



# 2nd Quarter Fiscal 2022 Report



Strength in Numbers

# Management's Discussion and Analysis of Financial Condition and Results of Operations dated December 1, 2021

The following discussion and analysis should be read in conjunction with the condensed interim consolidated financial statements of Tecsys Inc. (the "Company") and Notes thereto, which are included in this document, and the annual report for the year ended April 30, 2021. The Company's second quarter of fiscal year 2022 ended on October 31, 2021. Additional information about the Company, including copies of the continuous disclosure materials such as the annual information form and the management proxy circular are available through the SEDAR Website at <http://www.sedar.com>.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

This document and the condensed interim consolidated financial statements are expressed in Canadian dollars unless it is otherwise indicated. The Company and its subsidiaries functional currency is the Canadian dollar with the exception of Danish subsidiaries (Danish kroner).

## **Forward-Looking Information**

This management's discussion and analysis contains "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" in the Company's annual consolidated financial statements for the year ended April 30, 2021.

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 rates; (xviii) technology and regulatory changes; (xix) internal information technology infrastructure and applications, (xx) cyber security and (xxi) expected impact of COVID-19 on the Company's future operations and performance.

## Use of non-IFRS Performance Measures

The Company uses certain non-IFRS financial performance measures in its MD&A and other communications which is described in the “Non-IFRS Performance Measures” section of this MD&A. The non-IFRS measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these metrics 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.

## Overview

Tecsys is a global provider of SaaS supply chain solutions that equip the borderless enterprise for growth. Spanning multiple complex, regulated and high-volume distribution industries, Tecsys delivers dynamic and powerful solutions for warehouse management, distribution and transportation management, supply management at point of use, retail order management, as well as 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. As their businesses grow more complex, organizations operating a Tecsys platform can adapt and scale to business needs or size, expand and collaborate with customers, suppliers and partners as one borderless enterprise, and transform their supply chains at the speed that their growth demands. From demand planning to demand fulfillment, Tecsys puts power into the hands of both front-line workers and back-office planners, helping business leaders operate sustainable and scalable logistics so they may focus on the future of their products, services and people, not on their operational challenges.

Customers around the world trust their supply chains to Tecsys in the healthcare, service parts, third-party logistics, retail and general wholesale high- volume distribution industries. Tecsys is the market leader in North America for supply chain solutions for health systems and hospitals.

The Company has five principal sources of revenue:

- software as a service (SaaS) subscriptions which represent the right to access our software platform in a hosted and managed environment for a period of time; these subscriptions are typically sold in three to five year term agreements with auto-renewal provisions;
- maintenance and support services sold with perpetual licenses and hardware maintenance services; these services are typically sold in annual agreements with auto-renewal provisions;
- professional services, including implementation, consulting and training services provided to customers as well as reimbursable expenses;
- licenses; and
- hardware.

Starting in 2019, the Company shifted its business model and began selling its solutions primarily on a SaaS subscription basis. As such, Tecsys expects SaaS revenue to continue to grow over time. Revenue from maintenance and support services relate in a large part to our prior business model of selling perpetual licenses with attached maintenance and support fees. The Company expects maintenance and support services revenue to generally decline over time as new customers acquire SaaS subscriptions and existing customers eventually migrate to SaaS.

In the three and six months ended October 31, 2021, we generated \$34.3 million and \$67.5 million in total revenue, respectively. The revenue mix for the three months ended October 31, 2021 was: SaaS 19%; maintenance and support 24%; professional services 38%; license 3%; and hardware 16%. The revenue mix for the six months ended October 31, 2021 was: SaaS 18%; maintenance and support 24%; professional services 39%; license 2%; and hardware 17%.

## 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 do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled indicators reported by other companies and cannot be reconciled to a directly comparable IFRS measure. 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 (also referred to as Annual Recurring Revenue (ARR)) is defined as the contractually committed purchase of SaaS, proprietary software maintenance, and customer support 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. This includes SaaS ARR bookings (the average annual value of committed SaaS recurring revenue at the time of contract signing), professional services bookings and perpetual license bookings. The Company believes that these metrics are primary indicators of business performance.

### Backlog

Backlog in general refers to the value of contracted revenue that is not yet recognized. Our backlog reporting focuses on (a) Annual Recurring Revenue and (b) Professional Services Backlog.

The Company also focuses on contracted SaaS backlog as a key performance indicator. The Company enters into SaaS subscription agreements that are typically multi-year performance obligations with original contract terms of three to five years. Contracted SaaS backlog represents revenue that we expect to recognize in the future related to firm performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. This is also known as Remaining Performance Obligation (RPO) and, unlike ARR which has a one-year time horizon, it includes multiple years of contracted SaaS subscriptions.

## Results of Operations for the Second Quarter of Fiscal 2022

The following table presents a summary of the results of operations:

	Three months ended October 31,		Six months ended October 31,	
<i>(in thousands of CAD, except earnings per share)</i>	2021	2020	2021	2020
<b>Statement of Operations</b>				
Revenue	\$ 34,269	\$ 30,694	\$ 67,501	\$ 58,785
Cost of revenue	18,751	14,684	37,554	29,285
Gross profit	15,518	16,010	29,947	29,500
Operating expenses	13,891	12,558	27,232	24,080
Profit from operations	1,627	3,452	2,715	5,420
Net finance costs	128	131	243	129
Profit before income taxes	\$ 1,499	\$ 3,321	\$ 2,472	\$ 5,291
Income taxes	791	1,235	1,520	1,970
Profit	\$ 708	\$ 2,086	\$ 952	\$ 3,321
Adjusted EBITDA <sup>1</sup>	\$ 3,206	\$ 4,830	\$ 5,662	\$ 8,339

<sup>1</sup> Refer to section below "Non-IFRS Performance Measures" for definition.

	Three months ended October 31,		Six months ended October 31,	
<i>(in thousands of CAD, except earnings per share)</i>	2021	2020	2021	2020
Basic earnings per share	\$ 0.05	\$ 0.14	\$ 0.07	\$ 0.23
Diluted earnings per share	\$ 0.05	\$ 0.14	\$ 0.06	\$ 0.23
Total Annual Recurring Revenue (ARR) <sup>2</sup>	\$ 56,939	\$ 50,873	\$ 56,939	\$ 50,873

## Non-IFRS Performance Measures

The terms and definitions of the non-IFRS measures used in this MD&A are provided below. These non-IFRS measures do not have any standardized meanings prescribed by IFRS and may not be comparable to similar measures presented by other companies. Accordingly, they should not be considered in isolation.

### EBITDA and Adjusted EBITDA

EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before stock-based compensation. The Company believes that these measures are 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 reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS measure is provided below:

	Three months ended October 31,		Six months ended October 31,	
<i>(in thousands of CAD)</i>	2021	2020	2021	2020
Profit for the period	\$ 708	\$ 2,086	\$ 952	\$ 3,321
Adjustments for:				
Depreciation of property and equipment and right-of-use assets	553	526	1,096	1,059
Amortization of deferred development costs	69	58	123	161
Amortization of other intangible assets	411	426	822	834
Interest expense	145	195	306	471
Interest income	(40)	(63)	(80)	(113)
Income taxes	791	1,235	1,520	1,970
EBITDA	\$ 2,637	\$ 4,463	\$ 4,739	\$ 7,703
Adjustments for:				
Stock based compensation	569	367	923	636
Adjusted EBITDA	\$ 3,206	\$ 4,830	\$ 5,662	\$ 8,339

### Constant currency

Financial results at constant currency allow results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial results at constant currency are obtained by translating prior period results denominated in U.S. dollars at the foreign exchange rates of the current period. Current period foreign exchange rates used in the constant currency translation include the impact of designated U.S. dollar revenue hedges.

<sup>2</sup> Refer to section "Key Performance Indicators" for definition.

## Revenue

The Company has changed the presentation of revenue in the Condensed Interim Consolidated Statements of Income and Comprehensive (loss) income as of the beginning of the current fiscal year. As a result of the change, comparative figures have been reclassified to conform with the basis of presentation used in the current year. Refer to Note 15 - Comparative information of the Condensed Interim Consolidated Financial Statements.

Total Revenue for the three and six months ended October 31, 2021 increased to \$34.3 million and \$67.5 million, respectively, an increase of \$3.6 million or 12% and \$8.7 million or 15% compared to the same periods of fiscal 2021. Revenue is broken down as follows:

<i>(in thousands of CAD)</i>	Three months ended		2021 to	Six months ended		2021 to
	October 31,		2020	October 31,		2020
	2021	2020	%	2021	2020	%
SaaS	\$ 6,565	\$ 5,120	28%	\$ 12,218	\$ 8,964	36%
Maintenance and Support	8,200	8,312	-1%	16,526	16,721	-1%
Professional Services	13,076	11,829	11%	26,202	23,041	14%
License	982	1,988	-51%	1,333	2,705	-51%
Hardware	5,446	3,445	58%	11,222	7,354	53%
	34,269	30,694	12%	67,501	58,785	15%

Approximately 65% (2021-65%) of the Company's revenues were generated in U.S. dollars during the second quarter of fiscal 2022. The U.S. dollar averaged CA\$1.2570 in the second quarter of fiscal 2022 in comparison to CA\$1.3220 in the same period of fiscal 2021. The decline in the value of the U.S. dollar more than offset the Company's partial hedging of U.S. revenue giving rise to a net unfavorable foreign currency related revenue variance of \$2.0 million in comparison to the second quarter of fiscal 2021.

For the six-months ended October 31, 2021 approximately 66% (2021-65%) of the Company's revenues were generated in U.S. dollars. The U.S. dollar averaged CA\$1.2431 in the first six months of fiscal 2022 and CA\$1.3445 in the first six months of fiscal 2021. The decline in the value of the U.S. dollar more than offset the Company's partial hedging of U.S. revenue giving rise to a net unfavorable foreign currency related revenue variance of \$4.3 million in comparison to the first six months of fiscal 2021.

On a constant currency basis (using fiscal 2022 currency rates), second quarter and first half of fiscal 2022 revenue grew by approximately 18% and 21%, respectively, compared to the same periods of fiscal 2021. The unfavorable foreign currency movement impacted all revenue lines.

Total ARR on October 31, 2021 was \$56.9 million, up 12% compared to \$50.9 million on October 31, 2020. A significant amount of ARR is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR. On a constant currency basis, ARR increased 18% during the twelve months ended October 31, 2021. ARR was up 6% sequentially compared to the first quarter of fiscal 2022 and up 7% on a constant currency basis.

### SaaS revenue

The Company generates revenue from proprietary software under a Software as a Service (SaaS) model. SaaS subscriptions represent the right to access our software platform in a hosted and managed environment for a period of time. The Company enters into SaaS subscription agreements that are typically multi-year performance obligations with original contract terms of three to five years.

SaaS revenue in the second quarter of fiscal 2022 was \$6.6 million, up 28% or \$1.4 million compared to the second quarter of fiscal 2021 and up \$0.9 million sequentially compared to the first quarter of fiscal 2022. The increase is due to new SaaS revenue from bookings<sup>3</sup> in recent quarters, net cancellations impacting the quarter and foreign

<sup>3</sup> Refer to section "Key Performance Indicators" for definition

exchange, as a significant portion of the Company's SaaS fees are denominated in U.S. dollars. SaaS revenue for the six months ended October 31, 2021 was \$12.2 million, up 36% or \$3.3 million compared to the same period in fiscal 2021. On a constant currency basis, second quarter and first half fiscal 2022 SaaS revenue grew by approximately 36% and 45%, respectively, compared to the same periods of fiscal 2021.

In the second quarter of fiscal 2022, SaaS subscription bookings (measured on an ARR basis) were \$4.0 million, up 50% compared to \$2.7 million in the second quarter of fiscal 2021. In the first six months of fiscal 2022 and fiscal 2021, SaaS subscription bookings were consistent at \$5.1 million. The Company has historically seen some lumpiness in quarterly deal closings, and the Company expects this to continue.

On October 31, 2021, SaaS backlog<sup>4</sup> was \$72.7 million, up 21% from \$60.2 million at the same time last year. A significant amount of SaaS backlog is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will impact reported SaaS backlog. On a constant currency basis, SaaS backlog increased 28% during the twelve months ended October 31, 2021. SaaS backlog was up 12% sequentially compared to the first quarter of fiscal 2021 and up 13% on a constant currency basis.

### **Maintenance and support revenue**

Maintenance and support revenue derives largely from the Company's legacy perpetual license installed base. The Company enters into maintenance and support contracts that typically have an original term of one year and are subject to annual renewal. Maintenance and support revenue for the three and six months ended October 31, 2021 was \$8.2 million and \$16.6 million, both down 1% compared to the same periods in fiscal 2021. The decrease was the result of the negative impact of foreign exchange as a significant portion of the Company's maintenance and support revenue is denominated in U.S. dollars. On a constant currency basis, second quarter and first half of fiscal 2022 maintenance and support revenue grew by approximately 4% and 5%, respectively, compared to same periods of fiscal 2021.

### **Professional services revenue**

Professional services revenue includes fees for implementation, consulting and training services provided to customers, as well as reimbursable expenses. Professional services revenue for the three months ended October 31, 2021 was \$13.1 million, up 11% compared to \$11.8 million during the same period last year. For the six months ended October 31, 2021, professional services revenue was \$26.2 million, up 14% compared to \$23.0 million during the same period in the prior year. Again, negative foreign exchange impact reduced reported professional services revenue growth as a significant portion of the Company's professional services revenue is denominated in U.S. dollars. On a constant currency basis, second quarter and first half of fiscal 2022 professional services revenue grew by approximately 17% and 21%, respectively, compared to the same periods of fiscal 2021. In the second quarter of fiscal 2022, Professional Services bookings were \$17.9 million, up 56% compared to \$11.5 million in the second quarter of fiscal 2021. In the first six months of fiscal 2022 Professional services bookings were \$32.4 million, up 26% compared to \$25.6 million in the first six months of fiscal 2021. Professional services bookings are in part linked to SaaS subscription bookings and license bookings and are subject to timing.

### **License revenue**

License revenue is defined as internally developed products including proprietary software as well as third-party software. In the three months ended October 31, 2021, license revenue amounted to \$1.0 million, down 51% from \$2.0 million in the same period last year. For the six months ended October 31, 2021, license revenue was \$1.3 million, down 51% compared to \$2.7 million during the same period in fiscal 2021. Perpetual license bookings in the three and six months ended October 31, 2021 were \$1.0 million and \$1.3 million, respectively, compared to \$1.9 million and \$2.4 million during the same periods in fiscal 2021. We expect license revenue to generally decline over time because of the shift to SaaS.

### **Hardware revenue**

Hardware revenue includes third-party hardware products and proprietary technology products. Hardware revenue for the three months ended October 31, 2021 was \$5.4 million, up 58% from \$3.4 million in the same period last year. For the six months ended October 31, 2021, hardware revenue was \$11.2 million, up 53% from

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<sup>4</sup> Refer to section "Key Performance Indicators" for definition.

\$7.4 million during the same period in fiscal 2021. The increase in hardware revenue has been the result of a strong hardware order backlog coming into the current fiscal year.

## Cost of Revenue and Gross Profit

<i>(in thousands of CAD)</i>	Three months ended October 31,		2021 to 2020	Six months ended October 31,		2021 to 2020
	2021	2020	%	2021	2020	%
<b>Cost of revenue:</b>						
SaaS, Maintenance, Support and Professional Services	\$ 14,324	\$ 11,839	21%	\$ 28,682	\$ 23,198	24%
License and Hardware	4,427	2,845	56%	8,872	6,087	46%
Total cost of revenue	18,751	14,684	28%	37,554	29,285	28%
<b>Gross profit &amp; gross profit margin:</b>						
SaaS, Maintenance, Support and Professional Services gross profit	\$ 13,517	\$ 13,422	1%	\$ 26,264	\$ 25,528	3%
Gross profit margin	49%	53%		48%	52%	
License and Hardware gross profit	\$ 2,001	\$ 2,588	-23%	\$ 3,683	\$ 3,972	-7%
Gross profit margin	31%	48%		29%	39%	
Total gross profit	\$ 15,518	\$ 16,010	-3%	\$ 29,947	\$ 29,500	2%
Total gross profit margin	45%	52%		44%	50%	

Total cost of revenue for the three and six months ended October 31, 2021 increased to \$18.8 million and \$37.6 million, respectively, an increase of 28% for both periods. The increase is driven by both higher SaaS, Maintenance, Support and Professional Services costs and higher License and Hardware costs.

In the three and six months ended October 31, 2021, the cost of SaaS, Maintenance, Support and Professional Services increased to \$14.3 million and \$28.7 million, up \$2.5 million and \$5.5 million compared to the same periods last year. Cost of SaaS, Maintenance, Support and Professional Services increased primarily as a result of direct costs associated with higher revenue, including higher employee costs and higher public cloud infrastructure costs. The cost of SaaS, Maintenance, Support and Professional Services includes tax credits of \$0.6 million for the second quarter of fiscal 2022 and fiscal 2021, and \$1.3 million for the first six months of fiscal 2022 compared to \$1.2 million for the first six months of fiscal 2021.

The cost of License and Hardware increased to \$4.4 million in the second quarter of fiscal 2022, up \$1.6 million or 56% in comparison to the same period in fiscal 2021. The increase was driven by increased costs related to the sale of third-party products, primarily hardware. The cost of License and Hardware increased to \$8.9 million in the first six months of fiscal 2022, up \$2.8 million or 46% compared to the same period last year and driven by higher third-party product costs associated with higher revenue.

Gross profit was \$15.5 million, down \$0.5 million in the second quarter of fiscal 2022 compared to the same period last year. This is mainly attributable to lower License and Hardware margin resulting from lower License revenue. In the first six months of fiscal 2022 gross profit increased to \$29.9 million, up \$0.4 million compared to the same period in fiscal 2021. This is mainly due to higher SaaS, Maintenance, Support and Professional Services margin of \$0.7 million, partially offset by lower License and Hardware margin of \$0.3 million. Again, the lower License and Hardware margin was driven by lower license revenue and this is consistent with the shift to SaaS.

As a percentage of revenue, total gross profit margin for the three months ended October 31, 2021 was 45%

compared to 52% for the same period last year. For the six months ended October 31, 2021, total gross profit margin was 44% compared to 50% for the same period in fiscal 2021. The overall gross profit margin decline was the result of unfavorable foreign exchange, investment to support growth and change in revenue mix.

## Operating Expenses

<i>(in thousands of CAD)</i>	Three months ended		2021 to	Six months ended		2021 to
	October 31,		2020	October 31,		2020
	2021	2020	%	2021	2020	%
Sales and marketing expenses	\$ 6,022	\$ 5,265	14%	\$ 11,704	\$ 10,262	14%
<i>As a percentage of Revenue</i>	18%	17%		17%	17%	
General and administration expenses	2,801	2,895	-3%	5,660	5,321	6%
<i>As a percentage of Revenue</i>	8%	9%		8%	9%	
Research and development expenses, net of tax credits	5,068	4,398	15%	9,868	8,497	16%
<i>As a percentage of Revenue</i>	15%	14%		15%	14%	
<b>Total operating expenses</b>	<b>13,891</b>	<b>12,558</b>	<b>11%</b>	<b>27,232</b>	<b>24,080</b>	<b>13%</b>
<b><i>As a percentage of revenue</i></b>	<b>41%</b>	<b>41%</b>		<b>40%</b>	<b>41%</b>	

Total operating expenses for the three and six months ended October 31, 2021 increased to \$13.9 million and \$27.2 million, respectively, increases of \$1.3 million and \$3.2 million, respectively, compared to the same periods in fiscal 2021. The weaker U.S dollar during the second quarter of fiscal 2022 gave rise to a favorable impact of \$0.5 million when compared to the same period last year. For the first six months of fiscal 2022, the weaker U.S dollar had a favorable impact of \$1.3 million when compared to the same period last year.

### Sales and marketing expenses

During the second quarter of fiscal 2022, sales and marketing expenses amounted to \$6.0 million, \$0.8 million higher than the comparable quarter last year. The increase is mainly attributed to higher personnel costs. During the first six months of fiscal 2022, sales and marketing expenses amounted to \$11.7 million, \$1.4 million higher than the comparable period last year. The increase is also attributed to higher personnel costs and is the result of our continued investment to expand sales capacity and coverage.

### General and administrative expenses

General and administrative expenses for the three months ended October 31, 2022 were \$2.8 million, a decrease of \$0.1 million compared to the same period in fiscal 2021. The decrease is attributed to lower personnel costs, partially offset by higher stock-based compensation costs.

General and administrative expenses for the six months ended October 31, 2022 were \$5.7 million, an increase of \$0.3 million compared to the same period in fiscal 2021. The increase is attributed to higher non-recurring professional fees and stock-based compensation costs, partially offset by lower personnel costs.

### Net R&D expenses

Net R&D expenses for three and six months ended October 31, 2021 were \$5.1 million and \$9.9 million, respectively, up \$0.7 million and \$1.4 million, respectively, from the same periods last year. The increases were primarily the result of higher personnel costs and consulting costs.

The Company recorded R&D tax credits and e-business tax credits of \$0.6 million, and amortized deferred development costs and other intangible assets of \$0.1 million during the second quarter of fiscal 2022 and 2021. Additionally, during the three months ended October 31, 2021 the company deferred \$0.2 million of development

costs compared to \$0.1 million in the same period of last year.

For the six months ended October 31, 2021 the Company recorded R&D tax credits and e-business tax credits of \$1.2 million compared to \$1.1 million for the same period in fiscal 2021. Amortized development costs and other intangible assets during the first six months of fiscal 2022 was \$0.1 million in comparison to \$0.2 million for the same period in the prior fiscal year. Additionally, during the six months ended October 31, 2021 the Company deferred development costs of \$0.7 million compared to \$0.2 million in the same period of 2021.

## Net Finance Costs and Income Taxes

<i>(in thousands of CAD)</i>	Three months ended		2021 to	Six months ended		2021 to
	October 31,		2020	October 31,		2020
	2021	2020	%	2021	2020	%
Net Finance Costs	\$ 128	\$ 131	-2%	\$ 243	\$ 129	88%
Income Taxes	\$ 791	\$ 1,235	-36%	\$ 1,520	\$ 1,970	-23%
Income Taxes as a percentage of profit before income taxes	53%	37%		61%	37%	

Net finance costs for the three months ended October 31, 2021 were \$0.1 million, consistent with the same quarter last year. For the first six months of fiscal 2022, net finance costs were \$0.2 million, up from \$0.1 million in the same period last year. Net finance costs in the three and six months ended October 31, 2021 consisted primarily of interest expense on long-term debt and lease obligations and foreign exchange losses, partially offset by interest income.

Income tax expenses for the three and six months ended October 31, 2021 were \$0.8 million and \$1.5 million compared to \$1.2 million and \$2.0 million for the same periods of 2021. As a percentage of profit before taxes, income tax expense was 53% and 61% for the three and six months ended October 31, 2021, compared to 37% for the same periods in fiscal 2021. The higher effective tax rate in the three months and six months ended October 31, 2021 results from pre-tax losses at a subsidiary for which the company does not have offsetting deferred tax assets.

## Profit

<i>(in thousands of CAD)</i>	Three months ended		2021 to	Six months ended		2021 to
	October 31,		2020	October 31,		2020
	2021	2020	%	2021	2020	%
Profit	\$ 708	\$ 2,086	-66%	\$ 952	\$ 3,321	-71%
Adjusted EBITDA	\$ 3,206	\$ 4,830	-34%	\$ 5,662	\$ 8,339	-32%
Basic earnings per share	\$ 0.05	\$ 0.14		\$ 0.07	\$ 0.23	
Diluted earnings per share	\$ 0.05	\$ 0.14		\$ 0.06	\$ 0.23	

Profit, Adjusted EBITDA and earnings per share were all negatively impacted by unfavorable foreign exchange movements compared to the same periods in the prior year. Approximately 65% of the Company's revenue is denominated in US dollars while a significant majority of the Company's costs are denominated in Canadian dollars. As such, foreign exchange movements can have a material impact on reported Profit, Adjusted EBITDA and earnings per share. During the three and six months ended October 31, 2021, unfavorable foreign exchange movements had a negative impact on Profit and Adjusted EBITDA of approximately \$1.5 million and \$3.0 million, respectively, compared to the same periods last year.

## Quarterly Selected Financial

The following table summarized selected results for the eight most recently completed quarters to October 31, 2021:

<i>(in thousands of CAD, except earnings per share)</i>	FY 2022		FY 2021				FY 2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue	34,269	33,232	32,374	31,942	30,694	28,091	27,750	26,847
Profit	708	244	2,020	1,847	2,086	1,235	375	834
Comprehensive income (loss)	489	(147)	1,088	1,527	1,486	2,897	1,200	818
Adjusted EBITDA <sup>5</sup>	3,206	2,456	3,917	3,964	4,830	3,509	1,951	2,648
Basic earnings per common share	0.05	0.02	0.14	0.13	0.14	0.09	0.03	0.06
Diluted earnings per common share	0.05	0.02	0.14	0.12	0.14	0.08	0.03	0.06

Total quarterly revenue has consistently trended upward during the past eight quarters, primarily due to an increase in revenue from SaaS and professional services driven by increased bookings and following the Company's transition to SaaS during the end of fiscal 2019. Improvements in Profit and Adjusted EBITDA is generally attributed to revenue growth and operating leverage during fiscal 2021. During fiscal 2022, the impact of foreign exchange as well as additional investment in delivery capacity, sales and marketing and research and development have moderated Profit and Adjusted EBITDA.

## Liquidity and Capital Resources

On October 31, 2021, current assets totaled \$74.7 million compared to \$75.8 million at the end of fiscal 2021. Cash and cash equivalents and short-term investments decreased to \$38.1 million compared to \$45.9 million at the end of fiscal 2021. The decrease is primarily due to changes in non-cash working capital items related to operations and in particular reduction in accounts payable and accrued liabilities and increase in accounts receivable and work in progress during the first half of fiscal 2022.

Accounts receivable and work in progress totaled \$21.5 million on October 31, 2021, an increase of \$4.5 million compared to \$17.0 million as of April 30, 2021. The increase is mainly attributed to higher revenue and timing of cash collections. The Company's Days Sales Outstanding (DSO) stood at 56 days at the end of October 31, 2021 compared to 47 at the end of fiscal 2021 and 73 days at the end of October 31, 2020. DSO is a measure of the average number of days that a company takes to collect revenue after a sale. The Company's DSO is determined on a quarterly basis and can be calculated by dividing the total 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.

Current liabilities on October 31, 2021 totaled \$42.7 million compared to \$44.0 million at the end of fiscal 2021. The decrease is mainly due to a decrease in accounts payable and accrued liabilities, partially offset by higher deferred revenues.

Working capital increased to \$32.0 million as of October 31, 2021 in comparison to \$31.8 million at the end of fiscal year 2021.

## Cash from Operating Activities

Operating activities generated \$0.6 million of cash in the second quarter of fiscal 2022 in comparison to \$0.4 million used in operating activities in the second quarter of fiscal 2021. Operating activities excluding changes in non-cash working capital items related to operations generated \$2.4 million in the second quarter of fiscal 2022 compared to \$4.1 million in the second quarter of fiscal 2021.

<sup>5</sup> Refer to section "Non-IFRS Performance Measures" for definition, as well as for the reconciliation of Adjusted EBITDA for the three months ended October 31, 2021 and 2020. The reconciliation of Adjusted EBITDA in the other periods presented can be found in the "Reconciliation of non-IFRS Performance Measures" sections of the first quarter of fiscal 2022 MD&A, the third quarter of fiscal 2021 MD&A, and the annual fiscal 2021 MD&A, all of which are available on the SEDAR Website at <http://www.sedar.com>, and are incorporated herein by reference.

Operating activities used \$4.4 million of cash in the first six months of fiscal 2022 in comparison to using \$0.7 million in the same period of fiscal 2021. Operating activities excluding changes in non-cash working capital items related to operations generated \$5.7 million in the first six months of fiscal 2022 compared to \$6.8 million in the same period of fiscal 2021.

Non-cash working capital items used funds of \$1.8 million for the second quarter of fiscal 2022 primarily due to increases of work in progress, prepaids and tax credits of \$2.6 million, partially offset by a net increase in deferred revenue and accounts payable and accrued liabilities of \$1.3 million. Non-cash working capital items used funds of \$10.1 million for the first six months of fiscal 2022 primarily due to increases of accounts receivable, work in progress, prepaids and tax credits of \$7.3 million and a net decrease in accounts payable and accrued liabilities and deferred revenue of \$2.7 million.

Non-cash working capital items used funds of \$4.6 million for the second quarter of fiscal 2021 primarily due to increases of accounts receivable and tax credits of \$6.9 million partially offset by an increase in accounts payable and accrued liabilities and deferred revenue of \$2.5 million. Non-cash working capital items used funds of \$7.5 million for the first six months of fiscal 2021 primarily due to increases of accounts receivable, work in progress, prepaids and tax credits of \$7.8 million partially offset by a net increase in accounts payable and accrued liabilities and deferred revenue of \$0.7 million.

The Company believes that funds on hand at October 31, 2021 combined with cash flow from operations and its accessibility to banking facilities will be sufficient to meet its covenants and its needs for working capital, R&D, capital expenditures, and dividends, as well as to invest in long-term growth.

### **Financing Activities**

Cash flows used in financing activities amounted to \$1.5 million for the second quarter of fiscal 2022 in comparison to \$4.6 million for the second quarter of fiscal 2021. Financing activities in the second quarter of fiscal 2022 related primarily to the repayment of long-term debt, lease obligations and payment of dividends as well as issuance of common shares on exercise of stock options.

Cash flows used in financing activities amounted to \$2.2 million for the first six months of fiscal 2022 in comparison to \$5.3 million for the same period of fiscal 2021. Financing activities in the first six months of fiscal 2022 related primarily to the repayment of long-term debt, lease obligations and payment of dividends as well as issuance of common shares on exercise of stock options. Financing activities in the first six months of fiscal 2021 included a one-time payment of an acquired tax liability.

### **Investing Activities**

During the second quarter of both fiscal 2022 and 2021 investing activities used funds of \$0.5 million.

During the second quarter of fiscal 2022, the Company used funds of \$0.3 million for the acquisition of property and equipment and intangible assets compared to \$0.5 million in the second quarter of fiscal 2021.

In the second quarter of fiscal 2022, the Company invested in its proprietary software products with the capitalization of \$0.2 million reflected as deferred development costs compared to \$0.1 million in the second quarter of fiscal 2021.

During the first six months of fiscal 2022 investing activities used funds of \$1.2 million in comparison to \$11.1 million for the same period in fiscal 2021. During the first six months of fiscal 2021, the company invested \$10.0 million in a guaranteed investment certificate (GIC). The GIC has a 31-day withdrawal notice requirement, and the interest is automatically reinvested monthly.

During the first six months of fiscal 2022, the Company used funds of \$0.6 million for the acquisition of property and equipment and intangible assets compared to \$1.0 million for the same period of fiscal 2021.

In the first six months of fiscal 2022, the Company invested in its proprietary software products with the capitalization of \$0.7 million reflected as deferred development costs compared to \$0.2 million for the same period of fiscal 2021.

## **Related Party Transactions**

Under the provisions of the executive share purchase plan for key management and other management employees, the Company provided interest-free loans to key management and other management employees of \$0.3 million during the first six months of fiscal 2022 (\$0.5 million for the same period of fiscal 2021) to facilitate their purchase of the Company's common shares. As of October 31, 2021, loans outstanding amounted to \$0.4 million (April 30, 2021 -\$0.4 million).

## **Subsequent Events**

On December 1, 2021, the Company's Board of Directors declared a quarterly dividend of \$0.07 per share to be paid on January 7, 2022 to shareholders of record on December 16, 2021.

## **Current and Anticipated Impacts of Current Economic Conditions**

Current overall economic conditions together with market uncertainty and volatility 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. This uncertainty may impact the Company's revenue.

Based on ARR of \$56.9 million and Professional services backlog of \$33.1 million, the Company's management believes that quarterly services revenue (including SaaS, maintenance and support and professional services revenue) ranging between \$27.0 million and \$28.0 million per quarter can be sustained in the short term.

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. We see continued market appetite for subscription-based SaaS licensing. To the extent our bookings continue to shift from perpetual license to SaaS, and considering that license revenue is typically recognized up front while SaaS revenue is recognized over the contract period, revenue and operating profit will be impacted in the medium term and this could be material.

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 60% to 70% 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 economic reality to the extent possible.

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 its operating needs. The Company can further manage its capital structure by adjusting its dividend policy.

## **Outstanding Share Data**

As at December 1, 2021, the Company has 14,562,895 common shares outstanding.

## **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 and the financial statements for the year ended April 30, 2021.

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual consolidated financial statements as at April 30, 2021.

## **Critical accounting judgements and key sources of estimation uncertainty**

The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions, and judgments that affect the application of accounting policies

and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and recognized amounts of revenue and expenses. Actual results may differ from these estimates.

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 may 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 estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

There have been no significant changes in the key sources of estimation uncertainty and judgements made in relation to the accounting policies applied to those disclosed in the Company's annual consolidated financial statements for the year ended April 30, 2021.

### **New standards and interpretations not yet adopted:**

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the period ended October 31, 2021 and have not been applied in preparing these condensed interim consolidated financial statements. The following amendment is currently being assessed by the Company.

IAS 12, Income Taxes:

In May 2021, the IASB issued Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12) that clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change is an exemption from the initial recognition exemption, so that it does not apply to transactions that give rise to both deductible and taxable temporary differences on initial recognition. This will result in the recognition of equal deferred tax assets and liabilities. The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2023, therefore the effective date for the Company is May 1, 2023. Earlier application is permitted. The Company is currently assessing the impact of the amendments.

### **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 October 31, 2021.

### **Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its consolidated financial statements. The control framework that was designed by the Company's ICFR is 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).

No changes to internal controls over financial reporting have come to management's attention during the three-month period ending on October 31, 2021 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting.