

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, 2020 and September 30, 2019

Notice to Reader

These condensed interim 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, 2020
(Unaudited – See Notice to reader)
(Expressed in Canadian dollars)

	September 30 2020 \$	December 31 2019 \$
Assets		
Current assets		
Cash	839,078	527,092
Restricted funds on deposit (Note 15)	19,398,275	13,471,059
Trade accounts receivable	496,897	313,394
Deferred financing fee	-	22,633
Prepaid expenses	112,330	127,255
	<u>20,846,580</u>	<u>14,461,433</u>
Non-current assets		
Property and equipment (Note 6)	707,919	856,258
Intangible assets (Note 7)	4,681,398	4,587,821
Other assets (Note 8)	44,732	44,732
Goodwill	1,241,132	1,241,132
Deferred financing fee	-	2,552
	<u>6,675,181</u>	<u>6,732,495</u>
Total Assets	<u>27,521,761</u>	<u>21,193,928</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	1,035,544	1,159,916
Client funds (Note 15)	19,398,275	13,471,059
Current portion of lease liability (Note 19)	179,299	296,567
Current portion of notes payable to shareholders (Note 10)	1,035,272	2,893,415
	<u>21,648,390</u>	<u>17,820,957</u>
Non-current liabilities		
Lease liability (Note 19)	537,965	581,906
Deferred tax liability	553,794	622,363
Notes payable to shareholders	-	327,989
	<u>1,091,759</u>	<u>1,532,258</u>
Total Liabilities	<u>22,740,149</u>	<u>19,353,215</u>
Shareholders' Equity		
Share Capital (Note 11)		
Preferred stock	1,600,000	-
Common stock	19,186,345	19,186,345
Contributed surplus	4,235,069	4,167,708
Deficit	(20,239,802)	(21,513,340)
	<u>4,781,612</u>	<u>1,840,713</u>
Total Liabilities and Shareholders' Equity	<u>27,521,761</u>	<u>21,193,928</u>

See accompanying notes to condensed interim consolidated financial statements.

NexgenRx Inc.

Condensed Interim Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

For the three month and nine month periods ended September 30, 2020 and 2019
(Unaudited – see Notice to reader)
(Expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenues				
Transaction fees	1,323,625	1,126,091	3,876,944	3,494,993
Administration fees	916,059	764,852	2,770,519	2,232,251
Commission	23,104	21,619	74,518	71,190
Consulting	250,828	270,633	642,374	1,029,947
Other income	138,194	54,054	566,989	151,359
	2,651,810	2,237,249	7,931,344	6,979,740
Cost of sales	291,128	275,708	891,715	858,606
Gross Profit	2,360,682	1,961,541	7,039,629	6,121,134
Expenses				
Compensation and external contractors	1,284,754	1,472,693	4,000,091	4,261,424
Rent	1,020	5,833	8,803	16,781
Professional fees	80,257	67,451	173,610	172,952
Office expenses	73,603	77,156	253,129	221,740
Marketing	45,084	149,731	188,502	490,402
Insurance	39,231	34,920	118,388	103,733
Postage	3,443	7,273	28,032	30,372
Bank charges	38,121	25,441	111,623	74,394
Interest expense	57,678	91,504	196,552	195,200
Amortization of intangible assets (Note 7)	163,441	158,282	482,761	428,501
Depreciation of property and equipment (Note 6)	71,529	66,568	212,159	198,537
Stock based compensation (Note 12)	21,885	46,263	67,361	141,346
	1,880,046	2,203,115	5,841,011	6,335,382
Net income (loss) before income taxes	480,636	(241,574)	1,198,618	(214,248)
Income tax				
Deferred tax recovery	(29,207)	(22,856)	(74,920)	(68,569)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	509,843	(218,718)	1,273,538	(145,679)
Basic and diluted earnings (loss) per share (Note 13)	0.007	(0.003)	0.018	(0.002)

NexgenRx Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the nine month period ended September 30, 2020 and 2019

(Unaudited – see notice to reader)

(Expressed in Canadian dollars)

	Share Capital	Contributed surplus	Deficit	Shareholders' equity (deficiency)
	\$	\$	\$	\$
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 12)	-	141,346	-	141,346
Balance – September 30, 2019	19,186,345	4,155,628	(21,468,655)	1,873,318
Balance - January 1, 2020	19,186,345	4,167,708	(21,513,340)	1,840,713
Proceeds from the issuance of preferred shares	1,600,000	-	-	1,600,000
Net income for the period	-	-	1,273,538	1,273,538
Stock-based compensation (Note 12)	-	67,361	-	67,361
Balance - September 30, 2020	20,786,345	4,235,069	(20,239,802)	4,781,612

See accompanying notes to condensed interim consolidated financial statements.

NexgenRx Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three month and nine month periods ended September 30, 2020 and 2019

(Unaudited – see notice to reader)

(Expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2020 \$	2019 \$	2020 \$	2019 \$
Cash flow provided by (used in)				
Operating activities				
Net income (loss) for the period	509,843	(218,718)	1,273,538	(145,679)
Adjustment for:				
Depreciation of property and equipment	71,529	66,568	212,159	198,537
Amortization of intangible assets	163,441	158,282	482,761	428,501
Amortization of financing fee	11,912	(25,022)	25,185	(23,490)
Change in deferred office lease incentives	-	-	-	(5,607)
Deferred income taxes	(22,856)	(22,857)	(68,569)	(68,570)
Accrued interest on notes payable to shareholders	(1,297)	(57,469)	1,073	(1,478)
Accretion of the interest portion of the lease liability	17,440	16,590	43,468	49,771
Stock based compensation	21,885	46,263	67,361	141,346
Changes in items of working capital:				
Accounts receivable	(257,548)	61,471	(183,503)	49,768
Restricted funds on deposit	785,556	376,680	5,927,216	(1,372)
Prepaid expenses	30,351	29,355	14,925	(32,873)
Client funds	(785,556)	(376,680)	(5,927,216)	1,372
Accounts payable and accrued liabilities	37,808	223,899	(124,372)	24,716
Net cash provided by operating activities	582,508	278,362	1,744,026	614,942
Investing Activities:				
Purchase of property and equipment	(4,524)	(9,757)	(63,820)	(31,732)
Purchase and development of intangible assets	(309,788)	(277,063)	(576,338)	(705,889)
Net cash (used in) investing activities	(314,312)	(286,820)	(640,158)	(737,621)
Financing Activities:				
Repayment of notes payable to shareholders	(268,750)	(1,325,833)	(687,205)	(1,363,333)
Cash payment for the principal portion of the lease liability	(85,294)	(73,577)	(204,677)	(214,371)
Proceeds from preferred shares issuance	100,000	-	100,000	-
Proceeds from notes payable to shareholders	-	1,250,000	-	1,325,000
Net cash (used in) financing activities	(254,044)	(149,410)	(791,882)	(252,704)
Net increase (decrease) in cash	14,152	(157,868)	311,986	(375,383)
Cash - Beginning of the Period	824,926	616,143	527,092	833,658
Cash - End of Period	839,078	458,275	839,078	458,275

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month periods ended September 30, 2020 and 2019

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, 2020.

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, 2019.

The policies applied in these condensed interim consolidated financial statements are based on the IFRS as of December 31, 2019. These condensed interim consolidated financial statements were approved by the Board of Directors November 19, 2020. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year-ended December 31, 2019 could result in the restatement of these condensed interim consolidated financial statements.

3. Changes to accounting standards

Future changes in accounting standards

A number of amendments to standards have been issued, the Company reviewed these amendments and concluded that there would be no impact on adoption given their nature and applicability.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies

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

Basis of measurement

The condensed interim consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments measured at fair value. The methods used to measure fair values of derivative financial instruments are discussed hereinafter.

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 using consistent accounting policies. 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.

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

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 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.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies (continued)

Business combination and goodwill (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 recognized 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. 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).

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For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies (continued)

Revenue (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 statements of income and comprehensive income.

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 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.

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

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

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.

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(Unaudited – see notice to reader)

For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies (continued)

Fair value (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

At the inception or modification of every contract, the Company evaluates the existence of a lease and the term of the lease.

a. Estimates – Lease terms are estimated by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option. Certain qualitative and quantitative assumptions are evaluated when deriving the value of an economic incentive.

b. Judgments – Judgment is applied when determining if a contract contains an identified asset. The identified asset should be physically distinct or represent substantially all of the capacity of the asset, and should provide the right to substantially all of the economic benefits from the use of the asset.

Judgment is also applied when determining if the Company has the right to control the use of an identified asset. This right exists when the Company has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In certain instances, where the decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset when the Company has the right to operate the asset or if the Company designed the asset in a way that predetermines how and for what purpose the asset will be used.

Judgment is applied when determining the incremental borrowing rate used to measure the lease liability of each lease contract, including an estimate of the asset-specific security impact. The incremental borrowing rate should reflect the interest rate the company would pay to borrow at a similar term and with similar security.

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Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies (continued)

Leases (continued)

Certain leases contain extension or renewal options that are exercisable only by the Company and not by the lessor. At lease commencement, the Company assesses whether it is reasonably certain to exercise any of the extension options based on the expected economic return from the lease. Periodically, leases are reassessed to determine the Company is reasonably certain to exercise options and account for any changes at the date of the reassessment.

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.

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
Right-of-use asset	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 ten years.

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Notes to the Condensed Interim Consolidated Financial Statements

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For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies (continued)

Intangible assets (continued)

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. 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.

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Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets

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

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

Stock-based compensation

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

The number of awards expected to vest is reviewed at least annually, with any impact recognized immediately. 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.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies (continued)

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, in which case the income taxes are also recognized directly in the statements of changes in shareholders' equity.

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 acquired 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.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – see notice to reader)

For the three month and nine month periods ended September 30, 2020 and 2019

4. Summary of significant accounting policies (continued)**Earnings (loss) per share**

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

Diluted earnings 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.

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.

NexgenRx Inc.

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5. Significant accounting judgements and estimation uncertainties (continued)

Goodwill and intangible asset impairment

For impairment assessment purposes, assets are grouped based on cash generating units in the case of goodwill and based on revenue generation for intangible assets. Intangible assets are tested by estimating future cash flows associated with the intangible asset. The longevity or estimated life of the intangible asset is reviewed as to obsolescence and estimated remaining life. If the assessment indicates the carrying value or remaining estimated life is reduced or impaired a charge is made to the income statement. For cash generating units, a discounted cash flow model is followed to determine if the carrying value has been impaired. Testing is annual unless events demonstrate an impairment has occurred in which case an impairment provision would be made. Impairment losses, whether to intangibles or goodwill is calculated as the difference between the recoverable amount and the carrying amount.

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**

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6. Property and equipment

	Furniture & Computer Equipment	Leasehold Improvements	Right-of- use Asset	Total
	\$	\$	\$	\$
Cost				
Balance at December 31, 2018	518,370	350,230	-	868,600
Additions	47,643	3,140	-	50,783
IFRS adjustment	-	-	942,414	942,414
Balance at December 31, 2019	566,013	353,370	942,414	1,861,797
Additions	48,164	9,628	6,028	63,820
Balance at September 30, 2020	614,177	362,998	948,442	1,925,617
Accumulated Depreciation				
Balance at December 31, 2018	475,236	264,526	-	739,762
Amortization expense	29,503	25,870	210,404	265,777
Balance at December 31, 2019	504,739	290,396	210,404	1,005,539
Amortization expense	32,040	21,759	158,360	212,159
Balance at September 30, 2020	536,779	312,155	368,764	1,217,698
Net Book Value				
December 31, 2018	43,134	85,704	-	128,838
December 31, 2019	61,274	62,974	732,010	856,258
September 30, 2020	77,398	50,843	579,678	707,919

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7. Intangible assets

	Intangible Assets
	\$
Cost	
Balance at December 31, 2018	5,420,194
Additions - external costs	906,030
Balance at December 31, 2019	<u>6,326,224</u>
Additions - external costs	576,338
Balance at September 30, 2020	<u>6,902,562</u>
Accumulated Depreciation	
Balance at December 31, 2018	1,171,430
Amortization expense	566,973
Balance at December 31, 2019	<u>1,738,403</u>
Amortization expense	482,761
Balance at September 30, 2020	<u>2,221,164</u>
Net Book Value	
December 31, 2018	4,248,764
December 31, 2019	4,587,821
September 30, 2020	4,681,398

8. Other assets

Other assets consist of a security deposit in the amount of \$44,732 (2019 - \$44,732).

9. Financial liabilities

	Current	Non-current	September 30, 2020 Total	December 31, 2019 Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,035,544	-	1,035,544	1,159,916
Client funds	19,398,275	-	19,398,275	13,471,059
Lease liability	179,299	537,965	717,264	878,473
Interest payable (Note 10)	72,812	-	72,812	71,739
	<u>20,685,930</u>	<u>537,965</u>	<u>21,223,895</u>	<u>15,581,187</u>
Notes payable to shareholders (Note 10)	962,460	-	962,460	3,149,665
	<u>21,648,390</u>	<u>537,965</u>	<u>22,186,355</u>	<u>18,730,852</u>

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.

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9. Financial liabilities (continued)

The Company's accounts payable and accrued liabilities include all the outstanding invoices or accruals as at September 30, 2020.

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).

10. Notes payable to shareholders

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	\$	\$
Opening balance	3,149,665	3,257,165
Proceeds	-	1,325,000
Retirement of Notes payable through preferred shares issue (Note 11)	(1,500,000)	-
Repayment of debt	(687,205)	(1,432,500)
Closing balance of principal	962,460	3,149,665
Accrued interest	72,812	71,739
Closing balance of principal and interest	1,035,272	3,221,404
Current portion of notes payable to shareholders	1,035,272	2,893,415
Long term portion of notes payable to shareholders	-	327,989

In December 2015, two shareholders of the Company issued an unsecured loan to the Company in the amount of \$150,000. On July 1, 2020, the balance outstanding of \$150,000 was converted to 600,000 Series 1 preferred shares at an ascribed price of \$0.25 per share.

In November 2017, a shareholder of the Company issued an unsecured 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 31, 2021. On July 1, 2020, the balance outstanding of \$100,000 was converted to 400,000 Series 1 preferred shares at an ascribed price of \$0.25 per share.

In July 2018, a secured loan from a shareholder in the aggregate amount of \$1,750,000. The loan bore interest at a rate of four percent (4%) per annum and matured July 25, 2019. The Company made a repayment of \$1,250,000 during the third quarter of 2019, with the remaining loan balance of \$500,000 being extended to August 31, 2021 at a rate of six percent (6%) per annum with monthly payments of \$20,833.33. The loan is secured by a promissory note and general security agreement. The balance outstanding as at September 30, 2020 was \$250,000 and repaid subsequent to the quarter end.

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For the three month and nine month periods ended September 30, 2020 and 2019

10. Notes payable to shareholders (continued)

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. Of the total, \$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). The remaining cash portion is subject to a purchase price adjustment in certain circumstances, such as failure to meet earnings and working capital targets. The loan is open for repayment at any time without notice or penalty. The loans are secured by a General Security Agreement over the Company and by a General Security agreement and Guarantee from Canadian Benefit Administrators Ltd. and My Benetech Inc. In April and August 2020, the Company retired the loan partially and made a repayment to the principal and interest accrued, in the amount of \$257,015 and \$200,000 respectively. Total interest accrued as at September 30, 2020 was \$71,579. The principal component now outstanding is \$623,460. Repayment of these loans were postponed to January 2021.

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 paid on April 1, 2020. Amortized cost approximates fair value for this liability due to its short-term nature.

In August and September 2019, four shareholders of the Company issued a series of unsecured loans to the Company in the amount of \$750,000 and \$500,000 respectfully. The \$750,000 loan is unsecured and evidenced by a promissory note. Annualized interest of 8% on both loans are payable monthly with a final bullet payment due on October 15, 2020. On July 1, 2020, the balance outstanding of \$1,250,000 was converted to 5,000,000 Series 1 preferred shares at an ascribed price of \$0.25 per share.

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11. Share capital

Authorized

Unlimited number of common shares

Unlimited Series 1 preferred shares with the following rights, privileges, restrictions and conditions

- Non-voting
- 8% cumulative dividend, preferential to common shares
- Equity participation in the event of liquidation, dissolution and winding up

Issued

On July 1, 2020 6,400,000 Series 1 Preferred shares were issued at a price of \$0.25. 6,000,000 of shares were issued through retirement of Notes payable to shareholders, while 400,000 of shares were issued as subscription shares.

	Number of shares issued	Total \$
Common shares – no par value		
Balance – January 1, 2019	69,919,216	19,186,345
Issued during the year	-	-
Balance – December 31, 2019	<u>69,919,216</u>	<u>19,186,345</u>
Issued during the period	-	-
Balance – September 30, 2020	<u>69,919,216</u>	<u>19,186,345</u>
Preferred shares - \$0.25 per share, cumulative		
Balance – September 30, 2020	6,400,000	1,600,000

12. Employee stock options

During 2020, 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, 2020:

	Number of stock options	Weighted exercise price
Options outstanding – January 1, 2019	5,550,000	
Forfeited in 2019	<u>(300,000)</u>	
Options outstanding – December 31, 2019 and September 30, 2020	<u>5,250,000</u>	<u>\$0.24</u>

NexgenRx Inc.

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12. Employee stock options (continued)

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u>	Weighted average <u>Number outstanding</u>	<u>remaining contractual life</u>	<u>Number exercisable</u>
Sept 2017	Sept 2027	\$0.23	2,050,000	7.00	1,366,667
Aug 2018	Aug 2028	\$0.25	500,000	7.88	166,667
Dec 2018	Dec 2028	\$0.25	<u>2,700,000</u>	8.18	<u>900,000</u>
			<u>5,250,000</u>		<u>2,433,334</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: September 2017 options issue; risk free interest rate: 1.73%; volatility 46%; and expected life: five years. 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.

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 for the period ending September 30, 2020 amounted to \$67,361.

13. Earnings per common share

Basic and diluted	September 30, 2020	September 30, 2019
Net earnings (loss)	\$1,273,538	(\$145,679)
Weighted average number of common shares issued	<u>69,919,216</u>	<u>69,919,216</u>
Basic and diluted earnings per share	<u>\$0.018</u>	<u>(\$0.002)</u>

14. 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 2020	September 30 2019
	\$	\$
Salaries and short-term employee benefits	738,646	919,689
Options, directors and management	<u>44,232</u>	<u>128,842</u>
	<u>782,878</u>	<u>1,048,531</u>

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15. Restricted funds on deposit and client deposits

Acting as paying agent, the Company had \$19,398,275 in restricted funds on deposit and a corresponding liability for client deposits as at September 30, 2020 (December 31, 2019 - \$13,471,059), 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.

16. Contingencies

In the normal course of business, the Company becomes involved in various claims and legal proceedings. As at September 30, 2020, 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.

17. Economic dependence

The Company's revenue is concentrated in a small number of large clients. For the period ended September 30, 2020, 48% (September 30, 2019 - 38%) 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.

18. 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.

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18. 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 its financial liabilities and contractual commitments with current resources. If required, the Company will raise fund from 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 regards 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. With the advent of the corona virus COVID-19, the Company's strategy with respect to capital risk management has changed with the implementation of a Business Continuity Plan. 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.

19. Leases

Lease liabilities are presented in the statement of financial position as follows:

	September 30 2020	December 31 2019
	\$	\$
Current	179,299	296,567
Non-current	<u>537,965</u>	<u>581,906</u>
	<u>717,264</u>	<u>878,473</u>

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19. Leases (continued)

The Company leases office space. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as the right-of-use assets lease liabilities.

The nature of the Company's leasing activities recognized in the statement of financial position is as follows:

- The right of use assets consists of 2 items of property, with a range of remaining terms from 3 to 5 years;
- The average remaining lease term is 3.5 years;
- The number of leases with extension options is 1.

Future minimum lease payments at September 30, 2020 were as follows:

	Minimum Lease Payments Due					
	Within 1 year \$	1-2 years \$	2-3 years \$	3-4 years \$	4-5 years \$	Total \$
Lease payments	296,173	296,173	69,383	69,383	58,922	790,034
Finance charges	(36,067)	(20,025)	(9,334)	(5,631)	(1,713)	(72,770)
Net present values	260,106	276,148	60,049	63,752	57,209	717,264

20. Financial Risk Management

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally. It has also brought a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments including non-essential business closures, border closures, physical distancing, shelter-in-place and isolation/quarantine orders. These measures caused disruptions to businesses globally resulting in an economic slowdown.

Reactions and restrictions to Coronavirus (COVID-19) continue to evolve and change regularly. Management continues to maintain operations where possible, while working to mitigate the potential impacts on our employees and business. The change in NexgenRx's corporate strategy and our ability to work remotely to perform these activities has enabled the Company to operate in this difficult environment. The ultimate duration and magnitude of the impact on the economy and consequential financial effect on the Company is unknown at this time, as this will depend on future developments that are highly uncertain. Given the uncertainties of the economy, management cannot predict the effect that this will have on the future operations or cash flows.