a loan to the Company in the amount of \$300,000. Principal and annualized interest of 8% on the loan is payable in 48 monthly instalments of \$6,250 with a final payment due on October 1, 2021. The loan is open for repayment at any time. A set-up fee of \$12,250 was paid in connection with the loan. Amortized cost approximates fair value for this liability due to its short-term nature. At September 30, 2018 the current portion of the unamortized fee was \$3,063 and the non-current portion was \$6,380. The balance outstanding as at September 30, 2018 is \$237,500 (2017 – Nil).

On July 24, 2018 a secured loan from an arm's length shareholder in the aggregate amount of \$1,750,000, was fully funded. The loan bears interest at a rate of four percent (4%) per annum and matures on the date that is one (1) year, plus one (1) day from the date of issuance or July 25, 2019. Interest accrues monthly and is payable at maturity.

On August 15, 2018 in connection with the acquisitions of Canadian Benefit Administrators (“CBA”) and My Benetech Inc. (“MBT”) a portion of the purchase price was settled with a note payable of \$1,200,000 due on the second anniversary of the closing date and more particularly described in note 18.

	September 30 2018	December 31 2017
	\$	\$
Opening balance	491,750	210,000
Proceeds	2,908,750	360,000
Repayment of debt	(104,250)	(78,250)
Closing balance of principal	3,296,250	491,750
Accrued interest	19,314	3,281
Closing balance of principal	3,315,564	495,031
Current portion of notes payable to shareholders	1,844,314	126,281
Long term portion of notes payable to shareholders	1,471,250	368,750

11. Share capital

Authorized

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

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

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

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

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

11. Share capital (continued)

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

Unlimited number of common shares

There are no outstanding Class A, B, C, D and E preferred shares as at September 30, 2018.

On March 30, 2017, 117,647 warrants were exercised for 117,647 common shares at \$0.20 for proceeds of \$23,529.

On June 1, 2017, 300,000 warrants were exercised for 300,000 common shares at \$0.20 for proceeds of \$60,000.

On December 28, 2017, 227,273 options were exercised for 227,273 common shares, at \$0.22 for proceeds of \$50,000.

On December 29, 2017 7,000,000 common shares were issued in a private placement at \$0.25 for gross proceeds of \$1,750,000.

Issued

	Number of shares	Total \$
Common shares - no par value		
Balance - January 1, 2017	59,974,296	16,815,316
Issued during the year	7,644,920	1,796,029
Balance - December 31, 2017	<u>67,619,216</u>	<u>18,611,345</u>
Issued during the first nine months	600,000	150,000
Balance - September 30, 2018	<u>68,219,216</u>	<u>18,761,345</u>

Employee stock options

During 2017, 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 ten years. Stock options either vest evenly over the related service period of five years or immediately on issuance.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

11. Share capital (continued)

The following provides a summary of the status of the Plan as at September 30, 2018:

	<u>Number of stock options</u>	<u>Weighted exercise price</u>
Options outstanding – December 31, 2016	850,000	\$0.22
Forfeited during the year	(300,000)	
Issued during the year	2,625,000	
Exercised during the year	<u>(227,273)</u>	
Options outstanding – December 31, 2017	<u>2,947,727</u>	<u>\$0.23</u>
Expired during the quarter	(322,727)	
Forfeited during the quarter	<u>(25,000)</u>	
Options outstanding – March 31, 2018	2,600,000	\$ 0.23
Expired during the quarter	<u>(150,000)</u>	
Options outstanding – June 30, 2018	2,450,000	\$ 0.23
Issued during the quarter	<u>500,000</u>	
Options outstanding – September 30, 2018	<u>2,950,000</u>	<u>\$ 0.23</u>

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Number outstanding</u>	<u>Weighted average remaining contractual life</u>	<u>Number exercisable</u>
Sept 2017	Sept 2027	0.23	2,450,000	9.25	816,667
August 2018	August 2028	0.25	<u>500,000</u>	9.90	<u>-</u>
			<u>2,950,000</u>		<u>816,667</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: 2018 option issue, risk free interest rate: 2.20%; volatility: 32%; and expected life: five years. 2017 option issue, risk free interest rate: 1.73%; volatility 46%; and expected life: five years.

Compensation expense is recognized over the years in which entitlement to the compensation vests. The expected volatility is based on the historical volatility of comparable companies, which may not necessarily be the actual outcome.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

12. Loss per common share

Basic and diluted	September 30	September 30
	2018	2017
	\$	\$
Net (loss) attributable to shareholders	(880,911)	(244,099)
Weighted average number of common shares issued	67,694,832	59,898,385
Basic (loss) per share	<u>(0.013)</u>	<u>(0.004)</u>

13. 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:

	September 30	September 30
	2018	2017
	\$	\$
Salaries and short-term employee benefits	722,476	713,496
Options, directors and management	<u>78,219</u>	<u>4,485</u>
	<u>800,695</u>	<u>\$ 717,981</u>

14. Restricted funds on deposit and client deposits

Acting as paying agent, the company had \$13,843,507 in restricted funds on deposit and a corresponding liability for client deposits as at September 30, 2018 (September 30, 2017 - \$7,631,422), 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.

15. Commitments

Operating leases

On June 15, 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.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

15. Commitments (continued)

Rent expense (including the service element) under this agreement is \$20,133 per month.

On August 15, 2018, Canadian Benefit Administrators Ltd. and My Benetech Inc. entered into a lease agreement with 2300989 Ontario Inc. to lease office space at 124 Main Street South, Georgetown, Ontario, Canada, effective August 15, 2018, with a commencement date of August 15, 2018. The lease expires on August 31, 2023 with a two-year option to extend.

Rent expense (including the service element) under this agreement is \$5,752 per month

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

	Office space \$	Computer equipment \$
Less than one year	300,666	157,745
One year to five years	965,274	3,638
	<u>1,265,940</u>	<u>161,383</u>

Contingencies

In the normal course of business, the Company becomes involved in various claims and legal proceedings. As at September 30, 2018, 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.

16. Economic dependence

The company's revenue is concentrated in a small number of large clients. For the period ended September 30, 2018, 61% (September 30, 2017 - 69%) of the company's revenue was derived from three clients. The loss of any one of these clients could have a significant impact on the company's future revenue.

17. 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.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three months and nine months period ending September 30, 2018 and 2017

17. Financial instruments and capital management (continued)

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.

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 period ended December 31, 2017. 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.

18. Business acquisition

The acquisitions of Ontario based privately owned Canadian Benefit Administrators ("CBA") and My Benetech Inc. ("MBT") were closed on August 15th 2018. The purchase price of \$4,000,000 was settled with \$2,800,000 paid upon closing with the balance of \$1,200,000 due on the second anniversary of the closing date, subject to certain standard purchase price adjustments and subject to acceleration of payment in the event of a change of control. The amount paid on the closing date consisted of a cash payment of \$2,650,000 cash, together with an aggregate of \$150,000 in common shares of the Company. An aggregate of 600,000 common shares were issued to the vendors on the closing date at a price of \$0.25 per share. The remaining balance is due two years from date of closing and will also be guaranteed by CBA and MBT. In addition, of the remaining balance, \$1,100,000 will be paid in cash (subject to adjustments), with the remaining \$100,000 in consideration being issued in the form of shares at a price based upon the ten (10) day average closing price on the two year anniversary of closing (or earlier, in the event of acceleration upon a change of control).

NexgenRx Inc.

Notes to the Consolidated Financial Statements

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For the three months and nine months period ending September 30, 2018 and 2017

18. Business acquisition (continued)

The remaining cash portion is subject to a purchase price adjustment in certain circumstances, such as failure to meet earnings and working capital targets. Financing for the cash portion of the purchase price was arranged by way of a secured loan from an arm's length shareholder in the aggregate amount of \$1,750,000, which has been fully funded. The loan bears interest at a rate of four percent (4%) per annum and matures on the date that is one (1) year, plus one (1) day from the date of issuance.

The allocation of the purchase price is shown below.

Canadian Benefit Administrators Ltd

Fair Value of Identifiable Net Assets	\$
Cash and cash equivalents	5,640,941
Accounts receivable, other	54,466
Property and equipment	22,180
Intangibles, IP software licence	1,400,000
Intangibles - Customer relationships	820,000
Trade payables, notes payable, client funds	<u>(5,648,698)</u>
Net assets acquired	<u>2,288,889</u>
Consideration paid	
Cash	1,590,000
Shares issued	90,000
Note payable - cash portion	635,250
Note payable - share portion	<u>60,000</u>
Total consideration paid	<u>2,375,250</u>
Total goodwill	<u>86,361</u>

My Benetech Inc

Fair Value of Identifiable Net Assets	\$
Cash and cash equivalents	285,341
Accounts receivable, other	31,701
Property and equipment	4,884
Intangibles, IP software licence	740,000
Intangibles - Customer relationships	280,000
Trade payables, notes payable, client funds	<u>(219,948)</u>
Net assets acquired	<u>1,121,978</u>
Consideration paid	
Cash	1,060,000
Shares issued	60,000
Note payable - cash portion	423,500
Note payable - share portion	<u>40,000</u>
Total consideration paid	<u>1,583,500</u>
Total goodwill	<u>461,522</u>

NexgenRx Inc.**Notes to the Consolidated Financial Statements**

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19. Subsequent event

On October 11, 2018 the Company closed a private placement totaling \$425,000 and issued 1,700,000 shares at \$0.25. Insiders subscribed and paid for 400,000 shares.