



**September 30, 2020**  
**Management's Discussion and Analysis**

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

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## Table of Contents

Management’s Discussion and Analysis .....	1
President’s Message .....	3
Business Overview .....	5
The Industry .....	6
NexgenRx Strategy.....	6
NexgenRx Advantage.....	7
Risks and Uncertainties.....	7
Results of Operations .....	10
Outstanding Share Data .....	13
Liquidity and Capital Resources .....	14
Financial Instruments and Other Instruments.....	14
Plan Sponsor Funds on Deposit Arrangements .....	14
Critical Accounting Estimates .....	14
Significant accounting judgments and estimation uncertainties .....	14
Property and equipment – estimated useful lives.....	15
Valuation of stock-based compensation and warrants issued .....	15
Additional information .....	15

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

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## President's Message

Dear Shareholders,

While the pandemic and resulting economic contraction is expected to continue to have an impact on demand for health care services, NexgenRx has observed steady improvement in dental and extended health care (EHC) volumes during the third quarter of 2020, as the Province eased restrictions and businesses reopened.

Despite the many challenges created by COVID-19, Q3 2020 continued the momentum brought forward from Q2, delivered comparable financial results generating net income and EBITDA of \$509,843 and \$795,169 respectively, an increase of \$728,561 and \$674,126 over the third quarter of the prior year. Transaction revenue increased by 17.5% compared to same period last year, due to new business generated. Combined revenue in dental and EHC increased by 13.5% compared to the same period last year and increased 173% compared to Q2. Revenue has made a major recovery in Q3 when extended health care businesses reopened. The cost cutting measures implemented in the third quarter resulted in a 14.7% drop in operating expenses compared to the same period last year, which has allowed us to remain cash flow positive. We are ensuring our customers continue to receive the level of services they expect while keeping our expenses under control.

The government has extended the Canada Emergency Wage Subsidy (CEWS) program through to June 2021 at a lower base subsidy rate. While the amount of subsidy received in Q3 has been significantly lower than those in Q2, the Company will continue to implement its cost containment strategies to balance any unpredictable shortfall.

The Company continues to maintain sufficient liquidity to satisfy all of its financial obligations during 2020. Management continues to monitor and analyze the extent of the financial impact of the COVID-19 pandemic, which could continue to be material depending on the scope and duration. While the full impact and duration of the pandemic continues to remain unknown, Management continues to monitor and will take all necessary steps to keep revenue and expenses aligned to ensure the financial integrity of the Company, including further reductions to operating and capital expenditures if required.

## Product Development

Our web portal technology initiatives have been completed and the feedback has been positive with the portal functioning as planned. The result is that users of all web-browsers have easy and seamless compatibility with our member-based interactive websites. In addition, the plan member experience continues to evolve through our full mobile technology, "**neXmobile®**" iPhone and Android mobile app. Plan member mobile apps and online portals allow for quicker claims processing. In addition, we continue to rapidly enroll more targeted healthcare providers to submit claims via our proprietary secure web-portal, **theclaimsXchange.com**. Other exciting development projects have continued during the quarter, with the goals of providing leading-edge technology solutions for our customers, plan sponsors and their members.

## Looking Forward

Notwithstanding the economic challenges of the times, we continue to engage with our solid pipeline of prospects and opportunities. As the economy opens up, we are prepared for increased demand for efficient benefits processing. Conversion of these opportunities into customers will provide increased meaningful revenue for the Company. The timing of conversion is unpredictable. Our technology-driven offering is recognized as a differentiator for customers seeking more cost-effective solutions for their drug, extended health and dental benefits programs. NexgenRx is the only independent full-service claims adjudicator with full front end administration capability. This capability allows NexgenRx to provide solutions to segments of our defined market that need sophisticated health benefit technology applications, in a cost-effective

# NexgenRx Inc.

**As at and for the three and nine months ended September 30, 2020**

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manner. NexgenRx is committed to building partnerships with organizations looking to exceed the expectations of their clients and deliver superior administration and claims processing solutions at a competitive cost.

In closing, I would like to thank our dedicated shareholders and acknowledge our Board of Directors for their continued advice and counsel throughout the past quarter. I would also like to thank our dedicated hardworking staff for their continued support along with all of our customers who rely on NexgenRx for their health benefits and technology solutions.

Stay safe and stay well.

Ronald C. Loucks  
President and CEO

# NexgenRx Inc.

**As at and for the three and nine months ended September 30, 2020**

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## **Management's Discussion and Analysis**

This Management's Discussion and Analysis ("MD&A") of NexgenRx Inc. (the "Company" or "NexgenRx") has been prepared by management as of November 19, 2020. The Company's condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") on a going-concern basis and do not include any adjustments to the amounts and classifications that might be necessary should the Company be unable to continue business.

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

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

## **Business Overview**

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

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

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

Technology is the cornerstone of the Company's operations. Current initiatives, as noted, include the mobile app changes, web browser functionality and other programming enhancements. Costs have been funded by operations to date.

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

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## **The Industry**

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

Although some insurers have the technology to enable them to receive and adjudicate both paper and electronic claims made under the health benefit plans managed by them, most insurers (including each of the five largest insurers in Canada) have further outsourced the adjudication of electronic claims, or pay direct card claims, to third party electronic transaction companies.

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

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

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

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

## **NexgenRx Strategy**

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

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

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## NexgenRx Advantage

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

- (i) *Pricing* – Compared to a traditional insured benefit model, the Company provides a significant cost advantage for Plan Sponsors.
- (ii) *Technology* – The Company utilizes Adjudication Software which allows complex plan designs to be set up to automatically adjudicate drug, dental and extended health care claims on a single software platform. This is advantageous in the health benefits management industry where health benefit plan designs are becoming increasingly complex and manual adjudication is not uncommon. Most insurers in Canada use a different adjudication platform for health benefit claims received electronically than they do for health benefit claims received in paper form. The Company uses the same Adjudication Software for both types of health benefit claims and offers real-time services such as the electronic adjudication of health care claims made under an integrated health care spending account, cross benefit deductibles (where one deductible may apply to both drug and dental benefits) and yearly or per visit maximums. The service also includes the proactive intervention tools comprising the NexgenRx Intervention Suite;
- (iii) *Flexibility* – The Company is able to adapt to new business methods, different adjudication philosophies, and unique support requirements as a result of its rules-based adjudication engine and experienced and dedicated professional staff. Each client receives dedicated support from the conversion planning stage through to the renewal process, ensuring a personal experience that meets that client's particular business needs;
- (iv) *Control* – The Company recognized the need in the marketplace to enable traditional group plan sponsors to have control of their own administration without having to disrupt their existing broker/consultant relationship. NexAdmin® responds to that need. By allowing traditional plan sponsors to utilize our web-based application. The ability to offer self-administered enrolment, eligibility and billing changes to interface with a variety of group carriers for their insured benefits such as Life, AD&D, and LTD and still take advantage of the transaction based health and dental benefits administered by NexgenRx. This streamlines the process for dealing with employee eligibility, salary or dependent status changes in a cost effective manner, independent of any one insurer. The ability of a plan sponsor to control their own eligibility and billing data is the key to having the most competitive pricing and design opportunities at all times; and
- (v) *Conversion Experience* – The Company is skilled in converting benefit plans and their members from an existing Third Party Administrators' manual or computer system to the the Company's systems. It is critical that changeovers have minimal impact upon plan members. Conversion utilities for eligibility and claims history have been built, template project plans have been written and testing methods and structure have been created.

## Risks and Uncertainties

### **Market Demand**

The Health Benefit Management industry is highly competitive and is characterized by changing technology in both products and delivery and by competitive pricing. The Company competes with a number of established companies which enjoy significant market share in segments of the Health Benefit Management market. In order to maintain and improve its position in the industry, the Company must continue to develop its software technology, enhance its current products and services, and develop or acquire new products and product extensions.

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

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## Technology Development

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

## Service Providers

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

## Cyber Security

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

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

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

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

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

## Revenue Concentration

For the period ended September 30, 2020, 48% of the company's revenue was derived from three clients (2019 - 38%). The loss of any one of these clients could have a significant impact on the company's future revenue. At the same time, it should be noted that the scalar nature of the infrastructure architecture and the organization design provide significant mitigation against this risk. With the revenues from new clients and revenues from our subsidiaries customer concentration levels have increased.

Market conditions continue to remain extremely competitive, and every client is a potential target. Stop-loss experience is constantly under attack as more high cost drugs are coming to market and negatively affecting claims experience and the cost of insuring that risk. As we noted, the industry is dominated by large insurers that can quote predatory pricing. Our competitive strengths include, but are not limited to, responsiveness, dedicated customer relation staff, flexible structuring of offerings, ability to react and accommodate specific needs very quickly, and customize our systems to meet client needs.

To reduce this risk and exposure the Company has, and continues to make, a concerted effort to add new customers. The goal is to continue to reduce exposure to any one client, develop new revenue channels, and increase revenues in all areas, but in particular, to add and increase ancillary product offerings. Increasing the number of clients will reduce concentration risks as well. Progress has been made by targeting higher potential client wins and persistently marketing and quoting on prospective clients that seek our offering. With the acquisition and new client implementations the results of our efforts will begin to materialize in the upcoming quarters.

## Summary of Selected Quarterly Information

### Prepared in accordance with IFRS

	Q1, 2020	Q2, 2020	Q3, 2020
	\$	\$	\$
Total revenue	2,874,295	2,405,239	2,651,810
Net income	284,591	479,104	509,843
Basic income per common share	0.004	0.007	0.007
Total assets	23,225,764	26,431,950	27,521,761
Total liabilities	21,082,246	23,782,066	22,740,149
Shareholders' equity / (deficiency)	2,143,518	2,649,884	4,781,612

	Q1, 2019	Q2, 2019	Q3, 2019	Q4, 2019
	\$	\$	\$	\$
Total revenue	2,382,913	2,359,578	2,237,249	2,560,230
Net income	107,977	(34,938)	(218,718)	(62,256)
Basic income per common share	0.002	(0.000)	(0.003)	(0.001)
Total assets	19,525,323	18,490,613	18,705,593	21,193,928
Total liabilities	17,492,154	16,444,840	16,832,275	19,353,215
Shareholders' equity / (deficiency)	2,033,169	2,045,773	1,873,318	1,840,713

	Q1, 2018	Q2, 2018	Q3, 2018	Q4, 2018
	\$	\$	\$	\$
Total revenue	1,545,558	1,464,698	1,655,900	2,503,323
Net income	(150,525)	(326,722)	(403,662)	184,049
Basic income per common share	(0.002)	(0.007)	(0.006)	0.003
Total assets	9,567,519	8,731,084	19,893,501	18,022,756
Total liabilities	7,726,198	7,188,529	18,149,629	16,065,594
Shareholders' equity / (deficiency)	1,841,321	1,542,555	1,743,872	1,957,162

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

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## Total Assets / Liabilities

There were no transactions outside of normal operations. Client deposits fluctuate on claims experience with the result being our deposit levels increased. Cash balances increased resulting from a combination of operating gains, delay in Investment in technology during the COVID-19 pandemic and reduced operations costs during the quarter. During Q3 a loan payment of \$200,000 was made to the management vendor of CBA and My Benetech. This vendor / shareholder loan has an outstanding balance of \$623,460 as at September 30, 2020.

With the adoption of IFRS 16 in 2019, leases are classified for accounting purposes of a Right of Use asset and added to the Property and Equipment category. This represented the change in this category net of normal amortization. A corresponding liability of equal amount is set up. On a monthly basis, the actual rent payments reduce both asset / liability balances.

## Results of Operations

Revenue consists of fees per health benefit claim transaction adjudicated. The Company adjudicates both electronic and paper-based health benefit claims and charges transaction fees per contract with each plan sponsor or TPA. Other revenue sources included interest income, commissions on insurance products, implementation and integration fees and periodic consulting revenues associated with client customization requests.

Transaction fees consist primarily of fees per health benefit claim transaction adjudicated. Transaction fee revenue is recognized on the Company's completion of the adjudication process when it is probable that the economic benefits associated with the transaction will flow to the Company, the amount of revenue can be measured reliably, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the transaction costs incurred to complete the transaction can be measured reliably. These criteria are generally met on completion of the adjudication process. Most of the transaction fees are charged on all claims processed, regardless of the outcome of the adjudication process (i.e. whether the actual claim is approved or declined).

Administration and other fees are the fees charged to provide the initial enrolment, ongoing eligibility tracking, monthly billing services and contract windups. Administration fees are charged to customers 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.

Commissions are earned from the sale of third party insured products to customers. Consulting revenues are derived from contracted technological changes from our client base which can significantly vary from year to year. Other income also includes revenues generated from other products not classified in other categories, such as specialty cards and client requests. This other income category is expected to re-occur, however, we note this revenue is client specific and highly variable.

More detailed results and analysis are as follows;

	Three months ended September 30, 2020	Three months ended September 30, 2019	Dollar change	% change
<b>Revenues</b>				
Transaction Fees	\$1,323,625	\$1,126,091	\$197,534	17.54%
Administration Fees	\$916,059	\$764,852	\$151,207	19.77%
Commission	\$23,104	\$21,619	\$1,485	6.87%
Consulting	\$250,828	\$270,633	-\$19,805	-7.32%
Other Income	\$138,194	\$54,054	\$84,140	155.66%
	<u>\$2,651,810</u>	<u>\$2,237,249</u>	<u>\$414,561</u>	<u>18.53%</u>

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

	Nine months ended September 30, 2020	Nine months ended September 30, 2019	Dollar change	% change
<b>Revenues</b>				
Transaction Fees	\$3,876,944	\$3,494,993	\$381,951	10.93%
Administration Fees	\$2,770,519	\$2,232,251	\$538,268	24.11%
Commission	\$74,518	\$71,190	\$3,328	4.67%
Consulting	\$642,374	\$1,029,947	-\$387,573	-37.63%
Other Income	\$566,989	\$151,359	\$415,630	274.60%
	<u>\$7,931,344</u>	<u>\$6,979,740</u>	<u>\$951,604</u>	<u>13.63%</u>

For the three months ended September 30, 2020 revenue grew by \$414,561 or 18.53% vs. the comparable three months ending September 30, 2019. Revenue from new plan sponsors is now partly recorded as transaction fees and administration fees given the plan sponsor integration was completed in the fourth quarter of 2019. Included in Other Income was \$125,709 representing Canada Emergency Wage Subsidy ("CEWS"). Gross profit margins in the comparative three month rose by 17.89%.

With dental and extended health practices slowly re-opened in Q3, our related transaction fees have recovered from Q2 as a result. For the quarter ending, transaction and administration fees were higher than the comparable three months ending September 30, 2019 by 17.54% and 19.77% respectively.

New business opportunities are selectively progressing based on pre-existing discussions while other opportunities less progressed will likely take longer to cultivate. On the balance sheet, cash balances increased from a strong operating performance and the company instituted delay in further technology spends. With the surge in COVID-19 cases since September, revenues will likely continue at reduced levels over the next quarter, costs reduction will be our continued focus to match the anticipated revenue drop.

Cost of sales consist of 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 and administration software development and maintenance and commissions related to revenue generation.

Cost of sales of \$291,128 (2019 - \$275,708) for the period was \$15,420 or 5.59% higher compared with the same period in the prior year, aligning with the increased revenues.

	Three months ended September 30, 2020	Three months ended September 30, 2019	Dollar change
<b>Expenses</b>			
Compensation and external contractors	\$1,284,754	\$1,472,693	-\$187,939
General and administrative / other	\$595,292	\$730,422	-\$135,130
Total	<u>\$1,880,046</u>	<u>\$2,203,115</u>	<u>-\$323,069</u>

	Nine months ended September 30, 2020	Nine months ended September 30, 2019	Dollar change
<b>Expenses</b>			
Compensation and external contractors	\$4,000,091	\$4,261,424	-\$261,333
General and administrative / other	\$1,840,920	\$2,073,958	-\$233,038
Total	<u>\$5,841,011</u>	<u>\$6,335,382</u>	<u>-\$494,371</u>

# NexgenRx Inc.

## As at and for the three and nine months ended September 30, 2020

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Total expenses as per the table above for the three-month period ending September 30, 2020 decreased by \$323,069 or 14.66% over the prior year comparable period primarily due to reduced workforce. Cost reduction initiatives have been implemented since the COVID-19 pandemic hit in the middle of March. The cost savings actions taken in March and subsequent to the quarter have been material. In addition, as a result of COVID-19, conferences, travel and other marketing costs have been reduced by 70%. Staff have been working remotely three or four days a week representing a 20%-40% salary reduction. Use of external contractors has also been reduced and cost savings have been achieved.

The government confirmed its intention to extend the wage subsidy until June 2021 and is providing details on the parameters of the wage subsidy that are proposed to apply until December 19, 2020. In addition, other enhancements are being proposed to the program to ensure that it provides continued support to employers and responds to the health and economic situation as it evolves. The wage subsidy consists of a base subsidy for all employers whose revenues have been impacted by the pandemic, as well as a top-up subsidy for employers that are hardest hit. It is proposed that the base subsidy rate for September 27 to October 24, 2020 continue to apply from October 25 to December 19, 2020. As such, the maximum base subsidy rate would be set at 40 per cent for this period, and the maximum top-up subsidy rate would remain at 25 per cent. In Q3 the CEWS amount has dropped significantly to \$125,709 based on the new subsidy rate put in place since the fifth claim period.

Depreciation of computer software license and property and equipment is determined on a straight-line basis over their expected useful lives. Amortization of the intangible assets, the costs associated with our mobile app and member web began amortizing.

### Transactions with Related Parties and Shareholders

In December 2015, two shareholders of the Company issued an unsecured loan to the Company in the amount of \$150,000. At 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. At 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.

The secured loan from an arm's length shareholder in the aggregate amount of \$1,750,000 matured on July 25, 2019. The Company made a repayment of \$1,250,000 in 2019. The remaining loan balance of \$250,000 has been extended to August 31, 2021 at a rate of six percent (6%) per annum with monthly principal and interest payments of \$20,833.33. The balance of \$250,000 as at September 30, 2020 was repaid subsequent to quarter end.

On August 15, 2018 in connection with the acquisitions of Canadian Benefit Administrators and My Benetech Inc. a portion of the purchase price was settled with a note payable of \$1,200,000 due on the second anniversary of the closing date. The fair value recorded is \$1,147,750 for the note payable. Cash on settlement will be \$1,100,000 and the remaining \$100,000 with shares of the Company based on the 10 day average closing price. 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 at September 30, 2020 was \$71,579. The principal component now outstanding is \$623,460. Repayment of these loans were postponed to January 2021.

On May 30, 2019, a shareholder of the Company issued a loan to the Company in the amount of \$75,000. The loan bears interest at 8% and is repayable over ten monthly of equal principal 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.

# NexgenRx Inc.

## As at and for the three and nine months ended September 30, 2020

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In August and September 2019, four shareholders of the Company issued an unsecured loan to the Company in the amount of \$1,250,000 (an additional \$25,000 was advanced by another investor). The proceeds of this loan reduced the above referenced shareholder loan by this \$1,250,000. Annualized interest of 8% on the loan is payable monthly with a final bullet payment due on January 31, 2021. Subsequent to June 30, 2020 the Company issued Series 1 preferred shares for proceeds of \$1,600,000. The proceeds from the preferred share offering were used to fully repay this \$1,250,000 loan and to reduce other loans.

### **Outstanding Share Data**

On July 9, 2020, The Company announced that it has given effect to the amendment of its share capital, as approved at the annual meeting of shareholders on May 27, 2020, with the removal of its previous five (5) classes of preferred shares and the replacement thereof with a single class of preferred shares, issuable in series. The directors have also approved the creation of a first series of preferred shares (the "Series 1 Preferred Shares"), which have the following attributes:

- Non-voting;
- Non-convertible into common shares;
- Priority over common shares upon liquidation, dissolution or wind-up;
- Coupon rate of 8% per annum, to be issued as a preferred dividend annually;
- Eligible to receive general dividends on the same basis as holders of common shares;
- Issue price of \$0.25 per share (closing market price of common shares over the previous 30 days is between \$0.17 and \$0.20);
- In the event of a liquidity event (being a transaction resulting in an offer and sale of all of the common shares or all or substantially all of the assets of the Corporation), holders of Series 1 Preferred Shares would be entitled to receive an amount per share as is equal to the offer price for the common shares, less the issuance price of the Series 1 Preferred Shares (being \$0.25); and
- Total aggregate value up to a maximum of \$2,000,000 (8,000,000 Series 1 Preferred Shares).

Following the creation of the Series 1 Preferred Shares, the Company has issued an aggregate of 6,400,000 Series 1 Preferred Shares at an ascribed price of \$0.25 per share. The consideration payable for the foregoing Series 1 Preferred Shares consists of the retirement of outstanding shareholder loans in the aggregate amount of \$1,500,000, which accrue interest at a rate of 8% per annum and are due on January 1, 2021 (the "Current Loans"). In accordance with applicable securities laws, all of the Series 1 Preferred Shares issued are subject to a four (4) month plus one day hold period, which will expire on November 2, 2020.

There are 69,919,216 common shares issued and outstanding at September 30, 2020. The Company currently has an aggregate of 5,250,000 options under the employee stock option plan, 2,433,334 of which are exercisable.

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

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## **Liquidity and Capital Resources**

Management has a demonstrated track record over several years of raising capital when required. As evidenced above the following steps have been effected

- Reduction of debt
- Postponement of debt
- Shareholder / debtholders replaced short term debt with preferred shares.
- Staff reductions and cost reductions were made to match revenue reductions.
- Positive EBITDA for both the first and second quarter.
- First two quarters have been profitable.

COVID has not had an impact on collection as our customers maintain deposits with the company which are used to pay claims and our fees.

## **Financial Instruments and Other Instruments**

As at September 30, 2020 all monies are held in cash at a major financial institution.

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

The company had \$19,398,275 in funds on deposit as at September 30, 2020 (2019 - \$13,471,059), which represented amounts received or receivable from customers to settle plan sponsor insurance premiums, 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. Both the asset and an equal corresponding liability have been recorded on the balance sheet in recognition of increasing focus by customers and to provide greater transparency on the asset / liability flows of the Company. The increase is due to the proactive approach to collect timely from the clients to replenish their required float balances.

## **Critical Accounting Estimates**

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

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

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

# NexgenRx Inc.

As at and for the three and nine months ended September 30, 2020

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

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

IFRS 16 Leases have been adopted by the Company effective January 1, 2019 using the modified retrospective approach. The cumulative financial effect of the adoption has been recognized as an adjustment to opening deficit as at January 1, 2019, with the standard applied prospectively. Adoption of the standard on January 1, 2019 has resulted in an increase in right-of-use assets and lease liabilities. All right-of-use assets are recognized within property, plant and equipment and all lease liabilities are recognized in current and non-current lease liabilities.

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

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

## **Additional information**

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

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