



Consolidated Financial Statements

(Expressed in Canadian dollars)

NexgenRx Inc.

For the years ended December 31, 2019 and 2018

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Independent Auditor's Report

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To the shareholders of
NexgenRx Inc.

Opinion

We have audited the consolidated financial statements of NexgenRx Inc. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal

control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Shannon.

Grant Thornton LLP

Mississauga, Canada
April 9, 2020

Chartered Professional Accountants
Licensed Public Accountants

NexgenRx Inc.

Consolidated Statements of Financial Position

As at December 31, 2019 and 2018

(Expressed in Canadian dollars)

	2019	2018
	\$	\$
Assets		
Current assets		
Cash	527,092	833,658
Restricted funds on deposit (Note 15)	13,471,059	10,866,717
Trade accounts receivable	313,394	591,644
Deferred financing fee (Note 10)	22,633	3,063
Prepaid expenses	127,255	58,594
	14,461,433	12,353,676
Non-current assets		
Property and equipment (Note 6)	856,258	128,838
Intangible assets (Note 7)	4,587,821	4,248,764
Other assets (Note 8)	44,732	44,732
Goodwill	1,241,132	1,241,132
Deferred financing fee (Note 10)	2,552	5,614
	6,732,495	5,669,080
Total Assets	21,193,928	18,022,756
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	1,159,916	1,093,166
Client funds (Note 15)	13,471,059	10,866,717
Deferred office rent incentives	-	22,427
Current portion of lease liability (Note 9)	296,567	-
Current portion of notes payable to shareholders (Note 10)	2,893,415	1,836,042
Income tax payable	-	10,184
	17,820,957	13,828,536
Non-current liabilities		
Deferred office rent incentives	-	61,670
Lease liability (Note 9)	581,906	-
Deferred tax liability	622,363	704,965
Notes payable to shareholders (Note 10)	327,989	1,470,423
	1,532,258	2,237,058
Total Liabilities	19,353,215	16,065,594
Shareholders' Equity		
Share capital (Note 11)	19,186,345	19,186,345
Contributed surplus	4,167,708	4,014,282
Deficit	(21,513,340)	(21,243,465)
	1,840,713	1,957,162
Total Liabilities and Shareholders' Equity	21,193,928	18,022,756

See accompanying notes to the consolidated financial statements.

NexgenRx Inc.**Consolidated Statements of Loss and Comprehensive Loss**

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

	2019	2018
	\$	\$
Revenues		
Transaction fees	4,839,007	4,383,451
Administration fees	3,127,008	1,873,096
Commission	96,358	118,507
Consulting	1,263,709	581,529
Other income	213,888	212,896
	9,539,970	7,169,479
Cost of sales	1,174,373	1,131,511
Gross Profit	8,365,597	6,037,968
Expenses		
Compensation and external contractors	5,796,902	4,721,250
Rent	24,572	244,306
Professional fees	245,938	310,468
Office expenses	319,508	266,232
Marketing	685,693	452,544
Insurance	151,842	119,242
Postage	43,879	47,383
Bank charges	110,294	80,167
Interest expense	264,108	83,276
Amortization of intangible assets (Note 7)	566,973	264,163
Depreciation of property and equipment (Note 6)	265,777	52,967
Stock based compensation (Note 12)	170,997	116,932
	8,646,483	6,758,930
Net loss before income taxes	(280,886)	(720,962)
Income tax (Note 19)		
Current income tax expense	9,652	10,184
Deferred tax recovery	(82,603)	(34,284)
	(72,951)	(24,100)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(207,935)	(696,862)
Basic and diluted loss per share (Note 13)	(0.003)	(0.010)

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

	Share Capital	Contributed surplus	Deficit	Shareholders' equity
	\$	\$	\$	\$
Balance - January 1, 2018	18,611,345	3,906,668	(20,555,921)	1,962,092
Net (loss) for the year	-	-	(696,862)	(696,862)
Reclassification of expired stock options	-	(9,318)	9,318	-
Proceeds from the issuance of common shares	575,000	-	-	575,000
Stock-based compensation (Note 12)	-	116,932	-	116,932
Balance - December 31, 2018	19,186,345	4,014,282	(21,243,465)	1,957,162
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 year	-	-	(207,935)	(207,935)
Reclassification of expired stock options	-	(17,571)	17,571	-
Stock-based compensation (Note 12)	-	170,997	-	170,997
Balance - December 31, 2019	19,186,345	4,167,708	(21,513,340)	1,840,713

See accompanying notes to the consolidated financial statements.

NexgenRx Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Canadian dollars)

	2019	2018
	\$	\$
Cash flow (used in) provided by		
Operating activities		
Net loss for the period	(207,935)	(696,862)
Adjustment for:		
Depreciation of property and equipment	265,777	52,967
Amortization of intangible assets	566,973	264,163
Amortization of financing fee	(16,508)	3,063
Accretion of deferred office lease incentives	(5,607)	(22,428)
Deferred income taxes	(82,602)	(34,284)
Accrued interest on notes payable to shareholders	22,438	48,083
Accretion of the interest portion of the lease liability	66,005	-
Stock based compensation	170,997	116,932
Changes in items of working capital:		
Accounts receivable	278,250	(474,799)
Restricted funds on deposit	2,604,342	4,393,096
Prepaid expenses	(68,661)	32,304
Client funds	(2,604,342)	(4,393,096)
Accounts payable and accrued liabilities	66,751	193,299
Income tax payable	(10,184)	10,184
Net cash provided by (used in) operating activities	<u>1,045,694</u>	<u>(507,378)</u>
Investing activities:		
Purchase of property and equipment	(50,783)	(34,404)
Purchase and development of intangible assets	(906,030)	(368,730)
Net cash (used in) investing activities	<u>(956,813)</u>	<u>(403,134)</u>
Financing activities:		
Repayment of notes payable to shareholders	(1,432,500)	(132,335)
Cash payment for the principal portion of the lease liability	(287,947)	-
Proceeds from notes payable to shareholders	1,325,000	1,750,000
Proceeds from common shares issuance	-	425,000
Investment in Canadian Benefit Administrators Ltd.	-	(1,590,000)
Investment in My Benetech Inc	-	(1,060,000)
Cash acquired on acquisitions closing	-	324,512
Net cash (used in) financing activities	<u>(395,447)</u>	<u>(282,823)</u>
Net (decrease) in cash	(306,566)	(1,193,335)
Cash - Beginning of Period	833,658	2,026,993
Cash - End of Period	<u>527,092</u>	<u>833,658</u>
Supplemental cash flow disclosure		
Shares issued in conjunction with the Company's acquisition	-	150,000
Debt assumed as part of the Company's acquisitions	-	1,147,750

See accompanying notes to the consolidated financial statements.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

1. Nature of operations

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

2. Statement of compliance

The Company prepares its audited financial statements in compliance 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 year ended December 31, 2019. The policies applied in these consolidated financial statements are based on the IFRS as of April 9, 2020, the date the Board of Directors approved the financial statements.

3. Changes to accounting standards

The following new standards have been adopted by the Company effective January 1, 2019:

IFRS 16 Leases

The IASB issued IFRS 16 replacing IAS 17 Leases (IAS 17) and IFRIC 4, Determining whether an arrangement contains a lease (IFRIC 4). The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases.

IFRS 16 introduced a single model for lessees unless the underlying asset is of low value. A lessee is required to recognize, on its statement of financial position, a right-of-use assets, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make payments. As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on the consolidated statement of financial position, as well as a decrease in selling and administrative expenses (for the removal of rent expense for leases), an increase to depreciation (due to the depreciation of the right-of-use assets), and an increase to interest expense (due to accretion of the lease liability).

The Company has adopted the standard 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. Under this approach the Company has not restated comparative 2018 information.

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

3. Changes to accounting standards (continued)

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the related incremental borrowing rate as at January 1, 2019.

On adoption of the standard effective January 1, 2019 the Company has elected to use the following practical expedients:

- maintain lease assessments made under IAS 17 and IFRIC 4 for existing contracts. Consequently, the definition of a lease under IFRS 16 will only be applied to contracts entered into or changed after January 1, 2019;
- apply a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- exclude initial direct costs from measuring the right-of-use assets as at January 1, 2019;
- use hindsight in determining the lease term where the lease contracts contain options to extend, purchase or terminate the lease; and
- rely on management's assessment of whether leases are onerous under the requirements of IAS 37 *Provisions*, contingent liabilities and contingent assets as at December 31, 2018 as an alternative to reviewing right-of-use assets for impairment.

The Company has applied two recognition exemptions for lessees – leases of 'low-value' assets and leases with a term of 12 months or less.

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

	\$
Operating lease commitments as at December 31, 2018	1,442,350
Discounted using the incremental borrowing rate as at January 1, 2019	(222,804)
Recognition exemption for:	
Short-term leases	(106,000)
Leases of low-value assets	(7,524)
	1,106,022

Adoption of the standard on January 1, 2019 has resulted in an increase in right-of-use assets, representing property leases, of \$1,106,022 and lease liabilities of \$1,106,022. 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. Additionally, a cumulative accrual from the recognition of property leases as an expense on a straight-line basis over the term of the leases in prior periods of \$79,511 has been reversed and recorded as an adjustment to the opening deficit.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Changes to accounting standards (continued)

The weighted average discount rate applied to the total lease liabilities recognized on transition was 6%. The difference between the total of the minimum lease payments as disclosed in note 15 of the 2018 Annual Financial Statements and the total lease liabilities recognized on transition was the result of:

- including lease payments beyond the minimum commitments relating to reasonably certain renewal periods or extension options that had not yet been exercised as at December 31, 2018; partially offset by
- the effect of discounting minimum lease payments.

Right-of-use assets and lease liabilities

Right-of-use assets and lease liabilities has been recognized for all existing leases at the lease commencement date, which is January 1, 2019 for the purpose of adopting IFRS 16. The lease liability has been initially measured at the present value of lease payments that remain to be paid at the commencement date. Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate;
- amounts expected to be payable under a residual guarantee; and
- the exercise price under a purchase option that is reasonably certain to be exercised, lease payments in an optional renewal period that are reasonably certain to be exercised, and penalties for early termination of a lease unless it is reasonably certain not to be terminated early.

After transition, the right-of-use assets will initially be measured at cost, consisting of:

- the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- any lease incentives received.

The right-of-use assets will typically be depreciated on a straight-line basis over the lease term, unless ownership of the leased asset is expected at the end of the lease. The lease term will consist of:

- the non-cancellable period of the lease;
- periods covered by options to extend the lease that are reasonably certain to be exercised;
- periods covered by options to terminate the lease that are reasonably certain not to be terminated.

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

3. Changes to accounting standards (continued)**IFRIC 23 Uncertainty over Income Tax Treatments**

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. The Interpretation requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The Company has assessed that it is probable that the relevant tax authority will accept the Company's treatment as reported in its income tax filings; therefore, there is no effect on the consolidated financial statements.

Future changes in accounting standards

A number of amendments to standards have been issued but are not yet effective for the financial year ending December 31, 2019, and accordingly, have not been applied in preparing these consolidated financial statements. The Company reviewed these amendments and concluded that there would be no impact on adoption given their nature and applicability.

4. Summary of significant accounting policies

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

Basis of measurement

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued)**Basis of consolidation (continued)**

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.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units ("CGU") 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.

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued)**Segment reporting**

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

Revenue

Transaction fees are recorded based on the actual number of claims processed according to the rates specified in each customer agreement. Transaction fee revenue is recognized on the Company's completion of the adjudication process when it is probable that the economic benefits associated with the transaction will flow to the Company, the amount of revenue can be measured reliably, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs to complete the transaction can be measured reliably. These criteria are generally met on completion of the adjudication process. The majority of the transaction fees are charged on all claims processed, regardless of the outcome of the adjudication process (i.e., whether the actual claim is approved or declined).

Administration and other fees are the fees charged to provide the initial enrolment, ongoing eligibility tracking and monthly billing services. Administration revenue is recorded based on the actual number of members per month as at the first of the month according to the rates specified in each customer agreement. Administrative and other fees are charged on a monthly basis and are recognized each month as services are provided. Specific IT projects for clients are consulting revenues. Commission revenues are generated from the sale of insured products.

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

Cost of sales

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

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued)**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 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued)**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.

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.

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued)**Leases (Continued)**

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.

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 assets	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.

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued)**Property and equipment (continued)**

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.

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.

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued)**Intangible assets acquired in a business combination**

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

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

Impairment of non-financial assets

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

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

Stock-based compensation

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

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.

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued)**Provisions and contingent liabilities**

Provisions, where applicable, are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Income taxes***Current tax***

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

Deferred income tax

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued)**Share capital**

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

Loss per share

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

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

5. Significant accounting judgements and estimation uncertainties

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

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.

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

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 Consolidated Financial Statements**For the years ended December 31, 2019 and 2018

6. Property and equipment

	Furniture & Computer Equipment	Leasehold Improvements	Right-of- use Assets	Total
	\$	\$	\$	\$
Cost				
Balance at December 31, 2017	487,488	319,643	-	807,131
Additions	13,084	21,320	-	34,404
Additions on acquisition	17,798	9,267	-	27,065
Balance at December 31, 2018	518,370	350,230	-	868,600
Additions	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
Accumulated Depreciation				
Balance at December 31, 2017	446,210	240,585	-	686,795
Amortization expense	29,026	23,941	-	52,967
Balance at December 31, 2018	475,236	264,526	-	739,762
Amortization expense	29,503	25,870	210,404	265,777
Balance at December 31, 2019	504,739	290,396	210,404	1,005,539
Net Book Value				
December 31, 2017	41,278	79,058	-	120,336
December 31, 2018	43,134	85,704	-	128,838
December 31, 2019	61,274	62,974	732,010	856,258

NexgenRx Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

7. Intangible assets

	Intangible Assets
	\$
Cost	
Balance at December 31, 2017	1,601,464
Additions - external costs	323,231
Additions - internal costs	45,499
Additions - IP licence, customer relationships acquired	3,450,000
Balance at December 31, 2018	5,420,194
Additions - external costs	906,030
Balance at December 31, 2019	6,326,224
Accumulated Depreciation	
Balance at December 31, 2017	907,267
Amortization expense	264,163
Balance at December 31, 2018	1,171,430
Amortization expense	566,973
Balance at December 31, 2019	1,738,403
Net Book Value	
December 31, 2017	694,197
December 31, 2018	4,248,764
December 31, 2019	4,587,821

8. Other assets

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

NexgenRx Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

9. Financial liabilities

	Current	Non-current	December 31, 2019 Total	December 31, 2018 Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,159,916	-	1,159,916	1,093,166
Client funds	13,471,059	-	13,471,059	10,866,717
Lease liability	296,567	581,906	878,473	-
Deferred office rent incentives	-	-	-	84,097
Interest payable (Note 10)	71,739	-	71,739	49,300
	14,999,281	581,906	15,581,187	12,093,280
Notes payable to shareholders (Note 10)	2,821,676	327,989	3,149,665	3,257,165
	17,820,957	909,895	18,730,852	15,350,445

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

The Company's accounts payable and accrued liabilities include all the outstanding invoices or accruals as at December 31, 2019.

Client funds represent amounts held for processing of contractual costs.

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

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

10. Notes payable to shareholders

	December 31, 2019	December 31, 2018
	\$	\$
Opening balance	3,257,165	491,750
Proceeds	1,325,000	2,897,750
Repayment of debt	(1,432,500)	(132,335)
Closing balance of principal	3,149,665	3,257,165
Accrued interest	71,739	49,300
Closing balance of principal and interest	3,221,404	3,306,465
Current portion of notes payable to shareholders	2,893,415	1,836,042
Long term portion of notes payable to shareholders	327,989	1,470,423

The company has received postponements from certain shareholders that will not permit the demand for repayment of loans totaling \$2,106,000 prior to January 1, 2021.

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

10. Notes payable to shareholders (continued)

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

In November 2017, a shareholder of the Company issued 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. The loan is open for repayment at any time. A set-up fee of \$12,250 was paid in connection with the loan. Amortized cost approximates fair value for this liability due to its short-term nature. At December 31, 2019 the current portion was \$3,062 and the non-current portion was \$2,552. The balance outstanding as at December 31, 2019 is \$143,750 (2018 – \$218,750).

In July 2018, a secured loan from a shareholder in the aggregate amount of \$1,750,000, was fully funded. The loan bears interest at a rate of 8% per annum and matured July 25, 2019. The Company made a repayment of \$1,250,000 during the third quarter, the remaining loan balance of \$500,000 has been extended to August 31, 2021 at a rate of six percent (6%) per annum. The principal amount or any portion may be repaid to the lender from time to time without notice or penalty. The loan is secured by a promissory note and general security agreement.

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. Total interest accrued at December 31, 2019 was \$60,636.

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

In August and September 2019, four shareholders of the Company issued a series of unsecured loans to the Company in the amounts 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 the principal repayment due in in October 15, 2020. The \$500,000 loan has a conversion feature, at the option of the borrower, to be converted to Preferred Shares at a rate to be determined. A set-up fee of \$27,398 was paid in connection with the loans.

Amortized cost approximates fair value for this liability due to its short-term nature. At December 31, 2019 the current portion of the unamortized fee was \$19,571.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

10. Notes payable to shareholders (continued)

	2019	2018
	\$	\$
Deferred Finance Fee – current	22,633	3,063
Deferred Finance Fee – non-current	<u>2,552</u>	<u>5,614</u>
	<u>25,185</u>	<u>8,677</u>

11. Share capital

Authorized

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

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

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

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

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

Unlimited number of common shares

Issued

There are no outstanding Class A, B, C, D and E preferred shares as at December 31, 2019.

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

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

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

NexgenRx Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

12. Employee stock options

During 2018, the shareholders of the company approved the stock option plan (the "Plan"), as required on an annual basis by the TSX Venture Exchange in respect of rolling stock option plans. Stock options granted under the Plan ("options") are equity settled and will have an exercise price that is not less than the price allowed by the relevant regulatory authorities, will be non-transferable and will be exercisable for a period not to exceed ten years. Stock options either vest evenly over the related service period of five years or immediately on issuance.

The following provides a summary of the status of the Plan as at December 31, 2019:

	Number of stock options	Weighted exercise price
Options outstanding – January 1, 2018	2,947,727	-
Expired in 2018	(322,727)	-
Forfeited in 2018	(275,000)	-
Issued in 2018	<u>3,200,000</u>	-
Options outstanding – December 31, 2018	<u>5,550,000</u>	\$0.24
Forfeited in 2019	(300,000)	-
Options outstanding – December 31, 2019	<u>5,250,000</u>	<u>\$0.24</u>

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Number outstanding</u>	<u>Weighted average remaining contractual life</u>	<u>Number exercisable</u>
Sept 2017	Sept 2027	0.23	2,050,000	7.75	1,366,667
Aug 2018	Aug 2028	0.25	500,000	8.63	166,667
Dec 2018	Dec 2028	0.25	<u>2,700,000</u>	8.93	<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 in 2019 amounted to \$170,997.

NexgenRx Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

13. Loss per common share

Basic and diluted	December 31, 2019	December 31, 2018
Net (loss) attributable to shareholders	(\$207,935)	(\$696,862)
Weighted average number of common shares issued	<u>69,919,216</u>	<u>68,227,983</u>
Basic and diluted (loss) per share	<u>(\$0.003)</u>	<u>(\$0.010)</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:

	December 31 2019 \$	December 31 2018 \$
Salaries and short-term employee benefits	1,247,954	952,844
Options, directors and management	<u>167,849</u>	<u>102,794</u>
	<u>1,415,803</u>	<u>1,055,638</u>

15. Restricted funds on deposit and client deposits

Acting as paying agent, the Company had \$13,471,059 in restricted funds on deposit and a corresponding liability for client deposits as at December 31, 2019 (December 31, 2018 - \$10,866,717), which represented amounts received from customers to settle specific health-care claims and related costs, adjudicated on their behalf, which are payable to the providers of the health-care or other services with respect to these claims. Restricted client funds are segregated in a separate bank account, controlled by the Company, from which the Company earns interest. The Company cannot utilize the restricted funds outside of the scope of the client contracts. The client contracts clearly state the permitted uses of funds, which as noted above is for payment of claims, related taxes and other fees as detailed in contracts.

16. Contingencies

In the normal course of business, the Company becomes involved in various claims and legal proceedings. As at December 31, 2019, it is the opinion of management that there is no claim or legal proceeding that will have a material adverse effect on the Company's financial position.

17. Economic dependence

The Company's revenue is concentrated in a small number of large clients. For the year ended December 31, 2019, 39% (December 31, 2018 - 51%) 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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.

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 regard to credit risk in its operating activities is to reduce its exposure to losses. Of the Company's accounts receivable, there are no balances greater than 31 days past due. The Company does not have an allowance for doubtful accounts and all amounts are considered fully collectible.

Management of capital

The Company's objective of managing capital (comprising share capital and notes payable to shareholders) is to ensure its continued ability to operate as a going concern. The Company manages its capital structure and makes changes to it based on economic conditions. With approval from the board of directors, management will adjust its capital structure through the issue of new shares, convertible debentures, debt or other activities deemed appropriate under the specific circumstances. Management and the board of directors review the Company's capital management approach on an ongoing basis and believe this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements and the Company's strategy with respect to capital risk management has not changed since the period ended December 31, 2017. It is the Company's standard business practice to ensure that clients maintain adequate restricted funds on deposit to meet the estimated costs associated with their contract. Restricted funds are monitored to ensure compliance with these contracts.

NexgenRx Inc.**Notes to the Consolidated Financial Statements**For the years ended December 31, 2019 and 2018

19. Income taxes

	2019	2018
	\$	\$
Current income taxes	9,652	10,184
Deferred income taxes	<u>(82,603)</u>	<u>(34,284)</u>
	<u>(72,951)</u>	<u>(24,100)</u>

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

	2019	2018
	\$	\$
Income taxes at statutory rate	(74,435)	(191,056)
Non-deductible expense	78,578	51,752
Stock based compensation expense	45,315	30,988
Change in unrecognized deferred income tax assets	<u>(122,409)</u>	<u>84,216</u>
	<u>(72,951)</u>	<u>(24,100)</u>

In assessing the ability to realize deferred income tax assets, management considers whether it is probable that some portion or all of the deferred income tax assets will be utilized in the foreseeable future. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. As at December 31, 2019, the Company evaluated its taxable positions for previous years, the current year and anticipated future years. The current year was taxable and the Company expects future years to be taxable therefore has not adjusted its 2019 deferred tax asset and has not added to it in the current year. The majority of unrecognized deferred income tax assets of \$3,425,000 (2018 - \$3,554,000) relate to non-capital losses of \$2,936,000 (2018 - \$3,133,000) and property and equipment of \$489,000 (2018 - \$396,000).

As at December 31, 2019, the Company has gross non-capital income tax losses of approximately \$11,754,351 (2018 - \$12,484,000), which may be carried forward to reduce future income for tax purposes. The Company has not recognized the benefit of any additional losses in these financial statements. These losses expire between 2026 and 2039;

	2019	2018
	\$	\$
2026	581,000	1,547,000
2027	3,170,000	3,170,000
2028	1,724,000	1,724,000
2029	895,000	895,000
2030	440,000	440,000
2031	2,554,000	2,555,000
2032	672,000	671,000
2034	1,093,000	1,093,000
2037	308,000	308,000
2038	133,000	81,000
2039	<u>180,000</u>	<u>0</u>
	<u>11,750,000</u>	<u>12,484,000</u>

NexgenRx Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

20. Leases

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

	December 31 2019 \$	December 31 2018 \$
Current	296,567	-
Non-current	<u>581,906</u>	<u>-</u>
	<u>878,473</u>	<u>-</u>

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 a 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 6 years;
- The average remaining lease term is 4.5 years;
- The number of leases with extension options is 1;

Future minimum lease payments at December 31, 2019 were as follows:

	Minimum Lease Payments Due						
	Within 1 year \$	1-2 years \$	2-3 years \$	3-4 years \$	4-5 years \$	5-6 years \$	Total \$
Lease payments	294,661	294,661	238,342	69,383	69,383	44,116	1,010,546
Finance charges	<u>(52,663)</u>	<u>(38,143)</u>	<u>(22,752)</u>	<u>(9,817)</u>	<u>(6,243)</u>	<u>(2,455)</u>	<u>(132,073)</u>
Net present values	<u>241,998</u>	<u>256,518</u>	<u>215,590</u>	<u>59,566</u>	<u>63,140</u>	<u>41,661</u>	<u>878,473</u>

Notes to the Consolidated Financial StatementsFor the years ended December 31, 2019 and 2018

21. Subsequent events

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Company, as noted, is ensuring our clients needs are met. We have ensured reduced staffing levels have not disrupted the level of service that we have committed to our clients. The Company is operating as it provides services deemed essential as defined by the Province of Ontario. Management has assessed the initial impact and anticipates some loss of revenue in fiscal 2020.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect any impact from the COVID-19 crisis. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.