



SYLOGIST LTD.
NOTICE TO READER

Amended audited consolidated financial statements for the Financial Year ended September 30, 2016

This Notice accompanies and should be read in conjunction with the amended audited consolidated financial statements (the “**Amended Financial Statements**”) of Sylogist Ltd. for the financial year ended September 30, 2016. The original audited consolidated financial statements, which were filed with applicable securities regulatory authorities in Canada on January 10, 2017 and are available electronically at www.sedar.com, contained a typographical error, whereby the Independent Auditor’s Report was mistakenly dated January 9, 2016, rather than January 9, 2017.

The Amended Financial Statements include an Independent Auditor’s Report with a corrected date and the Form 52-109F1 CEO and CFO certifications are therefore being re-filed in connection with the filing of the Amended Financial Statements.

SYLOGIST LTD.

Consolidated Financial Statements

For the years ended September 30, 2016 and 2015





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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sylogist Ltd.

We have audited the accompanying consolidated financial statements of Sylogist Ltd., which comprise the consolidated statements of financial position as at September 30, 2016 and September 30, 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sylogist Ltd. as at September 30, 2016 and September 30, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants
January 9, 2017
Calgary, Alberta

Sylogist Ltd.
Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

(Audited)

	Notes	September 30, 2016	September 30, 2015
Assets			
Current assets:			
Cash and cash equivalents	5	\$ 28,369	\$ 41,095
Restricted cash	5	240	240
Trade and other receivables	6	5,013	3,111
Prepaid expenses	7	2,097	1,972
Inventories		133	169
		35,852	46,587
Non-current assets			
Property and equipment	8	488	484
Intangible assets	9	14,471	16,178
Goodwill	10	7,227	7,227
Deferred tax	11(a)	3,318	5,174
		25,504	29,063
Total assets		\$ 61,356	\$ 75,650
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	12	\$ 4,392	\$ 3,242
Deferred revenue	14	8,926	8,896
Deposits and retainers	14	372	838
Current portion of lease inducements	13	39	44
		13,729	13,020
Non-current liabilities:			
Deferred tax	11(a)	3,399	4,002
Acquisition-related costs		-	120
Lease inducements	13	60	99
		3,459	4,221
Total liabilities		17,188	17,241
Shareholders' equity:			
Issued capital	15(b)	58,385	62,214
Contributed surplus	15(c)	7,997	6,704
Foreign currency translation reserve		(177)	(578)
Deficit		(22,037)	(9,931)
		44,168	58,409
Total liabilities and shareholders' equity		\$ 61,356	\$ 75,650

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

Approved on behalf of the Board:

"Fraser Elliott" Director
"Jim Wilson" Director

Sylogist Ltd.

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

For the years ended September 30, 2016 and 2015
(Audited)

	Notes	2016	2015
Revenue	16	\$ 35,848	\$ 27,350
Cost of sales		11,999	9,636
Gross profit		23,849	17,714
General and administrative		4,883	4,484
Executive bonuses		2,029	1,489
Professional fees		826	373
Acquisition-related costs		-	(119)
Sales and marketing		1,891	1,914
Product research		881	975
Depreciation of property and equipment	8	171	172
Amortization of intangible assets	9	2,413	2,694
Stock based compensation	15(f)	1,553	4,314
Foreign exchange loss/(gain)		526	(629)
Interest income ⁽¹⁾		(235)	(398)
Profit before income tax		8,911	2,445
Current income tax	11	973	197
Deferred income tax	11(a)	1,302	(300)
		2,275	(103)
Profit for the year		6,636	2,548
Other comprehensive income (loss)			
To be recycled through income:			
Exchange differences on translating foreign operations		401	(404)
Total comprehensive income for the year		\$ 7,037	\$ 2,144
Attributable to:			
Owners of the company		\$ 7,037	\$ 2,144
Basic earnings per share		\$ 0.28	\$ 0.10
Diluted earnings per share		\$ 0.28	\$ 0.10
Basic weighted average number of shares outstanding	15(h)	23,440,379	24,928,795
Diluted weighted average number of shares outstanding	15(h)	23,440,379	24,973,674

(1) Interest Income for years ended September 30, 2016 and September 30, 2015 is net of immaterial interest expense amounts.

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

Sylogist Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(In thousands of Canadian dollars)

For the years ended September 30, 2016 and 2015
(Audited)

	Notes	Share Capital	Contributed Surplus	Foreign Currency Translation Reserve	Deficit	Total Equity
As at September 30, 2014		\$ 61,723	\$ 2,495	\$ (174)	\$ (5,090)	\$ 58,953
Profit for the year		-	-	-	2,548	2,548
Foreign currency translation adjustment		-	-	(404)	-	(404)
Total comprehensive income for the year		-	-	(404)	2,548	2,144
Payment of dividends	15(d)	-	-	-	(6,113)	(6,113)
Exercise of options	15(f)	375	(105)	-	-	271
Value of shares issued on acquisition of Weave		891	-	-	-	891
Share buy-back and cancellation		(775)	-	-	(1,276)	(2,051)
Stock based compensation		-	4,314	-	-	4,314
Balance as at September 30, 2015		\$ 62,214	\$ 6,704	\$ (578)	\$ (9,931)	\$ 58,409
Profit for the year		-	-	-	6,636	6,636
Foreign currency translation adjustment		-	-	401	-	401
Total comprehensive income for the year		-	-	401	6,636	7,037
Payment of dividends	15(d)	-	-	-	(8,576)	(8,576)
Exercise of options	15(f)	911	(260)	-	-	651
Share buy-back and cancellation	15(e)	(4,740)	-	-	(10,166)	(14,906)
Stock based compensation		-	1,553	-	-	1,553
Balance as at September 30, 2016		\$ 58,385	\$ 7,997	\$ (177)	\$ (22,037)	\$ 44,168

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

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

For the years ended September 30, 2016 and 2015
(Audited)

	Notes	2016	2015
Operating Activities			
Profit before income taxes		\$ 8,911	\$ 2,445
Items not affecting cash			
Depreciation of property and equipment	8	221	206
Amortization of intangible assets	9	2,455	2,731
Stock based compensation	15(f)	1,553	4,314
Amortization of assumed office leases	13	(201)	(201)
Share based payments		-	(393)
Cash taxes paid		(219)	(335)
Cash from operating activities before non-cash change in working capital		12,720	8,767
Changes in non-cash operating assets and liabilities			
Trade and other receivables	6	(1,902)	(190)
Inventory		36	78
Prepaid expenses and deposits	7	(125)	(117)
Trade and other payable	12	390	(1,570)
Deferred revenue, deposits and retainers	14	(438)	1,471
Cash generated from operations		10,681	8,439
Investing Activities			
Purchase of property and equipment	8	(228)	(296)
Acquisition of intangible assets	9	(749)	(835)
Cash utilized in investing activities		(977)	(1,131)
Financing Activities			
Proceeds from share issuance, less issue costs	15(b)	651	271
Repurchase of common shares	15(e)	(14,906)	(2,051)
Payment of dividends	15(d)	(8,576)	(6,113)
Cash utilized in financing activities		(22,831)	(7,893)
Decrease in cash and cash equivalents		(13,127)	(585)
Effect of currency translation adjustment on cash and cash equivalents		401	(404)
Cash and cash equivalents, beginning of year		41,095	42,084
Cash and cash equivalents, end of year		\$ 28,369	\$ 41,095

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

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Notes to the Consolidated Financial Statements
(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)
For the years ended September 30, 2016 and 2015

1. Nature of operations

Sylogist Ltd. (the “Company” or Sylogist”) (TSX-V: SYZ) is a technology innovation and licensing company which, through strategic acquisitions, investments and operations management, provides intellectual property solutions to a wide range of public and private 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, Serenic Software Inc. and Serenic Canada Inc.

Sylogist is headquartered in Calgary, Alberta, Canada with offices in Edmonton, Alberta, Richmond, British Columbia, King City, Ontario, Canada, Atlanta, Georgia and Lakewood, Colorado in the United States of America and Newbury, Berkshire in the United Kingdom. The Company’s registered office is located at Suite 1900, 520-3rd SW; Calgary, Alberta, Canada; T2P 0R3.

These audited annual consolidated financial statements were approved and authorised for issuance by the Board of Directors on January 9th, 2017.

2. Consolidated financial statements

(a) Statement of presentation

These consolidated financial statements present the annual financial statements of the Company and its subsidiaries prepared in accordance with International Financial Reporting Standards (“IFRS”).

The significant accounting policies in accordance with IFRS are disclosed in Note 3.

(b) Basis of measurement

The audited annual 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 audited annual 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.

(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

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

For the years ended September 30, 2016 and 2015

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 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 method 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.

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 its 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

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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 depend 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 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. Significant accounting policies

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

(a) Cash and cash equivalents

The Company considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. The Company has cash in banks, which may exceed insured limits established in Canada, the United States and the UK. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

(b) Basis of consolidation

Subsidiaries:

Subsidiaries are entities controlled by the Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial information of subsidiaries is included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing. Identifiable assets acquired along with liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as of the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the consolidated statement of comprehensive income.

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For the years ended September 30, 2016 and 2015

Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(c) Financial instruments

Non-derivative financial instruments:

Non-derivative financial instruments are comprised of cash and cash equivalents, trade and other receivables, trade and other payables, and obligations under finance lease. Non-derivative financial instruments are recognized initially at fair value net of any directly attributable transaction costs except for non-derivative instruments classified as “fair value through earnings”. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Financial assets at fair value through profit and loss:

An instrument is classified at fair value through earnings if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through earnings if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company’s risk management or investment strategy. Upon initial recognition, directly attributable transaction costs are deducted against proceeds. Financial instruments at fair value through earnings are measured at fair value, and changes therein are recognized in earnings.

Other:

Other non-derivative financial instruments, such as trade and other receivables, trade and other payables are measured at amortized cost using the effective interest method.

Derivative financial instruments:

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in foreign currency rates or interest rates. These instruments are not used for trading or speculative purposes. The Company does not designate its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all contracts to be economic hedges. As a result, all financial derivative contracts when entered into will be classified as fair value through earnings and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through earnings.

Changes in the fair value of separable embedded derivatives are recognized immediately in earnings.

Share capital:

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

Foreign currency translation adjustment reserve:

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

(d) Inventories

Inventories consist of licenses and products held for resale and are valued at the lower of weighted average cost and net realizable value. The costs of inventories include expenditures incurred in acquiring the inventories, production and other costs incurred in bringing them to their existing location and condition.

(e) Property and equipment

Property and equipment is recorded at cost and net of accumulated depreciation and accumulated impairment losses. Property and equipment is amortized on a straight-line basis at rates designed to apportion the cost of the assets over their estimated useful lives as follows:

Computer hardware	36 months
Furniture and equipment	36 months
Leasehold improvements	over the life of the lease
Computer equipment under finance lease	over the life of the lease

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and if applicable, adjusted prospectively.

(f) Intangible assets

Intangible assets consist of costs associated with customer lists, software code, software licenses, rights and patents, which are carried at cost less accumulated amortization and impairment losses. Development expenditures are capitalized if they meet the criteria for recognition as an asset. Intangible assets are amortized on a straight-line basis over their expected period of benefit as follows:

Customer lists	5 to 10 years
Software codes	2 to 10 years
Software licenses/rights/patents	1 to 10 years

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year end and if applicable, adjusted prospectively.

(g) Impairment of tangible and intangible assets

At the end of each reporting period, management assesses the carrying amounts of its tangible and intangible assets for both external and internal indications of impairment. Indications of

Sylogist Ltd.

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impairment include an ongoing lack of profitability and significant changes in technology. 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. 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.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized immediately in earnings.

(h) Goodwill

Goodwill is the amount that results when the fair value of consideration transferred for an acquired business exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. When the Company enters into a business combination, the acquisition method of accounting is used. Goodwill is assigned, as of the date of the business combination, to cash generating units that are expected to benefit from the business combination. Each CGU represents the lowest level at which goodwill is monitored for internal management purposes and it is never larger than an operating segment. Goodwill is stated at cost less accumulated impairment losses. Goodwill is not amortized but is subject to impairment testing at least once a year, or more frequently if events or changes in circumstances indicate the carrying amount may be impaired. Impairment losses relating to goodwill cannot be reversed in future periods. When the excess of the consideration transferred less the assets and liabilities acquired is negative, a bargain purchase gain is recognized immediately in profit or loss.

On disposal of a subsidiary, the amount of goodwill attributable to the subsidiary is included in the determination of the gain or loss recognized on disposal.

(i) Revenue

The Company recognizes revenue to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Software license agreements with multiple-element arrangements, such as those including license fees and maintenance fees, are recognized as separate units of accounting provided the delivered elements have stand-alone value to the customers and the fair value of any undelivered elements can be objectively and reliably determined.

Consideration for these units is measured and allocated amongst the accounting units based upon their fair values and the Company's relevant revenue recognition policies are applied to them.

Revenue from professional services is recognized as the services are performed.

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Revenue from the sale of software licenses is recognized when the licensing contract is signed and the software is shipped.

Revenue from product sales is recognized when the product is delivered.

Proceeds from maintenance contracts are reflected as deferred revenue and recognized in income as revenue on a pro-rata basis over the period that the maintenance contract covers.

Deferred revenue represents amounts billed in excess of revenue recognized. Amounts billed for professional services or training in accordance with customer contracts, but not yet earned, are recorded and presented as part of deposits and retainers.

(j) Foreign currency translation

The Company's functional and presentation currency for the consolidated financial statements is Canadian Dollars. Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in profit for the period. Non-monetary assets and liabilities relating to foreign denominated transactions are recorded at the rate of exchange in effect at the transaction date and are not adjusted for subsequent changes in foreign exchange rates.

Sylogist's foreign operations are translated into the presentation currency as follows: assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the statement of financial position date and revenues and expenses are translated at monthly average rates. Exchange gains and losses arising on translation of the Company's foreign operations are recorded as foreign currency translation adjustments in other comprehensive income ("OCI"). Amounts included in the foreign currency translation reserve will be recognized in profit when there is a reduction in the net investment of the foreign operation on a pro-rata basis. Advances made to its foreign operations for which settlement is not planned or anticipated in the foreseeable future are considered part of the Company's net investment in its foreign operations. Accordingly, unrealized gains and losses from these advances are also recorded in OCI.

(k) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments with the corresponding liability included in long-term debt as a finance lease obligation. Lease payments are apportioned between interest expense and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. Lease

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inducements, if received, are recognized as a reduction of the related expense on a straight-line basis over the lease term.

(l) Share based compensation

The Company has established a share based compensation plan (the "Plan") comprised of a Stock Option Plan. The Company uses the fair value method for valuing share based compensation. Under this method, the compensation cost attributed to stock options granted are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of option or units that vest. Upon the settlement of the stock options, the previously recognized value in contributed surplus is recorded as an increase to shareholders' equity.

(m) Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the consolidated statements of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted substantively at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

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

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

(n) Investment tax credits

The Company follows the income approach to account for investment tax credits. Under this method, ITC's related to operating expenditures are recorded as a reduction of the related expense and recognized in the period in which the related expenditures are charged to operations, provided there is reasonable assurance of realization. ITC's related to capital expenditures or internally developed intangibles are recorded as a reduction of the cost of the related asset, provided there is reasonable assurance of realization.

The ITC's recorded are based on management's best estimates of amounts expected to be recovered and are subject to audit by the taxation authorities.

(o) Earnings per share

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Basic earnings per share is calculated by dividing the profit for the year attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on the exercise of the in the money stock options and warrants would be used to purchase common shares at the average market price for the period.

(p) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax “risk-free” rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. There were no material provisions requiring recognition for the years ended September 30, 2016 and September 30, 2015.

4. New accounting standards and interpretations not yet adopted

(a) The standards and interpretations that are issued but not yet effective up to the date of issuances of the Company’s 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 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.

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IAS 1 Presentation of Financial Statements (“IAS 1”)

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 comprehensive income, and notes to the financial statements. These amendments will be effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. This standard will be effective on October 1, 2016 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.

Amendments to IAS 16 and IAS 38

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 to be applied prospectively for annual periods beginning on or after January 1, 2016. Early Adoption is allowed. This standard will be effective on October 1, 2016 for the Company.

5. Cash and cash equivalents

Cash and cash equivalents as of September 30, 2016 and September 30, 2015 consisted of the following:

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	<u>2016</u>	<u>2015</u>
Cash	\$ 10,869	\$ 8,884
Cash equivalents	17,500	32,211
Total	<u>\$ 28,369</u>	<u>\$ 41,095</u>

Cash equivalents are comprised of banker's acceptances with interest rates of 1.01% - 1.1% (2015 0.82%-1.4%), and maturities from 30-90 days.

Restricted cash of \$240 relates to Serenic's acquisition and represents the holdback amount held by an Escrow Agent, which was released to vendor in October 2016 (Note 18b).

6. Trade and other receivables

	<u>2016</u>	<u>2015</u>
Trade receivables, gross	\$ 3,985	\$ 3,034
Allowance for doubtful accounts	(2)	(34)
Trade receivables	<u>3,983</u>	3,000
Other receivables	1,030	111
Trade and other receivables	<u>\$ 5,013</u>	<u>\$ 3,111</u>

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

7. Prepaid expenses

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

	<u>2016</u>	<u>2015</u>
Prepaid software royalties	\$ 1,547	\$ 1,654
Other prepaid expenses and deposits	550	318
	<u>\$ 2,097</u>	<u>\$ 1,972</u>

8. Property and equipment

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	Computer hardware	Computer equipment under finance lease	Furniture and equipment	Leasehold improvements	Total
Cost					
Balance at October 1, 2014	\$ 359	\$ 34	\$ 290	\$ 493	\$ 1,176
Additions	223	-	49	24	296
Effect of movements in foreign exchange	2	-	6	-	8
Balance at September 30, 2015	\$ 584	\$ 34	\$ 345	\$ 517	\$ 1,480
Additions	205	-	23	-	228
Disposals/retirements	(2)	-	-	-	(2)
Effect of movements in foreign exchange	(2)	-	(2)	-	(4)
Balance at September 30, 2016	\$ 785	\$ 34	\$ 366	\$ 517	\$ 1,702
Accumulated Depreciation					
Balance at October 1, 2014	\$ 253	\$ 34	\$ 206	\$ 291	\$ 784
Depreciation charge for the year ⁽¹⁾	100	-	55	51	206
Effect of movements in foreign exchange	3	-	3	-	6
Balance at September 30, 2015	\$ 356	\$ 34	\$ 264	\$ 342	\$ 996
Depreciation charge for the year ⁽¹⁾	122	-	51	48	221
Disposals/retirements	(2)	-	-	-	(2)
Effect of movements in foreign exchange	-	-	(1)	-	(1)
Balance at September 30, 2016	\$ 476	\$ 34	\$ 314	\$ 390	\$ 1,214
Carrying amounts					
At September 30, 2015	\$ 228	\$ -	\$ 81	\$ 175	\$ 484
At September 30, 2016	\$ 309	\$ -	\$ 52	\$ 127	\$ 488

(1) In fiscal 2016, \$50 (2015-\$34) of depreciation costs were categorized as cost of goods sold.

9. Intangible assets

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	Software licenses, rights and patent	Customer lists	Software codes	Total
Cost				
Balance at October 1, 2014	\$ 3,120	\$ 11,772	\$ 8,648	\$ 23,540
Additions ⁽²⁾	44	-	791	835
Effect of movements in foreign exchange	26	5	11	42
Balance at September 30, 2015	\$ 3,190	\$ 11,777	\$ 9,450	\$ 24,417
Additions ⁽²⁾	68	-	681	749
Effect of movements in foreign exchange	(3)	(1)	(2)	(6)
Balance at September 30, 2016	\$ 3,255	\$ 11,776	\$ 10,129	\$ 25,160
Accumulated Amortization				
Balance at October 1, 2014	\$ 1,536	\$ 1,977	\$ 1,957	\$ 5,470
Amortization for the year ⁽¹⁾	469	1,381	881	2,731
Effect of movements in foreign exchange	26	4	8	38
Balance at September 30, 2015	\$ 2,031	\$ 3,362	\$ 2,846	\$ 8,239
Amortization for the year ⁽¹⁾	450	1,012	993	2,455
Effect of movements in foreign exchange	(3)	(1)	(1)	(5)
Balance at September 30, 2016	\$ 2,478	\$ 4,373	\$ 3,838	\$ 10,689
Carrying amounts				
At September 30, 2015	\$ 1,159	\$ 8,415	\$ 6,604	\$ 16,178
At September 30, 2016	\$ 777	\$ 7,403	\$ 6,291	\$ 14,471

(1) In fiscal 2016, \$42 (2015-\$37) of amortization costs were categorized as cost of goods sold.

(2) During the year, the Company capitalized \$323 (2015 - \$784) of software development costs and \$335 of system implementation costs related to its internal systems upgrade.

10. Goodwill

The carrying amount of goodwill can be analyzed as follows:

	<u>2016</u>	<u>2015</u>
Gross carrying amount from:		
Acquisition of Bellamy	\$ 1,934	\$ 1,934
Acquisition of Weave	771	771
Acquisition of Serenic	4,522	4,522
	<u>\$ 7,227</u>	<u>\$ 7,227</u>

The Company performed its annual impairment test as at September 30, 2016. For the purpose of annual impairment testing, all goodwill was allocated to the CGUs which are expected to benefit from the synergies of the business combinations from which goodwill arose.

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The recoverable amounts of all the CGUs were determined based on value in use. These calculations used pre-tax cash flows covering a five year period based on financial budgets and forecast approved by management, using an expected average growth rate of 3% and inflation rate of 2% and a risk adjusted discount rate of 27.8%. Key assumptions also include usual profit margins and growth within the international and North American markets determined by past experience. As at September 30, 2016, the recoverable amount of the CGUs exceeded its carrying value by a considerable amount. If future results, in particular, future revenues, were to be significantly different from management's best estimates of key assumptions, the Company could potentially experience future impairment charges in respect of its goodwill.

11. 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, 2015	Recognized in earnings	Other	As at September 30, 2016
Property, equipment and intangibles	\$ (5,041)	\$ 554	\$ (72)	\$ (4,559)
Scientific research and development pools	1,125	-	143	1,268
Non-capital losses	4,622	(1,744)	-	2,878
Share issuance and other	466	(112)	(22)	332
	\$ 1,172	\$ (1,302)	\$ 49	\$ (81)

	As at September 30, 2014	Recognized in earnings	Other	As at September 30, 2015
Property, equipment and intangibles	\$ (5,449)	\$ 487	\$ (79)	\$ (5,041)
Scientific research and development pools	767	-	358	1,125
Non-capital losses	4,697	(75)	-	4,622
Share issuance and other	578	(112)	-	466
	\$ 593	\$ 300	\$ 279	\$ 1,172

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.

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	2016	2015
Deferred tax assets	\$ 3,318	\$ 5,174
Deferred tax liabilities	(3,399)	(4,002)
	\$ (81)	\$ 1,172

(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:

	2016	2015
Profit before income tax	\$ 8,911	\$ 2,445
Corporate income tax rate ⁽¹⁾	27.0%	25.5%
Computed expected tax provision	2,406	623
Increase (decrease) in income taxes resulting from:		
- Rate difference on foreign operations	197	(64)
- Rate adjustment ⁽¹⁾	-	(351)
- Stock option compensation expense	93	343
- Operating losses ⁽²⁾	(424)	(678)
- Other	3	24
Income tax expense	\$ 2,275	\$ (103)

(1) The Alberta Government announced a 2% increase to the 2015 provincial tax rate effective July 1, 2015. For the twelve months ended September 30, 2015, the Company recognised a deferred income tax recovery of \$351 as a result of the deferred tax asset previously recognized.

(2) In the 2016 fiscal year, the Company utilized operating losses of approximately \$151 (\$114 USD) related to its Serenic Software Inc. subsidiary. Also included in the operating losses and other is an income tax recovery of \$273 (\$207 USD), that the Company recognized related to its Serenic Software Inc. subsidiary based on the Company's determination that these assets will more likely than not be realized. The Company considered all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and the subsidiary's current year results.

(c) The following is a summary of the Canadian tax pools available at the end of September 2016, subject to confirmation by the income tax authorities:

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	2016	2015
Capital cost allowance	\$ 1,450	\$ 1,983
Non-capital losses ⁽¹⁾	9,006	15,426
Scientific research and development pools ⁽²⁾	2,399	2,061
Cumulative eligible capital	1,854	1,994
Share issue costs and other	1,162	1,748
	\$ 15,871	\$ 23,212

(1) *The Company's Canadian operations had non-capital losses of \$9,006 (September 30, 2015 - \$15,426) available to reduce taxable income in future periods. These losses expire as follows: 2022 - \$795, 2023 - \$1,363, 2026 - \$513, 2027 - \$589, 2028 - \$253, 2029 - \$761, 2030 - \$1,481, 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 \$850 (September 30, 2015 - \$779) available to reduce future federal taxes payable. The investment tax credits will shelter approximately \$5,666 of federal taxable income. The investment tax credits expire between 2030 and 2034. 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 \$1,046 USD (\$1,375 CAD) and \$1,483 USD (\$1,949 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 USD (\$86 CAD) and \$291 USD (\$383 CAD), respectively. The net operating losses carried forward expire at various dates up to 2034.

(e) The UK operations have trading losses of approximately £3,401 (\$5,796 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 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.

12. Trade and other payables

Trade and other payables can be summarized as follows:

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	2016	2015
Trade payables	\$ 1,707	\$ 970
Short-term employee payable	814	1,122
Professional fees accrual	408	253
Supplier costs accrual	428	472
Corporate taxes payable	865	158
Other taxes payable	29	42
Miscellaneous	141	225
	\$ 4,392	\$ 3,242

13. Lease inducements

	2016	2015
Lease inducements opening balance	\$ 143	\$ 184
Amortized during the year	(44)	(41)
Balance, end of the year	99	143
Less: Portion due within one year	(39)	(44)
	\$ 60	\$ 99

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.

14. Deferred revenue, deposits and retainers

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

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	Deferred Revenue	Deposits and Retainers
Balance at October 1, 2014	\$ 7,432	\$ 832
New Contracts	19,529	712
Applied or Amortized	(18,065)	(706)
Balance at September 30, 2015	8,896	838
New Contracts	20,283	291
Applied or Amortized	(20,253)	(757)
Balance at September 30, 2016	\$ 8,926	\$ 372

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15. Share capital

(a) Authorized: Unlimited number of common shares

(b) Issued

	2016		2015	
	Number	\$	Number	\$
Common shares				
Balance, beginning of the year	24,695,062	\$ 62,214	24,919,669	\$ 61,723
Repurchase of common shares	(1,880,600)	(4,740)	(307,800)	(775)
Issued on exercise of options	70,632	650	141,671	270
Fair value of options exercised	-	261	-	105
Shares cancelled on acquisition of Weave ⁽¹⁾	-	-	(58,478)	-
Issued on acquisition of Weave ⁽¹⁾	-	-	-	891
Balance, end of the year	22,885,094	\$ 58,385	24,695,062	\$ 62,214
Total share capital		\$ 58,385		\$ 62,214

⁽¹⁾ Of the 175,439 shares issued upon acquisition of Weave, the 58,478 shares were cancelled on November 13, 2014 and the remaining vesting conditions were removed.

Pursuant to Normal Course Issuer Bids ("NCIB"), during the year ended September 30, 2016, the Company repurchased 1,880,600 of its common shares at an average price of \$7.93 per share for a total cost of \$14,906, of which \$10,166 was applied against deficit for the year ended September 30, 2016 and \$4,740 against share capital.

(c) Contributed surplus

	2016	2015
Balance, beginning of the year	\$ 6,704	\$ 2,495
Transfer to common share capital on exercise of options	(260)	(105)
Stock based compensation	1,553	4,314
Balance, end of the year	\$ 7,997	\$ 6,704

(d) Dividends

In fiscal 2016, the Company paid dividends to shareholders totaling \$8,579. This amount includes regular dividends paid totaling \$6,189 at an average dividend amount of \$0.265 per share and a special dividend paid on December 30, 2015, totaling \$2,390 at an average dividend amount of \$0.10 per share. In fiscal 2015, the Company paid regular dividends to shareholders totaling \$6,113 at an average dividend amount of \$0.25 per share.

(e) Normal course issuer bid

On May 21, 2015, the Company commenced a Normal Course Issuer Bid ("NCIB"), to purchase up to 2,266,923 of its common shares, pursuant to which, and prior to September 30, 2015, it purchased 307,800 common shares at an average price of \$6.66 for a total cost of \$2,051. For the period October 1, 2015 to the NCIB expiry on May 20, 2016, the Company repurchased 1,511,600 of its common shares at an average price of \$7.30 for a total cost of \$11,039.

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On May 21, 2016, the Company commenced a NCIB to acquire up to 2,054,039 of its common shares over a 12-month period. For the period May 21, 2016 to September 30, 2016, the Company repurchased 369,000 of its common shares at an average price of \$10.48 for a total cost of \$3,867. All purchases of its common shares are for cancellation.

(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 September 30, 2016, and changes during the period then ended, are as follows:

	September 30, 2016		September 30, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of the year	2,183,350	\$ 9.20	2,160,021	\$ 8.71
Granted	-	-	165,000	9.35
Exercised	(70,632)	9.19	(141,671)	1.92
Forfeited	(40,000)	9.19	-	-
Expired	(83,334)	9.19	-	-
Outstanding, end of period	1,989,384	\$ 9.19	2,183,350	\$ 9.20
Options exercisable, end of the year	1,316,598	\$ 9.20	672,782	\$ 9.19

In fiscal 2016, there were no stock options granted (2015 – 165,000).

(g) The following table summarizes information about stock options outstanding and exercisable as at September 30, 2016:

Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Period Until Exercisable	Number of Options Exercisable	Weighted-Average Remaining Contractual Life Post Vesting
\$ 9.19	1,856,050	0.8 years	1,271,600	2.8 years
9.19	103,334	1.7 years	29,998	3.7 years
9.48	15,000	0.8 years	10,000	2.8 years
11.00	15,000	1.0 years	5,000	3.0 years
	1,989,384	0.8 years	1,316,598	2.7 years

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The following table summarizes information about stock options outstanding and exercisable as at September 30, 2015:

Exercise Prices	Number of Options Outstanding	Weighted- Average Remaining Period Until Exercisable	Number of Options Exercisable	Weighted- Average Remaining Contractual Life Post Vesting
\$ 9.19	2,003,350	1.8 years	667,782	3.7 years
9.19	150,000	2.7 years	-	-
9.48	15,000	1.8 years	5,000	3.8 years
11.00	15,000	2.1 years	-	-
	<u>2,183,350</u>	<u>1.8 years</u>	<u>672,782</u>	<u>3.8 years</u>

(h) The earnings per share have been calculated based on the weighted-average number of common shares outstanding during the year ended September 30, 2016, of 23,440,379 (2015 – 24,928,795). During the same period, the diluted weighted average number of shares outstanding was 23,440,379 (2015 – 24,973,674). For the year ended September 30, 2016, no options were included in the computation of diluted earnings per share (2015 – 44,879).

16. Segmented information

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The operating results of all operating segments are reviewed regularly by the Company's senior management to make decisions about resources to be allocated to the segment and assessing their performance. Sylogist operates two operating segments, the Public Sector division and Private Sector division:

The Public Sector ("Public Sector") division is the business associated with the acquisitions of Serenic, completed on July 28, 2014, Weave, completed on November 1, 2013, Reflex and MasterWorks Software Systems, completed in fiscal 2008 and the acquisition completed in fiscal 2006 of Bellamy Software.

The Public Sector also supports complementary activities, including application and data integration, application assistance and systems support. The Public Sector is made up of the Bellamy CGU and Serenic CGU.

The Private Sector division ("Private Sector") generates revenues from Sylogist's proprietary software and implementation services. The Company's Mobile Software is used in inventory and manufacturing control, logistics, work order management, and automated data capture applications. Its Middleware products integrate data between enterprise systems (including SAP and Oracle) and a wide variety of packaged and custom application specific systems. The Company's Payment Solutions ("PS") System, acquired on November 1, 2012, is used to control all aspects of payment management at a fueling site. The enterprise application software with manufacturing execution systems, data collection platform software, and warehouse management application software was acquired through Epic Data on July 1, 2013 and became part of the Private Sector. The Private Sector is made up of the Epic CGU.

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The accounting policies of the segments are the same as those described in the summary of significant accounting policies. 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.

Year ended September 2016

	Public	Private	Corporate	Total
Revenue:				
Licenses	\$ 4,389	\$ 110	\$ -	\$ 4,499
Subscription maintenance	16,983	3,364	-	20,347
Professional services	8,765	1,004	-	9,769
Product revenue	131	1,102	-	1,233
Total revenue	30,268	5,580	-	35,848
Cost of sales	10,224	1,775	-	11,999
Gross profit	20,044	3,805	-	23,849
General and administrative ⁽¹⁾	2,690	718	1,475	4,883
Executive bonuses	-	-	2,029	2,029
Professional fees	61	49	716	826
Sales and marketing	1,597	278	16	1,891
Product research ⁽¹⁾	781	100	-	881
Depreciation of property and equipment	98	46	27	171
Amortization of intangible assets	1,575	470	368	2,413
Stock based compensation	-	-	1,553	1,553
Foreign exchange (gain)/loss	258	(32)	300	526
Interest (income)	-	-	(235)	(235)
Profit (loss) before tax and corporate allocations	\$ 12,984	\$ 2,176	\$ (6,249)	\$ 8,911
Corporate allocations	6,161	1,088	(7,249)	-
Profit before tax	\$ 6,823	\$ 1,088	\$ 1,000	\$ 8,911

(1) Before corporate allocations.

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Year ended September 2015

	Public	Private	Corporate	Total
Revenue:				
Licenses	\$ 2,486	\$ 676	\$ -	\$ 3,162
Subscription maintenance	14,671	3,155	-	17,826
Professional services	4,105	1,212	-	5,317
Product revenue	109	936	-	1,045
Total revenue	21,371	5,979	-	27,350
Cost of sales	7,476	2,160	-	9,636
Gross profit	13,895	3,819	-	17,714
General and administrative ⁽¹⁾	1,730	555	2,199	4,484
Executive bonuses	-	-	1,489	1,489
Professional fees	160	88	125	373
Acquisition-related costs	55	75	(249)	(119)
Sales and marketing	1,486	428	-	1,914
Product research ⁽¹⁾	929	46	-	975
Depreciation of property and equipment	74	84	14	172
Amortization of intangible assets	1,963	469	262	2,694
Stock based compensation	-	-	4,314	4,314
Foreign exchange (gain)/loss	(196)	21	(454)	(629)
Interest (income)/loss	-	-	(398)	(398)
Profit (loss) before tax and corporate allocations	\$ 7,694	\$ 2,053	\$ (7,302)	\$ 2,445
Corporate allocations	4,609	1,911	(6,520)	-
Profit (loss) before tax	\$ 3,085	\$ 142	\$ (782)	\$ 2,445

(1) Before corporate allocations.

Geographical revenues and assets

The Public and Private Sector segments are managed on a worldwide basis, but operate in three principal geographical areas, Canada, USA, and UK.

Substantially, all of the 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.

Year ended September 30, 2016	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 11,593	\$ 23,247	\$ 1,008	\$ 35,848
Non-current assets	7,227	14,146	4,131	-	25,504
Year ended September 30, 2015	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 10,258	\$ 15,933	\$ 1,159	\$ 27,350
Non-current assets	7,227	17,433	4,403	-	29,063

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17. Commitments and contingencies

(a) Commitments

Operating lease and service commitments

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

Contractual Obligations	Total	Fiscal 2017	Fiscal 2018-2019	Fiscal 2020
Premise lease/services	\$ 1,456	\$ 808	\$ 575	\$ 73

(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. In connection with the Serenic acquisition, the vendor had commenced an action against the Company, which the Company had defended. In addition, the Company had counterclaimed against the vendor and its senior officers for misrepresentation damages. The claim and counterclaim were settled in their entirety in October 2016. In consideration of the settlement of all claims, the purchase price holdback held in trust by the Company's solicitors of \$240, plus accrued interest, was released to the vendor, with no other amounts being paid or payable.

(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.

18. Related party transactions

In fiscal 2016, the Company paid director's fees of \$80 (2015 - \$80), and no fees are outstanding as of September 30, 2016.

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 Chief Financial Officer, and the VP Business Development as well as compensation of family members of key management personnel was as follows:

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	2016	2015
Salaries and benefits-key management	\$ 1,297	\$ 1,167
Salaries and benefits- key management family members	9	-
Executive bonus	2,029	1,671
Stock based compensation	1,312	3,923
Directors' fees	80	80
	\$ 4,727	\$ 6,841

19. 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.

20. 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 September 30, 2016, 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 \$92 (September 30, 2015 - \$83). 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 \$6 (September 30, 2015 - \$15).

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(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. As at September 30, 2016, 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. The concentration of credit risk is mitigated by having concentrations with credit worthy clients and broadening the Company's customer base. As at September 30, 2016, three customers accounted for 54% (September 30, 2015 – three customers accounted for 26%) of the Company's total trade accounts receivable. Revenue from one customer of the Company's public sector division represented approximately \$4,900 or 13.7% of consolidated revenue earned during fiscal 2016 (September 30, 2015 – 4.7%).

Aging of trade accounts receivable

	2016	2015
1-30 days	\$ 791	\$ 1,843
31-90 days	2,868	648
91 + days	326	543
Total trade receivables	3,985	3,034
Allowance for doubtful accounts	(2)	(34)
Other receivables	1,030	111
Total accounts receivable	\$ 5,013	\$ 3,111

Allowance for doubtful accounts continuity schedule

	2016	2015
Balance, beginning of the year	\$ 34	\$ 40
Allowance recognized-net	(32)	(6)
Balance, end of the year	\$ 2	\$ 34

(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:

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	2016	2015
Trade payables	\$ 1,707	\$ 970
Corporate taxes payable	865	158
Accrued and other payable	1,820	2,114
Total trade and other payables	\$ 4,392	\$ 3,242

Sylogist expects that cash flow from operations generated in fiscal 2016, 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 September 30, 2016, 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 \$286 (September 30, 2015 - \$413) 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, 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 18b).

21. Subsequent events

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Except as disclosed elsewhere in these consolidated financial statements, the following events occurred subsequent to the Company's fiscal year end:

- (a) On October 20, 2016, the Company had 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.
- (b) On November 9, 2016, the Company declared a quarterly eligible dividend of \$0.07 per share and a special dividend of \$0.05 per share on Sylogist's Common Shares, payable on December 14, 2016.
- (c) Pursuant to a Normal Course Issuer Bid ("NCIB") commenced on May 21, 2016, subsequent to September 30, 2016, the Company repurchased 158,800 of its Common Shares at an average price of \$10.61 per share for a total cost of \$1,685.

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Dave Elder,

Ron Cherkas, ^{(1) (2)}

C. Fraser Elliott, ^{(1) (2)}

⁽¹⁾ member of audit committee

⁽²⁾ member of compensation committee

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