

Condensed Interim Consolidated Financial Statements

(Unaudited – see Notice to Reader)

(Expressed in Canadian dollars)

NexgenRx Inc.

For the three months and nine months ended September 30, 2019 and September 30, 2018

Notice to Reader

These condensed 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.

Condensed Interim Consolidated Statements of Financial Position

As at September 30, 2019
(Unaudited – see Notice to reader)
(Expressed in Canadian dollars)

	September 30, 2019	December 31, 2018
	\$	\$
Assets		
Current assets		
Cash	458,275	833,658
Restricted funds on deposit (Note 14)	10,865,345	10,866,717
Trade accounts receivable	541,876	591,644
Deferred financing fee (Note 10)	18,494	3,063
Prepaid expenses	91,467	58,594
	11,975,457	12,353,676
Non-current assets		
Property and equipment (Note 6)	904,447	128,838
Intangible assets (Note 7)	4,526,152	4,248,764
Other assets (Note 8)	44,732	44,732
Goodwill	1,241,132	1,241,132
Deferred financing fee (Note 10)	13,673	5,614
	6,730,136	5,669,080
Total Assets	18,705,593	18,022,756
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	1,117,881	1,093,166
Client funds (Note 14)	10,865,345	10,866,717
Deferred office rent incentives (Note 9)	-	22,427
Lease liability (Note 9)	58,094	-
Notes payable to shareholders (Note 10)	507,440	1,836,042
Income tax payable	10,184	10,184
	12,558,944	13,828,536
Non-current liabilities		
Deferred office rent incentives (Note 9)	-	61,670
Lease liability (Note 9)	877,721	-
Deferred tax liability	636,397	704,965
Notes payable to shareholders (Note 10)	2,759,213	1,470,423
	4,273,331	2,237,058
Total Liabilities	16,832,275	16,065,594
Shareholders' Equity		
Share capital (Note 11)	19,186,345	19,186,345
Contributed surplus	4,155,628	4,014,282
Deficit	(21,468,655)	(21,243,465)
	1,873,318	1,957,162
Total Liabilities and Shareholders' Equity	18,705,593	18,022,756

See accompanying notes to interim condensed consolidated financial statements.

NexgenRx Inc.**Condensed Interim Consolidated Statements of Net Loss and Comprehensive Loss**

(Unaudited – see Notice to reader)

(Expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues				
Transaction fees	1,126,091	1,032,913	3,494,993	3,271,792
Administration fees	764,852	555,904	2,232,251	1,102,992
Commission	21,619	29,301	71,190	92,375
Consulting	270,633	12,570	1,029,947	140,671
Other income	54,054	25,212	151,359	58,326
	2,237,249	1,655,900	6,979,740	4,666,156
Cost of sales	275,708	252,080	858,606	829,507
Gross Profit	1,961,541	1,403,820	6,121,134	3,836,649
Expenses				
Compensation and external contractors	1,472,693	1,274,359	4,261,424	3,386,860
Rent	5,833	62,347	16,781	171,662
Professional fees	67,451	82,486	172,952	230,947
Office expenses	77,156	61,712	221,740	174,158
Marketing	149,731	131,370	490,402	291,710
Insurance	34,920	28,996	103,733	88,726
Postage	7,273	12,255	30,372	33,017
Bank charges	25,441	19,672	74,394	58,709
Interest expense	91,504	27,394	195,200	46,909
Amortization of intangible assets (Note 7)	158,282	60,314	428,501	107,859
Depreciation of property and equipment (Note 6)	66,568	16,594	198,537	39,312
Stock based compensation (Note 11)	46,263	29,983	141,346	87,691
Total expenses	2,203,115	1,807,482	6,335,382	4,717,560
Net Loss before Income Tax	(241,574)	(403,662)	(214,248)	(880,911)
Income Tax				
Deferred tax recovery	(22,856)	-	(68,569)	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(218,718)	(403,662)	(145,679)	(880,911)
Basic and diluted loss per share (Note 12)	(0.003)	(0.006)	(0.002)	(0.013)

See accompanying notes to interim condensed consolidated financial statements.

NexgenRx Inc.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**

For the nine months ended September 30, 2019 and 2018

(Unaudited – see notice to reader)

(Expressed in Canadian dollars)

	Share Capital	Contributed surplus	Deficit	Shareholders' equity (deficiency)
	\$	\$	\$	\$
Balance - January 1, 2018	18,611,345	3,906,668	(20,555,921)	1,962,092
Net loss 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
Balance - January 1, 2019	19,186,345	4,014,282	(21,243,465)	1,957,162
Adjustment on adoption of IFRS 16	-	-	(79,511)	(79,511)
Adjusted Balance - January 1, 2019	19,186,345	4,014,282	(21,322,976)	1,877,651
Net loss for the period	-	-	(145,679)	(145,679)
Stock-based compensation (note 11)	-	141,346	-	141,346
Balance - September 30, 2019	19,186,345	4,155,628	(21,468,655)	1,873,318

See accompanying notes to interim condensed consolidated financial statements.

NexgenRx Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three month and nine month period ended September 30, 2019 and 2018

(Unaudited – see Notice to reader)

(Expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash flow provided by (used in)	\$	\$	\$	\$
Operating activities				
Net loss for the period	(218,718)	(403,662)	(145,679)	(880,911)
Adjustment for:				
Depreciation of property and equipment	66,568	16,594	198,537	39,312
Amortization of intangible assets	158,282	60,314	428,501	107,859
Amortization (set up) of financing fee	(25,022)	766	(23,490)	2,297
Change in deferred office lease incentives	-	(5,607)	(5,607)	(16,820)
Deferred income taxes	(22,857)	-	(68,570)	-
Accrued interest on notes payable to shareholders	(57,469)	-	(1,478)	-
Cash payment for the interest portion of the lease liability	16,590	-	49,771	-
Stock based compensation	46,263	29,983	141,346	87,691
Changes in items of working capital:				
Accounts receivable	61,471	(292,452)	49,768	(292,704)
Restricted funds on deposit	376,680	7,530,502	(1,372)	7,369,886
Prepaid expenses	29,355	49,678	(32,873)	31,917
Client funds	(376,680)	(7,530,502)	1,372	(7,369,886)
Accounts payable and accrued liabilities	223,899	272,734	24,716	493
Change in interest payable	-	18,590	-	18,590
Net cash provided by (used in) operating activities	278,362	(253,062)	614,942	(902,276)
Investing Activities:				
Purchase of property and equipment	(9,757)	(11,458)	(31,732)	(32,498)
Purchase and development of intangible assets	(277,063)	(2,686)	(705,889)	(130,859)
Net cash (used in) investing activities	(286,820)	(14,144)	(737,621)	(163,357)
Financing Activities:				
Repayment of notes payable to shareholders	(1,325,833)	(30,750)	(1,363,333)	(104,250)
Cash payment for the principal portion of the lease liability	(73,577)	-	(214,371)	-
Proceeds from notes payable to shareholders	1,250,000	1,750,000	1,325,000	1,750,000
Proceeds from common shares issuance	-	425,000	-	425,000
Proceeds from notes payable to shareholders	-	(1,590,000)	-	(1,590,000)
Proceeds from notes payable to shareholders	-	(1,060,000)	-	(1,060,000)
Proceeds from notes payable to shareholders	-	324,512	-	324,512
Net cash (used in) financing activities	(149,410)	(181,238)	(252,704)	(254,738)
Net (decrease) in cash	(157,868)	(448,444)	(375,383)	(1,320,371)
Cash – Beginning of Period	616,143	1,155,066	833,658	2,026,993
Cash – End of Period	458,275	706,622	458,275	706,622

See accompanying notes to interim condensed consolidated financial statements.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

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

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee, effective for the Company's reporting for the nine months ended September 30, 2019.

These interim condensed 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 condensed interim consolidated financial statements should be read in conjunction with the Company's annual audited financial statements for the year-ended December 31, 2018.

The policies applied in these condensed interim consolidated financial statements are based on the IFRS as of November 21, 2019, 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, 2018 could result in the restatement of these condensed interim consolidated financial statements.

3. Changes to accounting standards

Accounting standards issued and adopted in 2019

IFRS 16 Leases

The Company has adopted IFRS 16 Leases using the modified retrospective approach from January 1, 2019. Comparatives for the 2018 reporting period have not been restated as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in retained earnings at January 1, 2019. Refer to the consolidated financial statements for the period ended March 31, 2019 for details.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

4. Summary of significant accounting policies**Basis of measurement**

The condensed interim 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 Company.

Basis 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. (“MBT”)

The financial statements of the subsidiaries are consolidated from the date of acquisition, August 15, 2018 to September 30, 2019 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.

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 acquire. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the 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 IFRS 9 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 IFRS 9, 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.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

4. Summary of significant accounting policies (continued)

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. If 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.

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).

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

4. Summary of significant accounting policies (continued)

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.

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 the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

4. Summary of significant accounting policies (continued)

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:

Financial assets at amortized cost

Financial assets at amortized cost include 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. Financial assets are initially recognized at fair value net of any transaction costs and subsequently at amortized cost using the effective interest method.

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.

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.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

4. Summary of significant accounting policies (continued)

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

IFRS 16 Leases introduced a single, on-balance sheet accounting model for lessees. The Company has initially adopted IFRS 16 Leases using the modified retrospective approach from January 1, 2019. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets, and lease liabilities representing its obligation to make lease payments.

The Company presents right-of-use assets in 'Property and equipment' and lease liabilities in 'Lease liability' in the condensed interim consolidated statements of financial position.

The following table reconciles the operating lease commitments as at December 31, 2018 to the opening balance of lease liabilities as at January 1, 2019:

	\$
Operating lease commitments as at December 31, 2018	1,304,297
Discounted using the incremental borrowing rate as at January 1, 2019	(84,751)
Recognition exemption for:	
Short-term leases	(106,000)
Leases of low-value assets	(7,524)
	<u>1,106,022</u>

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

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

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 their expected useful lives 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 ten 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.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

4. Summary of significant accounting policies (continued)

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

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	10 years
Customer relationships	10 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.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

4. Summary of significant accounting policies (continued)

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. 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

Current tax

Current tax is the expected tax payable on the taxable income for the period, using the tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax

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).

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

4. Summary of significant accounting policies (continued)

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.

A deferred tax liability arises on acquisition when intangibles acquired are amortized for accounting purposes but not for tax purposes. The deferred tax liability is calculated using the acquire intangible amount and will reduce as the asset is amortized over the expected life of 10 years.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Income (Loss) per share

Basic income (loss) per share is calculated by dividing the net income (loss) 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. 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.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

5. Significant accounting judgements and estimation uncertainties (continued)**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.

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. Intangible assets include IP software licence and customer relationships. Both are amortized on a straight-line basis over their expected useful lives which is estimated at ten years. Valuation of software license and customer relationships requires management to assess expected income based on projections including customer attrition, growth rates and royalty rates.

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 Condensed Interim Consolidated Financial Statements**

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

6. Property and equipment

	Furniture & Computer Equipment	Leasehold Improvements	Right-of- use Asset	Total
	\$	\$	\$	\$
Cost				
Balance at December 31, 2017	487,488	319,643	-	807,131
Additions	13,084	21,320	-	34,404
Additions on acquisition	17,798	9,267	-	27,065
Balance at December 31, 2018	518,370	350,230	-	868,600
Additions	28,591	3,141	-	31,732
IFRS adjustment	-	-	942,414	942,414
Balance at September 30, 2019	546,961	353,371	942,414	1,842,746
Accumulated Depreciation				
Balance at December 31, 2017	446,210	240,585	-	686,795
Amortization expense	29,026	23,941	-	52,967
Balance at December 31, 2018	475,236	264,526	-	739,762
Amortization expense	21,391	19,343	157,803	198,537
Balance at September 30, 2019	496,627	283,869	157,803	938,299
Net Book Value				
December 31, 2017	41,278	79,058	-	120,336
December 31, 2018	43,134	85,704	-	128,838
September 30, 2019	50,334	69,502	784,611	904,447

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

7. Intangible assets

Cost	\$
Balance at December 31, 2017	1,601,464
Additions - external costs	323,231
Additions - internal costs	45,499
Additions - IP licence, customer relationships acquired	3,450,000
Balance at December 31, 2018	5,420,194
Additions - external costs	705,889
Balance at September 30, 2019	6,126,083
Accumulated Depreciation	
Balance at December 31, 2017	907,267
Amortization expense	264,163
Balance at December 31, 2018	1,171,430
Amortization expense	428,501
Balance at September 30, 2019	1,599,931
Net Book Value	
December 31, 2017	694,197
December 31, 2018	4,248,764
September 30, 2019	4,526,152

8. Other assets

Other assets consist of a lease and security deposit in the amount of \$44,732 (2018 - \$44,732).

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

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

9. Financial liabilities

			September 30, 2019	December 31, 2018
	Current	Non-current	Total	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,117,881	-	1,117,881	1,093,166
Client funds	10,865,345	-	10,865,345	10,866,717
Lease liability	58,094	877,721	935,815	-
Deferred office rent incentives	-	-	-	84,097
Income tax payable	10,184	-	10,184	10,184
Interest payable (note 10)	-	47,822	47,822	49,300
	12,051,504	925,543	12,977,047	12,103,464
Notes payable to shareholders (note 10)	507,440	2,711,391	3,218,831	3,257,165
	12,558,944	3,636,934	16,195,878	15,360,629

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, 2019.

Client funds represent amounts held for processing of contractual costs.

Lease liability is measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing weighted-average rate of 6%.

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

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

10. Notes payable to shareholders

	September 30 2019	December 31 2018
	\$	\$
Opening balance	3,257,165	491,750
Proceeds	1,325,000	2,897,750
Repayment of debt	(1,363,333)	(132,335)
Closing balance of principal	3,218,832	3,257,165
Accrued interest	47,821	49,300
Closing balance of principal and interest	3,266,653	3,306,465
Current portion of notes payable to shareholders	507,440	1,836,042
Long term portion of notes payable to shareholders	2,759,213	1,470,423

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 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, 2019 the current portion of the unamortized fee was \$766 and the non-current portion was \$5,614. The balance outstanding as at September 30, 2019 is \$156,250 (2018 – \$237,500).

In July 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 matured July 25, 2019. The Company has made a repayment of \$1,250,000 during the third quarter, the remaining loan balance of \$500,000 has been extended to August 31, 2021 at a rate of six percent (6%) per annum. The principal amount or any portion may be repaid to the lender from time to time without notice or penalty.

In August 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 notes payable of \$1,200,000 due on the second anniversary of the closing date. Total interest accrued at September 30, 2019 was \$47,687.

In May 2019, a shareholder of the Company issued a loan to the Company in the amount of \$75,000. Principal and annualized interest of 8% on the loan is payable in ten monthly instalments of \$7,500 with a final payment due on April 1, 2020. Amortized cost approximates fair value for this liability due to its short-term nature.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

10. Notes payable to shareholders (continued)

In August and September 2019, four shareholders of the Company issued an unsecured loan to the Company in the amount of \$1,250,000. Annualized interest of 8% on the loan is payable monthly with the principal repayment due in October, 2020. A set-up fee of \$27,398 was paid in connection with the loan. Amortized cost approximates fair value for this liability due to its short-term nature. At September 30, 2019 the current portion of the unamortized fee was \$17,728 and the non-current portion was \$8,059.

	Current	Long Term
Deferred Finance Fee (2017)	\$766	\$5,614
Deferred Finance Fee (2019)	\$17,728	\$8,059
	<u>\$18,494</u>	<u>\$13,673</u>

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

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

Unlimited number of common shares

Issued

There are no outstanding Class A, B, C, D and E preferred shares as at September 30, 2019.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

11. Share capital (continued)

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.

On August 15, 2018, 600,000 common shares were issued to CBA AND MBT at \$0.25 for gross proceeds of \$150,000.

On October 11, 2018, 1,700,000 common shares were issued in a private placement at \$0.25 for gross proceeds of \$425,000.

	Number of shares issued	Total \$
Common shares – no par value		
Balance – January 1, 2018	67,619,216	18,611,345
Issued during the year	<u>2,300,000</u>	<u>575,000</u>
Balance – December 31, 2018	69,919,216	19,186,345
Issued during the first nine months	<u>-</u>	<u>-</u>
Balance – September 30, 2019	<u>69,919,216</u>	<u>19,186,345</u>

Employee stock options

During 2018, 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.

The following provides a summary of the status of the Plan as at September 30, 2019:

	Number of stock options	Weighted exercise price
Options outstanding – December 31, 2017	2,947,727	\$0.23
Expired during the year	(322,727)	
Forfeited during the year	(275,000)	
Issued during the year	<u>3,200,000</u>	
Options outstanding – December 31, 2018 and September 30, 2019	<u>5,550,000</u>	<u>\$0.24</u>

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

11. Share capital (continued)

Weighted average					
<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Number outstanding</u>	<u>Remaining contractual life</u>	<u>Number exercisable</u>
Sept 2017	Sept 2027	0.23	2,350,000	8.01	783,333
Aug 2018	Aug 2028	0.25	500,000	8.88	-
Dec 2018	Dec 2028	0.25	<u>2,700,000</u>	9.18	-
			<u>5,550,000</u>		<u>783,333</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: August 2018 options issue; risk free interest rate: 2.20%; volatility: 32%; and expected life: three years. December 2018 options issue; risk free interest rate: 1.92%; volatility; 37%; and expected life: three years. September 2017 options 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. Total option expense September year-to-date amounted to \$141,346.

12. Loss per common share

Basic and diluted	September 30 2019	September 30 2018
	\$	\$
Net loss attributable to shareholders	(145,679)	(880,911)
Weighted average number of common shares issued	<u>69,919,216</u>	<u>68,219,216</u>
Basic and diluted loss per share	(0.002)	(0.013)

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 2019	September 30 2018
	\$	\$
Salaries and short-term employee benefits	919,689	722,476
Options, directors and management	<u>128,842</u>	<u>78,219</u>
	<u>1,048,531</u>	<u>800,695</u>

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

14. Restricted funds on deposit and client deposits

Acting as paying agent, the Company had \$10,865,345 in restricted funds on deposit and a corresponding liability for client deposits as at September 30, 2019 (December 31, 2018 - \$10,866,717), 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. Contingencies

In the normal course of business, the Company becomes involved in various claims and legal proceedings. As at September 30, 2019, 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, 2019, 38% (September 30, 2018 - 61%) 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.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month period ended September 30, 2019 and 2018

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, 2018. 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.