

# Extending our Reach

ANNUAL REPORT 2017





The statements in this annual report relating to matters that are not historical fact are forward looking statements that are based on management's beliefs and assumptions. Such statements are not guarantees of future performance and are subject to a number of uncertainties, including but not limited to future economic conditions, the markets that TECSYS Inc. serves, the actions of competitors, major new technological trends, and other factors beyond the control of TECSYS Inc., which could cause actual results to differ materially from such statements. More information about the risks and uncertainties associated with TECSYS Inc.'s business can be found in the MD&A section of this annual report and the Annual Information Form for the fiscal year ended April 30, 2017. These documents have been filed with the Canadian securities commissions and are available on our Website ([www.tecsys.com](http://www.tecsys.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)).

Copyright © TECSYS Inc. 2017. All names, trademarks, products, and services mentioned are registered or unregistered trademarks of their respective owners.

# Table of Contents

Foreword	<b>4</b>
TECSYS at a Glance	<b>5</b>
Message from the President	<b>6</b>
Message from the Chairman	<b>10</b>
Extending our Reach with Partnerships	<b>13</b>
Extending our Reach in Health Systems	<b>16</b>
TECSYS Customers Ranked Top Four in Gartner's Healthcare Supply Chains Top 25	<b>17</b>
Extending our Reach in Complex Distribution	<b>18</b>
A Visionary Stance	<b>19</b>
Werner Electric Supply Case Study	<b>20</b>
TECSYS Announces ProCheck	<b>24</b>
TECSYS Extends its RFID Kanban to Broader Distribution Industries	<b>25</b>
Management's Discussion and Analysis	<b>27</b>
Management's Report	<b>48</b>
Independent Auditors' Report	<b>49</b>
Financial Section	<b>50</b>
General Information	<b>84</b>
Directors and Executive Management	<b>85</b>
Corporate Information	<b>86</b>

# Foreword

In the complex realms of high-volume distribution and healthcare, TECSYS is singularly focused.

Our goal is—and always has been—to be the dominant Supply Chain Management (SCM) software technology and solutions provider for distribution-centric operations. Reaching that goal means sharing our ground-breaking, comprehensive solutions with as many world-class companies and facilities as possible, strengthening and streamlining the logistics environment as a whole while propelling our customers forward.

Since 1983, we have helped hundreds of leading organizations solve their unique warehousing and distribution challenges, and we have done so in a way that has landed us squarely in the “Visionaries” Quadrant of Gartner’s Magic Quadrant for Warehouse Management Systems (WMS)<sup>1</sup> for the last six consecutive reports.

In addition, four of our customers—healthcare providers and distributors—became the top four of Gartner’s Healthcare Supply Chain Top 25 for 2016<sup>2</sup>. This recognition from the industry continues to drive us, confirming that we are meeting and surpassing customer expectations.

## AND WE’VE ONLY JUST BEGUN.

Developing or enhancing supply chain infrastructure to support business objectives requires more than know-how. It also requires vision, innovation, customer care and execution that deliver high value as we continue to focus on our “customer for life” strategy. At TECSYS, we are assuredly moving toward our own goals—by helping our customers meet theirs all along the way.

<sup>1</sup> Gartner “Magic Quadrant for Warehouse Management Systems” by C. Dwight Klappich & Simon Tunstall, 13 February 2017.

<sup>2</sup> Gartner, the Healthcare Supply Chain Top 25 for 2016, Eric O’Daffer et al., November 2016.

# TECSYS at a Glance

AS OF APRIL 30, 2017, EXCEPT WHERE INDICATED

---

**\$68.4**

Revenue,  
in millions

---

**49**

Earnings,  
cents/share

---

**\$42.6**

Bookings\*,  
in millions

---

**\$26.9**

Recurring revenue\*,  
in millions

---

**\$46.1**

Backlog\*,  
in millions

---

## “Visionaries”

For the sixth consecutive time, TECSYS was positioned in the “**Visionaries**” quadrant of Gartner’s Magic Quadrant for WMS<sup>1</sup>  
(see page 19)

---

## Top Four

TECSYS Customers Ranked **Top Four** in Gartner’s Healthcare Supply Chain Top 25 for 2016<sup>2</sup>  
(see page 17)

\* Refer to section at end of Management Discussion and Analysis titled “Key Performance Indicators”

# Message from the President

Fellow Shareholders,

Fiscal 2017 was certainly an interesting year. While growth slowed to a crawl due to some headwinds in the healthcare market, it was still the highest revenue year in our history and saw significant achievements in both healthcare and complex distribution.

We implemented more hospital operating rooms, began a significant hospital Cath Lab implementation and ran a pilot project for hospitals in Europe. We also signed some very large hospital networks resulting in higher new account hospital bookings even though the number of new accounts slowed. On the complex distribution side of the business, the new account sales team that we launched last year virtually doubled their bookings in their second year. The success we had in the year positions us well for 2018 and beyond.

<b>\$000's Except for EPS &amp; ROE</b>	<b>2017</b>	<b>2016</b>
Revenue	68,447	67,466
EBITDA <sup>1</sup>	10,364	7,164
Profit from Operations	7,951	4,549
Profit	5,998	4,804
EPS	0.49	0.39
Backlog	46,115	44,558
ROE %	20.6	18.9
Cash from Operations	9,809	3,620
Recurring Revenue	26,886	24,984

<sup>1</sup> Refer to section at end of Management Discussion and Analysis titled "Non-IFRS Performance Measure"

## Complex Distribution:

Virtually doubled  
bookings

---

## Healthcare:

Launch of our first pilot project  
in healthcare in Europe

---

## HEALTHCARE

Our leadership position in healthcare is secured by providing unique solutions that allow hospitals and healthcare networks to control costs, while improving patient care and providing the best clinical outcome. Our relationship with hospitals usually starts with working with them to improve their supply chains by focusing on warehoused goods such as medical surgical supplies and pharmaceuticals. It is important to note though, that a majority of a hospital's logistics volume are clinical items that are not warehoused, so it is when we move into the hospital that we can make an even more significant contribution. By optimizing inventory and replenishment right on the frontline alongside health professionals, we help ensure that they are able to focus on their most important task—delivering great patient care.

In fiscal 2017, we made several advances on our clinical logistics solutions. In November, the Operating Room (OR) module of our Hospital and Clinic Inventory solution went live at the hospital of a large Integrated Delivery Network (IDN), which also has come on board as a partner. This module is in the process of being implemented at other hospitals in our partner's network and another major network began to implement it in February. The module has generated significant interest from other prospects with several teams touring our partner's installation. We also shipped the next commercial release of our pharmacy point-of-use solution and signed contracts for our Cath Lab module. We believe we are the only provider in the industry with such a comprehensive offering and we expect both the pharmacy and Cath Lab solutions to have the same success as our OR module.

Another significant achievement last year for our healthcare business was the launch of our first pilot project in Europe. Hospitals in Europe face the same cost pressures and the need for real-time accurate information from their supply chains to optimize operations as those in North America. We see an opportunity to build on this project and introduce TECSYS healthcare solutions across the region.

In fiscal 2017, we did experience a slowdown in U.S. healthcare contract signings during and after the election. We observed that a contributing factor to this was that hospital administrators, concerned over potential changes in healthcare legislation, postponed moving forward on new initiatives while they assessed the impact of potential major changes to their revenue streams. We expect orders to resume in the near future, particularly as it is recognized that cost control and accountability are crucial no matter which healthcare act is in force.

This situation demonstrated the advantage of serving two diverse markets: complex distribution as well as healthcare. Each has its own sales cycle and is affected differently by external events, thus diversifying risk. Going forward, we expect to continue to benefit from this two-pronged approach, which we believe will build toward a more consistent order flow quarter-to-quarter.

## COMPLEX DISTRIBUTION

Fiscal 2017 was a very strong year for complex distribution with bookings on new accounts increasing by about 90 percent. This was the result of our adding a sales team solely devoted to the complex distribution business early last year and from the launch of a new product line that was substantially more agile and easier to modify than earlier versions. We were in the unique position of introducing new technology into a market with a large install base, with the result that once we presented the advantages, a significant number of our existing accounts upgraded to it.

## CONTINUED SOLID FINANCIAL RESULTS

In fiscal 2017, revenue increased by 1 percent to \$68.4 million compared to \$67.5 million in the previous fiscal year. While this result is clearly below historical trends, we are pleased with this result, given that the uncertainty regarding the U.S. healthcare legislation had reduced new capital expenditures and that we are comparing to a fairly high growth in fiscal 2016. About 39 percent of revenue in the year was recurring, compared to 37 percent in fiscal 2016. Total contract bookings grew by 1 percent to \$42.6 million and backlog was \$46.1 million, compared to \$44.6 million in fiscal 2016. Our gross profit decreased 2 percent to \$34.2 million from \$34.8 million in fiscal 2016. Gross margin as a percentage of revenue reached 50 percent compared to 52 percent in fiscal 2016.

The Company realized profit of \$6.0 million in fiscal 2017 compared to \$4.8 million in fiscal 2016. EBITDA also grew significantly in fiscal 2017 to \$10.4 million, 45 percent over the \$7.2 million achieved in the previous fiscal year. This increase is primarily due to TECSYS recognizing a significant amount of prior year non-refundable tax credits as a result of the Company's expectation of the increased probability that the tax credits will be realized in the future. Excluding non-refundable R&D tax credits, operating expenses were essentially flat year over year.

## LOOKING AHEAD

In fiscal 2018, we are looking forward to continued growth from both of our key sectors. In healthcare, we expect the apprehension over potential healthcare legislation to ebb, and there is a significant opportunity to deepen our relationship with existing accounts. TECSYS serves a large addressable healthcare network (or IDN) market which we estimate to be about \$9.6 billion. Within our existing IDN customers, which now number over 30, we estimate we have an addressable market of more than \$550 million, and are only about 12 percent penetrated. Based on a multi-year relationship with many of these customers, they have direct experience with the benefits our solutions provide and are open to adopting others. For many of them, our clinical modules for operating rooms, pharmacy and cath labs are opportunities for them to generate increased efficiencies and savings.

With its dedicated sales team and new technology, we expect our complex distribution business to continue to generate growth. We have a strong offering in the market and benefit from being one of the few suppliers that is completely focused on supply chain software. Compared to enterprise software or other more generic solutions, our software is much easier to implement, simpler to operate and able to be adapted in real time to meet a customer's needs. This is a strong competitive advantage.

## APPRECIATION

Overall, TECSYS' fiscal 2017 success was the result of the contributions from many employees over the course of the year. Their alignment with our customers, their dedication to building the right solutions and commitment to operational excellence assures our continued success. At this time, I would like to acknowledge the contribution of our Chief Financial Officer, Berty Ho-Wo-Cheong, who has been on our team since our initial public offering in 1998. Berty has been a key player in maintaining our focus on financial prudence and in helping to build the platform that supports our growth strategy. After our fiscal 2017 year-end reporting, Berty has chosen to retire as CFO but will remain with the company. We look forward to working with him in his new capacity. Replacing Berty will be Brian Cosgrove, who brings to us over 15 years of financial leadership experience with fast-growing companies in the software and healthcare industries.

While we welcome Brian to TECSYS, I would like to thank Berty for his many years of dedication, and all of our employees along with our board of directors for helping us to achieve success in fiscal 2017 and positioning us well for 2018. I would also like to thank you, our shareholders, for your continued support.

Regards,



Peter Brereton, President and CEO

A hand is shown placing a white puzzle piece into a larger blue puzzle piece. The background is a dark blue surface with a grid of white puzzle pieces. The hand is positioned on the left side of the frame, with fingers visible. The blue puzzle piece is in the center, and the white puzzle piece is being placed into it. The overall scene suggests a process of assembly or completion.

**We achieved our highest revenues in our history in fiscal year 2017 despite headwinds in the healthcare market, our initiatives in complex distribution delivered great results, and we continued to strengthen the foundation of our healthcare practice through partnerships, signing marquee customers and progressing our innovative solutions.**



# Message from the Chairman

Fellow Shareholders,

As both Board Chair and founder of the company, I am very pleased with the progress that TECSYS has achieved over the past year. We are now in a unique position of having a leading position in a large market with barriers to entry, supported by great technology, and with a strong balance sheet. Getting here took years of effort and was the result of the combination of the vision of management, a dedication to innovation in R&D and a commitment to excellence in customer care, while developing a deep understanding of the healthcare and complex distribution industries, our two primary verticals.

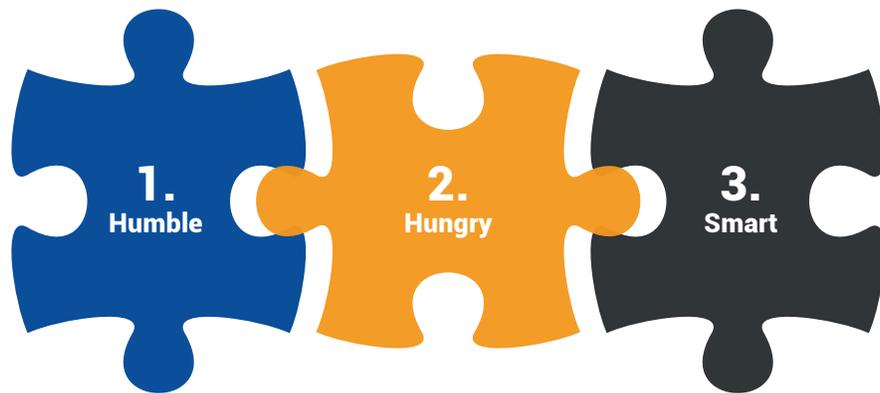
For a technology company like TECSYS, which is constantly tasked with finding elegant solutions to complex problems, we rely on having effective teams to achieve our goals and those of our customers and “humble, hungry and smart” is a model that management strives to have in place with every team.

---

As a Board, our role is to safeguard the mission and support management in reaching our long-term vision and annual goals, while being prepared to make the tough decisions necessary to protect our values. Within those overarching objectives, we come alongside management in grasping the opportunities available to gain greater market share and further solidify our leadership position. In fiscal 2017, this was demonstrated by the continuing enhancement of our solutions offering through substantial investing in R&D, increasing our presence in our base accounts and making inroads in Europe with our first pilot project in a healthcare system. At the same time, our complex distribution business continued to lead with state-of-the-art solutions and excellent sales and marketing that resulted in an almost doubling of year-over-year on new accounts bookings. Based on the value delivered in fiscal 2017, and our outlook for the future, the Board decided in December 2016 to increase the quarterly dividend to our shareholders by 50 percent to 18 cents per share annualized.

To meet the changing guidance and governance needs of a growing technology company, the Board has made changes in composition to add the appropriate experience and expertise. To that end, we welcomed David Booth and John Ensign to the Board in fiscal 2017. David has over 30 years of experience leading U.S.-based technology companies and is currently President and CEO of Back Office Associates LLC, a world leader in information governance and data migration solutions. John is an experienced lawyer to technology companies and a senior executive currently serving as Senior Vice President and General Counsel of MRI Software LLC, a U.S.-based real estate management software company. Both have made important contributions to TECSYS over the past year and we look forward to their continued involvement.

When we founded TECSYS over 30 years ago, we wanted to establish a corporate culture that would encourage continued growth and innovation. I was reminded of this recently when reading *The Ideal Team Player*, a book by Patrick Lencioni. The three attributes that he suggests make an individual “an ideal team player” are very much aligned with what we have strived to embed at TECSYS. These are:



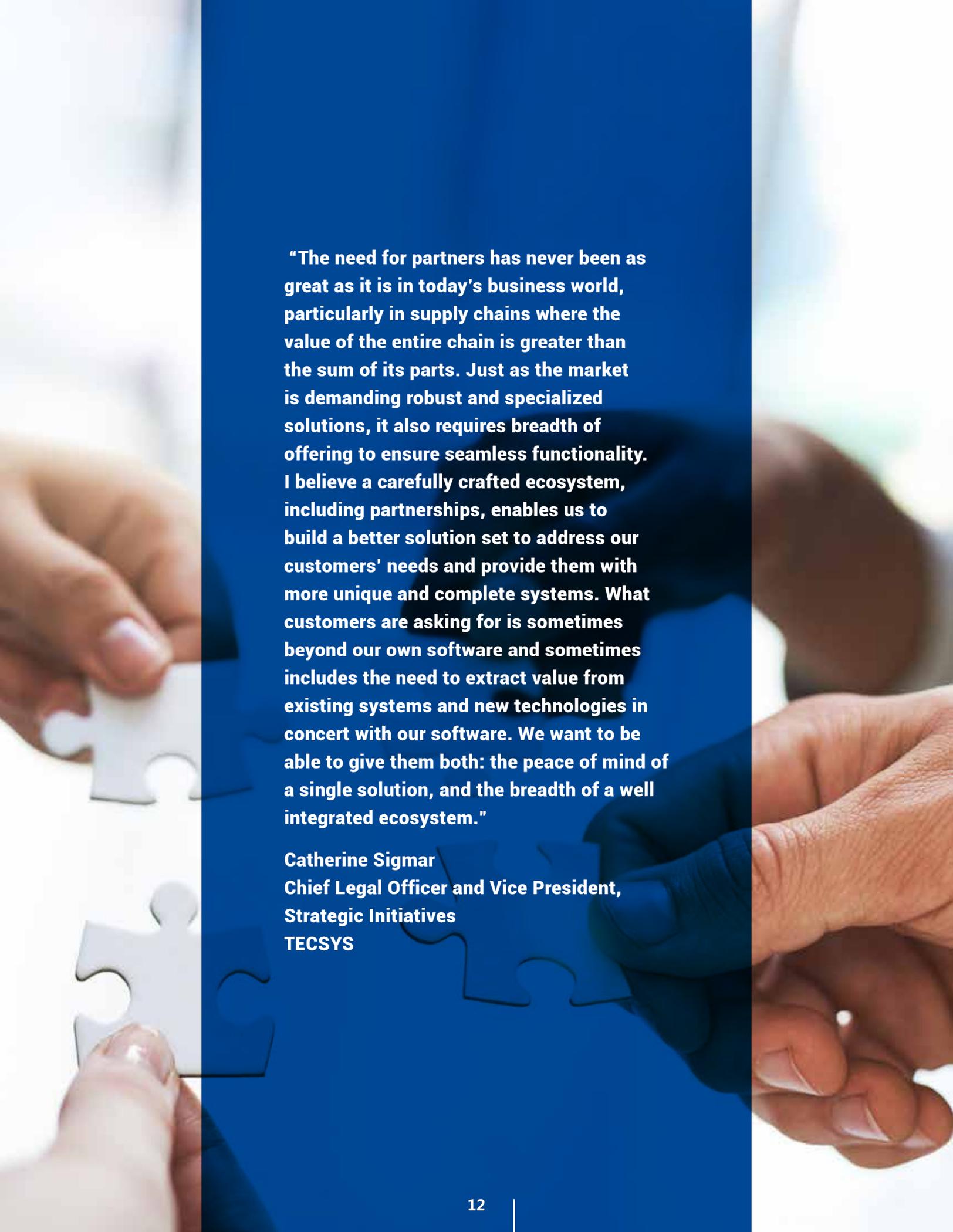
Humble in the sense that when you go into a meeting you are open to others’ contributions and strive for the best outcome for the organization. If you are hungry you are always looking to learn, you are always trying to be useful and are continually considering next steps. For smart, Lencioni means “people smart” – aware of the needs of others and knowing how to work together in the most effective manner. For a technology company like TECSYS, which is constantly tasked with finding elegant solutions to complex problems, we rely on having effective teams to achieve our goals and those of our customers. “Humble, hungry and smart” is a model that management works hard to have in place with every team.

Looking ahead to fiscal 2018, the Board is pleased that management has put in place the infrastructure and culture needed to encourage growth and innovation. They are to be congratulated for building a sustainable leadership position and creating value for all of our stakeholders. We look forward to another successful year.

Sincerely,

A handwritten signature in black ink, appearing to read "Dave Brereton". The signature is stylized and cursive.

Dave Brereton, Executive Chairman of the Board

A vertical blue banner with white text is centered on the page. On either side of the banner, there are images of hands holding white puzzle pieces, symbolizing collaboration and integration. The background behind the banner is a blurred image of hands holding puzzle pieces.

**“The need for partners has never been as great as it is in today’s business world, particularly in supply chains where the value of the entire chain is greater than the sum of its parts. Just as the market is demanding robust and specialized solutions, it also requires breadth of offering to ensure seamless functionality. I believe a carefully crafted ecosystem, including partnerships, enables us to build a better solution set to address our customers’ needs and provide them with more unique and complete systems. What customers are asking for is sometimes beyond our own software and sometimes includes the need to extract value from existing systems and new technologies in concert with our software. We want to be able to give them both: the peace of mind of a single solution, and the breadth of a well integrated ecosystem.”**

**Catherine Sigmar  
Chief Legal Officer and Vice President,  
Strategic Initiatives  
TECSYS**

# Extending our Reach with Partnerships

Strategic partnerships are a fact of life and critical to many business strategies. No organization can do it all, no matter how big and deep-rooted they are. To this effect, creating partnerships has become a powerful means of enriching and extending solutions and services to provide high value to customers, to improve access to new markets, and to deliver unique technology and thought leadership to a company's stakeholders.

C-level executives look at partnerships and other alliances to extend their core competencies by entering into relationships with organizations that have complementary solutions, skills, distribution channels, expertise & resources that are aligned with their corporate strategies. They select and nurture relationships to unlock the strategic potential of their business ecosystems, with an objective to improve their financial wealth and sharpen their competitive edge.

Partnership is more than just collaboration or ad-hoc relationships. It is about moving beyond independent results to establish synergies that include co-creation, shared risks, coordinated responsibilities, interdependencies and organizational transformation. It is also about increasing the potential to win, by leveraging the partnering organizations' complementary and combined strengths to achieve a high-level of impact that cannot be accomplished individually or independently.

## EXTENDING OUR REACH

TECSYS' goal is to partner with key industry players and innovators to build a strategic partnership ecosystem committed to advancing the science of supply chains for customers in the modern era.

**“With our partners, we are sharing solutions and expertise, extending our reach with one seamless offering. The result is an integrated, consistent and collaborative approach that delivers powerful customer outcomes. By integrating our partners' solutions with our platform, we can together deliver a more complete customer experience well ahead of the competitive landscape,”** commented Catherine Sigmar.

## PARTNERSHIPS AND TECSYS

Partnering is not new to TECSYS. Since the mid-nineties, TECSYS has been partnering with such organizations as mobile computing vendors Zebra Technologies and Honeywell, database vendors Oracle and Microsoft, business intelligence and analytics vendor IBM, voice technology vendor TopVox and cloud infrastructure services vendor SunGard, among several others.

## TECSYS STRATEGY

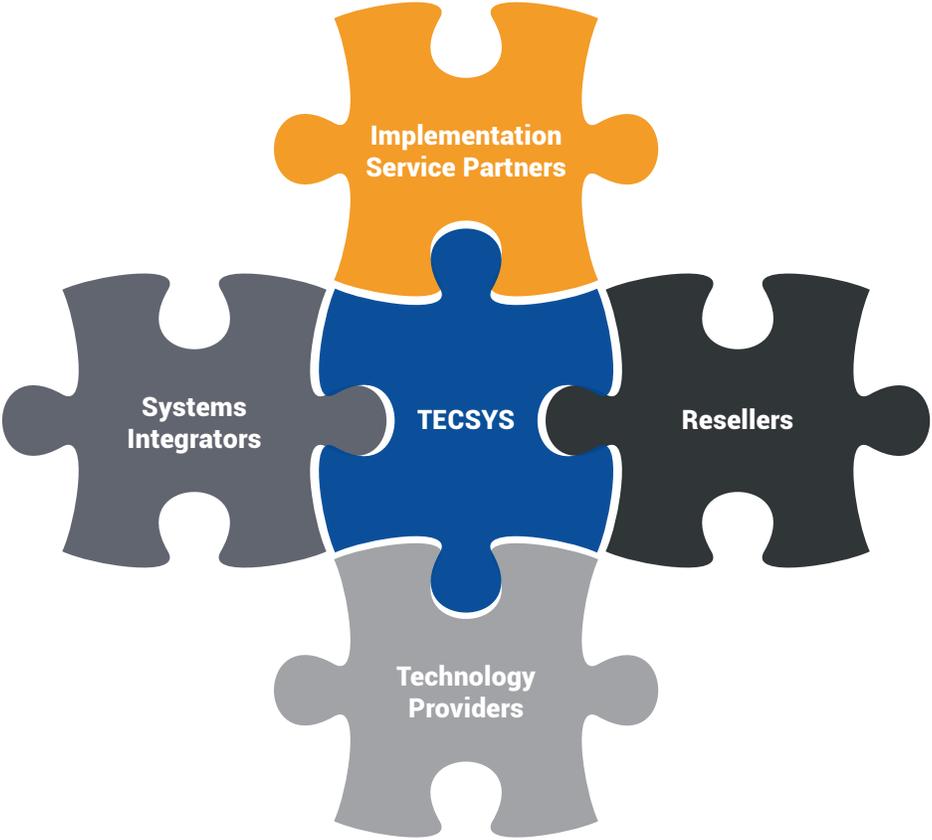
TECSYS' strategy is to have partners that function in alignment with TECSYS that result in contiguous and seamless solutions transparent to customers.

**“Our partnership strategy is completely customer-driven, the same strategy we use in developing our own products. We are listening and anticipating; we listen to what our customers want and we anticipate what they are going to need in the future. That is the basis on which we choose our partners, to answer that need with our own technology and to address potential gaps in products as well as services with proven partners,”** commented Catherine Sigmar.

## GREATER PUSH INTO STRATEGIC PARTNERSHIPS

Our healthcare and complex distribution markets have become more complicated and more demanding. The demand for creative and dependable solutions has grown, constantly changing and evolving. At the same time, our solutions are addressing today many more customer challenges than ever before. To this effect, we have to reach beyond our own organic products and offer our customers all the pieces they need in a flexible, scalable and seamlessly integrated end-to-end offering. Without partners, we will not have the opportunity to extend our footprint into other vertical or geographical markets and to implement new uses for our software that extends our reach to new and innovative business applications. This is the bottom line for partnerships, not just for TECSYS but also for many technology companies,” stated Catherine Sigmar.

With the increased push into strategic partnerships, TECSYS is extending its reach to these types of partners:



Sometimes customers require solutions that are not part of TECSYS’ core product suite, but can integrate with them to offer customers that greater breadth of capabilities as a fully integrated solution. For example, Terso Cabinets extends TECSYS’ offering in the area of storage.

In TECSYS’ useIT™/point-of-use suite of products, there is the popular RFID two-bin system in the market. However, a lot of customers are now asking for controlled and temperature-controlled access and Terso Cabinets offer such solutions: cabinets, refrigerators and freezers that have access control with 24-hour monitoring. With Terso, TECSYS has a partnership in place to offer such cabinets to its healthcare provider customers integrated to its own offering.

**“TECSYS partners with companies who provide critical technologies, services and solutions to our customers, and with companies that represent leading innovation in the markets where our customers compete. Recognizing that the very best supply chain solution for any individual customer will include software and data that is not organic to TECSYS, TECSYS is building a robust and flexible ecosystem that includes third-party solutions that are critical to our customers. We seek to build an integrated ecosystem that encourages collaboration, enhances interoperability, and is open to integration. The result will be supply chain solutions that respond exactly to our customers’ requirements today and in the future,”** commented Sigmar.

## SEQUOIA VALUE-ADDED RESELLER PARTNER

Based in Utah, U.S.A., Sequoia Group is dedicated to delivering superior support and services to wholesale distributors. Its industry-specific solutions are designed to help distributors improve sales, increase efficiencies, reduce waste, solve problems, customize solutions, and most importantly, add value to the bottom line.

## AVALON IMPLEMENTATION PARTNER

Based in Montreal, Quebec, Canada, Avalon CSC is a leading supply chain and management consulting company that delivers “best of breed” business and technological solutions that enable its clients to meet their continuously changing industry landscape.

“We thoroughly enjoy our close partnership with the dedicated team at TECSYS. Their people, products, and organization are all outstanding. Sequoia Group thrives through a long history of deep domain expertise in the complex distribution industry, which meshes nicely with the technologically advanced TECSYS products,” said Steven Fitt, President of Sequoia Group. “Our role is to provide the vision, education, and transparent technology stack to enable distributors to better serve their customers, improve inventory management, and strengthen all other areas of their business—thereby significantly increasing their bottom line. This partnership between Sequoia Group and TECSYS creates a compelling competitive advantage for those we serve.”

“TECSYS’ supply chain management platform has the power and agility to meet the changing needs of complex supply chains in today’s volatile business environment,” said Nick Lovatsis, President of Avalon. “This partnership will allow us to leverage TECSYS’ best-in-class technology with our strategic consulting services to deliver more value to clients in a variety of industries, and that will allow them to thrive in their competitive landscape.”

---

Today, TECSYS engages with strategic partners to help customers with their supply chain challenges, and to overcome complexity, create value, innovate, and thrive in their competitive arena.

**“Our partner ecosystem is vital in providing our customers with a broad portfolio of industry-specific solutions that allow them to meet the demands of their markets,” said Catherine Sigmar.**



# Extending our Reach in Health Systems

In fiscal 2017, TECSYS extended its market leadership in the hospital and health systems' market, winning the business of new health systems organizations highlighted below.

---

**40 locations**  
**8000 professionals**  
**18 pediatric group practices**

## ONE OF THE LARGEST PEDIATRIC HEALTHCARE PROVIDERS

This health system is the leading pediatric healthcare organization in the southwestern part of the U.S. and one of the largest pediatric healthcare providers in the nation. With more than 40 locations and some 8000 professionals, this private, not-for-profit organization, has two full-service hospitals, one specialty hospital and a medical research institute. It also has multiple specialty centers, 18 pediatric group practices, a telemedicine network and home health and physician services.

---

**9 states**  
**80,000 employees**  
**5 million patients per year**

## A NATIONAL LEADER IN QUALITY & PATIENT SATISFACTION

A national leader in quality, patient safety and satisfaction, this health system consists of more than 40 hospitals. It has grown to more than 80,000 employees in nine states, incorporating the latest advancement in technology to help the organization serve more than 5 million patients per year.

---

**40 counties**  
**30,000 employees**  
**3 million patients per year**

## INNOVATIVE, INTEGRATED HEALTH SERVICES ORGANIZATION

As one of the nation's largest health services organizations, this integrated health system is recognized for its innovative use of medical technology. It is comprised of some 12-hospital campuses and two research centres. It employs in excess of 30,000 people and serves more than 3 million residents in some 40 counties in the northeastern part of the United States.



# TECSYS Customers Ranked Top Four in Gartner's Healthcare Supply Chain Top 25 for 2016

On November 17, 2016, Gartner, Inc., the world's leading information technology research and advisory company, released its eighth annual Healthcare Supply Chain Top 25 ranking<sup>2</sup>. Gartner's annual Healthcare Supply Chain Top 25 ranking recognizes companies across the healthcare value chain that demonstrate leadership in improving human life at sustainable costs.

In a recent Gartner press release<sup>1</sup> it was stated: "Leaders in healthcare realize that the patient and demand-driven concept is the alignment of the supply chain to the customer need that it ultimately fulfills," said Stephen Meyer, research director at Gartner. "One aspect of being patient and demand driven is already universal in the industry — every player in the value chain is aware that there is a patient requiring care at the end. Leading organizations understand satisfying a customer is more than just treating a patient's disease or condition. Patient expectations of treatment cost, location and convenience are an opportunity that leaders from all industry segments are using to define their supply chains."

Now in its eighth year, the Healthcare Supply Chain Top 25 recognizes leadership in improving human life at sustainable costs. Supply chain leaders in the industry can identify improvement opportunities from the traits of these leading providers, manufacturers, distributors and retailers. The Healthcare Top 25 recognizes those life sciences and healthcare companies that have demonstrated leadership in developing and leveraging supply chain capabilities.<sup>2</sup>

<sup>1</sup> Gartner Press Release, Gartner Announces Rankings of Its 2016 Healthcare Supply Chain Top 25, November 2016. <http://www.gartner.com/newsroom/id/3516418>

<sup>2</sup> Gartner, the Healthcare Supply Chain Top 25 for 2016, Eric O'Daffer et al., November 2016.

*The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Annual Report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.*

# Extending our Reach in Complex Distribution

In the first quarter of fiscal 2016, TECSYS announced a strategic initiative to increase its market share of organizations with complex supply chains. During the course of fiscal 2016, TECSYS saw positive results, exemplified by wins of major customers due to this strategic program. In fiscal 2017, this program continued to roll at a greater pace and success, below are some of the highlights of customer wins in fiscal 2017.

---

## **60+ retail stores** **Pet food, accessories and supplies**

### PET FOOD AND SUPPLIES RETAILER

Founded in the mid-eighties, this retailer is based in the western part of the U.S. and offers a variety of pet food, accessories and supplies through its 60+ retail stores located throughout its territory.

---

## **40 branches and service centres** **Full range of accessories**

### ONE OF THE LARGEST HEAVY EQUIPMENT DEALERS

One of the largest heavy equipment dealers, the company operates about forty branches and service centres across Canada to serve customers in the construction, forestry and mining sectors. It offers well-known brands and a full range of accessories, such as crawler tracks, shears, hammers, and ground engaging tools.

---

## **3PL solutions** **Focus in retail and consumer packaged goods**

### 3PL FOR COMPLEX PROMOTIONAL MARKETING

A third-party logistics provider, the company provides management, production, and logistics for retail promotions to companies with an extensive brand portfolio. This 3PL designs solutions for promotionally driven companies across multiple industries with a focus in retail and consumer packaged goods.



# A Visionary Stance

For the Sixth Consecutive Time, TECSYS was Positioned in the “Visionaries” Quadrant of Gartner’s Magic Quadrant<sup>1</sup> for WMS

---

On February 13, 2017, Gartner Inc., the world’s leading information technology research and advisory company, released the latest Magic Quadrant for Warehouse Management Systems (WMS), in which TECSYS was positioned in the “Visionaries” quadrant, a position that it has held since its first inclusion in 2010.

Gartner Magic Quadrant research methodology provides a graphical competitive positioning of four types of technology providers in fast-growing markets: Leaders, Visionaries, Niche Players and Challengers. Gartner has evaluated global WMS vendors based on their completeness of vision and ability to execute and has recognized 13 WMS suppliers that were included in the 2017 Magic Quadrant for Warehouse Management Systems, one of which is TECSYS.

According to Gartner: “Even though core WMS is approaching parity across offerings, some industries and businesses require very specialized solutions. Their fundamental needs reach well beyond the basic receive, store, count, pick, pack and ship capabilities of most WMSs. This is called extreme verticalization. For example, a company supporting project-based logistics needs a solution that drives logistics operations based on specific projects and not traditional orders and inventory. Similarly, a healthcare independent network needs to integrate warehouse operations with the hospital to streamline supply logistics to support patient care. Some vendors demonstrate leadership in demanding industries and offer unique solutions, as well as add-on capabilities, specifically built for these industries. Furthermore, users benefit from vendors with dedicated domain expertise that helps them understand how the WMS fits the needs of their industry.”

#### **Gartner Disclaimer**

*Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner’s research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.*

<sup>1</sup> Gartner “Magic Quadrant for Warehouse Management Systems” by C. Dwight Klappich & Simon Tunstall, 13 February 2017.



# Werner Electric Supply Achieves 99.9% Accuracy and Zero Backlog with TECSYS

## ABOUT WERNER ELECTRIC SUPPLY

Werner Electric Supply's story is defined by progress. From its modest beginnings in 1948, the Company has grown to serve the needs of its loyal customers and valued partners. While more than 400 employees today provide diverse, high quality products and services for businesses throughout the entire state of Wisconsin, Michigan's Upper Peninsula, and North Dakota, it all started with just one man in a small shop in Neenah Wisconsin. Werner Electric Supply provides electrical, automation, and data communication products and services for a wide range of industrial, commercial, and construction customers.

## WERNER ELECTRIC SUPPLY'S UNIQUE VALUE PROPOSITION

At Werner Electric Supply, the Company's customer focus helps it go above and beyond customer expectations. Werner Electric Supply invests in continuous employee training on up-to date industry trends, which allows the organization to provide innovative solutions.

---

**"As a wholesale electrical distributor, we are focused on the customer. We try to add value to products delivered to small customers or large customers. In our industry, competitors, most of the times, are selling the same products or comparable ones, so there is no competitive advantages with just selling products. What we really strive in our operation is to extend unique services that will put us ahead of our competitors."**

**Kyle Arndt, Value-Add Engineer at Werner Electric Supply**

## CHALLENGES

Werner Electric Supply's distribution center holds some 28,000 items in inventory. This includes everything from nuts and bolts to 20' conduit lengths and 7,000-pound reels of wire on the electrical supply part of the business. It also includes items such as drives, PLCs, actuators, push buttons, and safety equipment on the machine control automation part of the business. Having a supply chain with a warehouse operation that delivers value-added services in a fierce competitive landscape is a major challenge.

Operationally, Werner Electric Supply has two different main types of customers: contractors and industrial customers.

### Contractors

**30%**

30% of Werner Electric Supply's customers are contractors. Contractors order either late in the day and want it to be delivered the same day or as early as possible in the morning to avoid any downtime. Werner Electric Supply sells a lot of 10-foot and 20-foot long sticks of pipes, or conduits and custom links of cut wire to contractors.

### Industrial customers

**30%**

30% of Werner Electric Supply's customers are industrial suppliers and OEMs, and 20% are maintenance & repair operations. The rest is a mix of government entities, integrators and the like.

**“Our fulfillment cycle is getting shorter, which means we are accepting orders later and later in the day, and our customers want their orders delivered earlier the next day. Every order that we put in our system by 8 p.m., it is picked, packed and transferred to our branches where they do the local delivery. Our contractor customers are requesting delivery earlier and earlier. As for our industrial customers, typically they have a receiving department; their orders can be delivered a little bit later,”**  
said Arndt.

## WMS VENDOR SELECTION CRITERIA



Robust WMS with proven track record

An agile platform that is easy to work with and use

- Handle automation in the warehouse
- Solve the wire cutting inventory management challenge
- Handle multiple unit of measures for a given item
- Support value-added services to clients

A system to help Werner Electric Supply shorten the time to bring onboard new employees

Rich supply chain expertise and support services as an extension of Werner Electric Supply's organization

## WIRE CUTTING

**“The wire cutting process is very unique in the WMS world,” stated Arndt. “That was definitely an area of focus when we were looking at a WMS, where a supplier can help us systematically capture what we are trying to do with the wire cutting process.”**

Wire Cutting Challenges:

- 1.** Locate the type and grade of wire needed
- 2.** Locate the reel available with the shortest wire closest to the customer order
- 3.** Follow and comply with the footage marking approach

In the WMS system, Werner Electric Supply needed a way to identify the wire that has what is called “footage marking”, so certain wires have at least two-feet labeled with a footage marking. For example, if 100-foot is needed and if the reel started at a footage marker 200, reaching a footage marker 300 is where the wire should be cut. With these markings, it reassures customers that they are getting exactly what they have ordered and enables Werner Electric Supply to achieve improved order accuracy and avoid any waste. The ability to track those footage markings within the pick is a very unique solution in the industry.

## ITOPIA® - TECSYS' SUPPLY CHAIN PLATFORM

Werner Electric Supply has significantly leveraged iTopia, TECSYS' supply chain platform, in their wire cutting operation. It is likely one of the best examples of how iTopia can be used to deliver real functionality and value to distribution operations.

**“None of the WMS vendors solicited had a solution out of the box. When TECSYS came in for the demo, they were able to explain what the solution could look like; they showed how it could work within their system. TECSYS' ability to be creative and come up with that solution, or at least the philosophy behind the solution during the demo process was a big factor to decide in favor of TECSYS,” said Arndt.**

**“Our wire cutting process is unique in the sense that we cannot ever pick a wire short. For example, if the customer orders a 100-foot wire, we cannot give them 90-feet and the next day, give them the remaining 10 feet. It is not like dealing with parts inventory that you can count and do split orders. We had to do a bit of modification in the system to be able to find the shortest length of wire across many types. Our goal is to use the shortest length of wires, the shortest one in stock that matches the customer order. So, if a customer orders brand A of a cut wire, in stock we may have 10 or more different lengths to that cut wire, and we would want the system to grab the shortest length to fulfill that required length by a customer,” commented Arndt.**

## WHY TECSYS

From a trend perspective, Werner Electric Supply continues to see more and more unique items that require special handling for their customers, such as packaging, information on content and special labelling, and they needed a system that can systematically handle those unique requirements

**“With the TECSYS Supply chain platform, the personalization and the customization that can be done was a big factor in the solution selection process,” commented Arndt.**

Furthermore, Werner Electric Supply philosophy on their Information Technology department is to stay a little bit leaner than most companies. They definitely leverage the ability to have TECSYS help do some of the work, in particular the integration between TECSYS' WMS with Werner Electric Supply's ERP and Dematic's automation system.

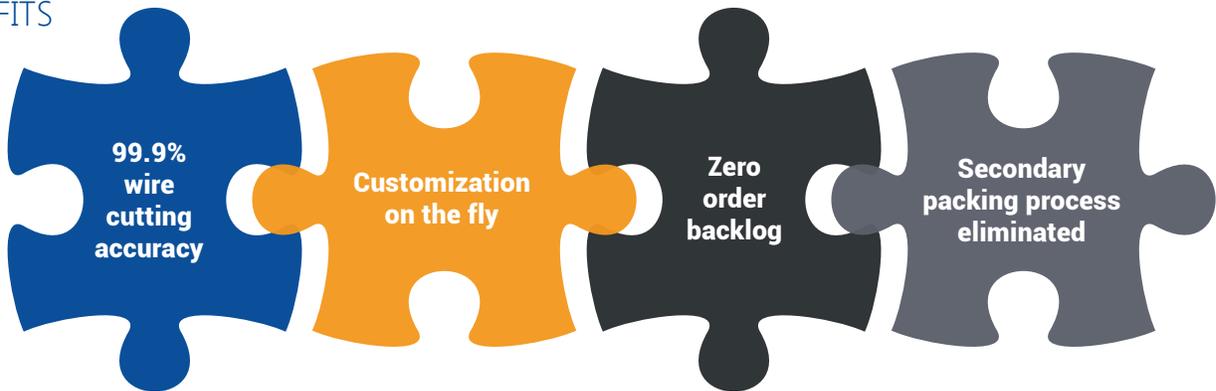
**“When we present an opportunity or problem to the folks at TECSYS, they are able to give us a creative solution. Their first thought is “how can we do this with iTopia” rather than suggesting a modification to the system. We have a leaner IT shop, we don't want to have many IT people in place, we would rather work within the base system as much as possible,” commented Arndt.**

## MULTI-LEVEL PICK MODULE – AUTOMATION

Designed to handle some 80% of the volume, Werner Electric Supply's pick module system combines dynamic rack systems with conveyors and other flow components to increase productivity and decrease costs for broken pallet or broken carton order-filling operations. A multi-level module that allows for dense storage of products, reduced material handling, and the ability to quickly fulfill customer shipments with multiple SKUs. It is key to Werner Electric Supply's efficient distribution, it consists of reel rack, cantilever rack, selective rack, and safety guardrail, as well as rack design.

**“Right now about 60 to 70% of the picks in the warehouse come out of the pick module. So, of our average 5,000 lines picked a day, 3,000 to 3,500 of those picks come through the conveyor in the pick module. The system is designed to pick even more and our current goal is to increase that number, as it is our most efficient way of picking,”** said Arndt.

### BENEFITS



One of the biggest improvements after implementation of the TECSYS solution was the wire cutting accuracy, currently reaching 99.9%. There is virtually no waste, under cuts or over shipments. All the work done with iTopia is paying big dividends.

The ability to make adjustments, personalization, and customization on the fly as needed. The platform gave Werner Electric Supply the ability to continuously improve.

Achieve a zero order backlog at the end of each day.

The zone route, pick and pass, pick module, along with TECSYS' warehouse management system and a weigh scale to capture picking errors, eliminated the need for a secondary packing process.

### MOVING FORWARD

- A vital part of Werner Electric Supply's goal is to double sales to \$500 million by 2020; having a fluid, virtually error-free system goes a long way to help accomplish this goal.
- Same-day deliveries, expanding that even more; reaching more customers and more markets with that service is an ongoing goal, and the system provides that facility today.
- The shorter fulfillment cycles, ordering later and getting deliveries on time, and the ability to give Werner Electric Supply's sales team longer order-entry time, yet still meet the early morning deliveries.
- When a customer orders from Werner Electric Supply and their competitors, Werner Electric Supply's goal is to be the first to deliver.

**“Our vision is to be the most dynamic and customer-focused electrical distributor in the nation. Our partnership with TECSYS is providing us with the technology platform and expertise to unlock the strategic potential of our supply chain to gain significant edge in our competitive profile and achieve our vision objectives,”** stated Lloyd Fabry, Director of Operations, Werner Electric Supply.

# TECSYS Announces ProCheck™ Strategic Performance Service Offering

ProMat 2017, on April 4, 2017, TECSYS announced ProCheck, a strategic performance and optimization consulting service that helps distribution organizations attain the highest returns on their supply chain operations while meeting their business objectives.

**Robert Colosino, Vice President, Marketing at TECSYS, stated: “Most organizations with warehousing or enterprise software systems have yet to use more than 50% of their systems’ capabilities and achieve their ROI on their big investment. These systems have powerful engines, often not leveraging best practice processes or fine-tuned to address a distribution organization’s ongoing challenges! With ProCheck, executives have a quick SWOT assessment of their supply chain performance, they gain the knowledge and tools to maximize the returns on their investments and understand how to mitigate their supply chain challenges immediately and over the long haul.”**

Supply chains are very complex networks that must be managed collaboratively and optimized on a comprehensive scale. Challenges and pressures in the business landscape are constantly mounting, triggered by increased consumer demand and fierce competition. To mitigate these challenges, it is critical to align organizations’ strategies with measurable outcomes through insightful visibility and performance benchmarks across the entire supply chain. That’s what TECSYS’ ProCheck is all about.

Through this offering, distribution executives, along with TECSYS’ Optimization Consultants, will focus on key drivers that will jump start operational performance and establish the foundation for continuous success. ProCheck is designed to identify baselines from which progress towards operational objectives and goals can be measured, and gaps reduced. It also enables distribution organizations to leverage TECSYS’ deep subject matter expertise in the fields of performance management and warehouse optimization.

TECSYS’ PROCHECK INCLUDES THE FOLLOWING PERFORMANCE TRACK SERVICES:

## ProCheck Business

Focuses on distribution organizations’ operational goals and objectives. TECSYS’ Optimization Consultants work with customers towards mapping out their objectives and goals, aligning them with metrics and KPIs, creating an action plan to monitor their performance using dashboards and analytics, and implementing a program for continuous improvement.

## ProCheck Warehouse

Based on industry leading methodologies, ProCheck Warehouse is a comprehensive assessment of a distributor’s warehouse operations across a multitude of factors. It is designed to compare an organization’s warehouse operations with best practices, identify the areas for improvement, and provide actionable recommendations and guidance to implement best practices in their warehouse operations.

# TECSYS Extends its RFID Kanban Replenishment System from Healthcare to Broader Distribution Industries

ProMat 2017, on April 4, 2017 TECSYS announced a market leading and proven RFID Kanban inventory replenishment system that addresses the just-in-time needs of supply chains at point-of-use inventory settings. It provides clear visibility and accessibility of products anywhere in a distribution network, it also automates replenishment based on real-time consumption, captures usage while significantly reduces cost as well as cash tied-up in inventory.

**Robert Colosino, Vice President, Marketing at TECSYS, stated: "After a decade of proven ROI in the demanding healthcare provider industry, we are extending our latest RFID Kanban System to an underserved and broader distribution operation's market. These industries are facing significant challenges of volatile and unpredictable demand, lack of inventory visibility and costly supply chain processes. Our RFID Kanban System addresses these challenges head-on, freeing workers from the time-consuming and error-prone manual processes."**

TECSYS' RFID Kanban System addresses the inventory management challenges at point-of-use for such operations as maintenance and repairs (MROs), parts distribution, healthcare products distribution, utilities, education, municipalities and other general businesses.

TECSYS' RFID Kanban Replenishment System is setup with a pre-established demand-based quantity of products, divided between two compartments of a storage module on the Kanban shelf. When products in the first compartment are consumed, the last person to pick this product transfers the product's identification RFID tag to TECSYS' smartpanel™ located near the storage unit. Placing the tag on the smartpanel triggers an automated replenishment request before critical supply levels are reached. Logistics staff then begin using items from the second compartment, which holds a level of inventory based on consumption within a pre-defined period of time.

By placing the product RFID tag on TECSYS' smartpanel, the system transmits the request to the supply management application which generates a pick list for stock items or a requisition for direct purchase items to refill products to their appropriate levels.



- **Pending**  
*Replenishment requested*
- **Processing**  
*Replenishment underway*
- **Backorder**  
*Item on backorder*



# **Management's Discussion and Analysis of Financial Condition and Results of Operations**

# Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management Discussion and Analysis (MD&A) dated July 6, 2017 comments on our operations, financial performance and financial condition as at and for the years ended April 30, 2017 and April 30, 2016 and should be read in conjunction with the Consolidated Financial Statements of TECSYS Inc. (the "Company") and Notes thereto, which are included in this document. The Company's fiscal year ended on April 30, 2017. Fiscal 2017 refers to the twelve-month period ended April 30, 2017.

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and are prepared by and are the responsibility of the Company's Management.

This document and the consolidated financial statements are expressed in Canadian dollars unless it is otherwise indicated. The Company's functional currency is the Canadian dollar as it is the currency that represents the primary economic environment in which the Company operates.

The consolidated financial statements were authorized for issue by the Board of Directors on July 6, 2017.

Additional information about the Company can be obtained from SEDAR at [www.sedar.com](http://www.sedar.com).

## OVERVIEW

TECSYS provides transformative supply chain solutions that equip its customers to succeed in a rapidly-changing omni-channel world. TECSYS' solutions are built on a true enterprise supply chain platform, and include warehouse management, distribution management, transportation management, supply management at point-of-use as well as complete financial management and analytics solutions. Customers running on TECSYS' Supply Chain Platform are confident knowing they can execute, day in and day out, regardless of business fluctuations or changes in technology, they can adapt and scale to any business needs or size, and they can expand and collaborate with customers, suppliers and partners as one borderless enterprise. From demand planning to demand fulfillment, TECSYS puts power into the hands of both front line workers and back office planners, and unshackles business leaders so they can see and manage their supply chains like never before.

TECSYS is the market leader in supply chain solutions for health systems and hospitals. Over 600 mid-size and Fortune 1000 customers trust their supply chains to TECSYS in the healthcare, service parts, third-party logistics, and general wholesale high-volume distribution industries.

Supply Chain Management (SCM) is a business strategy to improve shareholder and customer value. SCM encompasses the processes of creating and fulfilling the market's demand for goods and services; it enhances distributor and customer value by optimizing the flow of products, services and related information from suppliers to customers, with a goal of enabling customer satisfaction. Within SCM is Supply Chain Execution (SCE), on which TECSYS has most of its focus, an execution-oriented set of solutions that enable the efficient procurement and supply of goods, services and information to meet customer-specific demand. SCE includes Warehouse Management Systems (WMS), Transportation Management Systems (TMS), and supply chain inventory visibility — to provide a single solution to manage the inbound and outbound logistics processes of a distribution operation.

According to one of the world's leading information technology research and advisory companies, businesses continued to invest heavily to modernize their supply chain technologies to drive greater decisions, efficiencies and customer engagement. The SCE market segment grew 10.5% in 2014, generating \$3.1 billion, with expectations for similar near-term growth that is forecasted to reach approximately \$4 billion by 2017. Furthermore, in a recent press release, Research & Markets announced that the Warehouse Management System (WMS) market is projected to reach USD 3.23 Billion by 2023, at a CAGR of 14.1% between 2017 and 2023<sup>1</sup>. Innovation continues across many SCE markets, including WMS, which is a mature and consolidated market segment. The broader SCE market is also seeing a number of new entrants touting cloud-based solutions targeted at the lower-end and that are typically less sophisticated environments within the market. Existing providers are also expanding their WMS capabilities beyond the historical core offerings. Businesses deploying SCE solutions are looking to achieve far-greater visibility into product movements, cost containment and compliance. The "Internet of Things" drove more interest in 2014 and it's a trend that is expected to continue for the next few years, driving greater demand for new technologies. TECSYS' management believes that the Company's supply chain platform is well suited to respond to these challenges.

<sup>1</sup> Research & Markets press release: DUBLIN, June 12, 2017 /PRNewswire

Currently, TECSYS' business development and sales efforts are focused on vertical markets within healthcare and complex supply chains where the Company has the highest winning opportunity and best financial returns. From research and development and customer services perspectives, this allows TECSYS to replicate its solutions, enabling the Company to reduce costs inherent in new development and adoption of technology. It also helps increase the depth of expertise in these market segments where the Company has developed a reputation as an expert by its customers.

TECSYS has been providing distribution and warehouse management solutions to the healthcare industry since 1995. These include major distributors, a number of health systems or IDNs (Integrated Delivery Networks), as well as third-party logistics providers (3PLs) in Canada and the United States. According to the American Hospital Association (AHA), there are over 5,500 hospitals in the United States, including about 550 health systems comprised of hospitals, nursing homes, clinics, home health agencies and school health centers.

According to Gartner, Inc., one of the world's leading information technology research and advisory companies, "Even though core WMS is approaching parity across offerings, some industries and businesses require very specialized solutions. Their fundamental needs reach well beyond the basic receive, store, count, pick, pack and ship capabilities of most WMSs. This is called extreme verticalization. For example, a company supporting project-based logistics needs a solution that drives logistics operations based on specific projects and not traditional orders and inventory. Similarly, a healthcare independent network needs to integrate warehouse operations with the hospital to streamline supply logistics to support patient care. Some vendors demonstrate leadership in demanding industries and offer unique solutions, as well as add-on capabilities, specifically built for these industries. Furthermore, users benefit from vendors with dedicated domain expertise that helps them understand how the WMS fits the needs of their industry."<sup>2</sup>

As part of its vertical market strategy, the Company has been on the lookout for other vertical market opportunities in the high-volume complex distribution area where it can profitably provide unique value and be able, over time, to capture market share and eventually dominate that industry. In fiscal 2017, TECSYS continued this initiative to explore additional opportunities using this strategy.

TECSYS's partnership strategy is to build an ecosystem to advance the science of supply chains for customers in a demanding and dynamic era. Built on a foundation of relationships with key technology partners including International Business Machines Corporation, Oracle Corporation, Microsoft Corporation, and Honeywell International Inc., TECSYS is extending its integrated offering with strategic industry players like Zebra Technologies Corporation and Terso Solutions Inc. As well, TECSYS is extending its reach through value added resellers and service partners such as Sequoia Group Inc. and Avalon Corporate Solution Corporation.

On November 17, 2016, Gartner, Inc. released its eight annual Healthcare Supply Chain Top 25 ranking<sup>3</sup>. The top four in Gartner's Healthcare Supply Chain Top 25 for 2016 are TECSYS customers. Gartner's annual Healthcare Supply Chain Top 25 ranking recognizes companies across the healthcare value chain that demonstrate leadership in improving human life at sustainable costs.

On February 13, 2017, Gartner, Inc. released the latest Magic Quadrant<sup>4</sup> for Warehouse Management Systems, in which TECSYS was positioned in the "Visionaries" quadrant, a position that it has held since its first inclusion in 2010.

Gartner Magic Quadrant research methodology provides a graphical competitive positioning of four types of technology providers in fast-growing markets: Leaders, Visionaries, Niche Players and Challengers. Gartner has evaluated global WMS vendors based on their completeness of vision and ability to execute and has recognized 13 WMS suppliers that were included in the 2017 Magic Quadrant for Warehouse Management Systems, one of which is TECSYS.

On April 4, 2017, TECSYS announced ProCheck, a strategic performance and optimization consulting service that helps distribution organizations attain the highest returns on their supply chain operations while meeting their business objectives. ProCheck is designed to identify baselines from which progress towards operational objectives and goals can be measured, and gaps reduced. It also enables distribution organizations to leverage TECSYS' deep subject matter expertise in the fields of performance management and warehouse optimization.

On April 4, 2017, TECSYS announced that it is extending its market leading and proven RFID Kanban inventory replenishment system for point-of-use from healthcare to a broader distribution of industries. The system provides clear visibility and accessibility of products anywhere in a distribution network. It also automates replenishment based on real-time consumption, capturing usage while significantly reducing cost as well as cash tied-up in inventory.

<sup>2,4</sup> Gartner "Magic Quadrant for Warehouse Management Systems" by C. Dwight Klappich & Simon Tunstall, 13 February 2017

<sup>3</sup> Gartner, "The Healthcare Supply Chain Top 25 for 2016", Eric O'Daffer et al., November 2016

On May 17, 2017, TECSYS announced that in the fourth quarter of fiscal 2017, the Company had signed two U.S. health systems for its Consolidated Service Center solutions (CSC). The Company had also started a pilot project in Europe for its Point of Use solutions. Both solutions are proven to help better manage costs, increase productivity and lead to better clinical outcomes.

On May 19, 2017, TECSYS announced the appointment of Brian Cosgrove, CPA, CA, as Chief Financial Officer Designate to succeed Berty Ho-Wo-Cheong. Mr. Ho-Wo-Cheong will be stepping down on July 6, 2017 after almost 20 years as CFO to take on a new role within the business. Mr. Cosgrove will take over the role of CFO after the Company has released its annual financial results for fiscal 2017.

TECSYS generates revenue from proprietary products (which includes licensing fees for proprietary software and proprietary hardware technology), third-party products (which includes hardware and software products), and the provision of related information technology services. At the end of fiscal 2017, recurring revenue<sup>5</sup> amounted to \$26.9 million which represents 39% of fiscal 2017 revenue. Recurring revenue is defined as the contractually committed purchase of services, generally comprising proprietary and third-party maintenance and hosting services, over the next twelve months. The quantification assumes that the customer will renew the contractual commitments on a periodic basis as they come up for renewal. This portion of the Company's revenue is predictable and stable, and the Company has reasonable assurance that it will occur at regular intervals with a high degree of certainty.

Services revenue includes both the fees associated with implementation assistance and ongoing services. These ongoing services include consulting, training, product adaptations, upgrade implementation assistance, maintenance, customer support, application hosting, and data base administration services. Such revenue is typically derived from contracts based on a fixed-price or time-and-material basis and is recognized as the services are performed.

Products revenue has two components: the Company's proprietary products and third-party products. Proprietary products' revenue was 17% of revenue in fiscal 2017 and 20% in fiscal 2016. Third-party products' revenue represented 13% of total revenue in fiscal 2017 and 14% in fiscal 2016.

Cost of revenue comprises the cost of products purchased for re-sale and the cost of services, made up mainly of salaries, incentives, benefits and travel expenses of all personnel providing services. Also included in the cost of services is a portion of overhead and e-business tax credits available under a Quebec government incentive program designed to support the development of the information technology industry. Cost of products includes the cost of proprietary hardware technology and all third-party products purchased for re-sale and required to complete customer solutions and internal production and coordination costs related to the delivery of proprietary hardware technology and third-party equipment. The third party products purchased for re-sale are typically other software products such as database and business intelligence software and hardware such as radio frequency equipment, storage equipment, and computer servers.

Sales and marketing, as well as general and administration expenses include all human resources costs involved in these functions. They also include all other costs related to sales and marketing and general and administration, such as travel, rent, advertising, trade shows, professional fees, office expenses, training, telecommunications, bad debts, and equipment rentals and maintenance.

Research and development (R&D) includes salaries, benefits, incentives and expenses of all staff assigned to R&D. Fees paid to external consultants and sub-contractors are also included, along with a portion of overhead. Also included in R&D are research and development tax credits as well as e-business tax credits.

At the end of fiscal 2017, the Company employed 372 employees in comparison to 363 at the end of fiscal 2016. The average number of employees was 367 in fiscal 2017 in comparison to 356 for fiscal 2016.

The U.S. dollar stayed relatively flat against the Canadian dollar during fiscal 2017 in comparison to fiscal 2016. The U.S. dollar to Canadian dollar exchange rates for fiscal 2017 averaged CA\$1.3176 in comparison to CA\$1.3158 for fiscal 2016. Approximately 71% of the Company's revenue were generated in the United States in fiscal 2017. In comparison to fiscal 2016, revenue had an estimated favorable variance of \$850,000 due to the favorable variance generated by the Company's designated hedging of highly probable U.S. revenue. The relatively flat U.S. dollar did not have any significant impact on cost of sales and operating expenses in fiscal 2017 as compared to fiscal 2016.

<sup>5</sup> Refer to section at end of MD&A titled "Key Performance Indicators"

In fiscal 2016, the U.S. dollar strengthened by approximately 14.4% against the Canadian dollar in comparison to fiscal 2015. With approximately 66% of the Company's revenue generated in the United States in fiscal 2016, the stronger U.S. dollar, which was partially offset by the Company's designated hedging of highly probable U.S. revenue, affected revenue favorably by an estimated \$5.8 million. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately \$1.7 million. Profit from operations was affected favorably by approximately \$4.1 million in comparison to fiscal 2015.

## SELECTED ANNUAL INFORMATION

In thousands of Canadian dollars, except per share data

	2017	2016	2015
<b>Total Revenue</b>	<b>68,447</b>	<b>67,466</b>	<b>57,284</b>
<b>Profit</b>	<b>5,998</b>	<b>4,804</b>	<b>1,515</b>
<b>Comprehensive Income</b>	<b>5,112</b>	<b>5,316</b>	<b>1,610</b>
<b>Basic and Diluted Earnings per Common Share</b>	<b>0.49</b>	<b>0.39</b>	<b>0.13</b>
<b>Common Share Dividends</b>	<b>0.15</b>	<b>0.10</b>	<b>0.09</b>
<b>Total Assets</b>	<b>52,537</b>	<b>52,690</b>	<b>47,377</b>
<b>Long-term Debt (including the current portion)</b>	<b>190</b>	<b>3,344</b>	<b>4,789</b>

## RESULTS OF OPERATIONS

### *Year ended April 30, 2017 compared to year ended April 30, 2016*

#### Revenue

Total revenue increased to \$68.4 million, \$1.0 million or 1% higher, compared to \$67.5 million for fiscal 2016.

Proprietary products, defined as internally developed products including proprietary software and hardware technology products, decreased to \$11.9 million, \$1.7 million or 13% lower in comparison to \$13.6 million for fiscal 2016. The decrease is primarily due to significant deliveries of proprietary hardware technology in the fourth quarter of fiscal 2016 that did not reoccur in fiscal 2017.

Third-party products revenue decreased to \$8.9 million, \$569,000 or 6% lower in comparison to \$9.4 million for fiscal 2016. The decrease in third-party products revenue is largely attributable to a decrease in storage products revenue partially offset by an increase in radio-frequency equipment revenue and third-party software license revenue.

Overall total contract value bookings<sup>6</sup> amounted to \$42.6 million during fiscal 2017 in comparison to \$42.2 million for the previous fiscal year, an increase of 1%. The Company signed twelve new accounts with a total contract value of \$11.1 million during fiscal 2017 in comparison to fourteen new accounts with a total contract value of \$8.9 million during fiscal 2016. The increase of \$2.2 million in new account total contract value bookings in fiscal 2017 was primarily the result of increased bookings from new IDN's and hospitals as well as from the complex distribution market.

Services revenue increased to \$45.2 million during fiscal 2017, \$2.7 million or 6% higher, compared to \$42.5 million for the previous fiscal year. The increase in services revenue is primarily attributable to higher support, hosting and professional services revenue.

As a percentage of total revenue, proprietary products accounted for 17%, third-party products for 13%, and services for 66% in fiscal 2017 compared to 20%, 14% and 63% for fiscal 2016, respectively.

<sup>6</sup> Refer to section at end of MD&A titled "Key Performance Indicators"

## Cost of Revenue

Total cost of revenue increased to \$34.3 million in fiscal 2017, \$1.6 million or 5% higher, in comparison to \$32.6 million for fiscal 2016. The increase is attributable to higher services costs of \$2.1 million and higher reimbursable expenses of \$531,000 partially offset by lower products costs of \$1.1 million.

The cost of services increased to \$24.6 million in fiscal 2017, \$2.1 million or 10% higher, in comparison to \$22.5 million for fiscal 2016. The increase is primarily attributable to higher employee salaries and benefits, severance, consulting, travelling, and hosting infrastructure expenses partially offset by an increase in tax credits. In fiscal 2017, the average services headcount increased by fourteen in comparison to fiscal 2016. This planned increase in headcount is to ensure that the Company increases its capacity to deliver services related to its backlog and anticipated increase in pipeline conversion. The cost of services includes tax credits of \$2.0 million for fiscal 2017 compared to \$1.6 million for fiscal 2016. The increase in tax credits is mainly due to favorable adjustments related to prior periods and the increase in headcount.

The cost of products decreased by \$1.1 million or 13% to \$7.1 million in fiscal 2017 in comparison to \$8.2 million for fiscal 2016. The decrease is mainly attributable to costs related to a decrease in storage products revenue and proprietary hardware technology products revenue partially offset by costs related to an increase in radio-frequency equipment products revenue and third-party software license revenue.

## Gross Profit

The gross profit decreased to \$34.2 million in fiscal 2017, \$629,000 lower, in comparison to \$34.8 million for the previous fiscal year. This is mainly attributable to a lower products margin of \$1.2 million as a result of lower products revenue of \$2.3 million partially offset by a higher services margin of \$579,000. Total gross profit percentage in fiscal 2017 was 50% compared to 52% in fiscal 2016.

Services gross profit during fiscal 2017 increased to \$20.6 million, \$579,000 higher, in comparison to \$20.0 million in fiscal 2016. Services gross profit was 45% of services revenue in fiscal 2017 in comparison to 47% for fiscal 2016. The increase in gross profit is primarily due to higher support, hosting and professional services revenue offset by the increased services costs mentioned earlier. The higher tax credits as compared to fiscal 2016 had a positive effect on gross profit.

The products margin decreased to \$13.6 million, \$1.2 million lower during fiscal 2017 in comparison to \$14.8 million in fiscal 2016. The decrease in margin is mainly attributable to lower revenue on proprietary products.

## Operating Expenses

Total operating expenses decreased to \$26.2 million for fiscal 2017, \$4.0 million or 13% lower, compared to \$30.3 million for fiscal 2016. The most notable differences between fiscal 2017 in comparison with fiscal 2016 are as follows.

- Sales and marketing expenses amounted to \$15.1 million, \$179,000 higher than the comparable previous fiscal year. The increase is primarily due to higher employee related expenses, travel and legal costs offset by lower commissions.
- General and administrative expenses amounted to \$5.9 million, \$123,000 lower than the comparable previous fiscal year. The decrease in costs is primarily attributable to lower incentives and legal expenses offset by higher salaries and travel.
- Net R&D expenses decreased to \$5.3 million, \$4.1 million lower than the comparable previous fiscal year. Gross R&D expenses decreased by \$163,000 comprising primarily of lower consulting costs offset by higher employee related costs and recruiting expenses. The Company also recorded \$6.1 million of refundable and non-refundable tax credits in fiscal 2017 compared to \$1.4 million for fiscal 2016. The increase in tax credits is due to the significant recognition of Canadian federal non-refundable research and development tax credits of \$4.9 million in fiscal 2017 as compared to \$300,000 in fiscal 2016 due to the Company's expectation of the increased probability that the tax credits will be realized in the future. These non-refundable tax credits will be used in the future to reduce cash taxes. In addition, the Company capitalized development costs of \$27,000 in fiscal 2017 compared to \$887,000 for fiscal 2016. The decrease in capitalization was due to the substantial completion of the migration of the Company's flagship product, *EliteSeries*, from 4GL to the Java platform. The Company amortized deferred development costs and other intangible assets of \$1.5 million in fiscal 2017 in comparison to \$1.6 million for fiscal 2016.

## **Profit from Operations**

The Company recorded profit from operations of \$8.0 million representing 12% of revenue in fiscal 2017 in comparison to \$4.5 million for 2016 representing 7% of revenue, primarily as a result of lower operating expenses mainly arising from the recognition of the R&D non-refundable tax credits mentioned earlier and higher services margin partially offset by lower products margin.

## **Net Finance Costs**

In fiscal 2017, the Company recorded net finance costs of \$189,000 in comparison to \$146,000 for fiscal 2016. The increase in net finance costs is primarily due to a higher foreign exchange loss offset by higher interest income on the Company's short-term investments and lower interest expense on the Company's long-term debt as compared to fiscal 2016. See note 18 to the consolidated financial statements for an overview of the components comprising net finance costs.

## **Income Taxes**

In fiscal 2017, the Company recorded an income tax expense of \$1.8 million comprised of current income tax expense of \$1.7 million and deferred income tax expense of \$29,000. In fiscal 2016, the Company recorded an income tax recovery of \$401,000 comprised of current income tax expense of \$975,000 offset by deferred income taxes recovery of \$1.4 million. The increase in current income tax expense as compared to fiscal 2016 is due to the increase in profitability as compared to the prior fiscal year. The increase in the deferred income tax expense is mainly due to the recognition of deferred tax assets in fiscal 2016 arising from the expected increase in operating profits in future years whereas in fiscal 2017, the Company recognized a significant amount of its available Canadian Federal non-refundable research and development tax credits to reduce future taxes payable arising from the expected increase in profits as a significant portion of the tax credits will expire in the next six years.

As at April 30, 2017, the Company had recognized net deferred tax assets of \$2.2 million and has an unrecognized net deferred tax asset of \$5.4 million covering various jurisdictions and approximately \$6.1 million of Canadian federal non-refundable SRED tax credits which may be used only to reduce future Canadian federal income taxes otherwise payable. As such, the Company does not anticipate any significant cash disbursements related to Canadian income taxes given its availability of Canadian federal non-refundable tax credits and deferred tax assets. Refer to note 14 of the consolidated financial statements for further detail.

## **Profit**

The Company realized profit of \$6.0 million or \$0.49 per common share in fiscal 2017 compared to \$4.8 million or \$0.39 per common share for fiscal 2016.

## **RESULTS OF OPERATIONS FOR THE FOURTH QUARTER**

### ***Quarter ended April 30, 2017 compared to quarter ended April 30, 2016***

## **Revenue**

Total revenue for the fourth quarter ended April 30, 2017 decreased to \$18.4 million, \$2.7 million or 13% lower, compared to \$21.1 million for the same period of fiscal 2016. The U.S. dollar averaged CA\$1.3312 in the fourth quarter of fiscal 2017 in comparison to CA\$1.3272 in the fourth quarter of fiscal 2016. Approximately 78% of the Company's revenues were generated in the United States during the fourth quarter of fiscal 2017. The unfavorable impact of the Company's designated hedging of highly probable U.S. revenue offset by the stronger U.S. dollar gave rise to an unfavorable variance in comparison to the previous fiscal year by an estimated \$200,000. The slightly stronger U.S. dollar did not have any significant impact on cost of sales and operating expenses.

Proprietary products revenue decreased to \$3.9 million, \$2.0 million or 34% lower, in the fourth quarter of fiscal 2017 in comparison to \$5.9 million for the same period last year. The decrease is primarily due to significant deliveries of proprietary hardware technology in the fourth quarter of fiscal 2016 that did not reoccur in fiscal 2017 partially offset by an increase in proprietary license revenue.

Overall total contract value bookings amounted to \$11.1 million in the fourth quarter of fiscal 2017 in comparison to \$13.1 million for the same period of the previous fiscal year. During the fourth quarter of fiscal 2017, the Company signed four new

accounts with a total contract value of \$4.7 million compared to five new accounts with a total contract value of \$2.7 million in the fourth quarter of fiscal 2016. During the fourth quarter of fiscal 2017, the average deal size for the four new accounts was about twice as much as the average deal size for the five new accounts in the fourth quarter of fiscal 2016.

Third party products revenue decreased to \$2.7 million, \$433,000 or 14% lower, in the fourth quarter of fiscal 2017 in comparison to \$3.1 million for the same period last year. The decrease in third-party products revenue is largely attributable to a decrease in storage products revenue partially offset by an increase in radio-frequency equipment revenue.

Services revenue decreased to \$11.2 million, lower by \$294,000 or 3%, in fourth quarter of fiscal 2017 compared to \$11.5 million for the same period in the previous fiscal year. The decrease is primarily attributable to a decrease in professional services revenue partially offset by an increase in support and hosting revenue.

As a percentage of total revenue, proprietary products accounted for 21%, third-party products for 14%, and services for 61% in the fourth quarter of fiscal 2017 compared to 28%, 15% and 54% for the same period in fiscal 2016, respectively.

## **Cost of Revenue**

Total cost of revenue decreased to \$9.1 million, lower by \$385,000 or 4%, in the fourth quarter of fiscal 2017 in comparison to \$9.4 million for the same period in fiscal 2016. The decrease is mainly attributable to lower products costs of \$1.2 million partially offset by higher services costs of \$750,000.

The cost of services increased to \$6.4 million, higher by \$750,000 or 13%, in the fourth quarter of fiscal 2017 in comparison to \$5.6 million for the same period in fiscal 2016. The increase is mainly attributable to higher employee remuneration, severance and hosting infrastructure expenses and lower tax credits offset by lower incentives. The average services headcount in the fourth quarter of fiscal 2017 increased by seven in comparison to the fourth quarter of fiscal 2016. The cost of services includes tax credits of \$437,000 for the fourth quarter of fiscal 2017 compared to \$705,000 for the same period in the previous fiscal year. In fiscal 2016, all of the non-refundable e-business tax credits were recorded in the fourth quarter, whereas in fiscal 2017, the non-refundable e-business tax credits were recorded quarterly when the related expenditure was incurred.

The cost of products decreased by \$1.2 million or 38% to \$2.0 million in comparison to \$3.2 million for the same period last year. The decrease is mainly attributable to costs related to a decrease in storage products revenue and proprietary hardware technology products revenue offset by an increase in costs related to higher radio-frequency equipment revenue.

## **Gross Profit**

Gross profit decreased to \$9.4 million, lower by \$2.3 million, in the fourth quarter of fiscal 2017 in comparison to \$11.7 million for the same period last year. This is mainly attributable to lower products margin of \$1.3 million and lower services margin of \$1.0 million. Total gross profit percentage in the fourth quarter of fiscal 2017 was 51% compared to 55% in the same period of fiscal 2016.

Services gross profit during the fourth quarter of fiscal 2017 decreased by \$1.0 million to \$4.8 million in comparison to \$5.8 million in the same period of fiscal 2016. Services gross profit was 43% of services revenue in the fourth quarter of fiscal 2017 in comparison to 51% for the comparable period last year. The decrease in services gross profit is primarily due to the decreased revenue and increased services costs as discussed earlier.

The products margin decreased to \$4.6 million, \$1.3 million lower than the same period last year. The decrease in products margin is mainly attributable to a decrease in proprietary products revenue.

## Operating Expenses

Total operating expenses for the fourth quarter of fiscal 2017 decreased to \$3.3 million, lower by \$5.1 million or 61%, compared to \$8.5 million for the same three-month period last year. The most notable differences between the fourth quarter of fiscal 2017 in comparison with the same period in fiscal 2016 are as follows.

- Sales and marketing expenses amounted to \$4.1 million, \$152,000 lower than the comparable quarter last year. The decrease is primarily due to lower commissions offset by an increase in severance and consulting fees.
- General and administrative expenses decreased to \$1.4 million, \$489,000 lower than the comparable quarter last year. The decrease is mainly attributable to lower incentives and legal costs.
- Gross R&D expenses decreased by \$25,000 comprising primarily of lower incentives offset by higher employee related costs. The Company recorded \$5.0 million of R&D refundable and non-refundable tax credits and refundable and non-refundable e-business tax credits in the fourth quarter of fiscal 2017 in comparison to \$493,000 for the same period in fiscal 2016. The increase in tax credits is due to the significant recognition of Canadian federal non-refundable research and development tax credits of \$4.7 million in the fourth quarter of fiscal 2017 as compared to \$75,000 in the fourth quarter of fiscal 2016 due to the Company's expectation of the increased probability that the tax credits will be realized in the future. In addition, the Company capitalized development costs of \$68,000 in the fourth quarter of fiscal 2016 compared to no capitalization for the same period of fiscal 2017. The decrease in capitalization was due to the substantial completion of the migration of the Company's flagship product, *EliteSeries*, from 4GL to the Java platform in fiscal 2016. The Company amortized deferred development costs and other intangible assets of \$353,000 in the fourth quarter of fiscal 2017 in comparison to \$405,000 for the same quarter a year earlier.

## Profit from Operations

The Company recorded profit from operations of \$6.0 million representing 33% of revenue in the fourth quarter of fiscal 2017 in comparison to \$3.2 million representing 15% of revenue for the same period in fiscal 2016. This increase was primarily as a result of lower operating expenses of \$5.1 million mainly arising from the increased recognition of the R&D non-refundable tax credits of \$4.6 million mentioned earlier partially offset by lower products margin of \$1.3 million and lower services margin of \$1.0 million. Included in cost of services and operating expenses was an increase of severance and related legal costs of \$432,000 in comparison to the fourth quarter of fiscal 2016.

## Net Finance Costs

In the fourth quarter of fiscal 2017, the Company recorded net finance income of \$7,000 in comparison to net finance costs of \$123,000 for the same period of fiscal 2016. The increase in net finance income is largely attributable to a lower foreign exchange loss, lower interest expense on the Company's long-term debt and higher interest income on the Company's short-term investments as compared to the fourth quarter of fiscal 2016.

## Income Taxes

In the fourth quarter of fiscal 2017, the Company recorded an income tax expense of \$1.3 million in comparison to an income tax recovery of \$711,000 in the fourth quarter of fiscal 2016. The increase in income tax expense as compared to the same period in fiscal 2016 is due to the increase in profitability and also due to the recognition of deferred tax assets in fiscal 2016 arising from the expected increase in operating profits in future years. In fiscal 2017, the Company recognized a significant amount of its available Canadian Federal non-refundable research and development tax credits to reduce future taxes payable arising from the expected increase in profits and taking into account that a significant portion of the tax credits will expire in the next six years.

## Profit

The Company realized profit of \$4.8 million or \$0.39 per share in the fourth quarter of fiscal 2017 compared to \$3.8 million or \$0.31 per share for the same period in fiscal 2016.

**QUARTERLY SELECTED FINANCIAL DATA**  
**(Quarterly data are unaudited)**  
**In thousands of Canadian dollars, except per share data**

<b>Fiscal Year 2017</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
<b>Total Revenue</b>	<b>16,097</b>	<b>16,518</b>	<b>17,385</b>	<b>18,447</b>	<b>68,447</b>
<b>Profit</b>	<b>128</b>	<b>206</b>	<b>888</b>	<b>4,776</b>	<b>5,998</b>
<b>Comprehensive (Loss) Income</b>	<b>(597)</b>	<b>70</b>	<b>1,261</b>	<b>4,378</b>	<b>5,112</b>
<b>Basic and Diluted Earnings per Common Share</b>	<b>0.01</b>	<b>0.02</b>	<b>0.07</b>	<b>0.39</b>	<b>0.49</b>

---

<b>Fiscal Year 2016</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
<b>Total Revenue</b>	<b>14,931</b>	<b>15,762</b>	<b>15,629</b>	<b>21,144</b>	<b>67,466</b>
<b>Profit</b>	<b>69</b>	<b>367</b>	<b>543</b>	<b>3,825</b>	<b>4,804</b>
<b>Comprehensive (Loss) Income</b>	<b>(514)</b>	<b>723</b>	<b>296</b>	<b>4,811</b>	<b>5,316</b>
<b>Basic and Diluted Earnings per Common Share</b>	<b>0.01</b>	<b>0.03</b>	<b>0.04</b>	<b>0.31</b>	<b>0.39</b>

In the fourth quarter of fiscal 2017, the Company recorded \$4.7 million of Canadian federal non-refundable research and development tax credits due to the Company's expectation of the increased probability that the tax credits will be realized in the future and maximize on the availability of the tax credits prior to their expiry as a significant portion of the tax credits will expire over the next six years.

In the fourth quarter of fiscal 2016, the Company had significant deliveries of proprietary products which amounted to \$5.9 million compared to an average of \$2.6 million in the first three quarters of fiscal 2016. In addition, the Company recognized deferred tax assets of \$1.4 million arising from the expected increase in operating profits in future years. Comprehensive income was significantly higher compared to profit whereas for the previous three quarters in fiscal 2016, the opposite was true. This is attributable to the decline in the closing rate of the U.S. dollar from the end of the third quarter, which gave rise to fair value gains on designated revenue hedges attributable to fiscal 2017 due to the foreign exchange rates in revenue hedging contracts being higher than the year end closing rate.

## LIQUIDITY AND CAPITAL RESOURCES

On April 30, 2017, current assets totaled \$34.6 million compared to \$37.1 million at the end of fiscal 2016. Cash and cash equivalents increased to \$13.5 million compared to \$9.7 million as at April 30, 2016 primarily due to cash generated from operating activities offset by the repayment of long-term debt, the payment of dividends and the investment in property and equipment.

The Company's banking agreement with a Canadian chartered bank includes credit facilities for an operating line of credit up to \$5.0 million and term loans of \$7.0 million. Refer to note 10 of the consolidated financial statements for a detailed description of the banking facilities. A term loan of \$5.0 million was received at the end of the second quarter of fiscal 2013 and a second term loan of \$2.0 million was received in the fourth quarter of fiscal 2015. On April 3, 2017, the Company prepaid its remaining principal balance on its term loans of \$1,817,000. The operating line of credit has no outstanding balance as at April 30, 2017 or 2016.

The banking agreement requires the Company to maintain a working capital ratio equal or greater than 1.1 : 1.0, a shareholder's equity equal or greater than \$5.0 million, a ratio of interest-bearing debt to EBITDA<sup>7</sup> of less than or equal to 3.0 : 1.0, and a debt service coverage ratio greater than or equal to 1.2 : 1.0. At April 30, 2017 and April 30, 2016, the Company was in compliance with the required financial covenants in effect at the time.

Accounts receivable and work in progress totaled \$14.8 million on April 30, 2017 compared to \$18.8 million as at April 30, 2016. The Company's DSO<sup>8</sup> (days sales outstanding) stood at 72 days at the end of fiscal 2017 compared to 80 days at the end of fiscal 2016.

<sup>7</sup> Refer to section at end of MD&A titled "Non-IFRS Performance Measure"

<sup>8</sup> Refer to section at end of MD&A titled "Key Performance Indicators"

Current liabilities on April 30, 2017 decreased to \$21.4 million compared to \$23.1 million at the end of fiscal 2016 mainly due to the decrease in accounts payable and accrued liabilities and current portion of long-term debt offset by an increase in deferred revenue. Working capital decreased to \$13.2 million at the end of April 30, 2017 in comparison to \$14.0 million at the end of fiscal year 2016.

The Company believes that funds on hand at April 30, 2017 combined with cash flow from operations and its accessibility to banking facilities will be sufficient to meet its needs for working capital, R&D, capital expenditures, and dividends for at least the next twelve months.

### **Cash from Operations**

Operating activities generated \$9.8 million in fiscal 2017 in comparison to \$3.6 million in fiscal 2016. Operating activities excluding changes in non-cash working capital items related to operations generated \$5.2 million in fiscal 2017 and \$5.6 million in fiscal 2016. The decrease is primarily due to higher non-refundable tax credits offset by overall higher profitability, higher unrealized foreign exchange losses and an increase in income tax expense.

Non-cash working capital items generated funds of \$4.6 million in fiscal 2017 primarily due to decreases in accounts receivable and tax credits receivable and an increase in deferred revenue offset by a decrease in accounts payable and accrued liabilities.

Non-cash working capital items used funds of \$2.0 million in fiscal 2016 primarily due to increases in accounts receivable offset by increases in accounts payable and accrued liabilities and deferred revenue and decreases in tax credits receivable.

### **Financing Activities**

Financing activities used funds of \$5.1 million for fiscal 2017 in comparison to using funds of \$2.8 million for fiscal 2016.

As noted earlier, a term loan of \$5.0 million was received at the end of the second quarter of fiscal 2013 and a second term loan of \$2.0 million was received in the fourth quarter of fiscal 2015. On April 3, 2017, the Company prepaid its remaining principal balance on its term loans of \$1,817,000. Prior to the prepayment, the Company had repaid \$1,283,000 of the principal balance of the term loans during fiscal 2017 and \$1,400,000 during fiscal 2016.

During fiscal 2017, the Company declared quarterly dividends of \$0.03 for each of the first two quarters and \$0.045 for each of the following two quarters for an aggregate of \$1.8 million. During fiscal 2016, the Company declared four quarterly dividends of \$0.025 per share each for a total dividend disbursement of \$0.10 per share or \$1.2 million in aggregate.

The Company paid interest of \$81,000 and \$136,000 for fiscal 2017 and fiscal 2016, respectively.

### **Investing Activities**

During fiscal 2017, investing activities used funds of \$1.0 million in comparison to \$1.9 million for fiscal 2016.

The Company used funds of \$808,000 and \$1.1 million for the acquisition of property and equipment and intangible assets in fiscal 2017 and fiscal 2016, respectively. Additionally, the Company invested in its proprietary software products with the capitalization of \$253,000 and \$887,000 reflected as deferred development costs in fiscal 2017 and fiscal 2016, respectively. The Company received interest of \$103,000 and \$65,000 in fiscal 2017 and fiscal 2016, respectively.

## **COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

The Company has a lease agreement for its head office in Montreal, Quebec. The lease term was expected to terminate on October 31, 2020, however, in April 2017, the Company signed an amendment and exercised its option to extend the term of its lease for the head office in Montreal for an additional period of five years and one month, which expires November 30, 2025, and to occupy additional space in the same building as of December 1, 2017. The Company has a lease agreement for its office in Markham, Ontario. The lease term of ten years and eight months terminates on July 31, 2022. The Company also has a lease agreement for its office in Laval, Quebec. The lease term of ten years terminates on February 28, 2026.

As at April 30, 2017, the principal commitments consist of operating leases (note 20 of the consolidated financial statements), long-term debt and other obligations. The following table summarizes significant contractual obligations as at April 30, 2017.

In thousands of Canadian dollars

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1 – 3 years	3 – 5 years	After 5 years
Long-term Debt	190	69	121	-	-
Operating Leases	16,244	1,985	4,269	4,000	5,990
Other Obligations	9,265	9,265	-	-	-
Total Contractual Obligations	25,699	11,319	4,390	4,000	5,990

Under the terms of a licensing agreement with a third party, the Company is committed to pay royalties calculated at a rate of 1.25% of revenue derived from that portion of the EliteSeries product line that utilizes the embedded third-party software, excluding reimbursable expenses and hardware sales. Revenue derived from the operations of other business units or acquired companies are exempt from these royalties. The agreement automatically renews for consecutive one-year terms. The Company has incurred royalty fees related to this agreement of \$145,000 in fiscal 2017 (2016 – \$115,000).

## DIVIDEND POLICY

The Company maintains a quarterly dividend policy. The declaration and payment of dividends is at the discretion of the Board of Directors, which will consider earnings, capital requirements, financial conditions and other such factors as the Board of Directors, in its sole discretion, deems relevant.

During fiscal 2017, the Company declared a dividend of \$0.03 on two separate occasions that were paid on August 4, 2016 and October 7, 2016 to shareholders of record at the close of business on July 21, 2016 and September 23, 2016 respectively, and declared a dividend of \$0.045 on two other separate occasions that were paid on January 12, 2017 and April 11, 2017 to shareholders of record at the close of business on December 22, 2016 and March 21, 2017 respectively, for an aggregate of \$1.8 million.

During fiscal 2016, the Company declared a dividend of \$0.025 on four separate occasions that were paid on August 6, 2015, October 9, 2015, January 12, 2016, and April 12, 2016 to shareholders of record at the close of business on July 22, 2015, September 25, 2015, December 22, 2015, and March 22, 2016 respectively, for an aggregate of \$1.2 million.

## RELATED PARTY TRANSACTIONS

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans to key management and other management employees of \$187,000 and \$220,000 to facilitate their purchase of Company shares during fiscal 2017 and fiscal 2016, respectively. These loans were fully repaid before the end of each fiscal year. No loans were outstanding as at April 30, 2017 and April 30, 2016.

## CONTINGENCIES

In the normal course of operations, the Company may be exposed to lawsuits, claims and contingencies. Provisions are recognized as liabilities in instances when there are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and where such liabilities can be reliably estimated. Although it is possible that liabilities may be incurred in instances where no provision has been made, the Company has no reason to believe that the ultimate resolution of such matters will have a material impact on its financial position.

## SUBSEQUENT EVENT

On July 6, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.045 per share to be paid on August 4, 2017 to shareholders of record on July 21, 2017.

On June 27, 2017, the Company completed an offering of 1,100,050 common shares of the Company at the offering price of \$15.00 per common share for aggregate gross proceeds of \$16,500,750 (the "Offering"). The Offering includes a treasury offering of 767,050 shares by the Company, including 100,050 common shares purchased by the underwriters pursuant to the exercise of their over-allotment option on June 27, 2017, for gross proceeds of \$11,505,750 and a secondary offering of 333,000 shares by (i) David Brereton, Executive Chairman of the Company; (ii) Dabre Inc., David Brereton's holding company; and (iii) Kathryn Ensign-Brereton, David Brereton's spouse for aggregate gross proceeds of \$4,995,000. The Offering was completed on a bought deal basis and was underwritten by a syndicate of underwriters led by Cormark Securities Inc. on its

own behalf and on behalf of two other underwriters.

The common shares were offered by way of a short form prospectus filed in all provinces in Canada.

Transaction costs directly associated with this issuance of treasury shares of approximately \$1,052,816 have been recognized as a reduction of the proceeds, resulting in net total proceeds of approximately \$10,452,934 for the treasury offering.

## OFF-BALANCE SHEET AGREEMENTS

The Company was not involved in any off-balance sheet arrangements as at April 30, 2017 with the exception of operating leases as noted in the "Commitments and Contractual Obligations" above.

## CURRENT AND ANTICIPATED IMPACTS OF CURRENT ECONOMIC CONDITIONS

The current overall economic condition, together with the market uncertainty and volatility that exists today, may have an adverse impact on the demand for the Company's products and services as industry may adjust quickly to exercise caution on capital spending. Furthermore, the regulatory changes in the United States health care system from which the Company derives a significant amount of its revenue is going through a period of uncertainty. This uncertainty may impact the Company's revenue.

Fiscal 2017 was a robust period with bookings amounting to \$42.6 million, and this continued the trend from fiscal year 2016 where bookings totaled \$42.2 million, with a substantial amount of the bookings being in the healthcare sector. The magnitude of the growth trend will depend on the strength and sustainability of economic growth and the demand for supply chain management software.

Given the current backlog<sup>9</sup> of \$46.1 million, comprised primarily of services, the Company's management believes that the services revenue level ranging between \$11.3 million and \$11.8 million per quarter can be sustained in the short term if no significant new agreements are completed.

Strategically, the Company continues to focus its efforts on the most likely opportunities within its existing vertical markets and customer base. The Company also currently offers subscription-based licensing, hosting services, modular sales and implementations, and enhanced payment terms to promote revenue growth.

The exchange rate of the U.S. dollar in comparison to the Canadian dollar continues to be an important factor affecting revenues and profitability as the Company generally derives approximately 65% to 75% of its business from U.S. customers while the majority of its cost base is in Canadian dollars.

The Company will continue to adjust its business model to ensure that costs are aligned to its revenue expectations and the economic reality. The Company has increased its headcount over the past several years to meet the higher demand for its services and to capture pipeline opportunities. The Company will focus its attention on rendering this investment profitable while addressing the services backlog contributing to revenue generation. Other cost areas under continuous scrutiny are traveling, consulting and communications.

The Company believes that funds on hand together with anticipated cash flows from operations, and its accessibility to the operating line of credit will be sufficient to meet all its needs for a least the next twelve months. The Company can further manage its capital structure by adjusting its dividend policy.

## FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash and cash equivalents, accounts receivable, other accounts receivable, and accounts payable and accrued liabilities approximate their fair value because of the relatively short period to maturity of the instruments. The fair value of the long-term debt was determined to be not significantly different from its carrying value.

Derivative instruments are also recorded as either assets or liabilities measured at their fair value. As such, the net fair value of all outstanding foreign exchange contracts representing a \$717,000 loss was recorded as a liability in accounts payable and accrued liabilities as at April 30, 2017 (April 30, 2016 - \$1.0 million gain recorded as an asset of \$1.0 million in other accounts receivable and a liability of \$18,000 in accounts payable and accrued liabilities).

<sup>9</sup> Refer to section at end of MD&A titled "Key Performance Indicators"

Derivatives in the form of forward exchange contracts are used to manage currency risk related to the fluctuation of the U.S. dollar. The Company is exposed to currency risk as a certain portion of the Company's revenue and expenses are realized in U.S. dollars resulting in U.S. dollar-denominated accounts receivable and accounts payable and accrued liabilities. In addition, certain of the Company's cash and cash equivalents are denominated in U.S. dollars.

The Company's hedging strategy is practiced on two fronts. Firstly, the Company enters into forward exchange contracts to hedge approximately 50% of its highly probable future revenue denominated in U.S. dollars covering approximately the six month span beyond the current reporting date with the intention of stabilizing revenue and margin expectations due to possible short term exchange fluctuations, and secondly in order to offset the impact of the fluctuation of the U.S. dollar regarding the revaluation of its U.S net monetary asset and liability position. In this regard, the Company practices economic hedging regularly by analysing its net U.S. monetary asset and liability position and uses forward exchange contracts to equilibrate its position. As such, any change in cash flows associated with derivative instruments is expected to be offset by changes in cash flows related to the net monetary position in the foreign currency and the recognition of highly probable future U.S. denominated revenue and related accounts receivable. The Company uses derivative financial instruments only for risk management purposes, not for generating speculative trading profits.

Financial instruments which potentially subject the Company to credit risk consist principally of cash and cash equivalents, accounts receivable, and other accounts receivable. The Company's cash and cash equivalents are maintained at major financial institutions.

At April 30, 2017, there is one customer comprising 13% of total trade accounts receivable and work in progress. Generally, there is no particular concentration of credit risk related to the accounts receivable due to the North American distribution of customers and procedures for the management of commercial risks. The Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. Customers do not provide collateral in exchange for credit.

Refer to note 22 of the consolidated financial statements for additional discussion of the Company's risk management policies, including currency risk, credit risk, liquidity risk, interest rate risk and market price risk.

## OUTSTANDING SHARE DATA

As at July 6, 2017, the Company has 13,082,376 common shares outstanding subsequent to the issuance of additional common shares via a bought deal. See "Subsequent Event" above.

## CRITICAL ACCOUNTING POLICIES

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results. A summary of the Company's significant accounting policies, including the critical accounting policies discussed below, is set out in the notes to the consolidated financial statements.

### **Use of estimates, assumptions and judgments**

The preparation of the consolidated financial statements requires management to make estimates, assumptions, and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and the anticipated measures that management intends to take. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about areas requiring the use of judgment, management assumptions and estimates, and key sources of estimation uncertainty that the Company believes could have the most significant impact on reported amounts is noted below:

(i) Revenue recognition:

Revenue recognition is subject to critical judgment, particularly in multiple-element arrangements where judgment is required in allocating revenue to each component, including licenses, professional services and maintenance services,

based on the relative fair value of each component. As certain of these components have a term of more than one year, the identification of each deliverable and the allocation of the consideration received to the components impacts the timing of revenue recognition.

(ii) Government assistance:

Management uses judgment in estimating amounts receivable for various tax credits and in assessing the eligibility of research and development and other expenses which give rise to these credits.

(iii) Income taxes:

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and available tax planning strategies in making this assessment.

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

(iv) Impairment of assets:

Impairment assessments may require the Company to determine the recoverable amount of a cash generating unit ("CGU"), defined as the smallest identifiable group of assets that generates cash inflows independent of other assets. This determination requires significant estimates in a variety of areas including: expected sales, gross margins, selling costs, timing and size of cash flows, and discount and interest rates. The Company documents and supports all assumptions made in the above estimates and updates such assumptions to reflect the best information available to the Company if and when an impairment assessment requires the recoverable amount of a CGU to be determined.

(v) Allowance for doubtful accounts:

The Company makes an assessment of whether accounts receivable are collectable, which considers credit loss insurance and the credit-worthiness of each customer, taking into account each customer's financial condition and payment history in order to estimate an appropriate allowance for doubtful accounts. Furthermore, these estimates must be continuously evaluated and updated. The Company is not able to predict changes in the financial condition of its customers, and if circumstances related to its customers' financial conditions deteriorate, the estimates of the recoverability of trade accounts receivable could be materially affected and the Company may be required to record additional allowances. Alternatively, if the Company provides more allowances than needed, a reversal of a portion of such allowances in future periods may be required based on actual collection experience.

(vi) Business combinations:

Business combinations are accounted for in accordance with the acquisition method. On the date that control is obtained, the identifiable assets, liabilities and contingent liabilities of the acquired company are measured at their fair value. Depending on the complexity of determining these valuations, the Company uses appropriate valuation techniques which are generally based on a forecast of the total expected future net discounted cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant.

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Standards Interpretations Committee ("IFRS IC") that are mandatory but not yet effective for the year ended April 30, 2017, and have not been applied in preparing these consolidated financial statements. None are expected to have an impact on the consolidated financial statements of the Company except for the following:

IFRS 9, *Financial Instruments* ("IFRS 9"):

In July 2014, the IASB issued the complete version of IFRS 9 (2014), *Financial Instruments*. IFRS 9 (2014) differs in some regards from IFRS 9 (2013) which the Company early adopted effective May 1, 2014. IFRS 9 (2014) includes updated guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment, and new general hedge accounting requirements. The final version of IFRS 9 supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted, however an entity may elect to apply earlier versions of IFRS 9 if the entity's relevant date of initial application is before February 1, 2015. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"):

In May 2014, the IASB issued IFRS 15 which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers.

IFRS 15 supersedes the following standards: IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Service*.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

This standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16"):

In January 2016, the IASB issued IFRS 16, which specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, *Leases*. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019, with earlier application permitted only if IFRS 15 has also been applied. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRIC 22, *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22"):

In December 2016, the IASB issued IFRIC 22. The interpretation clarifies which date should be used for translation when accounting for transactions in a foreign currency that include the receipt or payment of advance consideration. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently evaluating the impact of IFRIC 22 on its consolidated financial statements.

## RISKS AND UNCERTAINTIES

### **History of Earnings and Losses; Uncertainty of Future Operating Results**

The Company realized net earnings over the last ten fiscal years from 2008 through 2017, but incurred losses in fiscal 2007 as well as in other prior fiscal years. The Company has continued to adjust its operating model in view of achieving profitability. However, there can be no assurance that the Company will achieve or sustain profitability in the future. As of April 30,

2017, the Company had retained earnings of \$13.1 million. The Company's dependence on a market characterized by rapid technological change make the prediction of future results of operations difficult or impossible. There can be no assurance that the Company can generate substantial revenue growth on a quarterly or annual basis, or that any revenue growth that is achieved can be sustained. Revenue growth that the Company has achieved or may achieve may not be indicative of future operating results. In addition, the Company may increase its operating expenses in order to fund higher levels of research and development, increase its sales and marketing efforts, develop new distribution channels, broaden its customer support capabilities and expand its administrative resources in anticipation of future growth. To the extent that increases in such expenses precede or are not subsequently followed by increased revenue, the Company's business, results of operations, and financial condition would be materially adversely affected.

### **Fluctuations in Quarterly Results**

The Company's quarterly operating results have in the past and will in the future, fluctuate significantly, depending on factors such as the demand for the Company's products, the size and timing of orders, the number, timing and significance of new product announcements by the Company and its competitors, the ability of the Company to develop, introduce, and market new and enhanced versions of its products on a timely basis, the level of product and price competition, changes in operating expenses, changes in average selling prices and product mix, sales personnel changes, the mix of direct and indirect sales, product returns and general economic factors, among others.

In particular, the Company's quarterly results are affected by the timing of new releases of its products and upgrades. The Company's operating expenses are based on anticipated revenue levels in the short term and are relatively fixed and incurred throughout the quarter. As a result, if the revenue is not realized in the expected quarter, the Company's operating results could be materially adversely affected. Quarterly results in the future may be influenced by these or other factors, including possible delays in the shipment of new products and purchasing delays of current products as customers anticipate new product releases. Accordingly, there may be significant variations in the Company's quarterly operating results.

### **Lengthy Sales and Implementation Cycle**

The sale and implementation of the Company's products generally involves a significant commitment of resources by prospective customers. As a result, the Company's sales process is often subject to delays associated with lengthy approval processes attendant to significant capital expenditures. For these and other reasons, the sales cycle associated with the licensing of the Company's products varies substantially from customer to customer and typically lasts between six and twelve months. During this time, the Company may devote significant resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which it has no control. In addition, following license sales, the implementation period may involve six to twelve months for consulting services, customer training and integration with the customer's other existing systems.

### **Product Development and Technological Change**

The software industry is characterized by rapid technological change and frequent new product introductions. Accordingly, the Company believes that its future success depends upon its ability to enhance current products or develop and introduce new products that enhance performance and functionality at competitive prices. The Company's inability, for technological or other reasons, to develop and introduce products in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on its business, results of operations and financial condition. The ability of the Company to compete successfully will depend in large measure on its ability to maintain a technically competent research and development staff and adapt to technological changes and advances in the industry, including providing for the continued compatibility of its software products with evolving computer hardware and software platforms and operating environments. There can be no assurance that the Company will be successful in these efforts.

### **Competition**

The Company competes in many cases against companies with more established and larger sales and marketing organizations, larger technical staff, and significantly greater financial resources. As the market for the Company's products continues to develop, additional competitors may enter the market and competition may intensify. Additionally, there can be no assurance that competitors will not develop products superior to the Company's products or achieve greater market acceptance due to pricing, sales channels or other factors.

## **Management of Growth and Dependence on Key Management and Personnel**

The Company's dependence upon key personnel to operate the business represents risk of the loss of expertise if key personnel were to leave.

The Company depends upon the experience and expertise of our executive management team. The competition for executives, as well as for skilled product development and technical personnel, in the software industry is intense and the Company may not be able to retain or recruit needed personnel. If the Company is not able to attract and retain existing and additional highly qualified management, sales, and technical personnel, it may not be able to successfully execute the business strategy.

The Company's ability to support the growth of its business will be substantially dependent upon having in place highly trained internal and third-party resources to conduct pre-sales activity, product implementation, training and other customer support services.

## **Risks Related to Acquisitions**

The Company may continue to expand its operations or product line through the acquisition of additional businesses, products or technologies. Acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances and legal liabilities, some or all of which could have a material adverse effect on the Company's business, results of operations and financial condition.

## **Risk of Software Defects**

Software products as complex as those offered by the Company frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. Despite product testing, the Company has in the past released products with defects, discovered software errors in certain of its new versions after introduction and experienced delays or lost revenue during the period required to correct these errors. The Company regularly introduces new releases and periodically introduces new versions of its software. There can be no assurance that, despite testing by the Company and its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after commencement of commercial shipments.

## **Risk Related to Protection of Intellectual Property**

The Company considers certain aspects of its internal operations, software and documentation to be proprietary, and relies on a combination of copyright, patents, trademark and trade secret laws; confidentiality agreements with employees and third parties; and protective contractual provisions (such as those contained in our license agreements with consultants, vendors, partners and customers) and other measures to maintain intellectual property rights. Any of the Company's intellectual property rights could be challenged, invalidated, circumvented, or copied to cause a competitive disadvantage, lost opportunities and market share, and potential costly litigation to enforce or re-establish the Company's rights. This could materially and adversely affect the Company's business, operating results, and financial condition.

## **Risk of Third-Party Claims for Infringement**

The Company is not aware that any of its products infringe the proprietary rights of third-parties. There can be no assurance, however, that third-parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and as functionality of products in different industry segments overlaps.

## **Reliance on Third-Party Software**

The Company relies on certain software that it sub-licenses from third-parties. There can be no assurance that these third-party software companies will continue to permit the Company to sub-license on commercially reasonable terms.

## **Currency Risk**

A significant part of the Company's revenues are realized in U.S. dollars. Fluctuation in the exchange rate between the Canadian dollar, the U.S. dollar, and other currencies may have a material adverse effect on the margins the Company may realize from its products and services and may directly impact results from operations. From time to time, the Company may

take steps to manage such risk by engaging in exchange rate hedging activities; however, there can be no assurance that the Company will be successful in such hedging activities.

## **Cyber Security**

With the increasing sophistication and persistence of cyber-threats, the Company is well aware of the need to manage the risks of data loss, malware and malicious attacks, whether originating internally or externally. The Company has implemented a continuously-evolving security program to keep pace with these threats. Independent checks reveal that the Company has not experienced material breaches in cyber security. The Company continues to monitor these risks and is in the process of fortifying its defenses against intrusion and refining its security governance plans and procedures.

## **U.S. Health Care System Reform**

A portion of the revenues of the Company are derived from the US. market from which the health systems market constitutes an important portion. Upon taking office, President Trump signed an executive order directing federal agencies to avoid enforcement of any provision of the *Patient Protection and Affordable Care Act* (United States) (the "ACA"), commonly referred to as "Obamacare," that imposed fiscal or regulatory burdens on states, individuals and/or a number of types of entities. The House of Representatives recently passed a bill called the *American Health Care Act of 2017* (the "AHCA") which is designed to undo the ACA, replace it with a curtailed system of tax credits and dissolve an expansion of the Medicaid program. As a result, there is growing uncertainty regarding the future of the current ACA framework. Due to the uncertainty surrounding the ACA and other legislation changes, the Company may suffer some revenue losses or slowdowns in that sector.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of April 30, 2017.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its consolidated financial statements.

An evaluation was carried out under the supervision and with the participation of the Company's Chief Executive Officer and the Chief Financial Officer to evaluate the design and operating effectiveness of the Company's internal controls over financial reporting as at April 30, 2017. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the internal control over financial reporting, as defined by National Instrument 52-109 was appropriately designed and operating effectively. The evaluations were conducted in accordance with the framework criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) (COSO), a recognized control model, and the requirements of National Instrument 52-109, Certification of Disclosures in Issuers' Annual and Interim Filings.

## **FORWARD-LOOKING INFORMATION**

This annual report and management's discussion and analysis contain "forward-looking information" within the meaning of applicable securities legislation. Although the forward-looking information is based on what the Company believes are reasonable assumptions, current expectations, and estimates, investors are cautioned from placing undue reliance on this information since actual results may vary from the forward-looking information. Forward-looking information may be identified by the use of forward-looking terminology such as "believe", "intend", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms, and the use of the conditional tense as well as similar expressions.

Such forward-looking information that is not historical fact, including statements based on management's belief and assumptions cannot be considered as guarantees of future performance. They are subject to a number of risks and uncertainties, including but not limited to future economic conditions, the markets that the Company serves, the actions of competitors, major new technological trends, and other factors, many of which are beyond the Company's control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. The Company undertakes no obligation to update publicly any forward-looking information whether as a result of new information, future events or otherwise other than as required by applicable legislation. Important risk factors that may affect these expectations include, but are not limited to, the factors described under the section "Risks and Uncertainties".

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this management discussion and analysis. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) competitive environment; (ii) operating risks; (iii) the Company's management and employees; (iv) capital investment by the Company's customers; (v) customer project implementations; (vi) liquidity; (vii) current global financial conditions; (viii) implementation of the Company's commercial strategic plan; (ix) credit; (x) potential product liabilities and other lawsuits to which the Company may be subject; (xi) additional financing and dilution; (xii) market liquidity of the Company's common shares; (xiii) development of new products; (xiv) intellectual property and other proprietary rights; (xv) acquisition and expansion; (xvi) foreign currency; (xvii) interest rate; (xviii) technology and regulatory changes; (xix) internal information technology infrastructure and applications, (xx) and cyber security.

## NON-IFRS PERFORMANCE MEASURE

The Company uses a certain non-IFRS financial performance measure in its MD&A and other communications which is described in the following section. This non-IFRS measure does not have any standardized meaning prescribed by IFRS and is unlikely to be comparable to a similarly titled measure reported by other companies. Readers are cautioned that the disclosure of this metric is meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses both IFRS and non-IFRS measures when planning, monitoring and evaluating the Company's performance.

### EBITDA

EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization. The Company believes that this measure is commonly used by investors and analysts to measure a company's performance, its ability to service debt and to meet other payment obligations, or as a common valuation measurement.

The EBITDA calculation for fiscal 2017 and 2016 derived from IFRS measures in the Company's consolidated financial statements is as follows:

	<b>2017</b>	<b>2016</b>
Profit for the period	\$ 5,998	\$ 4,804
Adjustments for:		
Depreciation of property and equipment	819	794
Depreciation of deferred development costs	1,319	1,418
Depreciation of other intangible assets	486	478
Interest expense	81	136
Interest income	(103)	(65)
Income taxes	1,764	(401)
<b>EBITDA</b>	<b>\$ 10,364</b>	<b>\$ 7,164</b>

## KEY PERFORMANCE INDICATORS

The Company uses certain key performance indicators in its MD&A and other communications which are described in the following section. These key performance indicators are unlikely to be comparable to similarly titled indicators reported by other companies. Readers are cautioned that the disclosure of these metrics are meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses both IFRS measures and key performance indicators when planning, monitoring and evaluating the Company's performance.

### **Recurring Revenue**

Recurring revenue is defined as the contractually committed purchase of services, generally comprising proprietary and third-party maintenance and hosting services, over the next twelve months. The quantification assumes that the customer will renew the contractual commitment on a periodic basis as they come up for renewal. This portion of the Company's revenue is predictable and stable.

### **Bookings**

Broadly speaking, bookings refers to the total value of accepted contracts, including software licenses and other proprietary products and related support services, third-party hardware and software and related support services, contracted work or services, and changes to such contracts recorded during a specified period. The Total Contract Value (TCV) is not typically limited to the first year, nor would it typically exclude certain transaction types. The Company believes that this metric is a primary indicator of the general state of the business performance. Bookings typically include all items with a revenue implication, such as new contracts, renewals, upgrades, downgrades, add-ons, early terminations and refunds. Bookings are typically segmented into classifications, such as new account bookings or base account bookings, and performance in these bookings classes is frequently used in various sales and other compensation plans.

### **Backlog**

Generally, backlog refers to something unfulfilled. In a traditional software company, this term is used largely within finance. Backlog refers to the value of contracted orders that have not shipped and services not yet delivered. Backlog could refer to the value of contracted or committed revenue that is not yet recognizable due to acceptance criteria, delivery of professional services, or some accounting rule. The quantification of backlog is not limited to the first year, nor would it typically exclude certain transaction types. In this context, backlog is really "revenue backlog" and is the total unrecognized future revenue from existing signed contracts. Backlog includes recurring revenue as discussed earlier.

### **Days Sales Outstanding (DSO)**

Days sales outstanding (DSO) is a measure of the average number of days that a company takes to collect revenue after a sale has been made. The Company's DSO is determined on a quarterly basis and can be calculated by dividing the amount of accounts receivable and work in progress at the end of a quarter by the total value of sales during the same quarter, and multiplying the result by 90 days.

## ADDITIONAL INFORMATION ABOUT TECSYS

Additional information about the Company, including copies of the continuous disclosure materials such as annual information form and the management proxy circular are available through the SEDAR website at <http://www.sedar.com>.

# Management's Report

The consolidated financial statements of the Company included herewith as well as all the information presented in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements include amounts based on the use of best estimates and judgements. Management has established these amounts in a reasonable manner in order to ensure that the consolidated financial statements are fairly presented in all material respects. Management has also prepared the financial information presented elsewhere in the annual report and has ensured that it agrees with the consolidated financial statements. The Company maintains control systems for internal accounting and administration. The objective of these systems is to provide a reasonable assurance that the financial information is pertinent, reliable and accurate and that the Company's assets are properly accounted for and safeguarded.

The Board of Directors is entrusted with ensuring that management assumes its responsibilities with regard to the presentation of financial information and is ultimately responsible for the examination and approval of the financial statements. However, it is mainly through its Audit Committee, whose members are external directors, that the Board discharges this responsibility. This committee meets periodically with management and the external auditors to discuss the internal controls exercised over the process of presentation of the financial information, auditing issues and questions on the presentation of financial information, in order to assure itself that each party properly fulfills its function and also to examine the consolidated financial statements and the external auditors' report.

The consolidated financial statements have been audited on behalf of the shareholders by the external auditors, KPMG LLP for the fiscal years ended April 30, 2017 and 2016. The auditors have free and full access to internal records, to management and to the Audit Committee.



**Peter Brereton**  
President and CEO  
July 6, 2017



**Brian Cosgrove**  
Vice President, Finance and Administration  
and Chief Financial Officer

# Independent Auditors' Report

## To the Shareholders of TECSYS Inc.

We have audited the accompanying consolidated financial statements of TECSYS Inc., which comprise the consolidated statements of financial position as at April 30, 2017 and April 30, 2016, the consolidated statements of income and comprehensive income, cash flows and changes in equity for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of TECSYS Inc. as at April 30, 2017 and April 30, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



July 6, 2017  
Montréal, Canada

\*CPA auditor, CA, public accountancy permit No. A120841

**TECSYS Inc.**

## Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

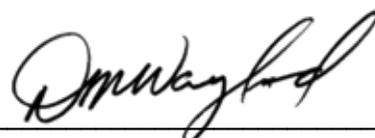
	Note	April 30, 2017	April 30, 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	\$ 13,476	\$ 9,704
Accounts receivable		14,218	18,239
Work in progress		612	513
Other accounts receivable		370	1,393
Tax credits	6	3,126	4,893
Inventory	7	914	744
Prepaid expenses		1,899	1,622
<b>Total current assets</b>		<b>34,615</b>	<b>37,108</b>
<b>Non-current assets</b>			
Tax credits	6	5,407	1,483
Property and equipment	8	2,444	2,633
Deferred development costs	9	2,751	3,817
Other intangible assets	9	1,523	1,831
Goodwill	9	3,596	3,596
Deferred tax assets	14	2,201	2,222
<b>Total non-current assets</b>		<b>17,922</b>	<b>15,582</b>
<b>Total assets</b>		<b>\$ 52,537</b>	<b>\$ 52,690</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	\$ 9,265	\$ 10,399
Current portion of long-term debt	10, 12	69	1,455
Deferred revenue		12,094	11,205
<b>Total current liabilities</b>		<b>21,428</b>	<b>23,059</b>
<b>Non-current liabilities</b>			
Long-term debt	10, 12	121	1,889
Other non-current liabilities	11	277	296
<b>Total non-current liabilities</b>		<b>398</b>	<b>2,185</b>
<b>Total liabilities</b>		<b>21,826</b>	<b>25,244</b>
<b>Contingencies and commitments</b>	19, 20		
<b>Equity</b>			
Share capital	13	8,349	8,349
Contributed surplus	13	9,577	9,577
Retained earnings		13,064	8,913
Accumulated other comprehensive (loss) income	22	(279)	607
<b>Total equity attributable to the owners of the Company</b>		<b>30,711</b>	<b>27,446</b>
<b>Total liabilities and equity</b>		<b>\$ 52,537</b>	<b>\$ 52,690</b>

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors



Director



Director

**TECSYS Inc.****Consolidated Statements of Income and Comprehensive Income**

(in thousands of Canadian dollars, except per share data)

<b>Years ended April 30,</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Revenue:</b>			
Proprietary products		\$ 11,914	\$ 13,623
Third-party hardware and software products		8,852	9,421
Services	15	45,207	42,479
Reimbursable expenses		2,474	1,943
<b>Total revenue</b>		<b>68,447</b>	<b>67,466</b>
<b>Cost of revenue:</b>			
Products		7,128	8,198
Services	16	24,649	22,500
Reimbursable expenses		2,474	1,943
<b>Total cost of revenue</b>		<b>34,251</b>	<b>32,641</b>
<b>Gross profit</b>		<b>34,196</b>	<b>34,825</b>
<b>Operating expenses:</b>			
Sales and marketing		15,131	14,952
General and administration		5,863	5,986
Research and development, net of tax credits	6	5,251	9,338
<b>Total operating expenses</b>		<b>26,245</b>	<b>30,276</b>
<b>Profit from operations</b>		<b>7,951</b>	<b>4,549</b>
<b>Net finance costs</b>	18	<b>189</b>	<b>146</b>
<b>Profit before income taxes</b>		<b>7,762</b>	<b>4,403</b>
Income tax expense (recovery)	14	1,764	(401)
<b>Profit attributable to the owners of the Company</b>		<b>\$ 5,998</b>	<b>\$ 4,804</b>
Other comprehensive (loss) income:			
Effective portion of changes in fair value on designated revenue hedges	22	(886)	512
<b>Comprehensive income attributable to the owners of the Company</b>		<b>\$ 5,112</b>	<b>\$ 5,316</b>
<b>Basic and diluted earnings per common share</b>	13	<b>\$ 0.49</b>	<b>\$ 0.39</b>

See accompanying notes to the consolidated financial statements.

**TECSYS Inc.****Consolidated Statements of Cash Flows**

(in thousands of Canadian dollars)

<b>Years ended April 30,</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from (used in) operating activities:</b>			
Profit for the year		\$ 5,998	\$ 4,804
Adjustments for:			
Depreciation of property and equipment	8	819	794
Depreciation of deferred development costs	9	1,319	1,418
Depreciation of other intangible assets	9	486	478
Net finance costs	18	189	146
Unrealized foreign exchange and other		649	(690)
Non-refundable tax credits	6	(5,551)	(868)
Income taxes		1,332	(508)
Operating activities excluding changes in non-cash working capital items related to operations		5,241	5,574
Accounts receivable		4,021	(5,669)
Work in progress		(99)	191
Other accounts receivable		(35)	(118)
Tax credits		2,091	531
Inventory		(170)	315
Prepaid expenses		(277)	(228)
Accounts payable and accrued liabilities		(1,852)	1,917
Deferred revenue		889	1,107
Changes in non-cash working capital items related to operations		4,568	(1,954)
<b>Net cash from operating activities</b>		<b>9,809</b>	<b>3,620</b>
<b>Cash flows used in financing activities:</b>			
Repayment of long-term debt	10, 12	(3,154)	(1,445)
Purchase of share options for cancellation	13	-	(6)
Payment of dividends	13	(1,847)	(1,232)
Interest paid	18	(81)	(136)
<b>Net cash used in financing activities</b>		<b>(5,082)</b>	<b>(2,819)</b>
<b>Cash flows from (used in) investing activities:</b>			
Interest received	18	103	65
Acquisitions of property and equipment	8	(630)	(988)
Proceeds on disposal of property and equipment		3	23
Acquisitions of other intangible assets	9	(178)	(125)
Deferred development costs	9	(253)	(887)
<b>Net cash used in investing activities</b>		<b>(955)</b>	<b>(1,912)</b>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>		<b>3,772</b>	<b>(1,111)</b>
Cash and cash equivalents - beginning of year		9,704	10,815
<b>Cash and cash equivalents - end of year</b>		<b>\$ 13,476</b>	<b>\$ 9,704</b>

See accompanying notes to the consolidated financial statements.

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

(in thousands of Canadian dollars, except number of shares)

	Note	Share capital Number	Share capital Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
<b>Balance, April 30, 2015</b>		12,315,326	\$ 8,349	\$ 9,577	\$ 95	\$ 5,341	\$ 23,362
Profit for the year		-	-	-	-	4,804	4,804
Other comprehensive income for the year:							
Effective portion of changes in fair value on designated revenue hedges	22	-	-	-	512	-	512
<b>Total comprehensive income for the year</b>		-	-	-	512	4,804	5,316
Dividends to equity owners	13	-	-	-	-	(1,232)	(1,232)
<b>Total transactions with owners of the Company</b>		-	-	-	-	(1,232)	(1,232)
<b>Balance, April 30, 2016</b>		12,315,326	\$ 8,349	\$ 9,577	\$ 607	\$ 8,913	\$ 27,446
Profit for the year		-	-	-	-	5,998	5,998
Other comprehensive loss for the year:							
Effective portion of changes in fair value on designated revenue hedges	22	-	-	-	(886)	-	(886)
<b>Total comprehensive (loss) income for the year</b>		-	-	-	(886)	5,998	5,112
Dividends to equity owners	13	-	-	-	-	(1,847)	(1,847)
<b>Total transactions with owners of the Company</b>		-	-	-	-	(1,847)	(1,847)
<b>Balance, April 30, 2017</b>		12,315,326	\$ 8,349	\$ 9,577	\$ (279)	\$ 13,064	\$ 30,711

See accompanying notes to the consolidated financial statements.

# TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

## 1. Description of business:

TECSYS Inc. (the "Company") was incorporated under the Canada Business Corporations Act in 1983. The Company's principal business activity is the development, marketing and sale of enterprise-wide supply chain management software for distribution, warehousing, transportation logistics and point-of-use. The Company also provides related consulting, education and support services. The Company is headquartered at 1, Place Alexis Nihon, Montréal, Canada, and derives substantially all of its revenue from customers located in the United States and Canada. The Company's customers consist primarily of healthcare systems and high-volume distributors of discrete goods. The consolidated financial statements comprise the Company and its wholly-owned subsidiaries. The Company is a publicly listed entity and its shares are traded on the Toronto Stock Exchange under the symbol TCS.

## 2. Basis of preparation:

### (a) Statement of compliance:

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements for the year ended April 30, 2017 were authorized for issuance by the Board of Directors on July 6, 2017.

### (b) Basis of measurement:

The consolidated financial statements have been prepared on a going concern basis using the historical cost basis except for the following items in the consolidated statements of financial position.

- Derivative financial instruments which are measured at fair value;
- Identifiable assets acquired and liabilities assumed in connection with a business combination which are initially measured at fair value.

### (c) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars, the functional currency of the Company and its subsidiaries. All financial information has been rounded to the nearest thousand, except where otherwise indicated.

### (d) Use of estimates, assumptions and judgments:

The preparation of the consolidated financial statements requires management to make estimates, assumptions, and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and the anticipated measures that management intends to take. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about areas requiring the use of judgment, management assumptions and estimates, and key sources of estimation uncertainty that the Company believes could have the most significant impact on reported amounts is noted below:

#### (i) Revenue recognition:

Revenue recognition is subject to critical judgment, particularly in multiple-element arrangements where judgment is required in allocating revenue to each component, including licenses, professional services and maintenance services, based on the relative fair value of each component. As certain of these components have a term of more than one year, the identification of each deliverable and the allocation of the consideration received to the components impacts the timing of revenue recognition.

#### (ii) Government assistance:

Management uses judgment in estimating amounts receivable for various tax credits and in assessing the eligibility of research and development and other expenses which give rise to these credits.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### (iii) Income taxes:

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and available tax planning strategies in making this assessment.

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

### (iv) Impairment of assets:

Impairment assessments may require the Company to determine the recoverable amount of a cash-generating unit ("CGU"), defined as the smallest identifiable group of assets that generates cash inflows independent of other assets. This determination requires significant estimates in a variety of areas including: expected sales, gross margins, selling costs, timing and size of cash flows, and discount and interest rates. The Company documents and supports all assumptions made in the above estimates and updates such assumptions to reflect the best information available to the Company if and when an impairment assessment requires the recoverable amount of a CGU to be determined.

### (v) Allowance for doubtful accounts:

The Company makes an assessment of whether accounts receivable are collectable, which considers credit loss insurance and the credit-worthiness of each customer, taking into account each customer's financial condition and payment history in order to estimate an appropriate allowance for doubtful accounts. Furthermore, these estimates must be continuously evaluated and updated. The Company is not able to predict changes in the financial condition of its customers, and if circumstances related to its customers' financial conditions deteriorate, the estimates of the recoverability of trade accounts receivable could be materially affected and the Company may be required to record additional allowances. Alternatively, if the Company provides more allowances than needed, a reversal of a portion of such allowances in future periods may be required based on actual collection experience.

### (vi) Business combinations:

Business combinations are accounted for in accordance with the acquisition method. On the date that control is obtained, the identifiable assets, liabilities and contingent liabilities of the acquired company are measured at their fair value. Depending on the complexity of determining these valuations, the Company uses appropriate valuation techniques which are generally based on a forecast of the total expected future net discounted cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant.

## 3. Significant accounting policies:

These consolidated financial statements have been prepared with the accounting policies set out below and have been applied consistently to all periods presented, unless otherwise indicated.

### (a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries.

#### (i) Business combinations:

Business combinations are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

#### (ii) Subsidiaries:

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

The Company's wholly owned subsidiaries and their jurisdiction of incorporation are as follows:

Subsidiary	Jurisdiction of Incorporation
TECSYS U.S. Inc.	Ohio
TECSYS Europe Limited	England
Logi D Holding Inc.	Canada
Logi D Inc.	Canada
Logi D Corp.	Delaware

(iii) Transactions eliminated on consolidation:

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translation:

The functional currency of the Company's foreign subsidiaries is the Canadian dollar, the Company's functional currency. As such, transactions in foreign currencies are translated as follows:

- Revenues and expenses that are not hedged are translated at the exchange rate in effect as at the date of the transaction;
- Revenues that are hedged are translated at the exchange rate specified in the underlying derivative instrument hedging the transaction;
- Monetary assets and liabilities are translated into the functional currency at the exchange rate at the reporting date;
- Non-monetary items measured at historical cost are translated using the historical exchange rate at the date of the transaction. Depreciation is translated at the same rate as the asset to which it applies;
- Non-monetary assets and liabilities measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined;
- Currency translation gains and losses are reflected in finance income or finance costs in profit or loss for the period.

(c) Inventory:

Inventory is stated at the lower of cost and net realizable value. Cost is determined on an average cost basis. Inventory costs include the purchase price and other costs directly related to the acquisition of materials, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less selling expenses.

(d) Financial instruments:

The Company initially recognizes financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets are classified into the following categories, and depend on the purpose for which the financial assets were acquired.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### (i) Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The Company currently classifies its cash and cash equivalents, accounts receivable, and other accounts receivable (excluding the fair value of derivatives) as financial assets measured at amortized cost.

### (ii) Financial assets measured at fair value

These assets are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss. However, for investments in equity instruments that are not held for trading, the Company may elect at initial recognition to present gains and losses in other comprehensive income. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss, and no impairment is recognized in profit or loss. Dividends earned from such investments are recognized in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment.

### (iii) Financial liabilities measured at amortized cost

A financial liability is subsequently measured at amortized cost, using the effective interest method. The Company currently classifies accounts payable and accrued liabilities (excluding derivative financial instruments designated as effective hedging instruments and non-hedge derivative financial instruments), and long-term debt as financial liabilities measured at amortized cost.

### (iv) Derivative financial instruments not designated in a hedging relationship measured at fair value

Non-hedge derivative financial instruments, including forward foreign exchange contracts, are recorded as either assets or liabilities measured initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. The Company may hold derivative financial instruments to offset its risk exposure to fluctuations of other currencies compared to the Canadian dollar. All derivative financial instruments not designated in a hedge relationship are classified as financial instruments at fair value through profit and loss. The fair value of derivative financial instruments is based on forward rates considering the market price, rate of interest and volatility and takes into account the credit risk of the financial instrument. The net fair value of outstanding forward foreign exchange contracts are included as part of the accounts designated "other accounts receivable" or "accounts payable and accrued liabilities" as appropriate. Any subsequent change in the fair value of non-hedge designated outstanding forward foreign exchange contracts are accounted for in finance income or finance cost in profit or loss for the period in which it arises. The foreign currency gains and losses on these contracts are recognized in the period in which they are generated and offset the exchange losses or gains recognized on the revaluation of the foreign currency net monetary assets. Cash flows from foreign exchange contract settlements are classified as cash flows from operating activities along with the corresponding cash flows from the monetary assets being economically hedged.

### (v) Derivative financial instruments designated in a hedging relationship measured at fair value

The Company uses derivative financial instruments to hedge its exposure to exchange rate fluctuations on highly probable future foreign currency denominated revenue.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. This process includes linking all derivative hedging instruments to forecasted transactions. Hedge effectiveness is assessed based on the degree to which the cash flows from the derivative contracts are expected to offset the cash flows of the underlying transaction being hedged.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value is recognized in accumulated other comprehensive income. The amounts in accumulated other comprehensive income are classified to profit when the underlying hedged transaction, identified at contract inception, affects profit or loss. Any ineffective portion of a hedge relationship is recognized immediately in profit. Ineffectiveness is mainly caused by the differences in discount rates between the actual derivative instrument and the perfectly effective hypothetical derivative.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

When derivative contracts designated as cash flow hedges are terminated, expired, sold or no longer qualify for hedge accounting, hedge accounting is discontinued prospectively. Any amounts recorded in accumulated other comprehensive income up until the time the contracts do not qualify for hedge accounting remain in accumulated other comprehensive income until the hedged future cash flows occur if they are still expected to occur. However, if the amount in accumulated other comprehensive income is a loss and the Company expects that all or a portion of that loss will not be recovered in future periods, then it shall immediately reclassify the amount that is not expected to be recovered into profit. Additionally, if the hedged future cash flows are no longer expected to occur, then the amount in accumulated other comprehensive income shall be immediately reclassified to profit. Amounts recognized in accumulated other comprehensive income are recognized in profit in the period in which the underlying hedged transaction is completed. Gains or losses arising subsequent to the derivative contracts not qualifying for hedge accounting are recognized in the period incurred.

### (vi) Fair value of financial instruments

The Company must classify the fair value measurements of financial instruments according to a three-level hierarchy, based on the type of inputs used in making these measurements. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

### (vii) Impairment of financial assets

The Company assesses at the end of each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### (viii) Cash and cash equivalents

Cash and cash equivalents consist primarily of unrestricted cash and short-term investments having an initial maturity of three months or less.

### (e) Property and equipment:

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within profit or loss.

#### *Subsequent costs*

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

#### *Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

The Company provides for depreciation of property and equipment commencing once the related assets have been put into service. Depreciation is recognized in profit or loss on a straight-line basis since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The Company uses the straight-line method and the

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

following periods are used to calculate depreciation:

	Period
Computer and exhibition equipment	2 to 5 years
Furniture and fixtures	10 years
Leasehold improvements	Lower of term of lease or economic life

Depreciation methods, useful lives and residual values are reviewed at each financial period-end and adjusted prospectively if appropriate.

(f) Intangible assets:

(i) Goodwill:

Goodwill is measured at cost less accumulated impairment loss.

(ii) Research and development costs:

Costs related to research are expensed as incurred.

Development costs of new software products for sale, net of government assistance, are capitalized as deferred development costs if they can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the product. Otherwise, development costs are expensed as incurred. Expenditures capitalized include the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets.

Deferred development costs are depreciated, commencing when the product is available for general release and sale, over the estimated product life of five years using the straight-line method.

Subsequent to initial measurement, deferred development costs are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Other intangible assets:

Other intangible assets consist of technology, customer relationships, patents and software and are carried at cost less accumulated depreciation and accumulated impairment losses. All intangible assets have finite useful lives and are therefore subject to depreciation.

Depreciation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. The Company uses the straight-line method and the following periods are used to calculate depreciation:

	Period
Technology	5 years
Customer relationships	10 years
Patents	5 years
Software	5 years

Depreciation methods, useful lives and residual values are reviewed at each financial period-end and adjusted prospectively if appropriate.

(g) Impairment of non-financial assets:

The Company reviews the carrying value of its non-financial assets, which include property and equipment, technology, customer relationships, patents, software, and deferred development costs at each reporting date to determine whether events or changed circumstances indicate that the carrying value may not be recoverable. For goodwill, the recoverability is estimated annually, on April 30 or more often when there are indicators of impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU or group of CGU's to which the corporate asset belongs.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying value of a non-financial asset exceeds the recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

### (h) Government assistance:

Government assistance consists of scientific research and experimental development ("SRED") tax credits and e-business tax credits. SRED and e-business tax credits are accounted for as a reduction of the related expenditures and recorded when there is reasonable assurance that the Company has complied with the terms and conditions of the approved government program.

The refundable portion of tax credits is recorded in the period in which the related expenditures are incurred. The non-refundable portion of tax credits is recorded in the period in which the related expenditures are incurred or in a subsequent period to the extent that their future realization is determined to be probable, provided the Company has reasonable assurance the credits will be received and the Company will comply with the conditions associated with the award.

SRED and e-business tax credits claimed for the current and prior years are subject to government review which could result in adjustments to profit or loss.

### (i) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

### (j) Leases:

All of the Company's leases are operating leases. The leased assets are not recognized in the Company's consolidated statements of financial position since the Company does not assume substantially all risks and rewards of ownership of the leased assets. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the leases.

Lease incentives are recognized as an integral part of the total lease expense, over the term of the leases. The deferred portion of the lease expense is included in accounts payable and accrued liabilities and other non-current liabilities.

### (k) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

A deferred tax asset is recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### (l) Revenue recognition:

The Company derives its revenues under non-cancellable license agreements from the sale of proprietary software licenses, third-party software, support, and hardware and provides software-related services including training, installation, consulting and maintenance, which include product support services and periodic updates. Software licenses sold by the Company are generally perpetual in nature and the arrangements generally comprise various services.

Revenues generated by the Company include the following:

#### (i) License fees and hardware products:

Revenues from perpetual licenses sold separately are recognized when a non-cancellable agreement has been signed, the product has been delivered, there are no uncertainties surrounding product acceptance, the fees are fixed or determinable and the amount of revenue and costs can be measured reliably, and collection is considered probable such that economic benefits associated with the transaction will flow to the Company. Delivery generally occurs at the point where title and risk of loss have passed to the customer and the Company no longer retains continuing managerial involvement or effective control over the products sold. However, some arrangements require evidence of customer acceptance of the hardware and software products that have been sold. In such cases, delivery of the hardware, software and services is not considered to have occurred until evidence of acceptance is received from the customer or the Company has completed its contractual obligations.

Certain of the Company's license agreements require the customer to renew its annual support agreement in order to maintain its right to continue to use the software. In such cases, the perpetual license is effectively transformed into a renewable annual license. Where an upfront fee is not considered to represent a significant and incremental premium over subsequent year renewal fees, the license fee is recognized ratably over the initial contractual support period, which is generally one year. An upfront license fee representing a significant and incremental premium over subsequent year renewal fees is deferred and recognized as revenue over the period in which support is expected to be provided, which is generally considered to be the estimated useful life of the software license. For long-term contracts where services are considered to be essential to the functionality of the software, fees from licenses and services are aggregated and recognized as revenue as the related services are performed using the percentage-of-completion method. There were no such contracts whereby licenses and services were aggregated and recognized as revenue as the related services were performed using the percentage-of-completion method during the years ended April 30, 2017 and April 30, 2016.

The percentage of completion is generally determined based on the number of hours incurred to date in relation to the total expected hours of services. The cumulative impact of any revision in estimates of the percentage completed is reflected in the period in which the changes become known. Losses on contracts in progress are recognized when known. Work in progress is established for revenue based on the percentage completed in excess of progress billings as of the reporting date. Any excess of progress billings over revenue based on the percentage completed is deferred and included in deferred revenue. Generally, the terms of long-term contracts provide for progress billings based on completion of certain phases of work. Where acceptance criteria are tied to specific milestones, and the delivery performance of any undelivered product or service is uncertain and not substantially within the Company's control, then the percentage of completion up to those milestones is recognized upon acceptance.

#### (ii) Support agreements:

Support agreements for proprietary software licences generally call for the Company to provide technical support and unspecified software updates to customers. Proprietary licenses support revenues for technical support and unspecified software update rights are recognized ratably over the term of the support agreement.

Third-party support revenues related to third-party software and the related cost are generally recognized upon the delivery of the third-party products as the support fee is included with the initial licensing fee, the support included with the initial license is for one year or less, and the estimated cost of providing support during the arrangement is deemed insignificant. In addition, unspecified upgrades for third-party support agreements historically have been and are expected to continue to be minimal and infrequent.

#### (iii) Consulting and training services:

The Company provides consulting and training services to its customers. Revenues from such services are recognized as the services are performed.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

(iv) Reimbursable expenses:

The Company records revenue and the associated cost of revenue on a gross basis in its statements of comprehensive income for reimbursable expenses such as airfare, hotel lodging, meals, automobile rental and other charges related to providing services to its customers.

(v) Multiple-element arrangements:

Some of the Company's sales involve multiple-element arrangements that include product (software and/or hardware), maintenance and various professional services. The Company evaluates each deliverable in an arrangement to determine whether such deliverable would represent a separate component. Most of the Company's products and services qualify as separate components and revenue is recognized when the applicable revenue recognition criteria, as described above, are met.

In multiple-element arrangements, the Company separately accounts for each product or service according to the methods described when the following conditions are met:

- the delivered product or service has value to the customer on a stand-alone basis;
- there is objective and reliable evidence of fair value of any undelivered product or service;
- if the sale includes a general right of return relating to a delivered product or service, the delivery performance of any undelivered product or service is probable and substantially in the Company's control.

If there is objective and reliable evidence of fair value for all products and services in a sale, the total price of the arrangements is allocated to each product and service based on relative fair value. Otherwise, the Company first allocates a portion of the total price to any undelivered products and services based on their fair value and the residual to the products and services that have been delivered.

(m) Employee benefits:

The Company maintains employee benefit programs which provide retirement savings, medical, dental and group insurance benefits for current employees. The Company's expense is limited to the employer's match of employees' contributions to a retirement savings plan, and to the employer's share of monthly premiums for insurance covering other benefits. The Company has no legal or constructive obligation to pay additional amounts. An employee's entitlement to all benefits ceases upon termination of employment with the Company.

(i) Short-term employee benefits:

Short-term employee benefits include wages, salaries, compensated absences, medical, dental and insurance benefits, profit-sharing and bonuses. Short-term employee benefits are measured on an undiscounted basis and are recognized in profit or loss as the related service is provided or capitalized if the related service is rendered in connection with creation of property and equipment or intangible assets.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans:

Post-employment benefits include defined contribution plans under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay additional amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense when earned by the employee. The Company's defined contribution plans comprise the U.S. 401(k) plan and registered retirement savings plans. In addition, the Company contributes to the Quebec and Canada Pension Plans.

(iii) Termination benefits:

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan or through a contractual agreement, to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### (n) Finance income and finance costs:

Finance income comprises interest income on funds invested and gains in the fair value of financial assets held at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on financial liabilities measured at amortized cost, losses in fair value of financial assets and liabilities recognized at fair value through profit or loss, unwinding of the discount related to provisions, and any losses on sale of financial assets. Borrowing costs that are not directly attributable to the acquisition or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as finance income or finance costs.

The net change in the fair value of foreign exchange contracts not designated in a hedging relationship and the net change in the fair value of outstanding foreign exchange contracts designated in a hedging relationship after the hedged transaction has occurred are reported as finance income or finance costs, as appropriate.

### (o) Earnings per share:

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated based on the weighted average number of common shares outstanding during the period plus the effects of dilutive potential common shares outstanding during the period. This method requires that the dilutive effect of outstanding options be calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of issuance, and that the funds obtained thereby be used to purchase common shares of the Company at the average trading price of the common shares during the period.

### (p) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

### (q) Segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The operating segment's operating results are reviewed regularly by the Company's Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

## 4. New accounting standards and interpretations issued but not yet adopted:

A number of new standards, interpretations and amendments to existing standards were issued by the IASB or International Financial Reporting Standards Interpretations Committee ("IFRS IC") that are mandatory but not yet effective for the year ended April 30, 2017, and have not been applied in preparing these consolidated financial statements. None are expected to have an impact on the consolidated financial statements of the Company except for the following:

### IFRS 9, *Financial Instruments* ("IFRS 9"):

In July 2014, the IASB issued the complete version of IFRS 9 (2014), *Financial Instruments*. IFRS 9 (2014) differs in some regards from IFRS 9 (2013) which the Company early adopted effective May 1, 2014. IFRS 9 (2014) includes updated guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment, and new general hedge accounting requirements. The final version of IFRS 9 supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted, however an entity may elect to apply earlier versions of IFRS 9 if the entity's relevant date of initial application is before February 1, 2015. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”):

In May 2014, the IASB issued IFRS 15 which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers.

IFRS 15 supersedes the following standards: IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Service*.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

This standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

### IFRS 16, *Leases* (“IFRS 16”):

In January 2016, the IASB issued IFRS 16, which specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17, *Leases*. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019, with earlier application permitted only if IFRS 15 has also been applied. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

### IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (“IFRIC 22”):

In December 2016, the IASB issued IFRIC 22. The interpretation clarifies which date should be used for translation when accounting for transactions in a foreign currency that include the receipt or payment of advance consideration. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently evaluating the impact of IFRIC 22 on its consolidated financial statements.

## 5. Cash and cash equivalents:

Cash and cash equivalents comprise the following:

	2017		2016
Bank balances	\$ 3,854	\$	2,980
Short-term investments with initial maturities of three months or less	9,622		6,724
Cash and cash equivalents	\$ 13,476	\$	9,704

On April 30, 2017, short-term investments with maturities of three months or less bear interest at rates from 0.91% to 0.95% (April 30, 2016 – 0.8% to 0.95%) and mature on various dates to May 15, 2017.

**TECSYS Inc.**

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

**6. Government assistance:**

The Company is eligible to receive scientific research and experimental development (“SRED”) tax credits granted by the Canadian federal government (“Federal”) and the governments of the provinces of Quebec and Ontario (“Provincial”).

Federal SRED tax credits, which are non-refundable, are earned on qualified Canadian SRED expenditures and can only be used to offset Federal income taxes otherwise payable. Provincial SRED tax credits, which are refundable, are earned on qualified SRED salaries in the provinces of Quebec and Ontario.

The Company is eligible to receive a refundable and non-refundable tax credit for the development of e-business information technologies. This tax credit is granted to corporations on salaries paid to employees carrying out activities based on specific eligibility requirements. The credits are earned at an annual rate of 30% of salaries paid to eligible employees engaged in eligible activities, to a maximum annual refundable tax credit of \$20,000 and maximum annual non-refundable tax credit of \$5,000 per eligible employee. The Company must obtain an eligibility certificate each year confirming that it has satisfied the criteria relating to the proportion of the activities in the information technology sector and for the services supplied.

	SRED Canadian Federal non- refundable tax credits	SRED Canadian Provincial refundable tax credits	E-business refundable tax credits	E-business non- refundable tax credits	Total
Balance, April 30, 2015	\$ 1,783	\$ 585	\$ 4,539	\$ -	\$ 6,907
Tax credits earned or received	(300)	(369)	(2,396)	(568)	(3,633)
Adjustments to prior year's credits	-	(54)	(33)	-	(87)
Recognition of tax credit	300	223	2,098	568	3,189
Balance, April 30, 2016	\$ 1,783	\$ 385	\$ 4,208	\$ -	\$ 6,376
Tax credits earned or received	(665)	(390)	(4,450)	(638)	(6,143)
Adjustments to prior year's credits	-	5	242	70	317
Recognition of tax credit	4,913	223	2,279	568	7,983
Balance, April 30, 2017	\$ 6,031	\$ 223	\$ 2,279	\$ -	\$ 8,533

Presented as:

*Current*

Tax credits	\$ 624	\$ 223	\$ 2,279	\$ -	\$ 3,126
-------------	--------	--------	----------	------	----------

*Non-current*

Tax credits	\$ 5,407	\$ -	\$ -	\$ -	\$ 5,407
-------------	----------	------	------	------	----------

The amounts recorded as receivable are subject to a government tax audit and the final amounts received may differ from those recorded. There are no unfulfilled conditions or contingencies associated with the government assistance received.

**TECSYS Inc.**

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

At April 30, 2017, the Company has non-refundable research and development tax credits totalling approximately \$6,118,000 (April 30, 2016 – \$6,584,000) for Canadian income tax purposes which may be used to reduce taxes payable in future years. These Federal non-refundable tax credits may be claimed no later than fiscal years ending April 30:

	Federal non-refundable tax credits
2020	\$ 439
2021	1,635
2022	1,139
2023	999
2024	160
2025	204
2026	173
2027	143
2028	165
2029	154
2030	86
2031	96
2032	87
2033	97
2034	129
2035	144
2036	145
2037	123
	<u>\$ 6,118</u>

Tax credits recognized in profit and loss for the years are outlined below:

	2017	2016
Federal non-refundable research and development tax credits	\$ 4,913	\$ 300
Provincial refundable research and development tax credits	223	223
E-business refundable tax credits for research and development employees	733	746
E-business non-refundable tax credits for research and development employees	164	196
Other and adjustments to prior year's credits	63	(54)
<b>Total research and development tax credits</b>	<b>6,096</b>	<b>1,411</b>
E-business refundable tax credits for other employees	1,546	1,352
E-business non-refundable tax credits for other employees	404	372
Other and adjustments to prior year's credits	254	(33)
<b>Tax credits recognized in the year</b>	<b>\$ 8,300</b>	<b>\$ 3,102</b>

During fiscal 2017, the Company recognized \$4,913,000 (2016 - \$300,000) of Federal non-refundable SRED tax credits due to the increased probability that these tax credits will be realized in the future in order to reduce cash taxes.

**TECSYS Inc.**

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

**7. Inventory:**

	2017	2016
Finished goods	\$ 848	\$ 585
Third-party software licenses for resale	66	159
	<u>\$ 914</u>	<u>\$ 744</u>

In fiscal 2017, finished goods and third-party software licenses for resale recognized as cost of revenue amounted to \$4,738,000 (2016 – \$5,843,000).

**8. Property and equipment:**

	Computer and exhibition equipment	Furniture and fixtures	Leasehold improvements	Total
<b>Cost</b>				
Balance at April 30, 2015	\$ 7,495	1,337	1,681	10,513
Additions	581	154	203	938
Disposals	(181)	(48)	(9)	(238)
Balance at April 30, 2016	\$ 7,895	\$ 1,443	\$ 1,875	\$ 11,213
Additions	616	11	3	630
Disposals	(15)	-	-	(15)
Balance at April 30, 2017	\$ 8,496	\$ 1,454	\$ 1,878	\$ 11,828
<b>Accumulated depreciation</b>				
Balance at April 30, 2015	\$ 6,633	\$ 690	\$ 664	\$ 7,987
Depreciation for the year	504	109	181	794
Disposals	(175)	(17)	(9)	(201)
Balance at April 30, 2016	\$ 6,962	\$ 782	\$ 836	\$ 8,580
Depreciation for the year	513	114	192	819
Disposals	(15)	-	-	(15)
Balance at April 30, 2017	\$ 7,460	\$ 896	\$ 1,028	\$ 9,384
<b>Carrying amounts</b>				
At April 30, 2016	\$ 933	\$ 661	\$ 1,039	\$ 2,633
At April 30, 2017	\$ 1,036	\$ 558	\$ 850	\$ 2,444

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### 9. Goodwill, deferred development costs, and other intangible assets:

	Goodwill	Deferred development costs	Other intangible assets				Total of other intangible assets
			Software	Technology	Customer relationships	Other	
<b>Cost</b>							
Balance at April 30, 2015	\$ 3,596	\$ 9,699	\$ 3,870	\$ 2,440	\$ 2,600	\$ 199	\$ 9,109
Additions	-	887	88	-	-	37	125
Balance at April 30, 2016	\$ 3,596	\$ 10,586	\$ 3,958	\$ 2,440	\$ 2,600	\$ 236	\$ 9,234
Additions	-	253	169	-	-	9	178
Balance at April 30, 2017	\$ 3,596	\$ 10,839	\$ 4,127	\$ 2,440	\$ 2,600	\$ 245	\$ 9,412
<b>Accumulated depreciation</b>							
Balance at April 30, 2015	\$ -	\$ 5,351	\$ 3,171	\$ 1,765	\$ 1,811	\$ 178	\$ 6,925
Depreciation for the year	-	1,418	213	165	87	13	478
Balance at April 30, 2016	\$ -	\$ 6,769	\$ 3,384	\$ 1,930	\$ 1,898	\$ 191	\$ 7,403
Depreciation for the year	-	1,319	219	165	87	15	486
Balance at April 30, 2017	\$ -	\$ 8,088	\$ 3,603	\$ 2,095	\$ 1,985	\$ 206	\$ 7,889
<b>Carrying amounts</b>							
At April 30, 2016	\$ 3,596	\$ 3,817	\$ 574	\$ 510	\$ 702	\$ 45	\$ 1,831
At April 30, 2017	\$ 3,596	\$ 2,751	\$ 524	\$ 345	\$ 615	\$ 39	\$ 1,523

Depreciation for deferred development costs is recognized in research and development, net of tax credits within the consolidated statements of income and comprehensive income.

The acquired identified intangible assets relating to the Logi-D subsidiary, comprising the technology assets and customer assets, are being amortized over five and ten years, respectively, within research and development, net of tax credits and products' cost of revenue, respectively. The other intangible assets comprising patents are being amortized in general and administration over five years.

Certain technology, customer relationships, and other intangible assets are fully depreciated but are still property of the Company.

The following table reflects the depreciation recognized for the various intangible assets within the various functions for the years ended April 30, 2017 and 2016.

	2017				
	Deferred development costs	Software	Technology	Customer relationships	Other intangible assets
Cost of revenue: Products	\$ -	\$ 1	\$ -	\$ 87	\$ -
Cost of revenue: Services	-	146	-	-	-
Sales and marketing	-	27	-	-	-
General and administration	-	15	-	-	15
Research and development	1,319	30	165	-	-
	\$ 1,319	\$ 219	\$ 165	\$ 87	\$ 15

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

	2016				
	Deferred development costs	Software	Technology	Customer relationships	Other intangible assets
Cost of revenue: Products	\$ -	\$ 1	\$ -	\$ 87	\$ -
Cost of revenue: Services	-	137	-	-	-
Sales and marketing	-	27	-	-	-
General and administration	-	16	-	-	13
Research and development	1,418	32	165	-	-
	<u>\$ 1,418</u>	<u>\$ 213</u>	<u>\$ 165</u>	<u>\$ 87</u>	<u>\$ 13</u>

### Impairment testing for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill is allocated to the cash-generating units (“CGUs”) which represent the lowest level within the Company for which there are separately identifiable cash inflows. The Company determined that only one CGU existed at the consolidated level as at April 30, 2017.

The Company performs its goodwill impairment assessment on an annual basis or more frequently if there are any indications that impairment may exist. The recoverable amount of the Company’s CGU was based on its value in use which was determined by discounting the future cash flows generated from the continuing use of the unit. The carrying amount of the unit was determined to be lower than its recoverable amount and no impairment loss was recognized on April 30, 2017 and 2016.

The calculation of the value in use was based on the following key assumptions:

Cash flows were projected based on past experience, actual operating results, and the annual business plan approved by the Board of Directors prepared for the forthcoming year at the end of both fiscal 2017 and 2016. Cash flows for an additional four-year period and a terminal value were extrapolated using a constant growth rate of 5% (April 30, 2016 - 5%), which does not exceed the long-term average growth rate for the industry.

A pre-tax discount rate of 12% (April 30, 2016 – 12%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the Company’s past experience, and the consideration of the risk free rate plus the risk associated with further possible variations in the amount or timing of the cash flows, the price for uncertainty inherent in the combination of assets comprising the consolidated entity, and other factors, such as illiquidity, that would normally be considered in valuing the cash flows from the assets and are specific to the consolidated entity.

The values assigned to the key assumptions represent management’s assessment of future trends in the software industry and are based on both external and internal sources.

### 10. Banking facilities:

#### *Facility A*

The banking facility permits the issuance of letters of guarantee of up to a maximum amount of \$1,500,000.

#### *Facility B*

This facility provides a global net risk line for treasury derivative products up to an aggregate maximum of \$5,400,000 (April 30, 2016 – \$3,000,000). As at April 30, 2017, the net risk line may be used to conclude foreign exchange transactions regarding the sale or purchase of foreign currencies for a term not exceeding two years (April 30, 2016 - one year) and derivative transactions regarding interest rate swaps for a maximum term of five years. The amount of risk of each transaction is determined by the Bank in accordance with the applicable level of risk per the schedule in effect at the Bank, which determines the maximum amount of currency that may be sold or purchased under the facility.

## **TECSYS Inc.**

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### *Facility C*

The banking agreement also includes a credit facility up to \$100,000 to be used by way of cash advances on credit cards issued by the Bank.

Security for facilities B and C consists of a first-ranking movable hypothec of \$6,000,000 on all of the Company's corporeal and incorporeal, present and future movable property and an insurance rider designating the Bank as beneficiary of the proceeds of insurance covering the property given as security up to the full replacement value thereof.

### *Facility D*

The Company has access to an operating line of credit up to an amount not exceeding \$5,000,000, in Canadian dollars or the equivalent thereof in U.S. dollars, to be used to finance the day-to-day operations of the Company. Floating-rate advances bear interest at the Canadian prime rate of the Bank per annum and advances in U.S. dollars bear interest at the U.S. base rate at the Bank per annum. Floating rate advances are repayable on demand but subject to a reasonable prior written notice by the Bank and the Company may repay, at any time, all or part of its floating rate advances without penalty. The aggregate amount of advances under this facility is limited by the application of various rates ranging from 50% to 90% on the Company's accounts receivable and tax credits receivable. The Company did not have any amounts drawn on this operating line of credit as at April 30, 2016 and 2017.

### *Facility E*

In October 2012, the Company received a floating-rate term loan of \$5,000,000 having an initial term of five years. This term loan bore interest at the Bank's Canadian prime rate plus an additional margin varying between 0.75% to 2.00%. The additional margin interest rate is established and adjusted by the Bank, on the last day of each fiscal quarter on the basis of the ratio of interest bearing debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) in effect on the last day of such quarter and applicable for the next quarter. The effective interest rate was 3.45% and 3.50% for fiscal 2017 and 2016, respectively. The principal of this loan was to be repaid in equal and consecutive monthly installments over a period of five years. On April 3, 2017, the Company prepaid the remaining principal balance on the term loan of \$583,000.

Security for facility D is a movable hypothec of \$10,000,000 on all of the Company's corporeal and incorporeal, present and future movable property and an insurance rider designating the Bank as beneficiary of the proceeds of insurance covering the property given as security up to the full replacement value thereof. The only senior ranking hypothec permitted is the first-ranking hypothec granted to the Bank.

### *Facility F*

In April 2015, the Company received a floating-rate term loan of \$2,000,000 having an initial term of five years.

Similar to the term loan described in facility E, this term loan bore interest at the Bank's Canadian prime rate plus an additional margin varying between 0.75% to 2.00%. The additional margin interest rate is established and adjusted by the Bank, on the last day of each fiscal quarter on the basis of the ratio of interest bearing debt to EBITDA in effect on the last day of such quarter and applicable for the next quarter. The effective interest rate was 3.45% and 3.50% for fiscal 2017 and 2016, respectively. The principal of this loan was to be repaid in equal and consecutive monthly installments over a period of five years. On April 3, 2017, the Company prepaid the remaining principal balance on the term loan of \$1,233,000.

The banking agreement requires the Company to maintain a working capital ratio equal or greater than 1.1 : 1.0, a shareholder's equity equal or greater than \$5,000,000, a ratio of interest-bearing debt to EBITDA of less than or equal to 3.0 : 1.0, and a debt service coverage ratio greater than or equal to 1.2 : 1.0. At April 30, 2017 and April 30, 2016, the Company was in compliance with the required financial covenants in effect at that time.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### 11. Accounts payable and accrued liabilities:

	2017	2016
Trade payables	\$ 2,219	\$ 2,812
Accrued liabilities and other payables	2,091	2,702
Salaries and benefits due to key management	397	946
Employee salaries and benefits payable	4,118	4,217
Fair value of derivatives in a loss position	717	18
	<u>\$ 9,542</u>	<u>\$ 10,695</u>

Presented as:

#### *Current*

Accounts payable and accrued liabilities	\$ 9,265	\$ 10,399
--	----------	-----------

#### *Non-current*

Other non-current liabilities	\$ 277	\$ 296
-------------------------------	--------	--------

### 12. Bank loans and long-term debt:

	2017	2016
Bank loan, bearing interest at prime plus 1.5%, secured by a hypothec on movable properties, payable over various installments, maturing in May 2017	\$ 1	\$ 11
Government funded debt, with no interest or security, payable over various installments, maturing in November 2020	189	233
Floating-rate term loan issued in October 2012, bearing interest at prime rate plus 0.75% secured by hypothec on movable property, payable by monthly principal payments of \$83,333, prepaid remaining principal balance on April 3, 2017 (note 10, Facility E)	-	1,500
Floating-rate term loan issued in April 2015, bearing interest at prime rate plus 0.75% secured by hypothec on movable property, payable by monthly principal payments of \$33,333, prepaid remaining principal balance on April 3, 2017 (note 10, Facility F)	-	1,600
	<u>\$ 190</u>	<u>\$ 3,344</u>
Current portion	69	1,455
Long-term debt	\$ 121	\$ 1,889

### 13. Share capital:

#### (a) Authorized share capital:

Authorized - unlimited as to number and without par value

#### *Common shares*

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Company.

All outstanding shares issued are fully paid.

#### *Class A preferred shares*

Class A preferred shares are issuable in series, having such attributes as the Board of Directors may determine. Holders of Class A preferred shares do not carry the right to vote. No preferred shares are outstanding as at April 30, 2017 and April 30, 2016.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### (b) Executive share purchase plan:

The Company has an executive share purchase plan (the “purchase plan”) to provide for mandatory purchases of common shares by certain key executives of the Company (the “participants”) in order to better align the participant’s financial interests with those of the holders of common shares, create ownership focus and build long-term commitment to the Company.

Each participant is required to make annual purchases of common shares through the facilities of the TSX secondary market (“annual purchases”) having an aggregate purchase price equal to 10% of his or her annual base salary during the immediately preceding fiscal year (the “base salary”). Annual purchases must be made within 90 days of May 1, of every fiscal year.

Each participant has the obligation to make annual purchases until he or she owns common shares having an aggregate market value equal to at least 50% of his or her base salary (the “threshold”). If a participant reached his or her threshold and ceased making annual purchases but on any determination date for any subsequent fiscal year of the Company, i) the market value of the common shares owned by a participant falls below his or her threshold, whether as a result of a disposition of common shares or a decrease in the market value of the common shares he or she owns, such participant is required to make additional purchases of common shares in accordance with the plan until his or her threshold is reached, or ii) the market value of the common shares owned by a participant exceeds his or her threshold, whether as a result of an acquisition of common shares or an increase in the market value of the common shares he or she owns, such participant is entitled to dispose of common shares having an aggregate market value equal to the amount in excess of his or her threshold.

During each fiscal year a participant is required to make an annual purchase, each participant has the right to borrow from the Company, and the Company has the obligation to loan to each participant, an amount not to exceed the annual purchase for such fiscal year for such participant (a “loan”). The loans bear no interest and are disbursed in one lump sum following receipt by the Company of a proof of purchase of the common shares. Each loan must be reimbursed to the Company on or before the fiscal year-end in which the loan was made in equal amounts during its term through periodic deductions at source for each of the pay periods remaining in the fiscal year. If the employment of a participant with the Company terminates for any reason whatsoever, all amounts due under any outstanding loan shall become immediately due and payable.

If a participant fails to make his or her annual purchase in full in any fiscal year, the Company may withhold half of any bonus or other incentive payment earned by the participant in that fiscal year until the participant completes the required annual purchase.

The Board of Directors may at any time amend, suspend or terminate the purchase plan upon notice to the participants.

### (c) Dividend policy:

The Company maintains a quarterly dividend policy. The declaration and payment of dividends is at the discretion of the Board of Directors, which will consider earnings, capital requirements, financial conditions and other such factors as the Board of Directors, in its sole discretion, deems relevant.

During fiscal 2017, the Company declared quarterly dividends of \$0.03 for each of the first two quarters and \$0.045 for each of the following two quarters for an aggregate of \$1,847,000. During fiscal 2016, the Company declared quarterly dividends of \$0.025 for an aggregate of \$1,232,000.

### (d) Earnings per share:

Basic earnings per share:

The calculation of basic earnings per share is based on the profit attributable to common shareholders and the weighted average number of common shares outstanding calculated as follows:

	2017	2016
Profit attributable to common shareholders	\$ 5,998	\$ 4,804
Weighted average number of common shares outstanding (basic)	12,315,326	12,315,326
Basic earnings per share	\$ 0.49	\$ 0.39

Diluted earnings per share:

The calculation of diluted earnings per share is based on the profit attributable to common shareholders and the weighted average number of common shares outstanding after adjustment for the effects of all dilutive common shares. The impact of dilutive share options is not significant and therefore diluted earnings per share equals basic earnings per share for the years ended April 30, 2017 and 2016.

**TECSYS Inc.**

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

**14. Income taxes:**

(a) Income taxes comprise the following components:

	2017		2016	
Current income taxes				
Current year	\$	1,735	\$	975
	\$	1,735	\$	975
Deferred income taxes				
Origination and reversal of temporary differences	\$	888	\$	609
Net change in unrecognized deductible temporary difference		(859)		(1,985)
	\$	29	\$	(1,376)
Income tax expense (recovery)	\$	1,764	\$	(401)

(b) The provision for income taxes varies from the expected provision at the statutory rate for the following reasons:

	2017		2016	
		%		%
Combined basic federal and provincial statutory income tax rate		26.76		26.75
Net impact of unrecognized benefits		(11.02)		(39.45)
Permanent differences and other		6.99		3.53
Average effective tax rate		22.73		(9.17)

(c) Unrecognized net deferred tax assets

At April 30, 2017 and 2016 the unrecognized net deferred tax assets consist of the following:

	2017		2016	
Deferred tax assets				
Research and development expenses (i)	\$	2,378	\$	2,846
Net operating losses of Canadian subsidiaries (ii)		2,044		1,897
Net operating losses of UK subsidiary (iii)		123		134
Property and equipment		-		526
Capital losses (iv)		854		854
Other		5		6
Unrecognized net deferred tax assets	\$	5,404	\$	6,263

On April 30, 2017:

- i) The Company has unrecognized accumulated research and development expenses of approximately \$14,968,000 (April 30, 2016 – \$10,684,000) for Federal and Ontario provincial income tax purposes and \$1,517,000 (April 30, 2016 – \$10,281,000) for Quebec provincial income tax purposes which may be carried forward indefinitely and used to reduce taxable income in future years.
- ii) Canadian subsidiaries have unrecognized net operating losses carried forward of approximately \$7,387,000 (April 30, 2016 - \$7,086,000) for Federal and Ontario provincial income tax purposes and \$10,716,000 (April 30, 2016 – \$7,032,000) for Quebec provincial income tax purposes which may be applied to reduce taxable income in future years.
- iii) The Company's U.K. subsidiary has unrecognized net operating losses carried forward for income tax purposes of approximately \$616,000 (£ 348,000) (April 30, 2016 – \$670,000 (£ 366,000)) which may be applied to reduce taxable income in future years.

**TECSYS Inc.**

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

- iv) The Company and its subsidiaries have unrecognized accumulated capital losses of approximately \$6,384,000 (April 30, 2016 – \$6,384,000) which may be applied to reduce future taxable capital gains.

These deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

**(d) Recognized deferred tax assets and liabilities**

At April 30, 2017 and 2016 the recognized net deferred tax assets consist of the following:

	2017	2016
Deferred tax assets		
Research and development expenses	\$ 1,929	\$ 1,535
Net operating losses	318	359
Property and equipment	2,669	2,315
Non-deductible reserves and accruals	177	123
Other	149	65
Deferred tax liabilities		
E-business tax credits	(255)	(352)
Federal tax credits	(1,792)	(477)
Deferred development costs	(736)	(1,021)
Intangibles	(258)	(325)
<b>Net deferred tax assets recognized</b>	<b>\$ 2,201</b>	<b>\$ 2,222</b>

The Company had Canadian Federal non-refundable SRED tax credits totalling approximately \$6,118,000 (note 6) (April 30, 2016 – \$6,584,000) which may be used only to reduce future current federal income taxes otherwise payable. For the year ended April 30, 2017, the Company intends to claim available Federal non-refundable tax credits to reduce Canadian Federal income taxes otherwise payable of \$665,000.

**15. Revenue:**

Services revenue is broken down as follows:

	2017	2016
Professional services	\$ 26,436	\$ 26,020
Maintenance	16,264	14,531
Others	2,507	1,928
	<b>\$ 45,207</b>	<b>\$ 42,479</b>

**16. Cost of revenue:**

Services cost is broken down as follows:

	2017	2016
Gross expenses	\$ 26,689	\$ 24,138
E-business tax credits	(2,040)	(1,638)
	<b>\$ 24,649</b>	<b>\$ 22,500</b>

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### 17. Personnel expenses:

	2017	2016
Salaries	\$ 39,401	\$ 37,973
Other short-term benefits	3,237	3,078
Payments to defined contribution plans	1,948	1,816
	\$ 44,586	\$ 42,867

### 18. Finance income and finance costs:

	2017	2016
Interest expense on financial liabilities measured at amortized cost	\$ 81	\$ 136
Decrease in fair value of share options liability	-	(1)
Foreign exchange loss	211	76
Interest income on bank deposits and loans	(103)	(65)
Net finance costs recognized in profit	\$ 189	\$ 146

### 19. Contingencies:

In the normal course of operations, the Company may be exposed to lawsuits, claims and contingencies. Provisions are recognized as liabilities in instances when there are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and where such liabilities can be reliably estimated. Although it is possible that liabilities may be incurred in instances where no provision has been made, the Company has no reason to believe that the ultimate resolution of such matters will have a material impact on its financial position.

### 20. Commitments:

#### (a) Operating lease commitments:

The Company has an option to extend the term of its leases for the head office in Montreal, which expires October 31, 2020, and for the office in Markham, which expires July 31, 2022, for two consecutive periods of five years each from the expiration of the term. In April 2017, the Company signed an amendment and exercised its option to extend the term of its lease for the head office in Montreal for an additional period of five years and one month, which expires November 30, 2025, and to occupy additional space in the same building as of December 1, 2017. The Company has an option to extend the term of its lease for its office in Laval, which expires February 28, 2026, for one consecutive period of five years from the expiration of the term.

During the year ended April 30, 2017, an expense of \$2,457,000 was recognized in respect of operating leases (2016 – \$2,452,000) and is included within the following expense classifications within the consolidated statements of comprehensive income.

	2017	2016
Cost of revenue: Products	\$ 124	\$ 128
Cost of revenue: Services	1,552	1,479
Sales and marketing	219	234
General and administration	144	175
Research and development	418	436
	\$ 2,457	\$ 2,452

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

The minimum future rental payments expiring up to February 28, 2026, including operating expenses required under non-cancellable long-term operating leases which relate mainly to premises are as follows:

	2017
Less than 1 year	\$ 1,985
Between 1 and 5 years	8,269
More than 5 years	5,990
	<u>\$ 16,244</u>

(b) Other commitments:

Under the terms of a licensing agreement with a third party, the Company is committed to pay royalties calculated at a rate of 1.25% of revenue derived from that portion of the EliteSeries product line that utilizes the embedded third-party software, excluding reimbursable expenses and hardware sales. Revenue derived from the operations of other business units or acquired companies are exempt from these royalties. This agreement automatically renews for consecutive one-year terms.

The Company has incurred royalty fees in fiscal 2017 related to this agreement of \$145,000 (US \$110,000) (2016 - \$115,000 (US \$87,000)).

### 21. Related party transactions:

Key management includes the Board of Directors (executive and non-executive) and members of the Executive Committee that report directly to the President and Chief Executive Officer of the Company.

As at April 30, 2017, key management and their spouses control 38.6% (April 30, 2016 - 41.6%) of the issued common shares of the Company.

The compensation paid or payable to key management for employee services is as follows:

	2017	2016
Salaries	\$ 3,174	\$ 3,290
Other short-term benefits	201	195
Payments to defined contribution plans	82	78
	<u>\$ 3,457</u>	<u>\$ 3,563</u>

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans to key management and other management employees of \$187,000 (2016 – \$220,000) to facilitate their purchase of the Company's common shares during fiscal 2017. No loans were outstanding as at April 30, 2017 and 2016.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### 22. Financial instruments and risk management:

#### Classification of financial instruments

The table below summarizes the Company's financial instruments and their classifications.

	2017			2016
	Fair value	Amortized cost	Total	
<b>Financial assets</b>				
Cash and cash equivalents	\$ -	\$ 13,476	\$ 13,476	\$ 9,704
Accounts receivable	-	14,218	14,218	18,239
Other accounts receivable	-	370	370	335
Foreign exchange derivatives included in other accounts receivable	-	-	-	1,058
	\$ -	\$ 28,064	\$ 28,064	\$ 29,336
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ -	\$ 8,548	\$ 8,548	\$ 10,381
Foreign exchange derivatives included in accounts payable and accrued liabilities	717	-	717	18
Long-term debt	-	190	190	3,344
	\$ 717	\$ 8,738	\$ 9,455	\$ 13,743

#### Fair value disclosures

The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash and cash equivalents, accounts receivable, other accounts receivable, and accounts payable and accrued liabilities approximate their fair value because of the relatively short period to maturity of the instruments.

The fair value of the long-term debt was determined using level 2 of the fair value hierarchy, by discounting the future cash flows using interest rates which the Company could obtain for loans with similar terms, conditions, and maturity dates. There is no significant difference between the fair value and the carrying value of the long-term debt as at April 30, 2017 and 2016.

The fair value of derivatives consisting of foreign exchange forward contracts is measured using a generally accepted valuation technique which is the discounted value of the difference between the contract's value at maturity based on the rate set out in the contract and the contract's value at maturity based on the rate that the counterparty would use if it were to renegotiate the same contract at the measurement date under the same conditions. The fair value of derivative financial instruments is based on forward rates considering the market price, rate of interest and volatility and takes into account the credit risk of the financial instrument.

The fair value of financial assets, financial liabilities and derivative financial instruments were measured using the Level 2 inputs in the fair value hierarchy as at April 30, 2017 and 2016.

The forward foreign exchange contracts in a hedging relationship designated as cash flow hedges qualified for hedge accounting. The forward foreign exchange contracts outstanding as at April 30, 2017 and April 30, 2016 consisted primarily of contracts to reduce the exposure to fluctuations in the U.S. dollar.

For fiscal 2017 and 2016, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net finance costs.

#### Risk management

The Company is exposed to the following risks as a result of holding financial instruments: currency risk, credit risk, liquidity risk, interest rate risk, and market price risk.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### *Currency risk*

The Company is exposed to currency risk as a certain portion of the Company's revenues and expenses are incurred in U.S. dollars resulting in U.S. dollar-denominated accounts receivable and accounts payable and accrued liabilities. In addition, certain of the Company's cash and cash equivalents are denominated in U.S. dollars. These balances are therefore subject to gains or losses due to fluctuations in that currency. The Company may enter into foreign exchange contracts in order to offset the impact of the fluctuation of the U.S. dollar regarding the revaluation of its U.S. net monetary assets and to hedge highly probable future revenue denominated in U.S. dollars. The Company uses derivative financial instruments only for risk management purposes, not for generating trading profits. As such, any change in cash flows associated with derivative instruments is expected to be offset by changes in cash flows related to the net monetary position in the foreign currency and the recognition of highly probable future U.S. denominated revenue and related accounts receivable.

#### Non-hedge designated derivative instruments

On April 30, 2017, the Company held nine outstanding foreign exchange contracts with various maturities to July 2017 to sell US\$6,450,000 into Canadian dollars at rates averaging CA\$1.3253 to yield CA\$8,548,000. On April 30, 2017, the Company recorded an unrealized exchange loss of \$249,000 included in accounts payable and accrued liabilities representing the change in fair value of these outstanding contracts since inception and their initial measurement.

On April 30, 2016, the Company held eight outstanding foreign exchange contracts with various maturities to October 2016 to sell US\$6,150,000 into Canadian dollars at rates averaging CA\$1.2831 to yield CA\$7,891,000. On April 30, 2016, the Company recorded an overall unrealized exchange gain of \$174,000 representing the change in fair value of these outstanding contracts since inception and their initial measurement. The fair value gain of \$180,000 of certain derivatives was recorded in other accounts receivable and a fair value loss of \$6,000 on other derivatives was recorded in accounts payable and accrued liabilities in the consolidated statement of financial position.

Additionally, on April 30, 2016, the Company held two outstanding foreign exchange contracts with various maturities to July 2016 to buy €345,000 in exchange for \$507,000 Canadian dollars at rates averaging CA\$1.4684. On April 30, 2016, the Company recorded an unrealized exchange loss of \$12,000 included in accounts payable and accrued liabilities.

#### Revenue hedge designated derivative instruments

On April 30, 2017, the Company held eight outstanding foreign exchange contracts with various maturities to December 29, 2017 to sell US\$10,000,000 at rates averaging CA\$1.3151 to yield CA\$13,151,000. Of the outstanding US\$10,000,000 hedge designated foreign exchange contracts, US\$6,000,000 pertain to highly probable future revenue denominated in U.S. dollars expected over the five-month period through September 2017 while US\$4,000,000 is related to realized U.S. dollar denominated revenue. On April 30, 2017, the Company had recorded an unrealized exchange loss of \$468,000 included in accounts payable and accrued liabilities representing the change in fair value of these outstanding contracts since inception and their initial measurement.

On April 30, 2016, the Company held eight outstanding foreign exchange contracts with various maturities to December 31, 2016 to sell US\$10,000,000 at rates averaging CA\$1.3428 to yield CA\$13,428,000. Of the outstanding US\$10,000,000 hedge designated foreign exchange contracts, US\$6,000,000 pertain to highly probable future revenue denominated in U.S. dollars expected over the five-month period through September 2016 while US\$4,000,000 related to realized U.S. dollar denominated revenue. On April 30, 2016, the Company had recorded an overall unrealized gain of \$878,000 included in other accounts receivable representing the change in fair value of these outstanding contracts since inception and their initial measurement.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

	Carrying amount of the hedging instrument				Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness
	Nominal amount of the hedging instrument		Assets	Liabilities		
Cash-flow hedges:						
April 30, 2017 Foreign exchange risk:	US\$ 10,000	CA\$ -	CA\$ 468		Accounts payable and accrued liabilities	CA\$ (468)
April 30, 2016 Foreign exchange risk:	US\$ 10,000	CA\$ 878	CA\$ -		Other accounts receivable	CA\$ 878

### Hedging components of accumulated other comprehensive income

During fiscal 2017, the Company recorded a loss of \$1,288,000 (2016 - \$547,000) in other comprehensive income (loss), representing the change in fair value of the designated hedging contracts during the year. The following table represents the movement in accumulated other comprehensive income since the designation of hedging derivative instruments.

	2017	2016
Accumulated other comprehensive income as at the beginning of the fiscal year	\$ 607	\$ 95
Net loss on derivatives designated as cash flow hedges	(1,288)	(547)
Amounts reclassified from accumulated other comprehensive income to net earnings, and included in:		
Revenue	(108)	(931)
Exchange loss in net finance costs	(294)	(128)
<b>Accumulated other comprehensive (loss) income</b>	<b>\$ (279)</b>	<b>\$ 607</b>

As at April 30, 2017, all of the net loss presented in accumulated other comprehensive loss is expected to be classified to net profit within the next five months.

### Foreign currency exposure

The following table provides an indication of the Company's significant foreign exchange currency exposures excluding designated hedge derivatives related to highly probable future revenue as at April 30, 2017 and 2016.

	2017			2016		
	US\$	£	€	US\$	£	€
Cash and cash equivalents	1,948	35	3	1,339	27	68
Accounts receivable	8,924	237	-	9,416	76	-
Other accounts receivable	202	1	-	265	1	-
Accounts payable and accrued liabilities	(1,275)	(44)	(87)	(1,244)	(59)	(434)
Derivative financial instruments – notional amount	(10,450)	-	-	(10,150)	-	345
	(651)	229	(84)	(374)	45	(21)

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

The following exchange rates applied during the years ended April 30, 2017 and 2016.

	2017		2016	
	Average rate	Reporting date rate	Average rate	Reporting date rate
CA\$ per US\$	1.3176	1.3650	1.3158	1.2548
CA\$ per £	1.7031	1.7679	1.9754	1.8335
CA\$ per €	1.4389	1.4870	1.4583	1.4368

Based on the Company's foreign currency exposures noted above, varying the above foreign currency reporting date exchange rates to reflect a 5% appreciation would have had the following impact on profit, assuming all other variables remained constant.

	2017			2016		
	US\$	£	€	US\$	£	€
(Decrease) increase in profit	(44)	(6)	20	(23)	4	(2)

A 5% depreciation of these currencies would have an equal but opposite effect on the profit, assuming all other variables remained constant.

### *Credit risk*

Credit risk is the risk associated with incurring a financial loss when the other party fails to discharge an obligation.

Financial instruments which potentially subject the Company to credit risk consist principally of cash and cash equivalents, accounts receivable, and other accounts receivable. The Company's cash and cash equivalents are maintained at major financial institutions.

At April 30, 2017, there is one customer comprising 13% of total trade accounts receivable and work in progress. Generally there is no particular concentration of credit risk related to the accounts receivable due to the North American distribution of customers and procedures for the management of commercial risks. The Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. Customers do not provide collateral in exchange for credit.

The Company has an arrangement, which automatically renewed in fiscal 2017 under the same terms and conditions, with a federal crown corporation and another insurer ("the insurers") wherein the insurers assume the risk of credit loss in the case of bankruptcy for up to 90% of accounts receivable for certain qualifying foreign and domestic customers. The insurance is subject to a deductible of US\$50,000 for each deductible period, in respect of trade accounts receivable generated during that period, and subject to a maximum of US\$1,300,000 (April 30, 2016 - US\$1,300,000) for export losses and US\$700,000 (April 30, 2016 - US\$700,000) for domestic losses, in any policy period. The insurance policy period runs from February 1 to January 31 of each year.

On April 30, 2017, accounts receivable included foreign accounts totalling US\$1,661,000 and £23,000 and domestic accounts for \$929,000 (US\$681,000) that were pre-approved for coverage, subject to the above-noted maximums, under this arrangement.

On April 30, 2016, accounts receivable included foreign accounts totalling US\$2,189,000 and £23,000 and domestic accounts for \$1,284,000 (US\$1,023,000) that were pre-approved for coverage, subject to the above-noted maximums, under this arrangement.

The Company maintains an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on its receivables. Individual overdue accounts are reviewed and allowance adjustments are recorded when determined necessary to state receivables at the realizable value. If the financial condition of customers deteriorates resulting in their diminished ability or willingness to make payment, additional provisions for doubtful accounts are recorded. The Company's maximum credit risk exposure corresponds to the carrying amounts of the trade accounts receivable.

**TECSYS Inc.**

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

	2017	2016
Not past due	\$ 8,240	\$ 12,094
Past due 1-180 days	5,874	5,625
Past due over 180 days	1,605	1,616
	15,719	19,335
Allowance for doubtful accounts	(1,501)	(1,096)
	\$ 14,218	\$ 18,239

Allowance for doubtful accounts		
	2017	2016
Balance at beginning	\$ 1,096	\$ 637
Impairment losses recognized	(276)	(337)
Additional provisions	681	796
Balance at the end	\$ 1,501	\$ 1,096

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in the capital disclosures discussion in note 23 below. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The following are contractual maturities of financial liabilities as of April 30, 2017 and 2016.

2017						
	Total	Less than 1 year	1-3 years	3-5 years	Beyond	
Accounts payable and accrued liabilities	\$ 9,265	\$ 9,265	\$ -	\$ -	\$ -	-
Long-term debt	190	69	121	-	-	-
	\$ 9,455	\$ 9,334	\$ 121	\$ -	\$ -	-

2016						
	Total	Less than 1 year	1-3 years	3-5 years	Beyond	
Accounts payable and accrued liabilities	\$ 10,399	\$ 10,399	\$ -	\$ -	\$ -	-
Term loans	3,100	1,400	1,300	400	-	-
Other long-term debt	244	55	115	74	-	-
	\$ 13,743	\$ 11,854	\$ 1,415	\$ 474	\$ -	-

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk was primarily related to the Company's term loans and its operating line of credit, the term loans bearing interest at the Bank's Canadian prime rate plus an additional margin and the operating line of credit, if drawn upon, bearing interest at the Bank's Canadian prime rate. On April 3, 2017, the Company prepaid the remaining principal balance on the term loans of \$1,817,000. The Company did not have any amounts drawn on this operating line of credit as at April 30, 2016 and 2017.

## TECSYS Inc.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### *Market price risk*

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risk comprises three types of risk: currency risk; interest rate risk; and other price risk, comprising those changes caused by factors specific to the financial instrument or its issuer, or factors affecting all similar instruments traded in the market. The Company's exposure to financial instruments with market risk characteristics is insignificant.

### **23. Capital disclosures:**

The Company defines capital as equity, term loans, and bank advances, net of cash. The Company's objectives in its management of capital is to safeguard its ability to continue funding its operations as a going concern, ensuring sufficient liquidity to finance its operations, working capital, capital expenditures, organic growth, potential future acquisitions, and to provide returns to shareholders through its dividend policy. The capital management objectives remain the same as for the previous fiscal year.

Its capital management policies may also include promoting shareholder value through the concentration of its shareholdings by means of purchasing its own shares for cancellation through normal course issuer bids when the Company considers it advisable to do so.

Historically, the Company followed an approach that relied almost exclusively on its own liquidity and cash flow from operations to fund its activities as its policy was to maintain a minimum level of debt. Additionally and whenever possible, the Company optimized its liquidity requirements by non-dilutive sources, including tax credits, and interest income.

The Company uses credit facilities to ensure that the growth trends could be sustained as positive indications of the resurgence of the supply chain management market translated to higher bookings for the Company's products and services and a corresponding increase in headcount to meet the higher demand for its services and to capture pipeline opportunities. The anticipated expansion of its working capital due to business growth, its investment in the integration and training of new resources, the new expanded offices, as well as the significant investment in the migration of the Company's flagship product, EliteSeries onto a Java platform were the underlying motivation for the new credit facilities comprising a term loan of \$5,000,000 and an operating line of credit of \$5,000,000. In April 2015, the Company renewed its banking agreement and credit facilities and undertook a new term loan of \$2,000,000, after paying \$2,500,000 on the original term loan, to continue to ensure a strong balance sheet to sustain future growth. Due to a strong cash position, on April 3, 2017, the Company prepaid its remaining principal balance on its term loans of \$1,817,000. However, the Company still has access to draw upon its operating line of credit of \$5,000,000 if required to fulfill its capital requirements.

In order to maintain or adjust its capital structure, the Company may upon approval from its Board of Directors, issue shares, repurchase shares for cancellation, adjust the amount of dividends to shareholders, pay off existing debt, and extend or amend its banking and credit facilities as deemed appropriate under the specific circumstances. The Company's banking and credit facilities require adherence to financial covenants. The Company is in compliance with these covenants as at April 30, 2017 and April 30, 2016. Other than its banking agreement covenants, the Company is not subject to externally imposed capital requirements.

### **24. Operating segments:**

Management has organized the Company under one reportable segment: the development and marketing of enterprise-wide distribution software and related services. Substantially all of the Company's property and equipment, goodwill and other intangible assets are located in Canada. The Company's subsidiaries in the U.S. and the U.K. comprises sales and service operations offering implementation and maintenance services only.

Following is a summary of revenue by geographic location in which the Company's customers are located:

	2017	2016
Canada	\$ 17,240	\$ 21,041
United States	48,395	44,276
Other	2,812	2,149
	<u>\$ 68,447</u>	<u>\$ 67,466</u>

Non-current assets of the Company are all located in Canada as at April 30, 2017 and 2016.

## **TECSYS Inc.**

Notes to the Consolidated Financial Statements

For the years ended April 30, 2017 and 2016

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

### **25. Subsequent event:**

On July 6, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.045 per share to be paid on August 4, 2017 to shareholders of record on July 21, 2017.

On June 27, 2017, the Company completed an offering of 1,100,050 common shares of the Company at the offering price of \$15.00 per common share for aggregate gross proceeds of \$16,500,750 (the "Offering"). The Offering includes a treasury offering of 767,050 shares by the Company, including 100,050 common shares purchased by the underwriters pursuant to the exercise of their over-allotment option on June 27, 2017, for gross proceeds of \$11,505,750 and a secondary offering of 333,000 shares by (i) David Brereton, Executive Chairman of the Company; (ii) Dabre Inc., David Brereton's holding company; and (iii) Kathryn Ensign-Brereton, David Brereton's spouse for aggregate gross proceeds of \$4,995,000. The Offering was completed on a bought deal basis and was underwritten by a syndicate of underwriters led by Cormark Securities Inc. on its own behalf and on behalf of two other underwriters.

The common shares were offered by way of a short form prospectus filed in all provinces in Canada.

Transaction costs directly associated with this issuance of treasury shares of approximately \$1,052,816 have been recognized as a reduction of the proceeds, resulting in net total proceeds of approximately \$10,452,934 for the treasury offering.

# General Information

## COMMON SHARE INFORMATION

### PRINCIPAL MARKET

The Company's common shares were first listed on the Toronto Stock Exchange (TSX) on July 27, 1998. The stock symbol of the Company's common shares is TCS. The following table sets forth the high and low prices, as well as the trading volume for the common shares for the fiscal periods shown below.

#### FISCAL YEAR 2017: MAY 1, 2016 TO APRIL 30, 2017

	High	Low	Volume
First Quarter	\$ 12.00	\$ 7.45	899,600
Second Quarter	\$ 11.40	\$ 8.27	452,700
Third Quarter	\$ 11.00	\$ 8.99	574,300
Fourth Quarter	\$ 11.80	\$ 9.96	357,400

### DIVIDEND POLICY

The Company maintains a quarterly dividend policy. The declaration and payment of dividends is at the discretion of the Board of Directors, which will consider earnings, capital requirements, financial conditions and other such factors as the Board of Directors, in its sole discretion, deems relevant.

On July 6, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.045 per share to be paid on August 4, 2017 to shareholders of record on July 21, 2017.

### INVESTOR INQUIRIES

In addition to its Annual Report, the Company files an Annual Information Form (AIF), as well as a Management Proxy Circular with the Canadian Securities Commissions which are available on TECSYS' web site ([www.tecsys.com](http://www.tecsys.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)). For further information or to obtain additional copies of any of the above-mentioned documents, please contact:

### INVESTOR RELATIONS

TECSYS Inc.  
1 Place Alexis Nihon, Suite 800  
Montreal, Quebec H3Z 3B8  
Canada  
Tel: (800) 922-8649  
(514) 866-0001  
Fax: (514) 866-1805

[investor@tecsys.com](mailto:investor@tecsys.com)  
[www.tecsys.com](http://www.tecsys.com)

#### BELOW IS TECSYS' DIVIDEND PAYMENT HISTORY AND INCREASES:

Dividend Period	Amount	Date Paid
<b>Semi-Annual</b>		
Q3, 2008	\$ 0.020	31-Mar-08
Q1, 2009	\$ 0.020	07-Oct-08
Q3, 2009	\$ 0.020	31-Mar-09
Q1, 2010	\$ 0.025	07-Oct-09
Q3, 2010	\$ 0.025	31-Mar-10
Q1, 2011	\$ 0.025	06-Oct-10
Q3, 2011	\$ 0.030	31-Mar-11
Q1, 2012	\$ 0.030	06-Oct-11
Q3, 2012	\$ 0.030	30-Mar-12
Q1, 2013	\$ 0.035	05-Oct-12
Q3, 2013	\$ 0.035	29-Mar-13
Q1, 2014	\$ 0.035	04-Oct-13
Q3, 2014	\$ 0.040	28-Mar-14
<b>Quarterly</b>		
Q1, 2015	\$ 0.0225	06-Aug-14
Q2, 2015	\$ 0.0225	10-Oct-14
Q3, 2015	\$ 0.0225	06-Jan-15
Q4, 2015	\$ 0.0225	09-Apr-15
Q1, 2016	\$ 0.025	06-Aug-15
Q2, 2016	\$ 0.025	09-Oct-15
Q3, 2016	\$ 0.025	12-Jan-16
Q4, 2016	\$ 0.025	12-Apr-16
Q1, 2017	\$ 0.030	04-Aug-16
Q2, 2017	\$ 0.030	07-Oct-16
Q3, 2017	\$ 0.045	12-Jan-17
Q4, 2017	\$ 0.045	11-Apr-17

# Directors and Executive Management

## BOARD OF DIRECTORS

FRANK J. BERGANDI  
Business Consultant

DAVID BRERETON  
Executive Chairman of the Board  
TECSYS Inc.

PETER BRERETON  
President and CEO  
TECSYS Inc.

VERNON LOBO <sup>(1)</sup> <sup>(2)</sup>  
Managing Director  
Mosaic Venture Partners Inc.

STEVE SASSER <sup>(1)</sup> <sup>(2)</sup>  
Co-Founder and CEO  
Merlin Technologies Corporation

DAVID WAYLAND <sup>(1)</sup> <sup>(2)</sup>  
Corporate Director  
MRRM Inc.

DAVID BOOTH  
Chairman and CEO  
BackOffice Associates LLC

JOHN ENSIGN  
Executive Vice-President & General Counsel  
MRI Software LLC

## EXECUTIVE MANAGEMENT

DAVID BRERETON  
Executive Chairman of the Board

PETER BRERETON  
President and CEO

BRIAN COSGROVE  
Vice President, Finance and Administration  
Chief Financial Officer and Secretary

GREG MACNEILL  
Senior Vice President, World Wide Sales

VITO CALABRETTA  
Senior Vice President, Global Operations

ROBERT COLOSINO  
Vice President, Business Development and Marketing

YAN CHARBONNEAU  
Vice President, Research and Development

PATRICIA BARRY  
Vice President, Human Resources

CATALIN BADEA  
Chief Technology Officer

CATHERINE SIGMAR  
Chief Legal Officer and Vice President, Strategic Initiatives

<sup>(1)</sup> Member of the Audit Committee

<sup>(2)</sup> Member of the Compensation Committee

# Corporate Information

## NORTH AMERICA

### Corporate Headquarters

TECSYS Inc.  
1 Place Alexis Nihon  
Suite 800  
Montreal, Quebec H3Z 3B8  
Canada  
Tel: (800) 922-8649  
(514) 866-0001  
Fax: (514) 866-1805

TECSYS U.S., Inc.  
1001 Avenue of the Americas  
4th Floor  
New York, NY 10018  
USA  
Toll Free: (800) 922-8649

TECSYS Inc.  
15 Allstate Parkway  
Suite 501  
Markham, Ontario L3R 5B4  
Canada  
Tel: (905) 752-4550  
Fax: (905) 752-6400

TECSYS Inc.  
820 St-Martin Blvd. West  
Laval, Quebec H7M 0A7  
Canada  
Tel: (450) 628-8800  
Fax: (450) 688-3288

## CENTRAL & SOUTH AMERICA

Cerca Technology  
Av Cra 15 # 122-75 Torre A Piso 5  
Edificio Jorge Baron  
Bogotá D.C, Colombia  
Tel: (57-1) 740 6903 Ext. 131  
Fax: (57-1) 640 7416

Distributor for: Puerto Rico, Central & South America  
and the Caribbean

## EUROPE

TECSYS Europe Limited  
1 City Square  
2nd Floor  
Leeds, UK  
LS1 2ES  
Tel: 44 (0) 113 350 3760

## INVESTOR INQUIRIES

TECSYS Inc.  
Investor Relations  
1 Place Alexis Nihon  
Suite 800  
Montreal, Quebec H3Z 3B8  
Canada  
Tel: (800) 922-8649  
(514) 866-0001  
Fax: (514) 866-1805  
investor@tecsys.com  
www.tecsys.com

## SUBSIDIARIES

TECSYS U.S., Inc.  
TECSYS Europe Limited  
LOGI D HOLDING INC.  
LOGI D INC.  
LOGI D CORP.

## AUDITORS

KPMG LLP  
Montreal, Quebec, Canada

## BANKERS

National Bank of Canada  
Montreal, Quebec, Canada

## LEGAL COUNSEL

Mccarthy Tétrault LLP  
Montreal, Quebec, Canada

## TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.  
100 University Ave.  
8th Floor, North Tower  
Toronto, Ontario M5J 2Y1  
Canada  
Tel: (514) 982-7555 or (800) 564-6253  
Fax: (514) 982-7635  
service@computershare.com



TECSYS Inc.  
1 Place Alexis Nihon  
Suite 800  
Montreal, Quebec H3Z 3B8  
Canada  
Tel: (800) 922-8649  
(514) 866-0001  
Fax: (514) 866-1805

[www.tecsys.com](http://www.tecsys.com)

©2017, TECSYS Inc.

All names, trademarks, products, and services mentioned are registered or unregistered trademarks of their respective owners.

Printed in Canada

**TECSYS**<sup>®</sup>  
Your Supply Chain Matters.<sup>™</sup>

