

Condensed Interim Consolidated Financial Statements

(Unaudited – see Notice to Reader)

(Expressed in Canadian dollars)

NexgenRx Inc.

For the three months and nine months ended
September 30, 2021 and September 30, 2020

Notice to Reader

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

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

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NexgenRx Inc.

Condensed Interim Consolidated Statements of Financial Position

As at September 30, 2021

(Unaudited – See Notice to reader)

(Expressed in Canadian dollars)

	September 30 2021 \$	December 31 2020 \$
Assets		
Current assets		
Cash	601,995	801,965
Restricted funds on deposit (Note 15)	19,525,546	17,043,176
Trade accounts receivable	356,461	304,862
Preferred shares subscription receivable	-	50,000
Prepaid expenses	359,182	174,271
	20,843,184	18,374,274
Non-current assets		
Property and equipment (Note 6)	553,694	691,779
Intangible assets (Note 7)	4,927,984	4,892,866
Other assets (Note 8)	44,732	44,732
Goodwill	1,241,132	1,241,132
	6,767,542	6,870,509
Total Assets	27,610,726	25,244,783
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	492,398	878,280
Preferred share dividends payable	33,000	33,226
Client funds (Note 15)	19,525,546	17,043,176
Current portion of lease liability (Note 19)	77,499	270,157
Notes payable to shareholders (Note 10)	-	772,551
	20,128,443	18,997,390
Non-current liabilities		
Lease liability (Note 19)	402,922	402,922
Deferred tax liability	254,380	322,949
	657,302	725,871
Total Liabilities	20,785,745	19,723,261
Shareholders' Equity		
Share Capital (Note 11)		
Preferred stock	1,650,000	1,450,000
Preferred shares subscribed	-	100,000
Common stock	19,286,345	19,186,345
Contributed surplus	4,258,377	4,229,244
Deficit	(18,369,741)	(19,444,067)
	6,824,981	5,521,522
Total Liabilities and Shareholders' Equity	27,610,726	25,244,783

NexgenRx Inc.

Condensed Interim Consolidated Statements of Net Income and Comprehensive Income

For the three month and nine month periods ended September 30, 2021 and 2020

(Unaudited – See Notice to reader)

(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenues				
Transaction fees	1,382,125	1,323,625	4,303,400	3,876,944
Administration fees	1,086,519	916,059	3,199,928	2,770,519
Commission	23,737	23,104	68,425	74,518
Consulting	361,025	250,828	825,252	642,374
Other income	11,011	138,194	32,288	566,989
	2,864,417	2,651,810	8,429,293	7,931,344
Cost of sales	516,723	291,128	1,529,833	891,715
Gross Profit	2,347,694	2,360,682	6,899,460	7,039,629
Expenses				
Compensation and external contractors	1,273,860	1,284,754	3,875,500	4,000,091
Rent	680	1,020	2,719	8,803
Professional fees	54,531	80,257	190,047	173,610
Office expenses	100,079	73,603	257,829	253,129
Marketing	48,386	45,084	115,386	188,502
Insurance	62,213	39,231	161,708	118,388
Postage	3,639	3,443	21,220	28,032
Bank charges	27,156	38,121	78,188	111,623
Interest expense	11,016	57,678	48,711	196,552
Amortization of intangible assets (Note 7)	272,295	163,441	774,277	482,761
Depreciation of property and equipment (Note 6)	82,811	71,529	246,543	212,159
Stock based compensation (Note 12)	9,333	21,885	29,133	67,361
	1,945,999	1,880,046	5,801,261	5,841,011
Net income before income taxes	401,695	480,636	1,098,199	1,198,618
Income tax				
Deferred tax recovery	(27,886)	(29,207)	(73,599)	(74,920)
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD	429,581	509,843	1,171,798	1,273,538
Basic earnings per share (Note 13)	0.006	0.007	0.017	0.018
Diluted earnings per share (Note 13)	0.006	0.007	0.016	0.018

NexgenRx Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the nine month period ended September 30, 2021 and 2020

(Unaudited – See Notice to reader)

(Expressed in Canadian dollars)

	Share Capital \$	Contributed surplus \$	Deficit \$	Shareholders' equity (deficiency) \$
Balance - January 1, 2020	19,186,345	4,167,708	(21,513,340)	1,840,713
Proceeds from the issuance of preferred shares	1,600,000	-	-	1,600,000
Net income for the period	-	-	1,273,538	1,273,538
Stock-based compensation (Note 12)	-	67,361	-	67,361
Balance – September 30, 2020	20,786,345	4,235,069	(20,239,802)	4,781,612
Balance - January 1, 2021	20,736,345	4,229,244	(19,444,067)	5,521,522
Common shares issued (Note 10)	100,000	-	-	100,000
Preferred shares issued (Note 10)	100,000	-	-	100,000
Net income for the period	-	-	1,171,798	1,171,798
Preferred share dividends declared	-	-	(97,472)	(97,472)
Stock-based compensation (Note 12)	-	29,133	-	29,133
Balance – September 30, 2021	20,936,345	4,258,377	(18,369,741)	6,428,981

See accompanying notes to condensed interim consolidated financial statements.

NexgenRx Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three month and nine month periods ended September 30, 2021 and 2020

(Unaudited – See Notice to reader)

(Expressed in Canadian dollars)

Cash flow provided by (used in)	Three months ended		Nine months ended	
	2021	2020	2021	2020
	\$	\$	\$	\$
Operating Activities:				
Net income for the period	429,581	509,843	1,171,798	1,273,538
Adjustment for:				
Depreciation of property and equipment	82,811	71,529	246,543	212,159
Amortization of intangible assets	272,295	163,441	774,277	482,761
Amortization of financing fee	-	11,912	-	25,185
Deferred income taxes	(22,856)	(22,856)	(68,569)	(68,569)
Accrued interest on notes payable to shareholders	-	(1,297)	(67,007)	1,073
Accretion of the interest portion of the lease liability	7,622	17,440	25,842	43,468
Stock based compensation	9,333	21,885	29,133	67,361
Changes in items of working capital:				
Accounts receivable	4,970	(257,548)	(1,599)	(183,503)
Restricted funds on deposit	322,397	785,556	2,482,370	5,927,216
Prepaid expenses	(137,085)	30,351	(184,911)	14,925
Client funds	(322,397)	(785,556)	(2,482,370)	(5,927,216)
Accounts payable and accrued liabilities	(537,171)	37,808	(385,882)	(124,372)
Dividends payable	3,003	-	(226)	-
Net cash provided by operating activities	112,503	582,508	1,539,399	1,744,026
Investing Activities:				
Purchase of property and equipment	(4,164)	(4,524)	(108,458)	(63,820)
Purchase and development of intangible assets	(207,542)	(309,788)	(809,395)	(576,338)
Net cash (used in) investing activities	(211,706)	(314,312)	(917,853)	(640,158)
Financing Activities:				
Repayment of notes payable to shareholders	-	(268,750)	(505,543)	(687,205)
Cash payment for the principal portion of the lease liability	(74,575)	(85,294)	(218,502)	(204,677)
Proceeds from preferred shares issuance	-	100,000	-	100,000
Preferred shares dividends	(32,999)	-	(97,471)	-
Net cash (used in) financing activities	(107,574)	(254,044)	(821,516)	(791,882)
Net (decrease) increase in cash	(206,777)	14,152	(199,970)	311,986
Cash - Beginning of the Period	808,772	824,926	801,965	527,092
Cash - End of the Period	601,995	839,078	601,995	839,078

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – See Notice to reader)

For the three month and nine month periods ended September 30, 2021 and 2020

1. Nature of operations

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

2. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee, effective for the Company’s reporting for the nine months ended September 30, 2021.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”), as issued by the IASB. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The condensed interim consolidated financial statements should be read in conjunction with the Company’s annual audited financial statements for the year ended December 31, 2020.

The policies applied in these condensed interim consolidated financial statements are based on the IFRS as of September 30, 2021. These condensed interim consolidated financial statements were approved by the Board of Directors on November 16, 2021. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ended December 31, 2020 could result in the restatement of these condensed interim consolidated financial statements.

3. Changes to accounting standards

Future changes in accounting standards

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

4. Summary of significant accounting policies

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

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – See Notice to reader)

For the three month and nine month periods ended September 30, 2021 and 2020

4. Summary of significant accounting policies (continued)

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.

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

Business combination and goodwill

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognized in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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For the three month and nine month periods ended September 30, 2021 and 2020

4. Summary of significant accounting policies (continued)

Business combination and goodwill (continued)

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

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

Segment reporting

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

Revenue

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

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Notes to the Condensed Interim Consolidated Financial Statements

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For the three month and nine month periods ended September 30, 2021 and 2020

4. Summary of significant accounting policies (continued)

Revenue (continued)

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

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

Cost of sales

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

Foreign currency

The functional currency of the Company is the Canadian dollar, which is the same as the presentation currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at September 30, 2021 exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recognized in the statements of income and comprehensive income.

Cash

Cash includes cash on hand and deposits held with banks.

Restricted funds on deposit

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

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – See Notice to reader)

For the three month and nine month periods ended September 30, 2021 and 2020

4. Summary of significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets cease to be recognized when the rights to receive cash flows from the assets have expired or have been transferred and the

Company has transferred substantially all risks and rewards of ownership. Financial liabilities no longer exist when the obligation specified in the contract is discharged, cancelled, or expires.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Financial assets at amortized cost

Financial assets at amortized cost include cash and trade receivables and are included in current assets as they are expected to be settled within 12 months due to their short-term nature. Financial assets are initially recognized at fair value net of any transaction costs and subsequently at amortized cost using the effective interest method.

Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities, notes payable to a third party and notes payable to shareholders. Financial liabilities are initially recognized at fair value net of any transaction costs and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months or they are due on demand. Otherwise, financial liabilities are reported at amortized cost.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3).

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates.

Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates.

The three levels are based on the significance and reliability of the inputs to the respective valuation techniques.

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Notes to the Condensed Interim Consolidated Financial Statements

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For the three month and nine month periods ended September 30, 2021 and 2020

4. Summary of significant accounting policies (continued)

Fair value (continued)

The input levels are defined as follows:

Level 1 – quoted prices

Represents unadjusted quoted prices for identical instruments exchanged in active markets.

Level 2 – significant other observable inputs

Includes directly or indirectly observable inputs, other than quoted prices for identical instruments exchanged in active markets.

Level 3 – significant unobservable inputs

Includes inputs that are not based on observable market data.

Leases

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

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

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

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

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

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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For the three month and nine month periods ended September 30, 2021 and 2020

4. Summary of significant accounting policies (continued)

Leases (continued)

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

Property and equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statements of income and comprehensive income during Q2 2021 in which they are incurred.

The major categories of property and equipment are depreciated on a straight-line basis as follows:

Furniture & Computer Equipment	3 years
Leasehold Improvements	term of lease
Right-of-use asset	term of lease

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

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income and comprehensive income.

Intangible assets

The Company's identifiable intangible assets are stated at cost less accumulated amortization and include acquired computer software licenses with finite useful lives. This capitalized asset is amortized on a straight-line basis in the statements of income and comprehensive income over the period of its expected useful life of one to five years.

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

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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For the three month and nine month periods ended September 30, 2021 and 2020

4. Summary of significant accounting policies (continued)

Intangible assets (continued)

In determining the cost of intangible assets, the Company first assesses whether the expenditures will result in an identifiable asset with future economic benefits. The Company evaluates the intangible asset against the following six requirements:

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

Costs that are capitalized, include internally, specifically identified costs and third-party contract costs. The major categories of intangible assets are depreciated on a straight-line basis as follows:

Mobile App	5 years
Web browser	5 years
Systems integration upgrades	5 years
Software licence	10 years
Customer relationships	10 years

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

Intangible assets acquired in a business combination

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

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

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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For the three month and nine month periods ended September 30, 2021 and 2020

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets

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

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

Stock-based compensation

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

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

Provisions and contingent liabilities

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

NexgenRx Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – See Notice to reader)

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4. Summary of significant accounting policies (continued)

Income taxes

Current tax

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

Deferred income tax

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

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

In general, deferred income taxes are recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statements of financial position dates and are expected to apply when the deferred tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable the assets can be recovered.

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

Share capital

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

Notes to the Condensed Interim Consolidated Financial Statements

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For the three month and nine month periods ended September 30, 2021 and 2020

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

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

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

5. Significant accounting judgements and estimation uncertainties

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

Intangible assets

Valuation of technology requires management to assess whether such expenditures to develop or maintain are current expenses or have an extended life that should be recognized as an asset and accordingly amortized over the estimated asset life. Costs include the contribution of Company time which has been estimated based on the relative contributions of individuals within the Company in addition to external costs incurred related to the development phase.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets include IP software licence and customer relationships. Both are amortized on a straight-line basis over their expected useful lives which is estimated at ten years. Valuation of software license and customer relationships requires management to assess expected income based on projections including customer attrition, growth rates and royalty rates.

NexgenRx Inc.

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5. Significant accounting judgements and estimation uncertainties (continued)

Goodwill and intangible asset impairment

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

Valuation of stock-based compensation and warrants issued

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

Income taxes

The Company has significant tax losses available to offset future taxable income. The ability to recognize a tax asset requires an annual assessment of the future, sustainable profitability of the Company. Accordingly, recognizing a tax asset is subject to material change and is evaluated conservatively.

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

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6. Property and equipment

	Furniture & Computer Equipment	Leasehold Improvements	Right-of- use Asset	Total
	\$	\$	\$	\$
Cost				
Balance at December 31, 2019	566,013	353,370	942,414	1,861,797
Additions	51,093	9,628	60,018	120,739
Balance at December 31, 2020	617,106	362,998	1,002,432	1,982,536
Additions	108,458	-	-	108,458
Balance at September 30, 2021	725,564	362,998	1,002,432	2,090,994
Accumulated Depreciation				
Balance at December 31, 2019	504,739	290,396	210,404	1,005,539
Amortization expense	42,484	29,219	213,515	285,218
Balance at December 31, 2020	547,223	319,615	423,919	1,290,757
Amortization expense	46,806	22,377	177,360	246,543
Balance at September 30, 2021	594,029	341,992	601,279	1,537,300
Net Book Value				
December 31, 2019	61,274	62,974	732,010	856,258
December 31, 2020	69,883	43,383	578,513	691,779
September 30, 2021	131,535	21,006	401,153	553,694

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7. Intangible assets

	Intangible Assets \$
Cost	
Balance at December 31, 2019	6,326,224
Additions - external costs	956,813
Balance at December 31, 2020	7,283,037
Additions - external costs	809,395
Balance at September 30, 2021	8,092,432
Accumulated Depreciation	
Balance at December 31, 2019	1,738,403
Amortization expense	651,768
Balance at December 31, 2020	2,390,171
Amortization expense	774,277
Balance at September 30, 2021	3,164,448
Net Book Value	
December 31, 2019	4,587,821
December 31, 2020	4,892,866
September 30, 2021	4,927,984

8. Other assets

Other assets consist of a security deposit in the amount of \$44,732 (2020 - \$44,732).

9. Financial liabilities

	Current	Non-current	September 30, 2021 Total	December 31, 2020 Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	492,398	-	492,398	878,280
Preferred share dividends payable	33,000	-	33,000	33,226
Client funds	19,525,546	-	19,525,546	17,043,176
Lease liability	77,499	402,922	480,421	673,079
Interest payable (Note 10)	-	-	-	78,008
	20,128,443	402,922	20,531,365	18,705,769
Notes payable to shareholders (Note 10)	-	-	-	694,543
	20,128,443	402,922	20,531,365	19,400,312

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

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9. Financial liabilities (continued)

The Company's accounts payable and accrued liabilities include all the outstanding invoices or accruals as at September 30, 2021.

Client funds represent amounts held for processing of contractual costs.

The office 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 car lease liability is measured at the present value of the remaining lease payments, discounted at 2.49% using the vendor's borrowing rate.

The interest payable includes the interest on the notes payable to shareholders (Note 10).

10. Notes payable to shareholders

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	\$	\$
Opening balance	694,543	3,149,665
Retirement of Notes payable through preferred shares issue	(100,000)	(1,400,000)
Retirement of Notes payable through common shares issue (Note 11)	(100,000)	-
Repayment of debt	(494,543)	(1,055,122)
Closing balance of principal	-	694,543
Accrued interest	-	78,008
Closing balance of principal and interest	-	772,551
Current portion of notes payable to shareholders	-	772,551

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 were payable in 48 monthly instalments of \$6,250 with a final payment due on October 31, 2021. In March 2021, the remaining balance of \$100,000 was converted to Series 1 Preferred shares.

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). In January 2021, the Company retired the loan and made a repayment to the principal and interest accrued, in the amount of \$583,799. In March 2021, the Company retired the equity note of \$100,000 through the issuance of 416,667 common shares at a price of \$0.24.

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11. Share capital

Authorized

Unlimited number of common shares

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

- Non-voting
- Non-retractable
- 8% cumulative dividend, preferential to common shares
- Equity participation in the event of liquidation, dissolution and winding up
- Do not constitute ordinary shares for basic earnings per share

Issued

On March 5, 2021 416,667 common shares were issued at a price of \$0.24, through the retirement of deferred equity notes payable to shareholders.

On March 31, 2021 400,000 preferred shares were issued at a price of \$0.25, through the retirement of notes payable to shareholder.

	Number of shares issued	Total \$
Common shares – no par value		
Balance – January 1, 2020	69,919,216	19,186,345
Issued during the year	-	-
Balance – December 31, 2020	69,919,216	19,186,345
Issued during the period	416,667	100,000
Balance – September 30, 2021	<u>70,335,883</u>	<u>19,286,345</u>
Preferred shares - \$0.25 per share, cumulative		
Balance – January 1, 2021	5,800,000	1,450,000
Issued during the period	800,000	200,000
Balance – September 30, 2021	<u>6,600,000</u>	<u>1,650,000</u>

12. Employee stock options

During 2021, the shareholders 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.

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12. Employee stock options (continued)

The following provides a summary of the status of the Plan as at September 30, 2021:

	Number of stock options	Weighted exercise price
Options outstanding – January 1, 2020	5,250,000	
Forfeited in 2020	<u>(250,000)</u>	
Options outstanding – December 31, 2020 and September 30, 2021	<u>5,000,000</u>	<u>\$0.24</u>

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price</u>	<u>Weighted average Number outstanding</u>	<u>remaining contractual life</u>	<u>Number exercisable</u>
Sept 2017	Sept 2027	\$0.23	1,800,000	6.00	1,800,000
Aug 2018	Aug 2028	\$0.25	500,000	6.88	333,333
Dec 2018	Dec 2028	\$0.25	<u>2,700,000</u>	7.18	<u>2,133,333</u>
			<u>5,000,000</u>		<u>4,266,666</u>

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: September 2017 options issue; risk free interest rate: 1.73%; volatility 46%; and expected life: five years. August 2018 options issue; risk free interest rate: 2.20%; volatility: 32%; and expected life: three years. December 2018 options issue; risk free interest rate: 1.92%; volatility; 37%; and expected life: three years.

Compensation expense is recognized over the years in which entitlement to the compensation vests. The expected volatility is based on the historical volatility of comparable companies, which may not necessarily be the actual outcome. Total option expense for the period ending September 30, 2021 amounted to \$29,133 (September 30, 2020 - \$67,361).

13. Earnings per common share

Basic and diluted	September 30, 2021	September 30, 2020
Net earnings	\$1,171,798	\$1,273,538
Weighted average number of common shares issued	<u>70,335,883</u>	<u>69,919,216</u>
Basic earnings per share	<u>\$0.017</u>	<u>\$0.018</u>
Net earnings	\$1,171,798	\$1,273,538
Weighted average number of common shares issued	<u>74,602,549</u>	<u>69,919,216</u>
Diluted earnings per share	<u>\$0.016</u>	<u>\$0.018</u>

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14. Related party transactions

Compensation of key management

Key management includes the Company's directors and members of the management team. Compensation awarded to key management included:

	September 30, 2021	September 30, 2020
	\$	\$
Salaries and short-term employee benefits	761,813	738,646
Options, directors and management	<u>28,484</u>	<u>44,232</u>
	<u>790,297</u>	<u>782,878</u>

15. Restricted funds on deposit and client deposits

Acting as paying agent, the Company had \$19,525,546 in restricted funds on deposit and a corresponding liability for client deposits as at September 30, 2021 (December 31, 2020 - \$17,043,176), which represented amounts received from customers to settle specific health-care claims and related costs, adjudicated on their behalf, which are payable to the providers of the health-care or other services with respect to these claims. Restricted client funds are segregated in a separate bank account, controlled by the Company, from which the Company earns interest. The Company cannot utilize the restricted funds outside of the scope of the client contracts. The client contracts clearly state the permitted uses of funds, which as noted above is for payment of claims, related taxes and other fees as detailed in contracts.

16. Contingencies

In the normal course of business, the Company becomes involved in various claims and legal proceedings. As at September 30, 2021, it is the opinion of management that there is no claim or legal proceeding that will have a material adverse effect on the Company's financial position.

17. Economic dependence

The Company's revenue is concentrated in a small number of large clients. For the period ended September 30, 2021, 55% (September 30, 2020 - 48%) of the Company's revenue was derived from three clients with long term contracts. The loss of any one of these clients could have a significant impact on the Company's future revenue.

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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 regards to credit risk in its operating activities is to reduce its exposure to losses. 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, adjust timing of dividend payments or other activities deemed appropriate under the specific circumstances. Management and the board of directors review the Company's capital management approach on an ongoing basis and believe this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements. With the advent of the corona virus COVID-19, the Company's strategy with respect to capital risk management has changed with the implementation of a Business Continuity Plan. It is the Company's standard business practice to ensure that clients maintain adequate restricted funds on deposit to meet the estimated costs associated with their contract. Restricted funds are monitored to ensure compliance with these contracts.

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19. Leases

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

	September 30, 2021	September 30, 2020
	\$	\$
Current	77,499	179,299
Non-current	<u>402,922</u>	<u>537,965</u>
	<u>480,421</u>	<u>717,264</u>

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

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

- The right of use assets consists of 2 items of property and 1 automobile, with a range of remaining terms from 1 to 4 years;
- The average remaining lease term is 2.3 years;
- The number of office leases with extension options is 1.

Future minimum lease payments at September 30, 2021 were as follows:

	Minimum Lease Payments Due				
	Within 1 year \$	1-2 years \$	2-3 years \$	3-4 years \$	Total \$
Lease payments	311,914	75,988	69,027	60,398	517,327
Finance charges	<u>(20,221)</u>	<u>(9,379)</u>	<u>(5,602)</u>	<u>(1,704)</u>	<u>(39,906)</u>
Net present values	<u>291,693</u>	<u>66,609</u>	<u>63,425</u>	<u>58,694</u>	<u>480,421</u>

20. Impact of COVID-19 pandemic

The Company continues to monitor the impact of the pandemic and is managing expenses and capital position accordingly. The Company has a comprehensive continuity plan, which the Company activated in March 2020, and has taken specific measures to mitigate any business risks and ensure business continuity and the protection of the employees in light of the continued evolving situation related to COVID-19. To date, the Company has experienced minimal impact to its business operations and no instances of business operations interruption. The Executive Management Team continues to refine the Company's back-to-office plan. The Company has proven to operate effectively through remote access, and, as a result, any return to offices will be gradual and measured keeping the safety of its employees top of mind.

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

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21. Events after the reporting period

The Company has evaluated subsequent events and determined that there were no material events or transactions occurring through the date on which the financial statements were issued which require adjustment or disclosure in the Company's financial statements.