

SYLOGIST LTD.

Condensed Consolidated Financial Statements
For the three and nine months ended June 30, 2018 and 2017



**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, 2018, have 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 Financial Position
(In thousands of Canadian dollars)

(Unaudited)

	Notes	June 30, 2018	September 30, 2017
Assets			
Current assets			
Cash and cash equivalents	5	\$ 30,109	\$ 28,753
Trade and other receivables	6	4,692	3,492
Prepaid expenses	7	1,857	1,298
Inventories		60	28
		36,718	33,571
Non-current assets			
Property and equipment	8	163	305
Intangible assets	9	14,847	12,439
Goodwill	10	7,227	7,227
Deferred tax	11(a)	-	571
		22,237	20,542
Total assets		\$ 58,955	\$ 54,113
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	12	\$ 3,235	\$ 1,382
Deferred revenue	14	11,363	9,073
Deposits and retainers	14	385	286
Other current liabilities ⁽¹⁾	13(a,b)	62	71
		15,045	10,812
Non-current liabilities			
Deferred tax	11(a)	2,192	2,641
Other non-current liabilities ⁽¹⁾	13(a,b)	-	42
		2,192	2,683
Total liabilities		17,237	13,495
Shareholders' equity			
Issued capital	15(b)	57,144	57,391
Contributed surplus	15(c)	8,857	8,679
Foreign currency translation reserve		322	(161)
Deficit		(24,605)	(25,291)
		41,718	40,618
Total liabilities and shareholders' equity		\$ 58,955	\$ 54,113

(1) Other liabilities consist of lease inducements and onerous contract obligations (Note 13).

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.
Approved on behalf of the Board:

"Taylor Gray" Director
"Jim Wilson" Director

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, 2018 and 2017
(Unaudited)

	Notes	Three months ended June 30,		Nine months ended June 30,	
		2018	2017	2018	2017
Revenue	16	\$ 10,971	\$ 8,917	\$ 29,097	\$ 24,882
Cost of sales		3,255	2,409	7,759	7,481
Gross profit		7,716	6,508	21,338	17,401
General and administrative		1,094	988	2,980	3,113
Executive bonuses		812	589	2,033	1,560
Professional fees		135	111	398	267
Acquisition-related costs		6	-	168	-
Sales and marketing		450	492	1,335	1,523
Product research		402	293	1,200	916
Depreciation of property and equipment	8	39	45	133	143
Amortization of intangible assets	9	817	635	2,433	1,886
Stock based compensation	15(f)	87	204	249	698
Foreign exchange gain		(78)	(65)	(275)	(139)
Interest income ⁽¹⁾		(97)	(50)	(215)	(144)
Profit before income tax		4,049	3,266	10,899	7,578
Current income tax		816	541	1,955	1,155
Deferred income tax	11(a)	46	521	243	1,138
	11(b)	862	1,062	2,198	2,293
Profit for the period		3,187	2,204	8,701	5,285
Other comprehensive income					
To be recycled through income:					
Exchange differences on translating foreign operations		336	(84)	483	19
Total comprehensive income for the period		\$ 3,523	\$ 2,120	\$ 9,184	\$ 5,304
Attributable to:					
Owners of the company		\$ 3,523	\$ 2,120	\$ 9,184	\$ 5,304
Basic earnings per share		\$ 0.14	\$ 0.10	\$ 0.39	\$ 0.23
Diluted earnings per share		\$ 0.14	\$ 0.10	\$ 0.39	\$ 0.23
Basic weighted average number of shares outstanding	15(h)	22,281,571	22,658,352	22,360,476	22,733,423
Diluted weighted average number of shares outstanding	15(h)	22,666,119	22,659,313	22,465,464	22,873,982

⁽¹⁾ Interest Income for periods ended June 30, 2018 and June 30, 2017 is net of immaterial interest expense amounts.

The accompanying notes are an integral part of these unaudited 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, 2018 and 2017
(Unaudited)

	Notes	Share Capital	Contributed Surplus	Foreign Currency Translation Reserve	Deficit	Total Equity
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	15(d)	-	-	-	(5,900)	(5,900)
Exercise of options	15(f)	155	(39)	-	-	117
Share buy-back and cancellation		(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
As at September 30, 2017		\$ 57,391	\$ 8,679	\$ (161)	\$ (25,291)	\$ 40,618
Profit for the period		-	-	-	8,701	8,701
Foreign currency translation adjustment		-	-	483	-	483
Total comprehensive income for the period		-	-	483	8,701	9,184
Payment of dividends	15(d)	-	-	-	(6,484)	(6,484)
Exercise of options	15(f)	255	(71)	-	-	184
Share buy-back and cancellation	15(e)	(502)	-	-	(1,531)	(2,033)
Stock based compensation		-	249	-	-	249
Balance as at June 30, 2018		\$ 57,144	\$ 8,857	\$ 322	\$ (24,605)	\$ 41,718

The accompanying notes are an integral part of these unaudited 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, 2018 and 2017
(Unaudited)

	Notes	Three months ended June 30,		Nine months ended June 30,	
		2018	2017	2018	2017
Operating Activities					
Profit before income taxes		\$ 4,049	\$ 3,266	\$ 10,899	\$ 7,578
Items not affecting cash					
Depreciation of property and equipment	8	44	58	164	179
Amortization of intangible assets	9	834	641	2,468	1,916
Stock based compensation	15(f)	87	204	249	698
Amortization of assumed office leases		-	(28)	-	(92)
Cash taxes paid		(961)	(321)	(1,023)	(1,358)
Cash from operating activities before non-cash change in working capital		4,053	3,820	12,757	8,921
Changes in non-cash operating assets and liabilities					
Trade and other receivables	6	(1,861)	(1,166)	(1,266)	986
Inventory		(9)	(57)	(33)	58
Prepaid expenses and deposits	7	48	84	(559)	592
Trade and other payable	12	808	(118)	737	(1,987)
Deferred revenue, deposits and retainers	14	(867)	(548)	(263)	1,918
Cash generated from operations		2,172	2,015	11,373	10,488
Investing Activities					
Restricted cash	5	-	-	-	240
Purchase of property and equipment	8	-	(8)	(14)	(55)
Acquisition of intangible assets	9	(190)	(55)	(494)	(410)
Interest received		91	3	180	93
Cash paid on the acquisition of K12 Enterprise & Sunpac Systems		-	-	(1,728)	-
Cash utilized in investing activities		(99)	(60)	(2,056)	(132)
Financing Activities					
Proceeds from share issuance, less issue costs	15(b)	184	-	184	117
Repurchase of common shares	15(e)	(736)	(1,339)	(2,033)	(3,023)
Payment of dividends	15(d)	(1,780)	(1,580)	(6,484)	(5,900)
Cash utilized in financing activities		(2,332)	(2,919)	(8,333)	(8,806)
(Decrease)/increase in cash and cash equivalents		(259)	(964)	984	1,550
Effect of currency translation adjustment on cash and cash equivalents		273	(84)	372	19
Cash and cash equivalents, beginning of period		30,095	30,986	28,753	28,369
Cash and cash equivalents, end of period		\$ 30,109	\$ 29,938	\$ 30,109	\$ 29,938

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

Sylogist Ltd.
Notes to the Condensed Consolidated Financial Statements
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1. Nature of operations

Sylogist Ltd. (the “Company” or “Sylogist”) (TSX-V: SYZ) is a software company that provides comprehensive, mission-critical enterprise resource planning (“ERP”) solutions, including fund accounting, grant management and payroll to public service organizations. Sylogist’s public service customers include Local Governments, Non-Profit Organizations (“NPO”), Non-Governmental Organizations (“NGO”), Education Boards and Districts and Defense and Safety Contractors.

The Company was incorporated under the *Business Corporations 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, Midlothian, Virginia 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, 520-3rd 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 9, 2018.

2. Condensed consolidated financial statements

(a) Business combinations

Acquisitions have been accounted for using the acquisition method required by IFRS 3 Business Combinations. Goodwill arising on acquisition is measured as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, if any, less the net recognized amount of the estimated fair value of identifiable assets acquired and liabilities assumed (subject to certain exemptions to fair value measurement principles such as deferred tax assets or liabilities), all measured as of the acquisition date. When the consideration transferred is less than the estimated fair value of assets acquired and liabilities assumed, a bargain purchase gain is recognized immediately in the consolidated statements of income. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred.

The Company uses its best estimates and assumptions to accurately value assets and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill, upon conclusion of the measurement period or final determination of the values.

(b) 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

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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, 2017. 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, 2017.

(c) 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.

(d) 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.

(e) 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 unaudited interim condensed 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 unaudited 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.

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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 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.

On December 22, 2017, the Tax Cuts and Jobs Act were enacted into law in the United States. The Company estimates that these changes will positively impact the Company's future after-tax earnings in the United States, primarily due to the lower federal statutory tax rate. The ultimate impact of the Tax Cuts and Jobs Act may differ from the Company's estimates due to changes in the interpretations and assumptions made by the Company as well as additional regulatory guidance that may be issued.

Investment tax credits - The amounts recorded as investment tax credits ("ITCs"), 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 not yet adopted

The standards and interpretations that are issued but not yet effective up to the date of issuances of the Company's unaudited interim condensed consolidated financial statements are listed below. The Company is currently analyzing existing contractual agreements to determine the impact 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.

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". This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications, which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. 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

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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. The standard can be applied either (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients or (ii) retrospectively with the cumulative effect recognized at the date of initial adoption and providing certain additional disclosures. The Company will apply the modified retrospective method to all contracts that are not completed as of October 1, 2018.

The standard contains a single model for revenue recognition that applies to contracts with customers, which supersedes current revenue recognition guidance, including industry specific guidance. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue should be recognized. The new standard also provides guidance on whether revenue should be recognized over time or at a point in time as well as requirements for more informative disclosures. New estimation methodology and judgement-based thresholds have been introduced which may affect the amount and/or timing of revenue recognition. The Company continues to assess the potential impact of applying the new standard. Based on the Company’s assessment to date, this standard will not have a material impact on the Company’s financial statements.

The Company has appointed a project team to manage the adoption and compliance with IFRS 15. The team is responsible for analyzing contracts, reviewing existing accounting policies and determining and quantifying differences between existing policies and IFRS 15. The team is also responsible for reviewing the Company’s systems and data collection processes and will develop and implement new policies and processes to ensure that data is properly captured to meet the requirements of the new revenue standard.

4. Business acquisition

On October 19, 2017, Sylogist’s subsidiary, Serenic Software, Inc., completed the acquisition of the assets of K12 Enterprise and Sunpac Systems. The total purchase price was \$3,500 USD (\$4,490 CAD) before post-closing adjustments. Due to the complexity and timing of the acquisition, the Company is still in the process of determining and finalizing the fair value of the net assets acquired as part of the acquisition. The amounts determined on a provisional basis generally relate to the intangible assets assessment, primarily customer relationships and software code, and measurement of the acquired contract liabilities.

The K12 Enterprise’s software, K12E, is a state of the art, software-as-a-service (SaaS) solution, offered on a subscription basis and is based on Sylogist’s Navigator ERP solution. Navigator ERP extends the functional capabilities of Microsoft Dynamics, to address the public sector and not-for-profit market places worldwide. K12E is a certified solution, with customers in 7 US states and in Canada. K12E is installed in North Carolina local educational authorities, along with other school boards in the states of New York, Texas, Virginia, Ohio, Pennsylvania and Maryland. In addition, the K12E intellectual property (“IP”) nearly doubles the Company’s Navigator IP portfolio. This IP will enhance Sylogist’s Navigator ERP suite and NaviPayroll products, making the acquired IP a valuable upgrade to the Company’s over 1,000 current customers. Sunpac Systems, a legacy solution provider, is the largest supplier of large, local education authority solutions in North Carolina.

This transaction has been accounted for as a business combination using the acquisition method whereby the net assets acquired, and the liabilities assumed are recorded at fair value.

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The provisional impact of acquisition accounting applied in connection with the acquisition of K12 Enterprise and Sunpac Systems in US dollars as well as the CAD dollars equivalent, using the exchange rate at the date of closing of 1.28, is detailed below:

	<u>October 19, 2017</u>	
	US\$	CAD\$
Assets acquired		
Intangible assets	\$ 3,500	4,490
Liabilities assumed		
Deferred revenue	(2,067)	(2,652)
Cash consideration	1,433	1,838
Less: holdback	(350)	(450)
Cash paid	\$ 1,083	1,388

The amount of revenue and profit (before amortization expense) generated by K12 Enterprise and Sunpac Systems since the acquisition date and included in these unaudited interim condensed consolidated financial statements for the period ended on June 30, 2018, was approximately \$2,982 CAD and \$1,630 CAD, respectively. If the acquisition had occurred on October 1, 2017, management estimates that the Company's revenue would have increased by approximately \$202 CAD and the profit for the period would have increased by approximately \$88 CAD. In determining these amounts, management has assumed that the fair value of the net assets acquired that were estimated and accounted for on the dates of acquisition, would have been the same as if the acquisition had occurred on October 1, 2017. The transaction costs related to the acquisition amounted to \$168 CAD and were expensed in these unaudited interim condensed consolidated financial statements. On March 30, 2018, the Company made a final payment of \$265 USD (\$340 CAD) against the amount held back at closing, for a total cash paid of \$1,348 USD (\$1,728 CAD). The difference between the holdback of \$350 USD (\$450 CAD) and the final payment of \$265 USD (\$340 CAD) was applied against the intangible assets.

5. Cash and cash equivalents

Cash and cash equivalents as of June 30, 2018:

	<u>June 30, 2018</u>	
Cash	\$ 8,328	
Cash equivalents	21,781	
Total	\$ 30,109	

Cash equivalents are comprised of banker's acceptance with interest rates of 1.69% - 2.15% (June 30, 2017 of 1.04%-1.14%), and maturities of up to 63 days.

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6. Trade and other receivables

	June 30, 2018
Trade receivables, gross	\$ 3,786
Allowance for doubtful accounts	(39)
Trade receivables	3,747
Other receivables ⁽¹⁾	945
Trade and other receivables	\$ 4,692

⁽¹⁾ Other receivables consist primarily of unbilled revenue.

Due to their short-term nature, the net carrying value of trade receivables approximates fair value (Note 20b).

7. Prepaid expenses

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

	June 30, 2018
Prepaid software royalties	\$ 1,268
Other prepaid expenses and deposits	589
	\$ 1,857

8. Property and equipment

	June 30, 2018		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 885	\$ 778	\$ 107
Furniture and equipment	360	352	8
Leasehold improvements	527	479	48
	\$ 1,772	\$ 1,609	\$ 163

During the nine months ended June 30, 2018, the Company purchased \$14 of equipment (June 30, 2017 - \$55) and \$31 (June 30, 2017 - \$36) of depreciation costs were categorized as a cost of goods sold.

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9. Intangible assets

	June 30, 2018		
	Cost	Accumulated Amortization	Net Book Value
Software licenses and rights	\$ 3,289	\$ 3,222	\$ 67
Customer lists	14,830	6,550	8,280
Software codes	12,441	5,941	6,500
	\$ 30,560	\$ 15,713	\$ 14,847

During the nine months ended June 30, 2018, \$35 (June 30, 2017 - \$30) of amortization costs were categorized as a cost of goods sold. In the first nine months of fiscal 2018, the Company capitalized \$488 (June 30, 2017 - \$271) of development costs that have been reduced by \$42 (June 30, 2017 - \$42) of ITCs related to capitalized projects.

10. Goodwill

The carrying amount of goodwill can be analyzed as follows:

	June 30, 2018
Gross carrying amount from:	
Acquisition of Bellamy	\$ 1,934
Acquisition of Weave	771
Acquisition of Serenic	4,522
	\$ 7,227

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, 2017	Recognized in earnings	Other	As at June 30, 2018
Property, equipment and intangibles	\$ (3,937)	\$ 1,400	\$ 16	\$ (2,521)
Scientific research and development pools	1,077	(1,343)	106	(160)
Non-capital losses	580	(149)	-	431
Share issuance and other	210	(151)	(1)	58
	\$ (2,070)	\$ (243)	\$ 121	\$ (2,192)

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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, 2018
Deferred Tax Liabilities	\$ (2,192)

(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		Nine months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Profit before taxes	\$ 4,049	\$ 3,266	\$ 10,899	\$ 7,578
Corporate income tax rate	27.0%	27.0%	27.0%	27.0%
Computed expected tax provision	1,093	882	2,943	2,046
Increase (decrease) in income taxes resulting from:				
- Rate difference on foreign operations	(45)	259	81	385
- Stock option compensation expense	12	31	36	76
- Rate adjustment ⁽¹⁾	-	-	(698)	-
- Operating losses ⁽²⁾	(156)	(39)	(156)	(132)
- Other	(42)	(71)	(8)	(82)
Income tax expense	\$ 862	\$ 1,062	\$ 2,198	\$ 2,293

(1) The rate reduction relates to a decrease in the United States federal statutory tax rate from 35% to 21% based on the United States' Tax Cuts and Jobs Act enacted December 22, 2017.

(2) Included in the \$156 for the three and nine months ended June 30, 2018, is \$601(\$458 USD) of income tax recovery the Company recognized during the current quarter as a result of the probability that net operating losses would be utilized based on the Company's Epic Data Corporation subsidiaries' earnings generated to date and future earnings projections.

(c) The following is a summary of the Canadian tax pools available at the end of June 2018, subject to confirmation by the income tax authorities:

	June 30, 2018
Capital cost allowance	\$ 3,885
Share issue costs and other	145
	\$ 4,030

In addition to the tax pools, the Company has investment tax credits of \$76 (September 30, 2017 - \$832) available to reduce future federal taxes payable. The investment tax credits will shelter approximately \$506 of federal taxable income. The investment tax credits expire between 2035 and 2038. These amounts have been recognized in the unaudited interim condensed consolidated financial statements.

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(d) The Company's two US subsidiaries, Epic Data Corporation and Serenic Software Inc., have net operating losses of \$932 USD (\$1,223 CAD) and \$805 USD (\$1,057 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 (\$85 CAD) and \$291 USD (\$382 CAD), respectively. The net operating losses carried forward expire at various dates up to 2034. The Company has recognized all the Serenic Software Inc. net operating losses and, in the three months ended June 30, 2018, the Company recognized \$458 USD (\$601 CAD) of the Epic Data Corporation net operating losses in the financial statements as the Company determined 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.

(e) The UK operations have trading losses of approximately £3,300 (\$5,049 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.

12. Trade and other payables

Trade and other payables can be summarized as follows:

	<u>June 30, 2018</u>
Trade payables	\$ 1,476
Short-term employee payable	641
Professional fees accrual	300
Supplier costs accrual	40
Corporate taxes payable	732
Other taxes payable	34
Miscellaneous	12
	<u>\$ 3,235</u>

13. Onerous contract and leasehold inducements

a) Onerous contract

	<u>June 30, 2018</u>
Onerous contract, beginning at October 1, 2017	\$ 53
Amortized during the period	<u>(25)</u>
Balance, end of the period	28
Less: Portion due within one year	<u>(28)</u>
	<u>\$ 0</u>

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In Fiscal 2017, the Company streamlined its operations in Vancouver, BC resulting in excess office space and negotiated with a subtenant. As a result, a sublease loss liability of \$98 was accrued for in fiscal 2017. The obligation was calculated as the discounted future lease payments, net of expected sublease payments, as sublease rates, at the time, were below current rental rates and therefore, the provision included a rent shortfall. Accretion on the sublease loss provision is included in finance costs in these unaudited interim condensed consolidated statements of comprehensive income.

b) Lease inducements

	June 30, 2018
Lease inducements, balance at October 1, 2017	\$ 60
Amortized during the period	(26)
Balance, end of the period	34
Less: Portion due within one year	(34)
	\$ -

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 these interim condensed consolidated statements of comprehensive income.

14. Deferred revenue, deposits and retainers

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

	Deferred Revenue	Deposits and Retainers
Balance at October 1, 2017	9,073	286
New Contracts	17,416	645
Amount from Acquisitions	2,729	-
Applied or Amortized	(17,855)	(546)
Balance, end of the period	\$ 11,363	\$ 385

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15. Share capital

(a) Authorized: Unlimited number of common shares

(b) Issued

	June 30, 2018	
	Number	\$
Common shares		
Balance at October 1, 2017	22,445,594	\$ 57,391
Repurchase of common shares ⁽¹⁾	(196,500)	(502)
Issued on exercise of options	20,000	255
Balance, end of the period	22,269,094	\$ 57,144
Total share capital		\$ 57,144

⁽¹⁾ Pursuant to Normal Course Issuer Bids, during the nine months ended June 30, 2018, the Company repurchased 196,500 of its common shares at an average price of \$10.35 per share for a total cost of \$2,034.

(c) Contributed surplus

	June 30, 2018	
	\$	
Balance at October 1, 2017	8,679	
Transfer to common share capital on exercise of options		(71)
Stock based compensation		249
Balance, end of the period	8,857	

(d) Dividends

During the nine months ended June 30, 2018, the Company paid dividends to shareholders totaling \$6,484. This amount includes regular dividends paid totaling \$5,362 at an average dividend amount of \$0.24 per share and a special dividend totaling \$1,122 at an average dividend amount of \$0.05 per share. In the same period in fiscal 2017, the Company paid dividends to shareholders totaling \$5,900. This amount includes regular dividends paid to shareholders totaling \$4,763 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.

(e) Normal course issuer bid

On May 21, 2018, the Company commenced a further Normal Course Issuer Bid (“NCIB”) to acquire up to 2,025,432 of its common shares over the ensuing 12-month period. Under the current NCIB, during the three-month period ended June 30, 2018, the Company repurchased 900 common shares at an average price of \$11.42 for a total cost of \$10. During the nine months ended June 30, 2018, pursuant to NCIBs, the Company repurchased a total of 196,500 common shares at an average price of \$10.35 for a total cost of \$2,034 million. All purchases of its common shares are for cancellation. The current NCIB terminates on the earlier of May 20, 2019, or when permitted purchases are completed.

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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, 2018, and changes during the period then ended, are as follows:

	June 30, 2018	
	Number of Options	Weighted Average Exercise Price
Outstanding at October 1, 2017	1,980,017	\$ 9.20
Granted	110,000	10.09
Exercised	(20,000)	9.19
Expired	(16,667)	9.19
Outstanding, end of the period	2,053,350	\$ 9.24
Options exercisable, end of the period	1,820,015	\$ 9.20

During the nine months ended June 30, 2018, 110,000 stock options were granted (June 30, 2017 – 246,666) to an employee and an independent director of the Company, 20,000 options were exercised (June 30, 2017 – 12,700), 16,667 options expired (June 30, 2017 – 176,666), and no options were forfeited (June 30, 2017 – 23,334).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

	2018
Risk-free interest rate	1.00%
Expected life (years)	5
Expected volatility	37%
Annualized dividend per share	\$0.32
Forfeiture rate	10%

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(g) The following table summarizes information about stock options outstanding and exercisable as at June 30, 2018:

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	1,648,350	-	1,648,350	1.0 years
9.19	70,000	-	70,000	1.9 years
9.48	15,000	-	15,000	1.0 years
10.10	110,000	1.3 years	53,332	3.3 years
8.25	100,000	1.9 years	33,333	3.9 years
10.08	60,000	2.5 years	-	-
10.10	50,000	2.5 years	-	-
	<u>2,053,350</u>	<u>1.9 years</u>	<u>1,820,015</u>	<u>1.1 years</u>

(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, 2018, of 22,281,571 and 22,360,476 (June 30, 2017: 22,658,352 and 22,733,423). During the same period, the diluted weighted average number of shares outstanding were 22,666,119 and 22,465,464 (June 30, 2017 22,659,313 and 22,873,982). For the three and nine-month periods ended June 30, 2018, 384,548 and 104,987 options were included in the computation of diluted earnings per share (June 30, 2017: 960 and 140,559).

16. 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. Based on management's judgment, the Company has one operating and reportable segment, the Public Sector. 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.

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

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Three month period ended June 30, 2018	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 2,653	\$ 8,185	\$ 133	\$ 10,971
Non-current assets	7,227	9,167	5,843	-	22,237
<hr/>					
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/>					
Nine month period ended June 30, 2018	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 7,880	\$ 20,739	\$ 478	\$ 29,097
Non-current assets	7,227	9,167	5,843	-	22,237
<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

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 commitments are as follows:

Contractual Obligations	Total	Fiscal 2018	Fiscal 2019-2020	Fiscal 2021-2022
Premise/Services	\$ 1,435	\$ 252	\$ 823	\$ 360

(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.

(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.

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18. Related party transactions

During the nine-month period ended June 30, 2018, the Company paid director's fees of \$73 (June 30, 2017 - \$60).

Directors and executive officers, along with certain employees, also participate in the Company's stock option plan (Note 15f).

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:

	<u>June 30, 2018</u>
Salaries and benefits-key management	\$ 937
Executive bonus	2,033
Stock based compensation	181
Directors' fees	73
	<u>\$ 3,224</u>

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.

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

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(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, 2018, 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 \$17 (September 30, 2017 - \$55). 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 \$4 (September 30, 2017 - \$8).

(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 June 30, 2018, 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. The allowance for doubtful accounts of \$39 (September 30, 2017 - \$106) represents approximately 1% of the trade accounts receivable as of June 30, 2018 (September 30, 2017 - 3%). As at June 30, 2018, three customers accounted for 69% (September 30, 2017 - three customers accounted for 52%) of the Company's total trade accounts receivable. Revenue from one customer represented approximately \$2,920 or 10% of consolidated revenue earned during the first nine months of fiscal 2018 (September 30, 2017 - 12.3%).

Aging of trade accounts receivable

	June 30, 2018
1-30 days	\$ 3,437
31-90 days	252
91 + days	97
Total trade receivables	3,786
Allowance for doubtful accounts	(39)
Other receivables ⁽¹⁾	945
Total accounts receivable	\$ 4,692

⁽²⁾ Other receivables consist primarily of unbilled revenue.

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Allowance for doubtful accounts continuity schedule

	<u>June 30, 2018</u>
Balance at October 1, 2017	\$ (106)
Allowance recognized-net	<u>67</u>
Balance, end of the period	<u>\$ (39)</u>

(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:

	<u>June 30, 2018</u>
Trade payables	\$ 1,476
Corporate taxes payable	732
Accrued and other payable	<u>1,027</u>
Total trade and other payables	<u>\$ 3,235</u>

Sylogist expects that cash flow from operations generated in fiscal 2018, 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, 2018, 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 \$301 (September 30, 2017 - \$288) 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.

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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 17b).

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Dave Elder,

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C. Fraser Elliott, ⁽¹⁾⁽²⁾

Taylor Gray, ⁽¹⁾⁽³⁾

⁽¹⁾ member of audit committee

⁽²⁾ member of compensation committee

⁽³⁾ effective January 1, 2018

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