

# **SYLOGIST LTD.**

**Condensed Consolidated Financial Statements**  
**For the three and nine months ended June 30, 2017 and 2016**



**Management's Comments on Unaudited Interim Condensed Consolidated  
Financial Statements**

The accompanying unaudited interim condensed consolidated financial statements of Sylogist Ltd. for the three and nine month periods ended June 30, 2017, has been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed or audited by the Company's external auditors.

Signed "*Jim Wilson*"

James D. Wilson, President and CEO

Signed "*Xavier Shorter*"

Xavier Shorter, V.P. Finance and CFO



**Sylogist Ltd.**

**Condensed Consolidated Statements of Comprehensive Income**  
**(In thousands of Canadian dollars, except share and per share amounts)**

**For the three and nine months ended June 30, 2017 and 2016**  
**(Unaudited)**

	Notes	Three months ended June 30,		Nine months ended June 30,	
		2017	2016	2017	2016
<b>Revenue</b>	15	\$ 8,917	\$ 9,617	\$ 24,882	\$ 27,755
<b>Cost of sales</b>		<b>2,409</b>	<b>3,115</b>	<b>7,481</b>	<b>9,248</b>
<b>Gross profit</b>		<b>6,508</b>	<b>6,502</b>	<b>17,401</b>	<b>18,507</b>
General and administrative		988	1,206	3,113	3,495
Executive bonuses		589	628	1,560	1,509
Professional fees		111	349	267	749
Sales and marketing		492	386	1,523	1,379
Product research		293	220	916	640
Depreciation of property and equipment	7	45	44	143	127
Amortization of intangible assets	8	635	599	1,886	1,809
Stock based compensation	14(f)	204	449	698	1,560
Foreign exchange (gain)/loss		(65)	51	(139)	515
Interest income		(50)	(55)	(144)	(187)
<b>Profit before income tax</b>		<b>3,266</b>	<b>2,625</b>	<b>7,578</b>	<b>6,911</b>
<b>Current income tax</b>	10	<b>541</b>	<b>760</b>	<b>1,155</b>	<b>1,978</b>
<b>Deferred income tax</b>	10(a)	<b>521</b>	<b>208</b>	<b>1,138</b>	<b>188</b>
		<b>1,062</b>	<b>968</b>	<b>2,293</b>	<b>2,166</b>
<b>Profit for the period</b>		<b>2,204</b>	<b>1,657</b>	<b>5,285</b>	<b>4,745</b>
<b>Other comprehensive income/(loss)</b>					
<b>To be recycled through income:</b>					
Exchange differences on translating foreign operations		(84)	45	19	347
<b>Total comprehensive income for the period</b>		<b>\$ 2,120</b>	<b>\$ 1,702</b>	<b>\$ 5,304</b>	<b>\$ 5,092</b>
<b>Attributable to:</b>					
Owners of the company		\$ 2,120	\$ 1,702	\$ 5,304	\$ 5,092
Basic earnings per share		\$ 0.10	\$ 0.07	\$ 0.23	\$ 0.20
Diluted earnings per share		\$ 0.10	\$ 0.07	\$ 0.23	\$ 0.20
Basic weighted average number of shares outstanding	14(h)	22,658,352	23,174,061	22,733,423	23,618,210
Diluted weighted average number of shares outstanding	14(h)	22,659,313	23,255,979	22,873,982	23,618,210

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Sylogist Ltd.**

**Condensed Consolidated Statements of Changes in Shareholders' Equity**  
**(In thousands of Canadian dollars)**

**For the nine months ended June 30, 2017 and 2016**  
**(Unaudited)**

	Notes	Share Capital	Contributed Surplus	Foreign Currency Translation Reserve	Deficit	Total Equity
As at September 30, 2015		\$ 62,214	\$ 6,704	\$ (578)	\$ (9,931)	\$ 58,409
Profit for the period		-	-	-	4,745	4,745
Foreign currency translation adjustment		-	-	347	-	347
Total comprehensive income for the period		-	-	347	4,745	5,092
Payment of dividends	14(d)	-	-	-	(6,975)	(6,975)
Share buy-back and cancellation		(4,310)	-	-	(8,730)	(13,041)
Stock based compensation		-	1,560	-	-	1,560
Balance as at June 30, 2016		\$ 57,904	\$ 8,264	\$ (230)	\$ (20,893)	\$ 45,046
As at September 30, 2016		\$ 58,385	\$ 7,997	\$ (177)	\$ (22,037)	\$ 44,168
Profit for the period		-	-	-	5,285	5,285
Foreign currency translation adjustment		-	-	19	-	19
Total comprehensive income for the period		-	-	19	5,285	5,304
Payment of dividends	14(d)	-	-	-	(5,900)	(5,900)
Exercise of options	14(f)	155	(39)	-	-	117
Share buy-back and cancellation	14(e)	(825)	-	-	(2,198)	(3,023)
Stock based compensation		-	698	-	-	698
Balance as at June 30, 2017		\$ 57,715	\$ 8,656	\$ (158)	\$ (24,850)	\$ 41,363

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Sylogist Ltd.**  
**Condensed Consolidated Statements of Cash Flows**  
(In thousands of Canadian dollars)

**For the three and nine months ended June 30, 2017 and 2016**  
**(Unaudited)**

	Notes	Three months ended June 30,		Nine months ended June 30,	
		2017	2016	2017	2016
<b>Operating Activities</b>					
Profit before income taxes		\$ 3,266	\$ 2,625	\$ 7,578	\$ 6,911
Items not affecting cash					
Depreciation of property and equipment	7	58	57	179	164
Amortization of intangible assets	8	641	612	1,916	1,843
Stock based compensation	14(f)	204	449	698	1,560
Amortization of assumed office leases	12	(28)	(50)	(92)	(150)
Cash taxes paid		(321)	(3)	(1,358)	(215)
<b>Cash from operating activities before non-cash change in working capital</b>		<b>3,820</b>	<b>3,691</b>	<b>8,921</b>	<b>10,113</b>
<b>Changes in non-cash operating assets and liabilities</b>					
Trade and other receivables	5	(1,166)	(271)	986	(1,111)
Inventory		(57)	43	58	122
Prepaid expenses and deposits	6	84	(348)	592	(479)
Trade and other payable	11	(118)	156	(1,987)	491
Deferred revenue, deposits and retainers	13	(548)	(1,626)	1,918	978
<b>Cash generated from operations</b>		<b>2,015</b>	<b>1,645</b>	<b>10,488</b>	<b>10,114</b>
<b>Investing Activities</b>					
Decrease in restricted cash	4	-	-	240	-
Purchase of property and equipment	7	(8)	(32)	(55)	(110)
Acquisition of intangible assets	8	(55)	(233)	(410)	(460)
Interest received		3	45	93	170
<b>Cash utilized in investing activities</b>		<b>(60)</b>	<b>(220)</b>	<b>(132)</b>	<b>(400)</b>
<b>Financing Activities</b>					
Proceeds from share issuance, less issue costs	14(b)	-	-	117	-
Repurchase of common shares	14(e)	(1,339)	(2,430)	(3,023)	(13,041)
Payment of dividends	14(d)	(1,580)	(1,507)	(5,900)	(6,975)
<b>Cash utilized in financing activities</b>		<b>(2,919)</b>	<b>(3,937)</b>	<b>(8,806)</b>	<b>(20,016)</b>
<b>Increase (Decrease) in cash and cash equivalents</b>		<b>(964)</b>	<b>(2,512)</b>	<b>1,550</b>	<b>(10,302)</b>
Effect of currency translation adjustment on cash and cash equivalents		(84)	45	19	347
<b>Cash and cash equivalents, beginning of the period</b>		<b>30,986</b>	<b>33,607</b>	<b>28,369</b>	<b>41,095</b>
<b>Cash and cash equivalents, end of the period</b>		<b>\$ 29,938</b>	<b>\$ 31,140</b>	<b>\$ 29,938</b>	<b>\$ 31,140</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Sylogist Ltd.**

**Notes to the Condensed Consolidated Financial Statements**  
**(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)**

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**June 30, 2017 and 2016**

**1. Nature of operations**

Sylogist Ltd. (the "Company" or "Sylogist") (TSX-V: SYZ) is a technology innovation company, which through strategic acquisitions, investments and operations management, provides intellectual property solutions to a wide range of Public Sector customers.

The Company was incorporated under the Business Corporation Act (Alberta) on March 1, 1993 and wholly owns, directly or indirectly, the following subsidiary corporations: Sylogist USA, Inc., Epic Data Corporation, Epic Data Limited, and Serenic Software Inc.

Sylogist is headquartered in Calgary, Alberta, Canada with regional offices in Edmonton, Alberta, King City, Ontario, Canada, Atlanta, Georgia and Lakewood, Colorado in the United States of America and Oxford, Oxfordshire in the United Kingdom. The Company's registered office is located at Suite 1900, 520-3<sup>rd</sup> SW; Calgary, Alberta, Canada; T2P 0R3.

These unaudited interim condensed consolidated financial statements were approved and authorised for issuance by the Board of Directors on August 14, 2017.

**2. Condensed consolidated financial statements**

**(a) Statement of presentation**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board. In addition, the unaudited interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in Note 3, "Summary of significant accounting policies" of the Company's consolidated financial statements for the year ended September 30, 2016. The accounting policies were consistently applied to all periods. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended September 30, 2016.

**(b) Basis of measurement**

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, which is based on the fair value of the consideration at the time of the transaction, except for certain financial instruments which are accounted for at fair value.

**(c) Functional and presentation currency**

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of Sylogist. The functional currency of Epic Data Corporation and Serenic Software, Inc. has been determined to be the United States dollar, and the functional currency of Epic Data Limited has been determined to be the British Pound.

**Sylogist Ltd.**  
**Notes to the Condensed Consolidated Financial Statements**  
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**June 30, 2017 and 2016**

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**(d) Use of estimates, judgments and assumptions**

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these interim condensed consolidated financial statements are as follows:

*Property, equipment and intangible assets* – estimates are used in determining useful economic lives and residual values of property and equipment for the purpose of calculating depreciation and judgment is applied in determining the appropriateness of the depreciation/amortization method used.

*Acquired intangible assets* - The Company uses the income approach to value acquired technology and customer relationship intangible assets. The income approach is a valuation technique that calculates the estimated fair value of an intangible asset based on the estimated future cash flows that the asset can be expected to generate over its remaining useful life. The Company utilizes the discounted cash flow methodology, which is a form of the income approach that begins with a forecast of the annual cash flows that a market participant would expect the subject intangible asset to generate over a discrete projection period. The forecasted cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows, again, from a market participant perspective. The present value of the forecasted cash flows are then added to the present value of the residual value of the intangible asset (if any) at the end of the discrete projection period to arrive at a conclusion with respect to the estimated fair value of the subject intangible assets.

*Tangible and intangible assets* - are reviewed annually with respect to their useful lives, or more frequently if events or changes in circumstances indicate that the assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses and cash flows at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgement as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

*Stock based compensation* – assumptions and estimates are used in determining the inputs used in the Black-Scholes option pricing model, including assumptions regarding volatility, dividend yield, risk-free interest rates, forfeiture estimates and expected option lives.

**Sylogist Ltd.**  
**Notes to the Condensed Consolidated Financial Statements**  
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*Deferred income taxes* – assumptions and estimates are made regarding the amount utilization and timing of realization and/or settlement of the temporary differences between the accounting carrying value of the Company’s assets versus the tax basis of those assets, and the tax rates at which the differences will be recovered or settled in the future. The Company has recorded the full deferred tax asset related to Sylogist’s Canadian non-capital losses that are subject to an expiry date. The Company has also recorded a deferred tax asset related to Serenic Software Inc. subsidiary based on a consideration of all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. These deferred tax assets are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement and depending on considerable risks and uncertainties.

*Investment tax credits* – The amounts recorded as investment tax credits (“ITC’s”), are included in deferred taxes, and the utilization thereof are subject to an expiry date and are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement uncertainty and the effect on the condensed consolidated financial statements of changes of estimates in future periods could be significant. A deferred tax asset is recognized for unused tax losses in each tax jurisdiction to the extent it is probable that the future taxable profits will be available against which they can be utilized.

*Research and development* – assumptions are made in respect to the eligibility of certain research and development projects in the calculation of scientific research and experimental development (“SR&ED”) investment tax credits, which are netted against the research and development costs in the consolidated statement of comprehensive income. SR&ED claims are subject to audits by relevant taxation authorities and the actual amount may change depending on the outcome of such audits.

### **3. New accounting standards and interpretations adopted and not yet adopted**

(a) The following new and amended standards have been adopted by the Company effective October 1, 2016:

*IAS 16 – Property Plant and Equipment and IAS 38 – Intangible Assets*

In May 2014, the IASB issued amendments to IAS 16 Property, Plant, and Equipment and IAS 38 Intangible Assets. These amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. They also introduced a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The amendments explain that an expected future reduction in selling prices could be indicative of a reduction of the future economic benefits embodied in an asset. These amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have a material effect on the Company’s interim condensed consolidated financial statements.

*IAS 1 – Presentation of Financial Statements*

In December 2014, the IASB issued amendments to IAS 1. The amendments are part of the IASB’s Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when preparing their financial statements. The amendments may impact presentation relating to materiality, presentation of financial position and profit or loss and other

**Sylogist Ltd.**

**Notes to the Condensed Consolidated Financial Statements**  
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**June 30, 2017 and 2016**

comprehensive income, and notes to the financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have a material effect on the Company's interim condensed consolidated financial statements.

(b) The standards and interpretations that are issued but not yet effective up to the date of issuances of the Company's condensed consolidated financial statements are listed below. The Company is currently analyzing the impact, if any, that the adoption of these standards will have on its interim condensed consolidated financial statements:

*IFRS 2 – Share-based Payments*

In June 2016, the IASB issued amendments to IFRS 2, "Share-based Payments". The amendments provide requirements on the accounting effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. The amendments also provide guidance on the accounting for share-based payments transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2018. Early Adoption is allowed. These amendments will be effective on October 1, 2018 for the Company.

*IFRS 16 – Leases*

In January 2016, the IASB issued the IFRS 16 standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 effectively removes the classification of leases as either finance or operating and treats all leases as finance leases for lessees with exemptions for short-term leases where the lease term is twelve months or less and for leases of low value items. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either: a) apply IFRS 16 with full retrospective effect; or b) recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening equity at the date of initial application. The standard will be effective on October 1, 2019 for the Company.

*IFRS 9 – Financial Instruments*

In July 2014, the IASB amended IFRS 9, "Financial Instruments", to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The standard supersedes all previous versions of IFRS 9 and is effective on January 1, 2018. Earlier application is permitted. The standards will be effective on October 1, 2018 for the Company.

*IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts", and other revenue related interpretations. The standard has an effective date for annual reporting periods beginning on or after January 1, 2018 and is available for early adoption. The standard will be effective on October 1, 2018 for the Company.

**Sylogist Ltd.**  
**Notes to the Condensed Consolidated Financial Statements**  
(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)  
**June 30, 2017 and 2016**

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**4. Cash and cash equivalents**

Cash and cash equivalents as of June 30, 2017:

	<b>June 30, 2017</b>
Cash	<b>\$ 14,938</b>
Cash equivalents	<b>15,000</b>
Total	<b>\$ 29,938</b>

Cash equivalents are comprised of banker's acceptances with interest rates of 1.04% - 1.14% (June 30, 2016 of 1.01%-1.06%), and maturities from 60-90 days.

**5. Trade and other receivables**

	<b>June 30, 2017</b>
Trade receivables, gross	<b>\$ 3,940</b>
Allowance for doubtful accounts	<b>(61)</b>
Trade receivables	<b>3,879</b>
Other receivables	<b>57</b>
Trade and other receivables	<b>\$ 3,936</b>

Due to their short term nature, the net carrying value of trade receivables approximates fair value.

**6. Prepaid expenses**

Prepaid expenses include prepayments for operating leases and software royalties paid to third parties that will be expensed in future periods.

	<b>June 30, 2017</b>
Prepaid software royalties	<b>1,155</b>
Other prepaid expenses and deposits	<b>349</b>
	<b>\$ 1,504</b>

**Sylogist Ltd.**  
**Notes to the Condensed Consolidated Financial Statements**  
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**7. Property and equipment**

	<b>June 30, 2017</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Computer hardware	\$ 864	\$ 624	\$ 240
Furniture and equipment	358	332	26
Leasehold improvements	527	430	97
	<b>\$ 1,749</b>	<b>\$ 1,386</b>	<b>\$ 363</b>

During the nine months ended June 30, 2017, the Company purchased \$55 of equipment (June 30, 2016 - \$110) and \$36 (June 30, 2016 - \$37) of depreciation costs were categorized as a cost of sale.

**8. Intangible assets**

	<b>June 30, 2017</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Software licenses and rights	\$ 3,265	\$ 2,810	\$ 455
Customer lists	11,775	5,132	6,643
Software codes	10,520	4,662	5,858
	<b>\$ 25,560</b>	<b>\$ 12,604</b>	<b>\$ 12,956</b>

During the nine months ended June 30, 2017, \$30 (June 30, 2016 - \$34) of amortization costs were categorized as a cost of sale. In the first nine months of fiscal 2017, the Company capitalized \$271 (June 30, 2016 - \$399) of development costs that have been reduced by \$42 (June 30, 2016 - \$130) of ITC's related to capitalized projects. In addition, during the nine months ended June 30, 2017, the Company capitalized \$168 of system implementation costs related to its internal systems upgrade (June 30, 2016 - \$142).

**9. Goodwill**

The carrying amount of goodwill can be analyzed as follows:

	<b>June 30, 2017</b>
<b>Gross carrying amount from:</b>	
Acquisition of Bellamy	\$ 1,934
Acquisition of Weave	771
Acquisition of Serenic	4,522
	<b>\$ 7,227</b>

**Sylogist Ltd.**

**Notes to the Condensed Consolidated Financial Statements**  
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**10. Income tax**

(a) Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The Company recognized deferred income tax assets on tax losses carried forward and other temporary differences to the extent that the realization of the related tax benefits through reversal of deferred tax liabilities, future taxable profit and tax planning strategies is probable. The components of the Company's deferred income tax assets and liabilities are as follows:

	As at September 30, 2016	Recognized in earnings	Other	As at June 30, 2017
Property, equipment and intangibles	\$ (4,559)	\$ 470	\$ (41)	\$ (4,130)
Scientific research and development pools	1,268	-	78	1,346
Non-capital losses	2,878	(1,510)	-	1,368
Share issuance and other	332	(98)	-	234
	<u>\$ (81)</u>	<u>\$ (1,138)</u>	<u>\$ 37</u>	<u>\$ (1,182)</u>

The Company offsets the deferred tax assets and deferred tax liabilities to the extent that they relate to the same taxing authorities and there is a legally enforceable right to do so.

**June 30, 2017**

Deferred tax assets	<b>\$ 1,750</b>
Deferred tax liabilities	<b>(2,932)</b>
	<b><u>\$ (1,182)</u></b>

(b) The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to profit before income taxes. The major components of these differences are explained as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Profit before income taxes	<b>\$ 3,266</b>	\$ 2,625	<b>\$ 7,578</b>	\$ 6,911
Corporate income tax rate	<b>27.0%</b>	27.0%	<b>27.0%</b>	27.0%
Computed expected tax provision	<b>882</b>	709	<b>2,046</b>	1,866
Increase (decrease) in income taxes resulting from:				
- Rate difference on foreign operations	<b>259</b>	277	<b>385</b>	584
- Stock option compensation expense	<b>31</b>	24	<b>76</b>	120
- Operating losses	<b>(39)</b>	(40)	<b>(132)</b>	(416)
- Other	<b>(71)</b>	(2)	<b>(82)</b>	12
<b>Income tax expense</b>	<b><u>\$ 1,062</u></b>	<u>\$ 968</u>	<b><u>\$ 2,293</u></b>	<u>\$ 2,166</u>

**Sylogist Ltd.**

**Notes to the Condensed Consolidated Financial Statements**  
**(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)**

**June 30, 2017 and 2016**

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(c) The following is a summary of the Canadian tax pools available at the end of June 30, 2017, subject to confirmation by the income tax authorities:

	<b>June 30, 2017</b>
Capital cost allowance	<b>\$ 2,903</b>
Non-capital losses <sup>(1)</sup>	<b>3,423</b>
Scientific research and development pools <sup>(2)</sup>	<b>2,578</b>
Share issue costs and other	<b>726</b>
	<b>\$ 9,630</b>

(1) *The Company's Canadian operations had non-capital losses of \$3,423 (September 30, 2016 - \$9,006) available to reduce taxable income in future periods. These losses expire as follows: 2030 - \$172, 2031 - \$3,036, 2032 - \$1, and 2034 - \$214. These losses have been recognized in the consolidated financial statements.*

(2) *The Company has investment tax credits of \$892 (September 30, 2016 - \$850) available to reduce future federal taxes payable. The investment tax credits will shelter approximately \$5,946 of federal taxable income. The investment tax credits expire between 2030 and 2037. These amounts have been recognized in the consolidated financial statements.*

(d) The two US subsidiaries, Epic Data Corporation and Serenic Software Inc., have net operating losses of \$997 USD (\$1,299 CAD) and \$1,265 USD (\$1,648 CAD), respectively, which are available to reduce taxable income in future periods subject to specific annual loss limitations with the maximum annual loss claim being approximately \$65 (\$85 CAD) and \$291 USD (\$379 CAD), respectively. The net operating losses carried forward expire at various dates up to 2034.

(e) The UK operations have trading losses of approximately £3,380 (\$5,710 CAD), which could reduce taxable income in future periods. The future tax benefit of the trading losses being carried forward has not been recognized in these interim condensed consolidated financial statements. The trading losses carried forward do not expire but are subject to specific loss limitations and potential expiries if business operations are transformed.

**Sylogist Ltd.**  
**Notes to the Condensed Consolidated Financial Statements**  
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**11. Trade and other payables**

Trade and other payables can be summarized as follows:

	<b>June 30, 2017</b>	
Trade payables	<b>\$</b>	<b>831</b>
Short-term employee payable		<b>594</b>
Professional fees accrual		<b>197</b>
Supplier costs accrual		<b>28</b>
Corporate taxes payable		<b>427</b>
Other taxes payable		<b>45</b>
Miscellaneous		<b>47</b>
	<b>\$</b>	<b>2,169</b>

\$28 of the miscellaneous accounts payable relate to the remaining acquisition costs for the assumed office leases, with the premises not being utilized by the Company due to consolidation of the offices.

**12. Lease inducements**

	<b>June 30, 2017</b>	
Lease inducements balance at October 1, 2016	<b>\$</b>	<b>99</b>
Amortized during the period		<b>(29)</b>
Balance, end of the period		<b>70</b>
Less: Portion due within one year		<b>(38)</b>
	<b>\$</b>	<b>32</b>

The Company has entered into long term leases at various locations ranging from three to five years with lease inducements being amortized over the life of the respective leases. The amortization of the lease inducements reduces general and administration expense in the interim condensed consolidated statement of comprehensive income.

**13. Deferred revenue, deposits and retainers**

Deferred revenue, deposits and retainers can be summarized as follows:

	<b>Deferred Revenue</b>		<b>Deposits and Retainers</b>	
Balance at October 1, 2016	<b>\$</b>	<b>8,926</b>	<b>\$</b>	<b>371</b>
New Contracts		<b>16,868</b>		<b>1,098</b>
Applied or Amortized		<b>(14,912)</b>		<b>(1,136)</b>
Balance at June 30, 2017	<b>\$</b>	<b>10,882</b>	<b>\$</b>	<b>333</b>

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**14. Share capital**

**(a) Authorized: Unlimited number of common shares**

**(b) Issued**

	<b>June 30, 2017</b>	
	<b>Number</b>	<b>\$</b>
<b>Common shares</b>		
Balance at October 1, 2016	<b>22,885,094</b>	<b>\$ 58,385</b>
Repurchase of common shares <sup>(1)</sup>	<b>(325,700)</b>	<b>(825)</b>
Issued on exercise of options	<b>12,700</b>	<b>116</b>
Fair value of options exercised	<b>-</b>	<b>39</b>
Balance at June 30, 2017	<b>22,572,094</b>	<b>\$ 57,715</b>
Total share capital		<b>\$ 57,715</b>

<sup>(1)</sup> Pursuant to Normal Course Issuer Bids (“NCIB”), during the nine months ended June 30, 2017, the Company repurchased 325,700 of its common shares at an average price of \$9.28 per share for a total cost of \$3,023.

**(c) Contributed surplus**

	<b>June 30, 2017</b>	
	<b>\$</b>	<b></b>
Balance at October 1, 2016	<b>7,997</b>	
Transfer to common share capital on exercise of options		<b>(39)</b>
Stock based compensation		<b>698</b>
Balance at June 30, 2017	<b>\$ 8,656</b>	

**(d) Dividends**

During the nine months ended June 30, 2017, the Company paid dividends to shareholders totaling \$5,900. This amount includes regular dividends paid totaling \$4,764 at an average dividend amount of \$0.21 per share and a special dividend totaling \$1,137 at an average dividend amount of \$0.05 per share. In the same period in fiscal 2016, the Company paid dividends to shareholders totaling \$6,975. This amount includes regular dividends paid to shareholders totaling \$4,585 at an average dividend amount of \$0.20 per share and a special dividend totaling \$2,390 at an average dividend amount of \$0.10.

**(e) Normal course issuer bid**

On May 21, 2017, the Company commenced a Normal Course Issuer Bid (“NCIB”), to purchase up to 2,087,621 of its common shares, pursuant to which, during the period ended June 30, 2017, it purchased 26,500 common shares at an average price of \$8.80 for a total cost of \$233. All purchases of its common shares are for cancellation.

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**(f) Stock options**

The Company has a stock option plan under which directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive stock options. The aggregate number of common shares to be issued, upon exercise of all options granted under the plan, shall not exceed 10% of the issued common shares of the Company, at the time the options were granted. Options granted under the plan generally have a term of five years, but may not exceed five years, and vest at such times as determined by the directors at the date of grant, which has generally been over three years. The exercise price of each option is determined by the directors at the market price at the date of grant. A summary of the status of the Company's stock option plan as at June 30, 2017, and changes during the period then ended, are as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at October 1, 2016	<b>1,989,384</b>	<b>\$ 9.19</b>
Granted	<b>246,666</b>	<b>9.65</b>
Exercised	<b>(12,700)</b>	<b>9.19</b>
Expired	<b>(200,000)</b>	<b>9.33</b>
Outstanding at June 30, 2017	<b>2,023,350</b>	<b>\$ 9.21</b>
Options exercisable at June 30, 2017	<b>1,444,458</b>	<b>\$ 9.20</b>

During the nine months ended June 30, 2017, 246,666 stock options were granted (June 30, 2016 – Nil) to officers and other employees and an independent director of the Company.

**(g)** The following table summarizes information about stock options outstanding and exercisable as at June 30, 2017:

<b>Exercise Prices</b>	<b>Number of Options Outstanding</b>	<b>Weighted-Average Remaining Period Until Exercisable</b>	<b>Number of Options Exercisable</b>	<b>Weighted-Average Remaining Contractual Life Post Vesting</b>
\$ 9.19	1,678,350	-	1,371,125	2.0 years
9.19	83,334	0.9 years	53,333	2.9 years
9.48	15,000	0.1 years	10,000	2.0 years
10.10	146,666	2.3 years	10,000	4.3 years
8.25	100,000	2.9 years	-	-
	<b>2,023,350</b>	<b>0.4 years</b>	<b>1,444,458</b>	<b>2.0 years</b>

**(h)** The earnings per share have been calculated based on the weighted-average number of common shares outstanding during the three and nine month periods ended June 30, 2017, of 22,658,352 and 22,733,423 (June 30, 2016 23,174,061 and 23,618,210). During the same period, the diluted weighted average number of shares outstanding was 22,659,313 and 22,873,982 (June 30, 2016 – 23,255,979 and 23,618,210). For the three and nine month

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periods ended June 30, 2017, 960 and 140,559 options were included in the computation of diluted earnings per share (June 30, 2016 – 81,918).

## 15. Segmented information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the President and Chief Executive Officer. Beginning fiscal 2017, the Company has applied the aggregation criteria in IFRS 8.12 and aggregated operations whose production process, products, distribution methods and industry markets are similar. Based on management's judgment, the aggregation criteria result in one reportable segment, the Public Sector division. This change in segment reporting did not have an impact on the Company's consolidated results for any period. Segment profit is measured as net profit (loss) before the consideration of income taxes. The Company does not identify or allocate working capital by reportable segment, and there are no inter-segment revenues.

### Geographical revenues and assets

The Public Sector segment is managed on a worldwide basis, but operates in three principal geographical areas, Canada, USA, and UK.

Substantially, all of the Company's property and equipment were located in Canada and the intangible assets and goodwill, except customer relationships, pertained solely to the Canadian operations. Geographic revenues are allocated by the geographic location of the Company's product installation, delivery or service provision.

Three month period ended June 30, 2017	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 2,785	\$ 5,924	\$ 208	\$ 8,917
Non-current assets	7,227	11,152	3,917	-	22,296
<hr/>					
Three month period ended June 30, 2016	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 3,063	\$ 6,286	\$ 268	\$ 9,617
Non-current assets	7,227	15,472	4,142	-	26,841
<hr/>					
Nine month period ended June 30, 2017	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 8,088	\$ 16,309	\$ 485	\$ 24,882
Non-current assets	7,227	11,152	3,917	-	22,296
<hr/>					
Nine month period ended June 30, 2016	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 8,792	\$ 18,144	\$ 819	\$ 27,755
Non-current assets	7,227	15,472	4,142	-	26,841

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**16. Commitments and contingencies**

**(a) Commitments**

*Operating lease and equipment commitments*

The Company has entered into various leases for its operating premises and equipment. Future minimum annual payments under these operating leases are as follows:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Fiscal 2017</b>	<b>Fiscal 2018-2019</b>	<b>Fiscal 2020-2022</b>
<b>Premise/Equipment lease</b>	<b>\$ 1,750</b>	<b>\$ 254</b>	<b>\$ 932</b>	<b>\$ 564</b>

**(b) Contingencies**

Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations. On October 20, 2016, the Company settled a claim and counterclaim in connection with Serenic acquisition for \$240 plus interest. This amount was carried on the balance sheet as a holdback payment and has no material financial impact on the future results of the Company.

**(c) Indemnifications**

Under the terms of certain agreements and the Company's by-laws, the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service.

**17. Related party transactions**

During the nine months ended June 30, 2017, the Company paid director's fees of \$60 (June 30, 2016 - \$60).

Directors and executive officers, along with certain employees, also participate in the Company's stock option plan (Note 14(f)).

Compensation of key management personnel, defined as the Board of Directors, the Chief Executive Officer, the Executive Vice President, the Chief Financial Officer, and the Vice President, Business Development and Investor Relations was as follows:

	<b>June 30, 2017</b>
Salaries and benefits-key management	<b>\$ 787</b>
Executive bonus	<b>1,560</b>
Stock based compensation	<b>127</b>
Directors' fees	<b>60</b>
	<b>\$ 2,534</b>

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**18. Capital risk management**

The Company's objective, when managing capital, is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. Managed capital consists of the Company's current working capital (current assets less current liabilities). The Company sets the amount of managed capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year-over-year sustainable, profitable growth. The Company is not subject to any externally imposed capital requirements.

**19. Financial instruments**

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, foreign currency, liquidity, and fair value risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. These risks are outlined more fully below.

Financial instrument:	Category:
Cash and cash equivalents	Fair value through profit and loss
Trade and other receivables	Loans receivable
Trade and other payables	Other financial liabilities

**(a) Foreign currency rate risk management**

A portion of the Company's sales are made to customers in the United States and Europe. Accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company does not have any exposure to highly inflationary foreign currencies. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and trade accounts receivable to offset foreign currency payables.

As at June 30, 2017, the increase or decrease in profit before tax for each 1% change in the value of the Canadian dollar against the US dollar amounts to approximately \$23 (September 30, 2016 - \$92). For the same period, the increase or decrease in net income before taxes for each 1% change in the value of the Canadian dollar against the GBP amounts to approximately \$7 (September 30, 2016 - \$6).

**(b) Credit risk**

The Company is exposed to normal credit risk. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. Concentration of credit risk is mitigated by having concentrations with credit worthy clients and broadening the Company's customer base. As at June 30, 2017, three customers accounted for 50% (September 30, 2016 - three customers accounted for 54%) of the Company's total trade accounts receivable. Revenue

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from one customer represented approximately \$3,192 or 12.8% of consolidated revenue earned during the first nine months of fiscal 2017 (September 30, 2016 – 13.7%).

**Aging of trade accounts receivable**

	<b>June 30, 2017</b>
1-30 days	<b>\$ 2,208</b>
31-90 days	<b>949</b>
91 + days	<b>783</b>
Total trade receivables	<b>3,940</b>
Allowance for doubtful accounts	<b>(61)</b>
Other receivables	<b>57</b>
Total accounts receivable	<b>\$ 3,936</b>

**Allowance for doubtful accounts continuity schedule**

	<b>June 30, 2017</b>
Balance at October 1, 2016	<b>\$ (2)</b>
Allowance recognized-net	<b>(59)</b>
Balance at June 30, 2017	<b>\$ (61)</b>

As at June 30, 2017, the majority of the Company's cash and cash equivalents are held at one Canadian Chartered Bank. The Company has a concentration of credit risk.

**(c) Liquidity risk**

Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth;
- or
- may be unable to settle or recover a financial asset at all.

**Trade and other payables:**

	<b>June 30, 2017</b>
Trade payables	<b>\$ 831</b>
Corporate taxes payable	<b>427</b>
Accrued and other payable	<b>911</b>
Total trade and other payables	<b>\$ 2,169</b>

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Sylogist expects that cash flow from operations generated in fiscal 2017, together with cash and cash equivalents on hand, will be more than sufficient to fund its requirements for investments in working capital, maintenance, capital expenditures, and product development. As these variables change, liquidity risk may necessitate the need for the Company to conduct equity issues or obtain project or working capital financing.

**(d) Interest rate risk**

The Company's cash and cash equivalents are subject to interest rate price risk, as the value will fluctuate due to changes in market rates. As at June 30, 2017, the increase or decrease in profit before tax for each 1% change in interest rates on the Company cash and cash equivalents, amounts to approximately \$299 (September 30, 2016 - \$286) per annum.

**(e) Fair value of financial instruments**

The Company has determined that the fair value of the financial instruments consisting of cash and cash equivalents, short-term investments, trade and other receivables and trade and other payables are not materially different from the carrying values of such instruments reported on the consolidated balance sheet due to their short-term nature.

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument. Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents have been classified as level 1.

Contingent considerations have been classified as level 3, and were valued by management based on achieving vesting conditions (Note 16b).

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*Dave Elder,*

*Ron Cherkas, <sup>(1)(2)</sup>*

*C. Fraser Elliott, <sup>(1)(2)</sup>*

*<sup>(1)</sup> member of audit committee*

*<sup>(2)</sup> member of compensation committee*

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