

SYLOGIST LTD.

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

For the three and nine month periods ended June 30, 2018 and 2017



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Management's Discussion & Analysis

For the three and nine month periods ended June 30, 2018 and 2017

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

The following Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") of Sylogist Ltd. ("Sylogist" or the "Company") should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and the related notes for the periods ended June 30, 2018 and 2017, as well as the Company's annual, audited Consolidated Financial Statements and Management's Discussion and Analysis of the Company for the fiscal year ended September 30, 2017. The Company's Financial Statements and MD&A consist of its results and the results of its wholly-owned subsidiaries; Sylogist USA Inc. and Epic Data Limited, and its two indirect wholly-owned subsidiaries, Serenic Software Inc. and Epic Data Corporation.

Data, comments and analysis are provided in this MD&A wherever considered appropriate, subject to reasonable limitations for confidentiality or competitive positioning of the Company, to assist the reader in understanding the Company's business from a management perspective. Certain information provided in this MD&A is forward-looking, being based on assumptions or anticipated results, which is subject to uncertainties. Incorrect assumptions or uncertainties materializing could lead to actual results differing materially from those expected. Readers are referred to "Forward-Looking Statements", "Critical Accounting Estimates" and "Risks and Uncertainties" in this MD&A.

Unless otherwise indicated, the reporting and measurement currency referred to in this MD&A is the Canadian dollar.

Additional information about Sylogist is available on its website at www.sylogist.com, as well as on SEDAR at www.sedar.com.

This MD&A is dated as of August 9, 2018.

Forward-Looking Statements

The Company cautions that forward-looking statements in this MD&A are based on certain assumptions or anticipated results made by the Company that may prove to be inaccurate or unachievable. Such forward-looking statements are made for the purpose of providing information about management's current expectations and plans relating to the future. Investors are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions.

Since forward-looking information addresses future events and conditions, such information by its very nature involves inherent risks, uncertainties and other factors, any or all of which could cause or contribute to actual results or achievements differing materially from those currently anticipated. These include, but are not limited to, the risks and uncertainties associated with the industries and markets in which Sylogist operates in general such as: costs and expenses; commodity prices, interest rate and exchange rate fluctuations; competition; failure to realize the anticipated benefits of a transaction and to successfully integrate an acquired company or business unit; ability to access sufficient capital from internal and external sources; and changes in legislation, including but not limited to tax laws.

Forward-looking statements include those identified by the expressions "allow", "anticipate", "believe", "could", "may", "plan", "estimate", "expect", "intend" and "will", and similar expressions

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to the extent that they relate to the Company or its management. In particular, forward-looking information and statements contained in this MD&A include, but are not limited to, the following:

- While growing revenue, Sylogist strives to maintain or exceed historical Adjusted EBITDA rates as a percentage of revenue. There can be short term trade-offs between revenue growth and Adjusted EBITDA (as defined in this MD&A) growth, as a typical acquisition can take 18 to 24 months to normalize and fully integrate into operations.
- Sylogist intends to continue to grow its business through strategic acquisitions, or investments, to expand its existing Public Sector (as defined in this MD&A) business. This will continue to be a focus as the Company looks to extend its reach.
- The Company will continue to enhance its existing software platforms as it integrates its acquisitions, offering solutions to its customers and prospects, reflecting the changes required by them. This has and will continue to include the development of new software applications.
- Where deemed suitable and prospective, Sylogist makes investments in early stage technologies, through acquisition or internal development time and resources.
- Sylogist has a long-term vision that focuses on total economic return to its shareholders. That return is a balance of rewarding its shareholders through regular and special dividends, a profitable growing enterprise and, when the market value is appropriate, repurchasing its common shares in the market.
- Sylogist expects to add further functionality to existing product lines to increase its footprint in the existing marketplace and expand its growth into other markets.
- The Company expects that changes related to the United States' *Tax Cuts and Jobs Act* will positively impact the Company's future after-tax earnings in the United States, primarily due to the lower federal statutory tax rate.
- Estimated income tax pools and their utilization.
- Expectations regarding future operating expenses, capital expenditures, potential acquisitions and foreign exchange rates.

All of the aforementioned statements and information can be found in the "Overview", "Focus and Strategy", "Results of Operations", "Liquidity and Capital Resources", "Financial Instruments", and "Risk and Uncertainties" sections of this MD&A.

These forward-looking statements relate to the future operations and profitability of the Company and are not historical facts, but reflect the Company's current expectations and assumptions regarding future results or events. Particularly, these forward-looking statements are based on management's estimate of revenues and expenses based on business volumes and commitments at the date of this MD&A. Readers are cautioned, as provided in this MD&A, that actual revenue and expense results may vary materially from estimates and, in particular, are subject to risks including delivery, competition and management of growth. Additional assumptions include: customer demand for the Company's services, the Company's ability to maintain and enhance customer relationships, as well as the Company's ability to bring to market its services. Please see also the "Risk and Uncertainties" section for risks and uncertainties that may affect the Company.

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Although Sylogist believes that the expectations and anticipated results reflected in these forward-looking statements are reasonable, undue reliance should not be placed on them because Sylogist can give no assurance that they will prove to be correct. The forward-looking statements contained in this MD&A are made as of its date and Sylogist undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information or future events, unless so required by applicable securities laws.

Certain information set out in this MD&A may be considered as “financial outlook” within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Sylogist's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.

This MD&A should be read in conjunction with the Company's other publicly available filings found on SEDAR at www.sedar.com.

Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with the International Financial Reporting Standards (“IFRS”), namely “Adjusted Working Capital”, “Adjusted EBITDA”, and “Adjusted EBITDA Margin”.

These terms are not measures that have any standardized meaning prescribed by IFRS and are considered non-IFRS measures. While these measures may not be comparable to similar measures presented by other issuers, these measures have been described and presented in this MD&A to provide shareholders and potential investors with additional information regarding the Company's results, liquidity, and its ability to generate funds to finance its operations. When assessing the Company's operating performance or liquidity, investors and others should not consider this data in isolation or as a substitute for net profit, cash flow from operating activities or other cash flow data calculated in accordance with IFRS. In addition, the Company's calculation of Adjusted EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner.

The Non-IFRS measures “Adjusted Working Capital”, “Adjusted EBITDA” and “Adjusted EBITDA Margin” used in this MD&A are calculated as follows:

Adjusted Working Capital refers to current assets less current liabilities adjusted for deferred revenue.

Adjusted EBITDA refers to profit for the period before stock based compensation, foreign exchange gains or losses, interest expense, bargain purchase price on acquisition, income taxes, acquisition-related costs, depreciation and amortization. The Company believes that Adjusted EBITDA is useful supplemental information, as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration significant non-recurring items comprised of costs directly attributable to acquisitions as well as non-cash expenses, which include stock based compensation expense, interest expense, depreciation and amortization. Adjusted EBITDA also serves as a proxy for the Company's cash flow. Management also uses Adjusted EBITDA and Adjusted EBITDA Margin measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet the Company's capital expenditure, current taxes payable, and working capital requirements. Foreign exchange gains or losses are excluded from Adjusted EBITDA as they are not operational in nature. The foreign exchange gains and loss reflected in the Company's financial statements are primarily the result of intercompany payables and receivables between

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the Company and its foreign subsidiaries. The Company believes that the fluctuation in exchange rates is not a true indicator of the Company's performance.

Adjusted EBITDA Margin refers to Adjusted EBITDA as a percentage of revenue.

Each non-IFRS measure is reconciled to its most directly comparable IFRS measure within the "Results of Operations" and "Liquidity and Capital Resources" sections of this MD&A.

Overview

Sylogist 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 currently has over 1,000 customers worldwide that range in size and operational complexity. The vast majority of the Company's customers are in USA and Canada and the remainder in "UK and other" (which encompasses Latin America, Lebanon, Africa and Europe). Most of Sylogist's customers are on annual contracts, which automatically renew. Given the nature of the Company's product offering and the importance to its customers, the average customer life is more than 10 years. Some customers have been using the Company's software for several decades with the Company's historical customer retention rate at over 90%. The Company's software products, in addition to being a customer's accounting foundation, allow customers to analyze their data to uncover trends, identify causes, measure the information's significance to their organization and make timely decisions that improve their operations. Sylogist's experienced services team supports the deployment of its infrastructures to new and existing customers to aid them in fully leveraging the benefits of the Company's infrastructure and to gain significant efficiencies.

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 Chief Executive Officer. Based on management's judgment, the Company concluded that there is one operating and reportable segment, namely the Public Sector ("Public Sector").

The Company has two wholly-owned subsidiaries, Sylogist USA Inc. and Epic Data Limited, and two indirect wholly-owned subsidiaries, Serenic Software Inc. and Epic Data Corporation. The Company and its subsidiaries operate globally as "Serenic Software", and develop and deliver comprehensive, mission-critical ERP solutions for public service organizations. Serenic Software's customers include K-12 school districts or boards, public sector, NPOs, international NGOs, defense and safety contractors and discrete manufacturers and warehousing and distribution. Serenic Software, under license from Microsoft Corporation, developed the "number one" add-in payroll and human resources software for use with Microsoft Dynamics® NAV, globally amongst many industries.

Sylogist's revenues consist of software license fees, subscription fees, maintenance services, professional services and product sales.

Software license fees:

Software license fees are charged to the Company's customers for their use of its software products installed in-house or as hosted solutions. Virtually all the Company's software license arrangements include other services, such as implementation and maintenance. The Company's software can be deployed as On-premise (installed within an organization's infrastructure) or Hosted (cloud deployment). The price the Company charges its customers is based on several

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variables being: the type of license; whether it is sold by a reselling partner or directly by the Company; which modules are included; the number of users being licensed; and the customers' jurisdiction. The timing of software license sales tends to be variable and unpredictable in nature as the purchase decision and timing fluctuate with the customers' needs and budgets.

Subscription or SaaS (Software as a Service):

In this type of arrangement, the customer does not take ownership of the Company's software, but rather pays a monthly fee to access and use the Company's software.

Maintenance Revenue:

Revenue from maintenance services for software licenses sold and implemented includes telephone and on-line software support. By remaining current on a maintenance contract, the Company's customer is also entitled to software updates, so the Company's customers typically renew annually.

Professional Services Revenues:

Revenue from professional services consists of fees charged for implementation services, consulting services, and training. Virtually all the Company's customer contracts contain an element of professional services. Professional services activities are variable in nature as both the timing and magnitude of work are dependent on the activities and budgets within the customer organizations.

Product Revenues:

Product revenues consist of fees charged for the resale of third party products that form part of the Company's offering, as well as fees charged for the sale of the Company's internally assembled products. Virtually all the Company's product sales include other services such as implementation and maintenance. The timing of the Company's product sales tends to be variable and unpredictable in nature as the purchase decision and timing fluctuate with the Company's customers' needs and budgets.

Focus and Strategy

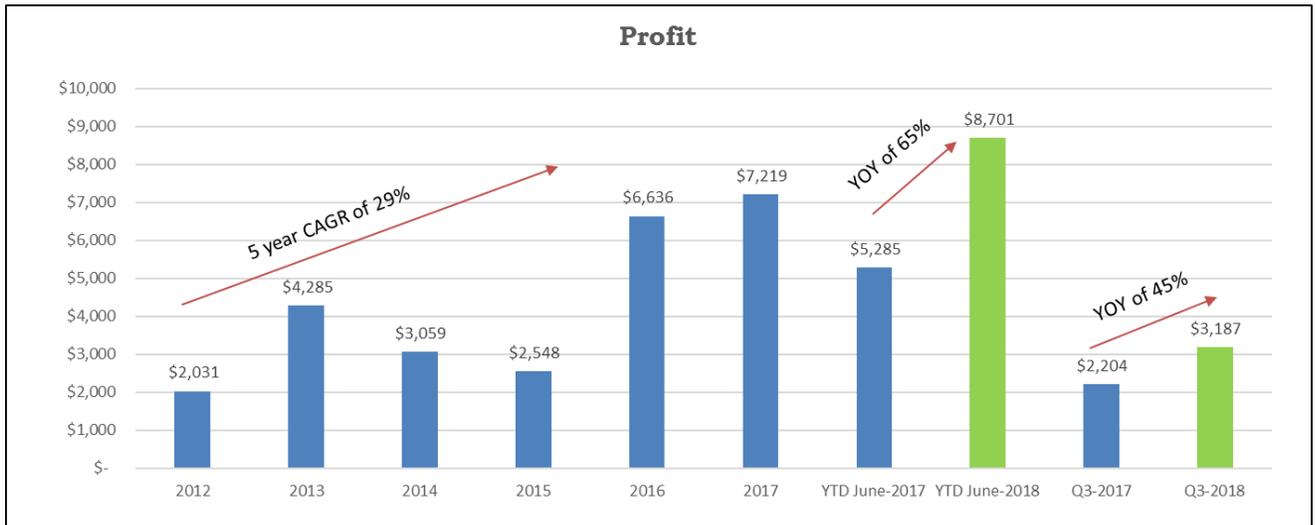
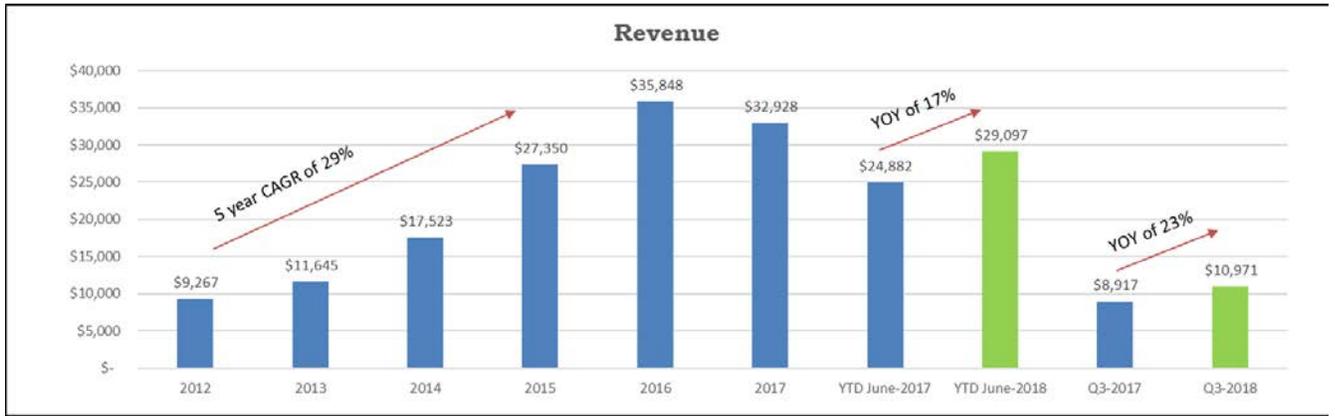
Sylogist has established a strong track record of growth, focused on cash flow and on strategic acquisitions of software companies with proven technologies and growth potential, which can benefit from Sylogist's management strategies and discipline.

The following graphs demonstrate the Company's historical revenue, profit, profit per share, Adjusted EBITDA, and Adjusted EBITDA per share compound annual growth rates ("CAGR") since 2012 as well as comparisons of year-to-date (YTD) June 2018 versus June 2017 and quarter-over-quarter for Q3 2018 versus Q3 2017. Amounts are in thousands of Canadian dollars, except for per share amounts.

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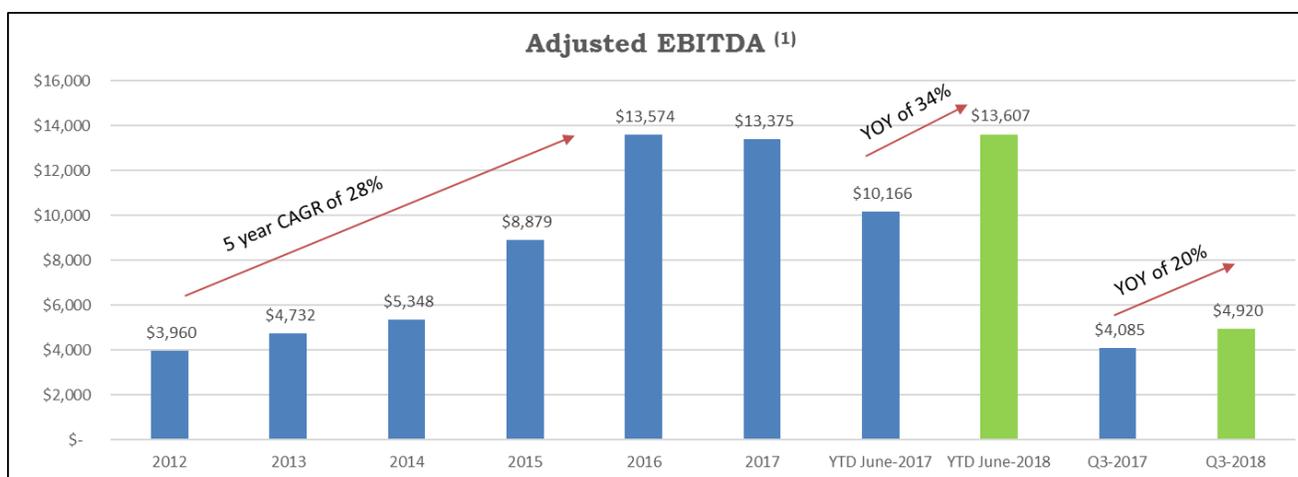
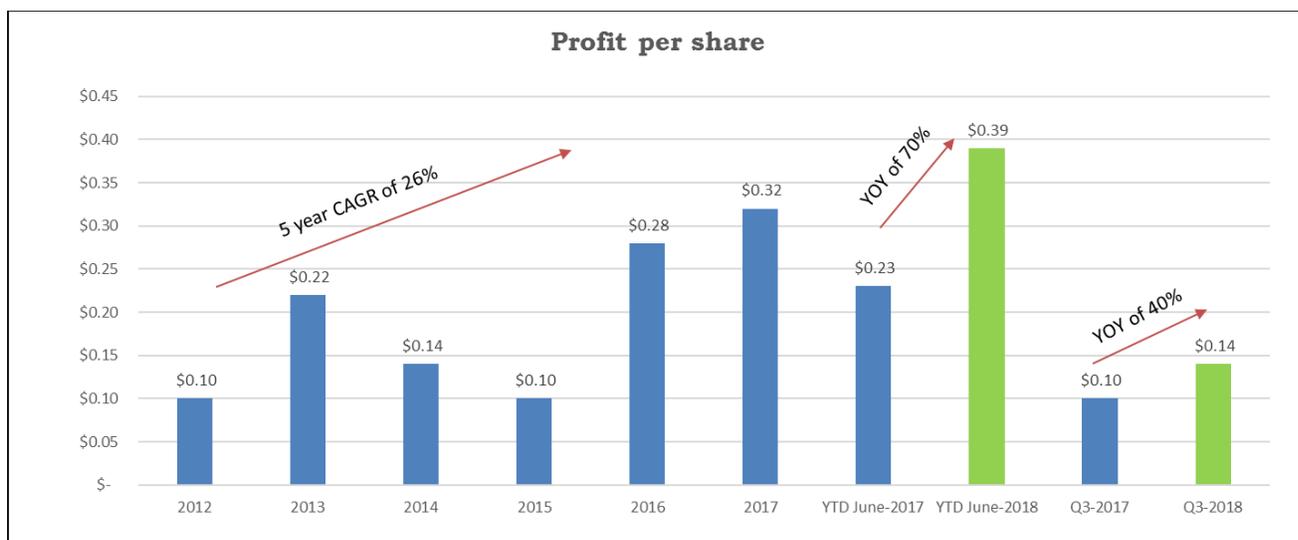
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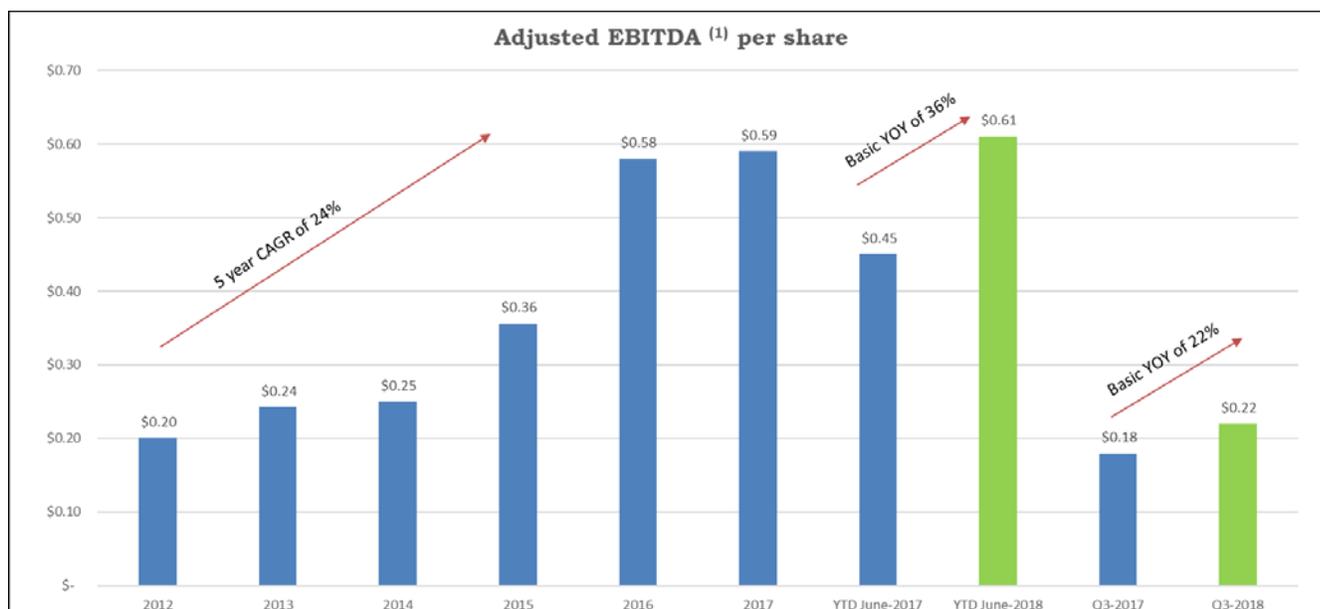
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1) *Adjusted EBITDA is a non-IFRS measure defined as: profit for the period before stock based compensation, foreign exchange gains or losses, interest expense, bargain purchase price on acquisition, income taxes, acquisition-related costs, depreciation and amortization.*

While growing revenue, Sylogist strives to maintain or exceed historical Adjusted EBITDA rates as a percentage of revenue. There can be short term trade-offs between revenue growth and Adjusted EBITDA growth, as a typical acquisition can take 18 to 24 months to normalize and fully integrate into operations. During the three-month period ended June 30, 2018, Sylogist delivered Adjusted EBITDA of \$4.9 million, or 45% of total revenues of \$11 million. Revenue increased 23% compared to the same period last fiscal year due mainly to a large product sale of the Company's "Uniview" terminal in Q3 2018 and the K12 Enterprise and Sunpac Systems acquisition. The Company's revenue, profit, profit per share, Adjusted EBITDA and Adjusted EBITDA per share have increased at CAGRs of 29%, 29%, 26%, 28% and 24%, respectively for the five years ending September 30, 2017.

Sylogist intends to continue to grow its business through strategic acquisitions, or investments to expand its existing Public Sector business. This will continue to be a focus as the Company looks to extend its reach. The Company continues to review and engage potential acquisition prospects that meet its selected acquisition criteria.

In addition, where deemed suitable and prospective, Sylogist makes investments in early stage technologies, through acquisition or internal development time and resources, where such technologies typically relate to financial applications for entities, which may or may not augment or compliment the Company's existing financial applications, but will benefit from the Company's disciplined management approach. Economic realities, legal and regulatory requirements, and population growth are some of the key drivers for decision making in respect of software for Sylogist's customers and prospective customers. Customers are looking for modern, scalable technology, capable of interfacing with existing infrastructure, such as ERP systems, operating in a stand-alone or hosted environment, offered by one or only a few vendors. The Company will continue to enhance its existing software platforms as it integrates its acquisitions, offering solutions to its existing and prospective customers reflecting the changes required by them. This has and will continue to include the development of new software applications.

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Sylogist has a long-term vision that focuses on total economic return to its shareholders. That return is a balance of rewarding its shareholders through regular and special dividends, a profitable growing enterprise and, when its market value is appropriate, repurchasing its common stock in the market.

Sylogist commenced dividend payments in February, 2010. Based on the Company's June 30, 2018 closing stock price, the trailing twelve months' dividend yield, excluding special dividends, was 2.6%. The Company has paid \$42.8 million in dividends since February, 2010.

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 thousand. 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 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.

Key Performance Indicators

Sylogist evaluates its overall performance using key financial indicators, particularly revenues, profit for the period, revenue per employee, Adjusted Working Capital, Adjusted EBITDA and Adjusted EBITDA Margin.

Third Quarter 2018 Highlights

The following review is intended to assist in understanding Sylogist's financial position as at June 30, 2018, and its results of operations for the three months ended June 30, 2018. Financial and operational results for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 include:

- Revenues of approximately \$11 million, an increase of 23% from \$8.9 million in the third quarter 2017;
- Gross Profit of \$7.7 million, an increase of \$1.2 million or 19% over the prior year;
- Gross Profit Margin of 70% compared to 73% in the third quarter of 2017;
- Profit of \$3.2 million, an increase of 45% over the prior year;
- Adjusted EBITDA of \$4.9 million compared to \$4.1 million in the prior year, a 20% increase;
- Adjusted EBITDA Margin of 45% compared to 46% in the third quarter of 2017;
- Adjusted Working Capital was \$33 million as at June 30, 2018 and 2017;
- The Company paid regular dividends to shareholders of \$1.8 million in the third quarter of 2018;
- Cash and cash equivalents totaled \$30.1 million; and
- Cash generated from operations totaled \$2.2 million, compared to \$2 million in the third quarter of 2017.

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Results of Operations

The following section sets forth, for the periods indicated, certain financial data derived from the Company's consolidated financial statements.

(Amounts are in thousands of Canadian dollars, except percentages and per share amounts.)

	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2018	2017	\$	%	2018	2017	\$	%
Revenue	10,971	8,917	2,054	23%	29,097	24,882	4,215	17%
Expenses, net of interest income	6,051	4,832	1,219	25%	15,490	14,716	774	5%
Profit before income tax	4,049	3,266	783	24%	10,899	7,578	3,321	44%
Amortization of intangible assets	817	635	182	29%	2,433	1,886	547	29%
Depreciation of property and equipment	39	45	(6)	-13%	133	143	(10)	-7%
Stock based compensation	87	204	(117)	-57%	249	698	(449)	-64%
Foreign exchange gain	(78)	(65)	(13)	20%	(275)	(139)	(136)	98%
Acquisition-related costs	6	-	6	n/m	168	-	168	n/m
Adjusted EBITDA ⁽¹⁾	4,920	4,085	835	20%	13,607	10,166	3,441	34%
Adjusted EBITDA Margin ⁽²⁾	45%	46%			47%	41%		
Income tax (recovery) expense								
Current income tax	816	541	275	51%	1,955	1,155	800	69%
Deferred income tax	46	521	(475)	-91%	243	1,138	(895)	-79%
Income tax expense	862	1,062	(200)	-19%	2,198	2,293	(95)	-4%
Profit for the period	3,187	2,204	983	45%	8,701	5,285	3,416	65%
Weighted average number of shares outstanding								
Basic	22,281,571	22,658,352			22,360,476	22,733,423		
Diluted	22,666,119	22,659,313			22,465,464	22,873,982		
Profit per share								
Basic	\$ 0.14	\$ 0.10	0.04	40%	\$ 0.39	\$ 0.23	0.16	70%
Diluted	\$ 0.14	\$ 0.10	0.04	40%	\$ 0.39	\$ 0.23	0.16	70%
Adjusted EBITDA per share								
Basic	\$ 0.22	\$ 0.18	0.04	22%	\$ 0.61	\$ 0.45	0.16	36%
Diluted	\$ 0.22	\$ 0.18	0.04	22%	\$ 0.61	\$ 0.44	0.17	39%
Working Capital	21,673	22,031	(358)	-2%	21,673	22,031	(358)	-2%
Working Capital per share								
(Basic shares outstanding at period end)	\$ 0.97	\$ 0.98	(0.01)	-1%	\$ 0.97	\$ 0.98	(0.01)	-1%
Adjusted Working Capital ⁽³⁾	33,036	33,007	29	0%	33,036	33,007	29	0%
Adjusted Working Capital per share								
(Basic shares outstanding at period end)	\$ 1.48	\$ 1.46	0.02	1%	\$ 1.48	\$ 1.46	0.02	1%
Cash dividends declared per share	\$ 0.08	\$ 0.07	0.0100	14%	\$ 0.290	\$ 0.260	0.03	12%
Total assets	58,955	57,749	1,206	2%	58,955	57,749	1,206	2%
Total long-term liabilities	2,192	2,964	(772)	-26%	2,192	2,964	(772)	-26%

n/m - "Not Meaningful"

1) Adjusted EBITDA is a non-IFRS measure, defined as: profit for the period before stock based compensation, foreign

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exchange gains or losses, interest expense, bargain purchase price on acquisition, income taxes, acquisition-related costs, depreciation and amortization.

- 2) *Adjusted EBITDA Margin refers to Adjusted EBITDA as a percentage of revenue.*
- 3) *Adjusted Working Capital is a non-IFRS measure, defined as: current assets less current liabilities adjusted for deferred revenue.*

Revenue analysis

(Amounts in thousands of Canadian dollars)

Revenue	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2018	2017	\$	%	2018	2017	\$	%
Licenses	411	1,018	(607)	-60%	1,585	2,304	(719)	-31%
Subscription and maintenance	6,273	5,531	742	13%	18,295	16,284	2,011	12%
Professional services	2,397	2,090	307	15%	6,849	5,488	1,361	25%
Product revenue	1,890	278	1,612	n/m	2,368	806	1,562	n/m
	\$ 10,971	\$ 8,917	\$ 2,054	23%	\$ 29,097	\$ 24,882	\$ 4,215	17%

n/m - "Not Meaningful"

For the three-month period ended June 30, 2018, total revenue increased 23% to approximately \$11 million, compared to \$8.9 million in the same period last year.

License revenue decreased from \$1 million in the third quarter of fiscal 2017 to \$411 thousand in the third quarter of fiscal 2018. The decrease in license revenue was due mainly to lower NPO ERP software sales, compared to the same period in the prior year. The Company continues to see a shift in the market toward subscription arrangements.

Subscription and maintenance revenue increased by 13% to \$6.3 million compared to \$5.5 million in the third quarter of fiscal 2017. The increase was driven primarily by the K12 Enterprise and Sunpac Systems acquisition, which accounted for approximately \$986 thousand of the increase. This increase was partially offset by a decrease in subscription and maintenance revenue related to the Company's NPO ERP software of approximately \$248 thousand.

The increase in professional services revenue compared to the prior year of 15% was due mainly to increased professional service engagements in the third quarter of 2018 compared to the same period in the prior year, related primarily to the Company's US NPO and K-12 education customers.

The increase in product revenue was primarily due to a large product sale of the Company's "Uniview" terminal to a US defense contractor in the third quarter of fiscal 2018 and no comparable sale in the third quarter of 2017. This product sale also included implementation and maintenance services.

The timing of the Company's license and product sales tends to be variable and unpredictable in nature as the purchase decision and timing fluctuate with the customers' needs and budgets.

The Company's revenues were also impacted by foreign exchange fluctuations. Due to a large percentage of the Company's revenues being generated in the United States, the strengthening of the Canadian dollar in relation to the United States dollar had a negative impact of approximately 3% on the Company's third quarter revenues (foreign exchange effects).

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For the nine month period ended June 30, 2018, total revenue increased 17% to \$29.1 million, compared to the same period last year.

License revenue decreased from \$2.3 million in the first nine months of fiscal 2017 to \$1.6 million in the first nine months of fiscal 2018. The decrease in license revenue was due mainly to lower NPO ERP software sales compared to the same period in the prior year. Again, the Company's experience is that customers are increasingly desirous of entering into subscription arrangements as opposed to licensing.

Subscription and maintenance revenue increased by 12% to \$18.3 million compared to \$16.3 million for the first nine months of fiscal 2017. The increase was due mainly to the K12 Enterprise and Sunpac Systems acquisition, which accounted for approximately \$2.7 million of the increase. This increase was partially offset by a decrease in subscription and maintenance revenue related to our NPO ERP software of approximately \$600 thousand.

Professional services revenue increased by 25% to \$6.8 million due mainly to increased professional service engagements related primarily to the Company's US NPO and Defense and Safety customers.

Product revenue increased to \$2.4 million compared to \$806 thousand for the same period last year. A large product sale of the Company's "Uniview" terminal to a US defense contractor was recorded in the nine months of fiscal 2018 and there was no comparable sale in same period of fiscal 2017.

In addition, the Company's revenues were also impacted by foreign exchange fluctuations. The strengthening of the Canadian dollar in relation to the United States dollar had a negative impact of approximately 3% on the Company's revenues for the nine months ended June 30, 2018 (foreign exchange effects).

Geographical revenues:

(Amounts in thousands of Canadian dollars)

	Three Months Ended June 30,				
	2018		2017	% Change	
Canada	\$	2,653	\$	2,785	-5%
U.S.A.		8,185		5,924	38%
UK and other		133		208	-36%
	\$	10,971	\$	8,917	23%
	Nine Months Ended June 30,				
	2018		2017	% Change	
Canada	\$	7,880	\$	8,088	-3%
U.S.A.		20,739		16,309	27%
UK and other		478		485	-1%
	\$	29,097	\$	24,882	17%

Geographically, revenues in the Company's Canadian operations decreased 5% to \$2.7 million in the third quarter of fiscal 2018 compared to the same period last year. Revenue from its U.S.A. operations increased from \$5.9 million in the third quarter of fiscal 2017 to \$8.2 million in the

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third quarter of fiscal 2018, driven mainly by a large product sale of the Company's "Uniview" terminal to a US defense customer and the K12 Enterprise and Sunpac Systems acquisition in the U.S.A. UK and other operations decreased from \$208 thousand in the third quarter of fiscal 2017 to \$133 thousand in the third quarter of fiscal 2018.

For the nine months ended June 30, 2018, revenues in the Canadian operations were \$7.9 million compared to \$8.1 million in the same period last year. Revenue from its U.S.A operations increased 27% to \$20.7 million compared to the first nine months last year. UK and other operations revenues were fairly consistent at \$478 thousand and \$485 thousand for the nine months ended June 30, 2018 and 2017, respectively.

Expenses net of interest income

(Amounts in thousands of Canadian dollars)

	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2018	2017	\$	%	2018	2017	\$	%
Expenses								
Cost of sales	3,255	2,409	846	35%	7,759	7,481	278	4%
General and administrative	1,094	988	106	11%	2,980	3,113	(133)	-4%
Executive bonuses	812	589	223	38%	2,033	1,560	473	30%
Professional fees	135	111	24	22%	398	267	131	49%
Sales and marketing	450	492	(42)	-9%	1,335	1,523	(188)	-12%
Product research	402	293	109	37%	1,200	916	284	31%
Interest income	(97)	(50)	(47)	94%	(215)	(144)	(71)	49%
	\$ 6,051	\$ 4,832	\$ 1,219	25%	\$ 15,490	\$ 14,716	\$ 774	5%

Overall expenses net of interest income for the third quarter of fiscal 2018 of \$6.1 million were 25% higher than the same period in fiscal 2017. The increase was driven by higher cost of sales and executive bonuses. Cost of sales of \$3.3 million was 35% higher than the same period prior year due mainly to costs associated with a large hardware sale in the third quarter of fiscal 2018 and no comparable sale in the same period last year. General and administrative expenses increased 11% compared to the same period in the prior year to \$1.1 million in the third quarter of 2018. Executive bonuses increased by 38% compared to the prior year due to increased profitability. Professional fees increased to \$135 thousand in the third quarter of fiscal 2018 compared to \$111 thousand in the third quarter of fiscal 2017. Sales and marketing expenses decreased by 9% compared to the same period in the prior year. Product research increased by \$109 thousand or 37% compared to the prior year. For the nine-month period ended June 30, 2018, overall expenses increased 5% to \$15.5 million compared to \$14.7 million during the same period last year.

Cost of sales

The components of the Company's cost of sales are 1) personnel costs (employees and external consultants) related to providing support and implementation services to the Company's customers; 2) royalties payable to Microsoft associated with the part of the Company's business that resells the Microsoft Dynamics NAV product; and 3) cost of hardware components that are included in the sale of the Company's Uniview product. These costs are all directly related to revenues.

During the three-month period ended June 30, 2018, cost of sales was 30% of revenues compared to cost of sales of 27% of revenues for the comparative period ended June 30, 2017. For the first nine months of fiscal 2018, cost of sales was \$7.8 million or 27% of revenues compared to \$7.5 million or 30% of revenues in the same period last year. The increase in cost of sales as a

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percentage of revenue for the three-month period ended June 30, 2018 was due to mainly to hardware costs associated with a large product sale of the Company's "Uniview" terminal to a US defense contractor in the third quarter of 2018. There was no comparable sale in the same period last fiscal year.

For the nine months ended June 30, 2018, the decrease in cost of sales as of percentage of revenues was due mainly to a reduction in the royalty rates payable to Microsoft from the same period in the prior year. The Company's Microsoft royalty rates were reduced from the prior year pursuant to the Company's August 2016 agreement with Microsoft. The Company pays Microsoft a royalty on license sales and annual maintenance related to the part of its business that entails reselling the Microsoft Dynamics NAV product. The royalty amounts payable to Microsoft can increase or decrease depending upon the Company's performance. In addition, given that the Company's customers' annual maintenance renewal dates are based on the anniversary of their original purchase date, the full financial impact of a NAV royalty rate reduction will not be fully realized until August 2018, when the reduced rate has been applied to all customers.

General and administrative

General and administrative expenses include salaries paid to management and administrative personnel, training, office, public company expenses, occupancy costs, as well as other costs associated with operations, including doubtful accounts. These costs were \$1.1 million or 10% of revenues in the third quarter of fiscal 2018 compared to \$988 thousand or 11% of revenues in the same period last year. The increase in general and administrative expenses was driven primarily by salaries paid to management and administrative personnel associated with the Company's K12 Enterprise and Sunpac Systems acquisition.

For the nine months ended June 30, 2018, general and administrative expenses were \$3 million compared to \$3.1 million for the same period last year, a decrease of 4%. This decrease relates principally to lower office rent expense compared to the prior year. For the nine months ended June 30, 2018, general and administrative expenses represented 10% of total revenues compared to 13% of revenues in the same period last year.

Executive bonuses

During the three-month period ended June 30, 2018, executive bonuses were \$812 thousand or 7% of revenue compared to \$598 thousand or 7% of revenue for the three months ended June 30, 2017. For the nine months ended June 30, 2018, executive bonuses were \$2 million or 7% of revenue compared to \$1.6 million or 6% of revenue for the nine months ended June 30, 2017. The increase in executive bonuses was due mainly to the increase in profit for the three and nine months ended June 30, 2018 compared to the same periods in the prior year.

Professional fees

During the three-month period ended June 30, 2018, professional fees, which consist primarily of legal and accounting fees, were \$135 thousand or 1% of revenue compared to \$111 thousand for the same period last year. For the nine months ended June 30, 2018, professional fees were \$398 thousand or 1% of revenues compared to \$267 thousand for the same period last year. The increase in professional fees was mainly attributable to higher legal and recruiting fees.

Sales and marketing

Expenses incurred in sales and marketing consist primarily of salaries, sales commissions, travel, and other costs required to retain existing clients and to develop new client relationships. Other expenses such as advertising, promotional material, trade shows and other marketing programs

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are also included in this category. Sales and marketing costs were slightly lower at \$450 thousand in the third quarter of fiscal 2018 compared to the same period last year at \$492 thousand. For the nine months ended June 30, 2018, sales and marketing costs were \$1.3 million or 12% lower than the same period last year. The decrease compared to the prior year was due to Company holding two major conferences in fiscal 2017 and no comparable conferences in the first nine months of fiscal 2018.

Product research and development

In the first nine months of 2018, certain of Sylogist's development projects met the criteria for deferral, resulting in \$488 thousand of costs associated with software development (2017 - \$271 thousand) being capitalized, offset by \$42 thousand (2017 - \$42 thousand) of investment tax credits ("ITCs").

For the three-month period ended June 30, 2018, research expense was \$402 thousand compared to \$293 thousand in the same period last year. For the nine-month period ended June 30, 2018, research expense was \$1.2 million compared to \$916 thousand in the same period last year. The Company incurred increased research and development expenses related mainly to the K12 Enterprise and Sunpac Systems acquisition.

In fiscal 2018, the Company expects to add further functionality to existing product lines to increase its footprint in the existing marketplace and expand its growth into other markets.

Interest Income

For the three-month period ended June 30, 2018, the Company generated interest income of \$97 thousand compared to \$50 thousand for the same period last year. During the nine-month period ended June 30, 2018, the Company generated interest income of \$215 thousand compared to \$144 thousand for the same period last year. The increase in interest income is driven by the Company having more invested in cash equivalents in the first nine months of 2018 compared to the same period in the prior year.

Profit before income tax

For the three-month period ended June 30, 2018, the Company generated profit before income taxes of \$4 million compared to \$3.3 million for the same period last year. During the nine month period ended June 30, 2018, the Company generated profit before income taxes of \$10.9 million compared to \$7.6 million for the same period last year. The increase in profit before income taxes was due mainly to a larger increase in revenues for the three and nine months ended June 30, 2018, compared to increases in expenses. Revenue for the three and nine months ended June 30, 2018, increased \$2.1 million and \$4.2 million, respectively, compared to increases in expenses net of interest income of \$1.2 million and \$774 thousand, respectively. The increase in revenues compared to the prior year was driven mainly by a large product sale of the Company's "Uniview" terminal and the K12 and Sunpac Systems acquisition.

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Adjusted EBITDA/Adjusted EBITDA Margin

(Amounts in thousands of Canadian dollars, except per share amounts)

	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2018	2017	\$	%	2018	2017	\$	%
Adjusted EBITDA Calculation ⁽¹⁾								
Profit before income tax	\$ 4,049	\$ 3,266	\$ 783	24%	\$ 10,899	\$ 7,578	\$ 3,321	44%
Adjusted for:								
Depreciation of property and equipment	39	45	(6)	-13%	133	143	(10)	-7%
Amortization of intangible assets	817	635	182	29%	2,433	1,886	547	29%
Stock based compensation	87	204	(117)	-57%	249	698	(449)	-64%
Foreign exchange (gain) loss	(78)	(65)	(13)	20%	(275)	(139)	(136)	98%
Acquisition-related costs	6	-	6	n/m	168	-	168	n/m
Adjusted EBITDA	\$ 4,920	\$ 4,085	\$ 835	20%	\$ 13,607	\$ 10,166	\$ 3,441	34%
Adjusted EBITDA per basic weighted average number of shares outstanding	\$ 0.22	\$ 0.18	\$ 0.04	22%	\$ 0.61	\$ 0.45	\$ 0.16	36%
Adjusted EBITDA per diluted weighted average number of shares outstanding	\$ 0.22	\$ 0.18	\$ 0.04	22%	\$ 0.61	\$ 0.44	\$ 0.17	39%

n/m - "Not Meaningful"

- (1) Adjusted EBITDA is a non-IFRS measure, defined as: profit for the period before stock based compensation, foreign exchange gains or losses, interest expense, bargain purchase price on acquisition, income taxes, acquisition-related costs, depreciation and amortization.

Adjusted EBITDA for the three-month period ended June 30, 2018, was \$4.9 million compared to \$4.1 million for the same period last year. Higher Adjusted EBITDA in the third quarter of fiscal 2018 was principally due to increased revenues, increased interest income and lower stock-based compensation expense. Adjusted EBITDA increased despite the negative affect of the strengthening Canadian dollar, which reduced Adjusted EBITDA by approximately 4%. In the third quarter of fiscal 2018, the Adjusted EBITDA Margin was 45% compared to 46% for the same period last year. The slight decrease in Adjusted EBITDA Margin was due mainly to a higher percentage of product sales in the third quarter of fiscal 2018 compared to the same period in the prior year, as well as the Company's ongoing investment in the Serenic Navigator for K-12 Education product and marketplace.

Adjusted EBITDA for the nine months ended June 30, 2018, was \$13.6 million (47% Adjusted EBITDA Margin), compared to \$10.2 million (41% Adjusted EBITDA Margin) for the same period last year. The increase in the Adjusted EBITDA Margin was due mainly to a reduction in the royalty rates payable to Microsoft from same period in the prior year. In addition, Adjusted EBITDA was negatively affected by the impact of the strengthening of the Canadian dollar by approximately 5%.

Cash from operating activities before non-cash change in working capital

(Amounts in thousands of Canadian dollars)

	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2018	2017	\$	%	2018	2017	\$	%
Profit before income taxes	\$ 4,049	\$ 3,266	\$ 783	24%	\$ 10,899	\$ 7,578	\$ 3,321	44%
Items not affecting cash								
Depreciation of property and equipment	44	58	(14)	-24%	164	179	(15)	-8%
Amortization of intangible assets	834	641	193	30%	2,468	1,916	552	29%
Stock based compensation	87	204	(117)	-57%	249	698	(449)	-64%
Amortization of assumed office leases	-	(28)	28	n/m	-	(92)	92	n/m
Cash taxes paid	(961)	(321)	(640)	199%	(1,023)	(1,358)	335	-25%
Cash from operating activities before non-cash change in working capital	\$ 4,053	\$ 3,820	\$ 233	6%	\$ 12,757	\$ 8,921	\$ 3,836	43%
Cash from operating activities before non-cash change in working capital per basic weighted average number of shares outstanding	\$ 0.18	\$ 0.17	\$ 0.01	6%	\$ 0.57	\$ 0.39	\$ 0.18	46%
Cash from operating activities before non-cash change in working capital per diluted weighted average number of shares outstanding	\$ 0.18	\$ 0.17	\$ 0.01	6%	\$ 0.57	\$ 0.39	\$ 0.18	46%

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n/m - "Not Meaningful"

The IFRS measure of cash from operating activities before working capital changes for the three and nine months ended June 30, 2018 of \$4.1 million and \$12.8 million, respectively, closely corresponds to the Adjusted EBITDA amounts of \$4.9 million and \$13.6 million for the same periods last fiscal year. The slight variation Adjusted EBITDA and cash from operating activities before working capital changes for the three and nine months ended June 30, 2018 was due to cash taxes paid in the first nine months of 2018.

Amortization

For the nine-month period ended June 30, 2018, the amortization of intangible assets represented the normal amortization expense for the acquisitions of the K12 Enterprise suite of products in October 2017, Serenic suite of products in July 2014, the Weave suite of products in November 2013, the Epic Data suite of products in July 2013, the acquisition of PS in November 2012, and the one-time purchase of the perpetual license and software related to the Bellamy acquisition recorded in 2006 and 2008. In addition, during the period ended June 30, 2018, the Company recorded amortization of its internal ERP/CRM system. Total amortization costs related to intangible assets was \$2.4 million for the first nine months of fiscal 2018, compared to \$1.9 million for the same period last year.

Stock based Compensation Plan

During the first nine months of fiscal 2018, the Company granted 110,000 stock options (2017 – 246,666). In the same period, 16,667 stock options expired (2017 – 176,666), 20,000 options were exercised (2017 – 12,700) and no options were forfeited (2017 – 23,334).

The compensation cost for the stock options has been determined based on the fair value method. It resulted in a non-cash charge to income before taxes of \$87 thousand in the third quarter of fiscal 2018 compared to \$204 thousand in the same period last year. During the first nine months of fiscal 2018 a non-cash charge to income of \$249 thousand was made compared to \$698 thousand during the same period last year.

Foreign Exchange

A portion of the Company's revenue is generated through its wholly-owned U.S. and U.K. subsidiaries. In addition, some international contracts are denominated in U.S. and GBP currencies. Accordingly, Sylogist is susceptible to foreign exchange fluctuations. This exposure is reduced to the extent that the Company incurs some payroll and other operating expenses in those foreign currencies. According to IFRS, exchange gains and losses arising on translation of the Company's foreign operations are recorded as foreign currency translation adjustments in other comprehensive income. For the three-month period ended June 30, 2018, the foreign exchange differences on translating the Company's foreign operations was a gain of \$336 thousand compared to a loss of \$84 thousand for the same period last year. All other foreign exchange gains and losses are recorded in earnings for the period. For the three-month period ended June 30, 2018, the Company recorded a foreign exchange gain of \$78 thousand compared to a gain of \$65 thousand for the same period last year. These foreign exchange gains and losses are primarily the result of intercompany payables and receivables between the Company and its foreign subsidiaries.

For the nine months ended June 30, 2018, the foreign exchange differences on translating the Company's foreign operations was a gain of \$483 thousand compared to a gain of \$19 thousand for the same period last year. All other foreign exchange gains and losses are recorded in earnings for the period. For the nine months ended June 30, 2018, the Company recorded a foreign exchange gain of \$275 thousand compared to a gain of \$139 thousand for the same period last

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year. The foreign exchange variance was due primarily to effects of the Canadian dollar to United States dollar exchange rate changes and working capital dominated in foreign currencies.

Income Tax

As at June 30, 2018, the carrying value of the deferred income tax assets was Nil (September 30, 2017 - \$571 thousand) and the carrying value of the deferred tax liability was \$2.2 million (September 30, 2017 - \$2.6 million), using the asset and liability method of accounting for income taxes. The Company recognizes deferred income tax assets to the extent it believes that these assets will more likely than not be realized. In making this determination, the Company considers 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. The Company offsets the deferred income tax assets against the deferred income tax liability when it has the legal right to do so.

For the third quarter of fiscal 2018, the Company recorded a current income tax expense of \$816 thousand compared to an income tax expense of \$541 thousand for the same period in the prior year. A deferred income tax expense of \$46 thousand was recorded in the third quarter of fiscal 2018 compared to a deferred tax expense of \$521 thousand in the third quarter of fiscal 2017. The Company's Canadian operations utilized all the scientific research and experimental development ("SR&ED") credits during the nine months ended June 30, 2018, and approximately \$831 thousand of ITCs that sheltered approximately \$5.5 million of Canadian federal taxable income. The ITCs do not shelter provincial income taxes and as a result the Company recorded a \$806 thousand current income tax expense related to the Company's Canadian operations in the nine months ended June 30, 2018.

The table below summarises the Company's estimated Canadian income tax pools available. (Amounts are in thousands of Canadian dollars)

	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 thousand (September 30, 2017 - \$832 thousand) available to reduce future federal taxes payable. The investment tax credits will shelter approximately \$506 thousand of federal taxable income. The investment tax credits expire between 2030 and 2038. These amounts have been recognized in the unaudited interim condensed consolidated financial statements.

(a) The Company's two U.S. subsidiaries, Epic Data Corporation and Serenic Software Inc., have net operating losses of \$932 thousand USD (\$1.2 million CAD) and \$805 thousand USD (\$1.1 million 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 thousand USD (\$85 thousand CAD) and \$291 thousand USD (\$382 thousand 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 thousand USD (\$601 thousand 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.

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(b) The U.K. operations have trading losses of approximately £3.3 million (\$5.1 million 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 the unaudited interim condensed consolidated financial statements. The trading losses carried forward do not expire but are subject to specific loss limitations.

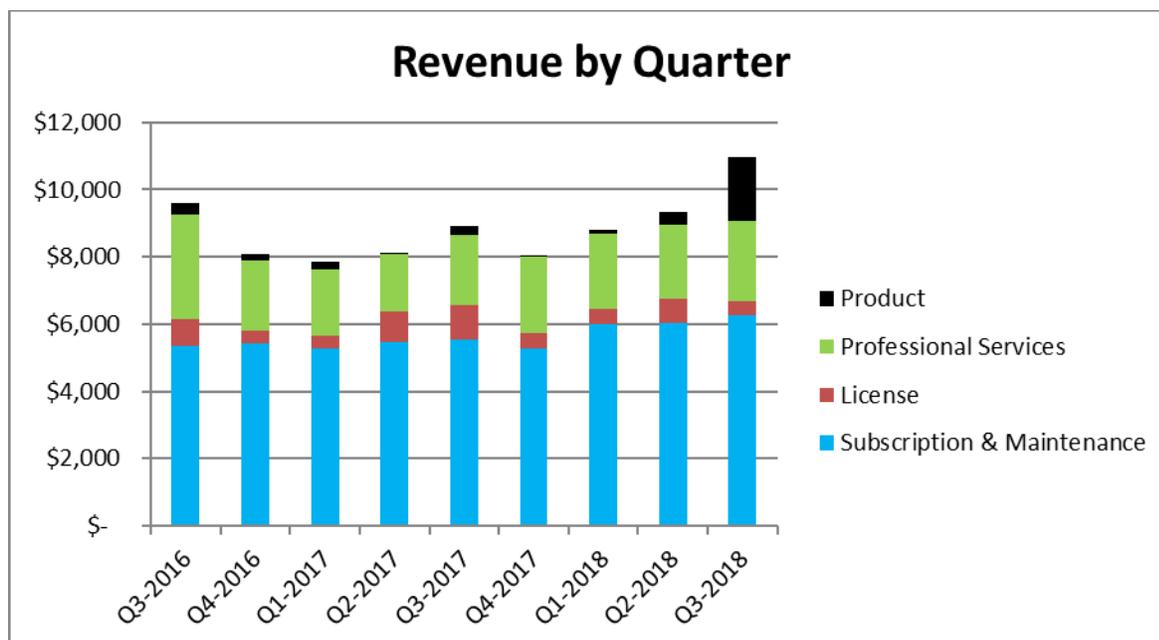
Profit

For the quarter ended June 30, 2018, the Company's profit was \$3.2 million compared to \$2.2 million for the same period in the prior year. The increase in profit was due mainly to increased revenues, decreased stock based compensation expense, increased interest income and lower sales and marketing expenses. Partially offset by increased product research, higher executive bonuses, higher professional fees and amortization expense.

Profit for the first nine months of fiscal 2018 was \$8.7 million compared to \$5.3 million for the same period in the prior year. This increase was due mainly to higher revenues, lower stock based compensation expense, lower sales and marketing expenses and lower general and administrative expenses. Offset partially by increased amortization expense, executive bonuses, product research and higher professional fees.

QUARTERLY RESULTS

(Amounts in thousands of Canadian dollars)



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Selected Financial Data

(Amounts in thousands of Canadian dollars, except per share amounts)

2018	1-QTR	2-QTR	3-QTR			
Revenue	\$ 8,810	\$ 9,316	\$ 10,971			
Profit before income tax	3,252	3,600	4,049			
Adjusted EBITDA ⁽¹⁾	4,258	4,430	4,920			
Adjusted EBITDA per basic weighted number of shares ⁽²⁾	0.19	0.20	0.22			
Profit for the period	3,015	2,500	3,187			
Profit per basic weighted average shares outstanding	0.13	0.11	0.14			
Profit per diluted weighted average shares outstanding	0.13	0.11	0.14			
Dividends per share	0.13	0.08	0.08			

2017	1-QTR	2-QTR	3-QTR	4-QTR	Full Year
Revenue	\$ 7,841	\$ 8,125	\$ 8,917	\$ 8,045	\$ 32,928
Profit before income tax	1,697	2,615	3,266	2,355	9,933
Adjusted EBITDA ⁽¹⁾	2,736	3,349	4,085	3,205	13,375
Adjusted EBITDA per basic weighted number of shares ⁽²⁾	0.12	0.15	0.18	0.14	0.59
Profit for the period	1,261	1,821	2,204	1,933	7,219
Profit per basic weighted average shares outstanding	0.05	0.08	0.10	0.09	0.32
Profit per diluted weighted average shares outstanding	0.05	0.08	0.10	0.09	0.32
Dividends per share	0.12	0.07	0.07	0.07	0.33

2016	1-QTR	2-QTR	3-QTR	4-QTR	Full Year
Revenue	\$ 8,365	\$ 9,774	\$ 9,617	\$ 8,092	\$ 35,848
Profit before income tax	\$ 1,826	\$ 2,459	\$ 2,625	\$ 2,001	\$ 8,911
Adjusted EBITDA ⁽¹⁾	3,240	3,912	3,768	2,654	13,574
Adjusted EBITDA per basic weighted number of shares ⁽²⁾	0.13	0.17	0.16	0.12	0.58
Profit for the period	1,476	1,610	1,657	1,892	6,635
Profit per basic weighted average shares outstanding	0.06	0.07	0.07	0.08	0.28
Profit per diluted weighted average shares outstanding	0.06	0.07	0.07	0.08	0.28
Dividends per share	0.165	0.065	0.065	0.070	0.365

(1) Adjusted EBITDA is a non-IFRS measure, defined as: profit for the period before stock based compensation, foreign exchange gain or loss, interest expense, bargain purchase price on acquisition, income taxes, acquisition-related costs, depreciation and amortization.

(2) Non-IFRS measure.

Summary of Quarterly Results

Revenue for the third quarter of fiscal 2018 increased by \$2.1 million, or 23%, compared to the same period in fiscal 2017, to approximately \$11 million. The increase in revenues was driven mainly by a large product sale of the Company's "Uniview" terminal in Q3 2018 and the K12 Enterprise and Sunpac Systems acquisition. Expenses, net of interest income, increased \$1.2 million or 25% compared to the same period in fiscal 2017. The increase was driven by higher cost of sales and executive bonuses. Amortization expense increased from \$635 thousand to \$817 thousand compared to the same period in 2017. Stock based compensation expense decreased from \$204 thousand in Q3 2017 to \$87 thousand in Q3 2018. Profit before income tax increased to \$4 million in the third quarter of fiscal 2018 compared to \$3.3 million in the third quarter of fiscal 2017 due mainly to higher revenues. Adjusted EBITDA increased by \$835 thousand to \$4.9 million.

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Revenue for the second quarter of fiscal 2018 increased by \$1.2 million, or 15%, from the same period in fiscal 2017, to \$9.3 million. The increase in revenues was driven mainly by the K12 Enterprise and Sunpac Systems acquisition. Expenses, net of interest income, increased \$110 thousand or 2% compared to the same period in fiscal 2017. Amortization expense increased from \$629 thousand to \$801 thousand compared to the same period in 2017. Stock based compensation expense decreased from \$149 thousand in Q2 2017 to \$100 thousand in Q2 2018. Profit before income tax increased to \$3.6 million in the second quarter of fiscal 2018 compared to \$2.6 million in the second quarter of fiscal 2017 due mainly to higher revenues. Adjusted EBITDA increased by \$1.1 million to \$4.4 million.

Revenue for the first quarter of fiscal 2018 increased \$971 thousand, or 12%, from the same period in fiscal 2017, to \$8.8 million. The increase in revenues was driven mainly by the K12 Enterprise and Sunpac Systems acquisition. Expenses, net of interest income decreased \$556 thousand compared to the same period in fiscal 2017. Amortization expense increased from \$623 thousand to \$815 thousand compared to the same period in 2017. Stock based compensation expense decreased from \$345 thousand in Q1 2017 to \$62 thousand in Q1 2018. Profit before income tax increased to \$3.3 million in the first quarter of fiscal 2018 compared to \$1.7 million in the first quarter of fiscal 2017 due mainly to higher revenues. Adjusted EBITDA increased by \$1.5 million to \$4.3 million.

Revenue for the fourth quarter of fiscal 2017 decreased \$47 thousand, or 1% to \$8 million, compared to the same period in fiscal 2016. Expenses decreased from \$5.4 million to \$4.8 million or 11% compared to the same period in fiscal 2016. Amortization expense increased from \$604 thousand to \$630 thousand compared to the same period in 2016. Stock based compensation expense increased from a recovery of \$6 thousand in Q4 2016 to a \$22 thousand non-cash expense in Q4 2017. Profit before income tax increased to \$2.4 million in the fourth quarter of fiscal 2017 compared to \$2 million in the fourth quarter of fiscal 2016 due mainly to lower general and administrative expenses, lower stock based compensation and lower professional fees. Adjusted EBITDA increased by 21% to \$3.2 million. Higher Adjusted EBITDA in the fourth quarter of fiscal 2017 was principally due to lower cost of sales and lower executive compensation expense. In addition, Adjusted EBITDA increased, despite the negative affect due to the strengthening of the Canadian dollar which negatively impacted Adjusted EBITDA, by approximately 5%.

Revenue for the third quarter of fiscal 2017 decreased \$700 thousand, or 7% to \$8.9 million, compared to the same period in fiscal 2016. Expenses decreased from \$5.8 million to \$4.8 million or 17% compared to the same period in fiscal 2016. Amortization expense increased from \$599 thousand to \$635 thousand compared to the same period in 2016. Stock based compensation expense decreased from \$449 thousand in Q3 2016 to \$204 thousand in Q3 2017. Profit before income tax increased to \$3.3 million in the third quarter of fiscal 2017 compared to \$2.6 million in the third quarter of fiscal 2016 due mainly to lower general and administrative expenses, lower stock based compensation, lower professional fees and foreign exchange gains. Adjusted EBITDA increased by 8% to \$4.1 million. Higher Adjusted EBITDA in the third quarter of fiscal 2017 was principally due to lower cost of sales and lower executive compensation expense. Adjusted EBITDA was also positively affected by the impact of the weakening of the Canadian dollar by approximately 4%.

Revenue for the second quarter of fiscal 2017 decreased \$1.6 million, or 17% to \$8.1 million, compared to the same period in fiscal 2016. Expenses decreased from \$5.9 million or 19% compared to the same period in fiscal 2016. Amortization expense increased from \$606 thousand to \$629 thousand compared to the same period in 2016. Stock based compensation expense decreased from \$423 thousand in Q2 2016 to \$149 thousand in Q2 2017. Profit before income tax increased to \$2.6 million in the second quarter of fiscal 2017 compared to \$2.5 million in the second quarter of fiscal 2016 due mainly to lower stock based compensation and foreign exchange

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gains. Adjusted EBITDA decreased by 14% to \$3.3 million. All these decreases were driven primarily by the lower license sales compared to the same period last year.

Revenue for the first quarter of fiscal 2017 decreased \$525 thousand, or 6%, from the same period in fiscal 2016, to \$7.8 million. Expenses remained flat at \$5.1 million compared to the same period in fiscal 2016. Amortization expense increased from \$604 thousand to \$623 thousand compared to the same period in 2016. Stock based compensation expense decreased from \$688 thousand in Q1 2016 to \$345 thousand in Q1 2017. Profit before income tax decreased to \$1.7 million in the first quarter of fiscal 2017 compared to \$1.8 million in the first quarter of fiscal 2016 due mainly to lower revenues. Adjusted EBITDA decreased by 16% to \$2.7 million. All these decreases were driven primarily by the lower license sales compared to the same period last year.

Revenue for the fourth quarter of fiscal 2016 increased \$487 thousand, or 6%, over the same period in fiscal 2015, to \$8.1 million. Expenses decreased by \$821 thousand compared to the same period in fiscal 2015 driven mainly by executive bonuses being recorded on a quarterly basis for 2016 compared to annually for 2015. Amortization expense decreased from \$631 thousand to \$604 thousand. Stock option expense decreased from \$694 thousand in Q4 2015 to a recovery of \$6 thousand in Q4 2016. Profit before income tax increased to \$2.0 million in the fourth quarter of fiscal 2016 compared to \$149 thousand in the fourth quarter of fiscal 2015. The improvement was driven mainly by increased revenues. Adjusted EBITDA increased by 97% to \$2.7 million. Higher Adjusted EBITDA in the fourth quarter of fiscal 2016 was principally due to higher revenues mostly related to Serenic.

Revenue for the third quarter of fiscal 2016 increased \$3.0 million, or 45%, over the same period in fiscal 2015, to \$9.6 million. Expenses increased by \$1.5 million over the same period in fiscal 2015 driven by higher cost of sales and recorded bonuses. Amortization expense decreased from \$697 thousand Q3 2015 to \$599 thousand Q3 2016. Stock option expense decreased from \$1 million in Q3 2015 to \$449 thousand in Q3 2016. Acquisition-related costs increased to \$224 thousand compared to \$7 thousand over the same period in the prior year. The expense in the third quarter of fiscal 2016 of \$224 thousand related to primarily to the Serenic acquisition. Profit before income tax increased to \$2.6 million in the third quarter of fiscal 2016 compared to \$673 thousand in the third quarter of fiscal 2015 due mainly higher Adjusted EBITDA and decreased stock based compensation, offset to a degree by foreign exchange losses and higher income taxes. Adjusted EBITDA increased by 53% to \$3.8 million. Higher Adjusted EBITDA in the third quarter of fiscal 2016 was principally due to higher revenues mostly related to Serenic. In addition, the overall increase in Adjusted EBITDA was in part due to the impact of the weakening of the Canadian dollar. The weakening of the Canadian dollar benefitted Adjusted EBITDA by approximately 4%, mostly offset by the quarterly accrual for executive bonuses.

Revenue for the second quarter of fiscal 2016 increased \$2.8 million, or 40%, over the same period in fiscal 2015, to \$9.8 million. Expenses increased by \$1.6 million over the same period in fiscal 2015 driven by higher cost of sales and recorded bonuses. Amortization expense decreased from \$688 thousand to \$606 thousand. Stock option expense decreased from \$988 thousand in Q2 2015 to \$423 thousand in Q2 2016. Acquisition-related costs increased \$247 thousand from a net recovery in the second quarter of fiscal 2015 of \$125 thousand related to the Weave acquisition; to an expense in the second quarter of fiscal 2016 of \$122 thousand related to primarily to the Serenic acquisition. Profit before income tax increased to \$2.5 million in the second quarter of fiscal 2016 compared to \$1.5 million in the second quarter of fiscal 2015 due mainly higher Adjusted EBITDA and decreased stock based compensation, offset to a degree by foreign exchange losses and higher income taxes. Adjusted EBITDA increased by 39% to \$3.9 million. Higher Adjusted EBITDA in the second quarter of fiscal 2016 was principally due to higher revenues mostly related to Serenic. In addition, Adjusted EBITDA benefited from the

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impact of the weakening of the Canadian dollar by approximately 7%, mostly offset by the quarterly accrual for executive bonuses.

Revenue for the first quarter of fiscal 2016 increased \$2.2 million, or 37%, over the same period in fiscal 2015, to \$8.4 million. Expenses increased by \$1.4 million over the same period in fiscal 2015 driven by higher cost of sales and recorded bonuses. Amortization expense decreased from \$678 thousand to \$604 thousand compared to the same period in 2015. Stock option expense decreased from \$1.6 million in Q1 2015 to \$688 thousand in Q1 2016 due mainly to not granting options in Q1 2016 compared to granting 15,000 options in Q1 2015. Acquisition-related costs increased \$112 thousand to \$42 thousand compared to the same period in 2015. Profit before income tax increased to \$1.8 million in the first quarter of fiscal 2016 compared to \$108 thousand in the first quarter of fiscal 2015 due mainly to higher Adjusted EBITDA, lower acquisition-related costs and decreased stock based compensation. Adjusted EBITDA increased by 43% to \$3.2 million. All these increases were driven primarily by the growth in all business units, but particularly Serenic, and the impact of foreign exchange.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2018, the Company had adjusted working capital of \$33 million, compared to \$31.8 million as at September 30, 2017. As at June 30, 2018, the Company had cash and cash equivalents of \$30.1 million (September 30, 2017 - \$28.8 million).

Adjusted Working Capital ⁽¹⁾

(Amounts in thousands of Canadian dollars, except per share amounts)

	June 30, 2018	September 30, 2017
Current assets	\$ 36,718	\$ 33,571
Current liabilities	(15,045)	(10,812)
Deferred revenue	11,363	9,073
	\$ 33,036	\$ 31,832
Per basic shares outstanding at period end	\$ 1.48	\$ 1.42

1) *Adjusted Working Capital is a non-IFRS measure, defined as: current assets less current liabilities adjusted for deferred revenue.*

Sylogist's requirement for property and equipment ("PE") is generally limited to computers, network applications, telephone systems, servers and furniture and fixtures for leased space. Investment in PE for the nine months ending June 30, 2018, was \$14 thousand, compared to \$55 thousand in the same period of fiscal 2017.

Due to the Company's customer base and strong balance sheet, it has the appropriate resources in place to carry on its operations. The Company's balance sheet remains free from long-term debt. Cash proceeds from previous financing activities are available to pursue business expansion through organic growth initiatives, such as continued investment in venture opportunities and platform software development, as well as strategic acquisitions.

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The Company has entered into various leases for its operating premises and service commitments. The following table discloses Sylogist's contractual obligations as at June 30, 2018:

(Amounts in thousands of Canadian dollars)

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

FINANCIAL INSTRUMENTS

Sylogist's principal financial instruments are cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and income taxes payable. Sylogist does not have any long-term debt. The carrying value of all financial instruments approximates fair value.

Counterparty credit risk management

The Company is exposed to normal credit risk. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. Outstanding accounts over 90 days represent 3% of the Company's total trade accounts receivable (September 30, 2017 – 14%), and the risk of non-collection has been mitigated by having concentrations with credit worthy clients and broadening the Company's customer base. The Company has not sustained any significant credit losses from its customer base during the last two years. The allowance for doubtful accounts of \$39 thousand represents approximately 1% of the trade accounts receivable as at June 30, 2018 (September 30, 2017 – 3%). Most sales are invoiced with payment terms of 30 to 60 days. As at June 30, 2018, three customers accounted for 69% of the total trade accounts receivable (September 30, 2017 – 52%). Revenue from one customer represented approximately \$2.9 million or 10% of consolidated revenue earned during the first nine months of fiscal 2018 (September 30, 2017 – 12.3%). The aging of the trade receivables balance is as follows:

(Amounts in thousands of Canadian dollars)

	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

⁽¹⁾ Other receivables consist primarily of unbilled revenue.

The majority of the accounts receivable balance relates to professional services and maintenance and support charges to customers that have a history of payment.

As at June 30, 2018, the majority of the Company's cash and cash equivalents are held at one Canadian Chartered Bank. As a result, the Company has a concentration of credit risk.

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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 change in net income before taxes for each 1% change in the value of the Canadian dollar against the US dollar amounts to approximately \$17 thousand (September 30, 2017 - \$55 thousand). For the same period, the increase or decrease in profit before income tax for each 1% change in the value of the Canadian dollar against the GBP amounts to approximately \$4 thousand (September 30, 2017 - \$8 thousand).

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.

Sylogist expects that cash flow from operations 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 risks may necessitate the need for the Company to conduct equity issues or obtain debt financing.

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 thousand (September 30, 2017 - \$288 thousand) per annum.

OFF BALANCE SHEET FINANCIAL ARRANGEMENTS

The Company has not engaged in any off-balance sheet financial arrangements as at June 30, 2018.

TRANSACTIONS WITH RELATED PARTIES

The only related party transactions the Company was involved in are those with its three non-executive directors and those with its key management personnel.

For fiscal 2018, non-executive directors are entitled to an annual fee of \$40 thousand. They are entitled to reimbursement for expenses incurred in attending board and committee meetings. During the nine months ended June 30, 2018, the Company paid director's fees totaling \$73 thousand (2017 - \$60 thousand).

Directors and key management personnel participated in stock based compensation, which reflect the fair value of the options at time of issuance.

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Salaries and benefits were paid to key management personnel, being the Chief Executive Officer, the Chief Financial Officer, the Executive Vice President and the Vice President, Corporate Development and Investor Relations.

Compensation of key management personnel was as follows:

(Amounts in thousands of Canadian dollars)

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

CRITICAL ACCOUNTING ESTIMATES

Sylogist prepares its financial statements in accordance with IFRS. Its significant accounting policies are contained in Note 3 to the consolidated financial statements. Some of these policies involve critical accounting estimates because they require the Company to make subjective or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. Management has discussed the application of key accounting policies and the critical accounting estimates and assumptions with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the disclosures described in this MD&A and the corresponding financial statements.

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements.

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

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

Tangible and intangible assets - are reviewed annually with respect to their useful lives, or more frequently if events or changes in circumstances indicate that the assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine

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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 subsidiary Serenic Software Inc.'s net operating losses subject to an expiry date 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. The Company's 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 United States enacted the Tax Cuts and Jobs Act, which made significant changes to U.S. federal income tax law affecting Sylogist's United States operations. Sylogist expects that these changes will positively impact the Company's future after-tax earnings in the U.S., primarily due to the lower federal statutory tax rate. Set forth below is a discussion of certain provisions of the Tax Cuts and Jobs Act and Sylogist's preliminary assessment of the impact of such provisions on the Company's results of operations, cash flows and consolidated financial statements.

- Beginning January 1, 2018, Sylogist's U.S. income will be taxed at a 21 percent federal corporate rate. Further, the Company is required to recognize the effect of this rate change on its deferred tax assets and liabilities in the period the tax rate change is enacted. This rate change resulted in a non-cash decrease to the income tax provision related to the U.S. subsidiaries of approximately \$698 thousand for the quarter ended December 31, 2017.
- Based on the Company's 2018 results for the first nine months, using the weighted average annual income tax rate expected for the full fiscal year under the Tax Cuts and Jobs Act, the Company estimates the current income tax expense was approximately \$300 thousand lower than would have been under the previous corporate tax rate.

The Tax Reform Legislation is a comprehensive bill containing several other provisions, such as limitations on the deductibility of interest expense, 100 percent bonus depreciation on personal tangible property expenditures and certain executive compensation, that are not expected to materially affect Sylogist. The ultimate impact of the Tax Cuts and Jobs Act may differ from Sylogist's estimates due to changes in the interpretations and assumptions made by the Company as well as additional regulatory guidance that may be issued.

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Investment tax credits – The amounts recorded as ITCs, are included in deferred taxes, and their utilization is subject to expiry dates and is 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 SR&ED investment tax credits, which are netted against the research and development costs in the statement of operations. SR&ED claims are subject to audits by relevant taxation authorities and the actual amount may change depending on the outcome of such audits.

Outstanding share data

As of the date of this MD&A, the Company has 22,263,094 common shares issued and outstanding and 2,053,350 stock options to acquire common shares outstanding, with an average exercise price of \$9.24 per common share.

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.

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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 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.

RISK AND UNCERTAINTIES

Sylogist operates in a dynamic and rapidly changing environment and industry, which exposes it to numerous risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that may adversely affect Sylogist's business, financial condition or results of operations. Additional risks and those not presently known to it may also affect Sylogist's business, financial condition or results of operations.

Profitability

As Sylogist grows its business, it expects operating expenses and capital expenditures to increase correspondingly, and as a result, it will need to generate significant revenue to maintain profitability. Sylogist may not be able to sustain or to increase profitability or cash flows from

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operations on a quarterly or annual basis in the future and could incur losses in future periods. If revenues decline, operating results could be seriously impaired because many of Sylogist's expenses are fixed and cannot be easily or quickly reduced.

Volatility in Quarterly Operating Results

Quarterly operational results may be impacted by many factors, including revenue fluctuations based on demand, economic conditions, capital allocation and budgeting cycles, timing of project sales, by acquisitions and related costs, by customer acceptance of product enhancements and by seasonal variations. The Company considers fluctuations in its quarterly operations to have an impact on its future financial position. The Company's expense levels are based in part on its expectations of future sales and projects, and the Company may not be able to adjust spending in a timely manner to compensate for any sales shortfall.

Fixed Price Contracts and Delivery Management

A portion of Sylogist's contracts are fixed price contracts. There is a risk in all fixed price contracts that the Company will be unable to deliver under the contract within the time specified and at a cost to the Company that is equal to or less than the contract price. The technical sophistication of the systems delivered under the contracts may require amendments to be negotiated from time to time, subject to agreed contract change processes. A significant contract overrun that is caused by the actions or inactions of the Company could affect the Company's results of operation and financial position.

Market and Competition

The markets for the Company's products and services are competitive and significantly affected by new product introductions and other market activities by industry participants. The Company expects competition to persist, increase and intensify in the future as the markets for the Company's products and services continue to develop and as additional companies enter each of its markets. Numerous releases of products and services that compete with those of the Company can be expected in the near future. There can be no assurance that the Company will be able to compete effectively with current and future competitors. If these or other competitors were to engage in aggressive pricing policies with respect to other competing products, or significant price competition was to otherwise develop, the Company may be forced to lower its prices.

Potential Acquisitions and Investments

In previous years, the Company acquired and expects to continue acquiring or investing in businesses, products and technologies that expand or complement the Company's current business, products and services. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisition or investment can be satisfactorily financed or, if acquired, will generate revenue, income or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth.

Management of Growth and Integration of Acquisitions

The Company believes that growth of its product lines and number of personnel is required to maintain its competitive position. The Company plans to grow both organically and by acquisition in the future. There can be no assurance that the Company will complete any future acquisitions and, if completed, such acquisitions will be successfully integrated into the Company. The Company's growth will likely place strains on its resources and increased demands on its internal systems, procedures and controls. With any acquisition, the Company needs to integrate and manage the businesses acquired. This would increase the demands on the Company's management, resources, systems, procedures and controls. There can be no assurance that the Company's administrative infrastructure, systems, procedures and controls will continue to

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adequately support the Company's operations or that management will be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully penetrate the markets for the Company's products and services, and successfully integrate any business acquisitions in the future.

Major Contracts

The Company has and may enter into major contracts that are complex and have several delivery milestones. These contracts are often subject to delay, change, revision and renewal. There is no guarantee that the Company can complete all activities on time and on budget and that the funding available from the customer will be adequate to meet adjustments to the contract. Failure by the Company to manage customer delivery responsibilities, secure project resources and collect payments on a timely basis are significant risks to the Company.

Government Contracts

A significant portion of the Company's total annual services revenue is derived from contracts with Public Sector entities. Changes in government, government policy, priorities or funding levels could affect the Company's financial condition or results of operations. Government contracts could be terminated or suspended at any time.

Risk to Reputation

Reputation is a critical asset in the technology services industry. Potential damage to that reputation is a significant risk for the Company. Any of the risks identified in this MD&A could damage Sylogist's reputation, which in turn, could result in a lack of client or employee confidence, legal liability and difficulties in raising capital.

Volatility in Stock Price

The market price of the Company's common shares can be highly volatile and subject to fluctuations. These fluctuations in market price may continue due to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts or other events or factors. In addition, the financial markets have experienced significant price fluctuations that have particularly affected the market price of equity securities of many high technology companies, and that have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter or year.

Foreign Currency Risk

The Company operates internationally and, accordingly, a portion of Sylogist's financial resources is held in currencies other than the Canadian dollar, the functional currency of the Company. Further, the Company generates revenues and incurs expenses in U.S. dollars, Euros and British Pounds. The Company's exposure to the U.S. dollar, Euros and the British pound may change over time as the geographic mix of Sylogist's business changes. Consequently, the Company's results have been affected and it expects its future results could be adversely affected by significant foreign exchange fluctuations.

Environment and Market Risk

Sales are subject to some conditions outside the Company's control such as economic cycles, the growth of complementary businesses such as communications networks and software applications or events in specific industry verticals. The liquidity and financial position of the Company is a function of the decisions it will have to make to successfully compete in these markets. As the marketplace for the Company's products and services evolves, the Company's future results could be impacted by a dependence on a few customer or partner relationships.

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In addition, the timing and customer acceptance of new or upgraded products and services may also affect the Company's results in the future.

Pricing and Margins

Pricing of software products and services is highly competitive, as is pricing for related hardware and components. There are competitors of all sizes with competitive offerings, with notably larger competitors offering mission critical systems and support services. These competitive offerings can put pressure on prices and, consequently, operating margins. Hardware margins are typically lower than those realized in software sales.

Dividends

The Company's board of directors determined to pay a quarterly dividend commencing in 2010, which policy is reviewed quarterly. Sylogist's board of directors will, at their discretion, determine the amount of any future dividends payable. Although the Company has paid quarterly dividends since 2010, there can be no assurance that the board of directors will declare further dividends. The actual dividends declared will depend on numerous factors, such as profitability, working capital and the sustainability of operating margins. The Company may adjust future dividends payable upward or downward based on opportunities available to the Company.

Intellectual Property Rights

The Company operates primarily in North America, with a small percentage of business being generated outside North America. Although the Company makes efforts to protect its intellectual property rights, there can be no guarantee that unlicensed copying of the Company's software will not take place, especially in countries where software piracy laws and enforcement are weak. Policing unauthorized use of its technology, if required, may be difficult and costly. In addition, claims of infringement are increasing as the software industry develops. Litigation may be necessary to protect the Company's proprietary technology and third parties may assert claims against it, any of which could be time consuming and expensive, regardless of merit.

Third Party Technology

The Company incorporates third party technology into some of its products and may incorporate additional third party technology as it develops and expands its product lines. The operation of its products could be impaired if errors occur in such third party technology, which errors may be difficult to correct being out of the Company's control, or to replace if a third party vendor seeks to terminate the Company's license to use the technology. Such technology could become subject to claims of infringement by others.

Legislative, Insurance, Compliance Costs, Regulatory Action and Environment

To comply with various increasing and complex regulatory reporting and standards involves significant cost. Recent changes to securities regulatory standards, accounting policy, and compliance reporting have placed an additional expense burden on the Company. The Company is utilizing more outside legal, accounting and advisory services than in the past. As a result general and administrative costs will increase. Insurers may increase premiums as a result of high claims rates experienced by them over the past year and so future premiums for the Company's various insurance policies, including directors' and officers' insurance policies, could be subject to increase. Proposed changes in the accounting rules could materially increase the Company's internal accounting and external audit fees. Corporate governance standards in Canada are evolving continuously. Despite its best attempts, there can be no assurance that the Company will comply with all applicable corporate governance guidelines or best practices.

Key Partner Relationships

The Company has some reliance on partner relationships with a number of third party suppliers to generate revenue. The financial stability, marketing plans, and personnel of these partnering

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organizations could change and materially impact the Company's relationship and the services and products Sylogist provides to its customers.

Key Supplier Relationships

Sylogist is dependent on its relationships with third parties to provide strategic components of its software license sales and maintenance revenue, as well as its hardware. To the extent third parties are unable to support the Company in its growing need for hardware components and fabrication, or to support the Company's software infrastructure, the Company may be forced to source components or software from others, perhaps at increased prices and with an impact on the Company's ability to service its customers. Many of the Company's products are dependent on the uninterrupted operations of data hosting centers, which, if unavailable, even for a limited period, could result in revenue loss and customer claims. While Sylogist takes what it believes to be reasonable precautions against some events, and that the Company believes its hosts are reputable businesses, there can be no assurance that their services will be provided uninterrupted.

Financial Condition, Liquidity, and Requirements Outlook

Sylogist's cash balance and working capital position are expected to be adequate to sustain the Company's existing operations. If the Company is unable to continue to grow revenue and cash flow from operations, its cash and working capital position could be affected.

Management of Future Growth and Expansion

Planned expansion of the Company's business and its future success will depend on its ability to manage growth as it expands its products and marketing capacities, which may place a significant strain on the Company's management resources, employees and operations, as well as its ability to finance such growth. To manage growth effectively, the Company will be required to continue to implement changes in certain aspects of its business, expand its operations, and develop, train, manage and assimilate an increasing number of management-level and other employees. If management is unable to manage growth effectively, the Company's business, prospects, financial condition and operating results could be affected.

Dependence on Key Personnel

The success of the Company is largely dependent on the performance of its key senior management employees. Failure to retain key employees and to attract and retain additional key employees with necessary skills could impact the Company's growth and profitability. Competition for highly skilled management, technical, R&D, and other employees is intense in the information technology industry.

The Company's progress to date in commercializing its proprietary products has been dependent, to a significant extent, on the skills of its senior management. The departure or death of certain members of the executive team could have an adverse effect on the Company.

The Company has experienced changes in its management personnel and further changes may occur in the future. The Company may face transitional difficulties in connection with these changes, and there can be no assurance that the Company will be able to attract and retain highly-skilled and qualified personnel to replace employees who leave the Company.

Financial Position of Customers

Some of Sylogist's customers are smaller entities with significant market concentration. If any one or more of such customers is not able to secure financing, or reduces or postpones current or expected purchases of Sylogist's products, the Company's business, results of operations and financial condition could be adversely affected.

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Industry Growth

There can be no assurance that the market for the Company's existing products will continue to grow, that firms within the industry will adopt the Company's products for integration with their wireless data communications solutions, or that the Company will be successful in independently establishing markets for its products. If the markets in which the Company's products compete fail to grow or grow more slowly than the Company currently anticipates, or if the Company is unable to establish markets for its new products, the Company's operating results and financial condition could be adversely affected.

Reliance on Third Party Parts Suppliers

Certain parts and components used in Sylogist's products are purchased from a limited number of sources. The Company's reliance on these limited source suppliers involves certain risks and uncertainties, including the possibility of a shortage or discontinuation of certain key components and reduced control over delivery schedules, manufacturing capability, quality and costs. In addition, the purchase of certain key components may involve long lead times, and, in the event of unanticipated increases in demand for the Company's products, the Company may in the future be unable to manufacture certain products in a quantity sufficient to meet its customers' demand in any particular period.

Third Party Software

Sylogist licenses certain technologies from third parties, which may in turn be offered by the Company to customers or channel partners and ultimately to end users. The termination of any of these third party licenses could materially impact the Company's ability to sell its products and it may be forced to seek alternative solutions. There can be no guarantee that alternative solutions will be readily available, if at all. If the Company's third party licensors do not maintain or update their products, the Company's ability to sell its products could be materially impacted, again potentially requiring the Company to seek alternatives, which may not be available. It may be necessary in the future to seek new third party licenses from others than whom it currently contract, to sustain its business offerings and there can be no certainty that such licenses will be available on commercially reasonable terms, if at all.

Lengthy and Variable Sales Cycle

Licensing the Company's technologies and selling its products is a long and complex process. In the past, the Company's sales cycle has generally ranged from three to thirty-six months. Sylogist spends a substantial amount of time educating potential customers about the use and benefits of its technologies and products. Because the adoption of the Company's technologies often represents a substantial investment, potential customers may take months to evaluate the Company's technologies and products, determine the size of the user base to be covered, and obtain the necessary expenditure authorizations and financing required to purchase the Company's technologies or products. The process of entering into a licensing agreement with a service provider typically involves lengthy negotiations. This process may be extended if the service provider is marketing Sylogist's technologies and products as part of a larger project or system. After a prospective customer has signed a license agreement, Sylogist may then be required to integrate its technologies and products into the licensee's products and services, which integration must be accepted by the licensee.

In addition, the Company may spend a significant amount of time and money on a potential customer that ultimately does not purchase its technologies or products. Any delay in sales of the Company's technologies and products could cause the Company's operating results to vary significantly from projected results. Also, the Company may not be able to accurately predict the sales of its technologies and products by its alliance partners, since the Company's alliance partners do not always keep Sylogist informed about the status of possible sales and other revenue opportunities with their customers. Sales of the Company's products by the Company's

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alliance partners also depend on the timing of the roll-out of their own products and systems. The Company has no control over the timing of its alliance partners' roll-outs, and the Company may not be informed of when these roll-outs will occur.

Because of these factors and the Company's limited revenue history, it is especially difficult to forecast the Company's revenue and operating results. The Company's inability to accurately predict the timing and magnitude of the Company's sales could cause a number of problems, including the following: (i) the Company may have difficulty meeting the Company's customers' delivery requirements in the event many large orders are received in a short period of time; (ii) the Company may expend significant management efforts and incur substantial sales and marketing expenses in a particular period that do not translate into orders during that period, or at all; and, (iii) the Company may have difficulty meeting its cash flow requirements and obtaining credit because of delays in receiving orders or delays in receiving payment for its products and services. The problems resulting from the Company's lengthy and variable sales cycle could impede its growth, harm its valuation, and restrict its ability to take advantage of new opportunities.

Risks Related to Acquisitions

The Company intends to expand its operations and business by acquiring additional businesses, products or technologies. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired businesses, products or technologies into the Company without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances, and legal liabilities. In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income. Acquisitions could also result in potentially dilutive issuances of equity securities. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, results of operations and financial condition.

Economic Slowdown

From time to time markets have witnessed the weakening of global macro-economic conditions. This weakness affected information technology spending patterns on a global basis, and as a result affected Sylogist's ability to forecast current and future period revenues. In spite of the weakness in economic activity, Sylogist's customer base remains solid, and the Company remains encouraged by the level of interest that the marketplace continues to show in its offerings.

International Markets

Sales outside of Canada represent a significant portion of the Company's total gross revenues. Sales to international customers are subject to a number of risks and uncertainties including, but not limited to, complications in both compliance with and unexpected changes in foreign government laws, regulations and telecommunications standards, import and export license requirements, tariffs and other trade barriers, potential adverse tax consequences, fluctuations in currency exchange rates, exchange controls, difficulty in collecting accounts receivable, difficulty in staffing and managing foreign operations, potential political and economic instability, events of international terrorism, economic effects of public health threats such as pandemics or epidemics, uncertainties of laws and enforcement relating to the protection of property rights including intellectual property rights, unauthorized copying of the Company's proprietary technologies, uncertainties in local commercial or financial sector practices, uncertainties in local accepted business practices and standards which may not be similar to accepted business practices and standards in Canada and which may create unforeseen business or public relations situations, and other factors depending on the country involved. While international sales are typically denominated in US dollars and Sylogist typically extends limited credit terms,

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fluctuations in currency exchange rates could cause the Company's products to become relatively more expensive to customers in a particular country, leading to a reduction in sales or profitability in that country. As a result of these factors, the Company may not be successful in entering certain international markets and maintaining or increasing international market demand for the Company's products.

Litigation

The Company may be subject to litigation in the ordinary course of business, as well as in the context of potential securities claims, class actions and other corporate activities. Any litigation is time consuming and costly, both financially and by distracting management and staff resources from the Company's day to day business.

Taxation

Sylogist is subject to income and non-income based taxes in Canada, the United States, the United Kingdom and other foreign jurisdictions. Tax structure and tax filings are subject to review by taxation authorities in the ordinary course of business and Sylogist cannot be assured that the final determination of any such review will not be different from what is reflected in its historical income tax filings, provisions or accruals and any such differences could materially affect operating results or result in additional tax expense in future periods. Significant judgment is required of management in determining the Company's provisions for income taxes and other tax liabilities and while management strives to ensure its estimates and filing positions are reasonable, there can be no assurance that the result of any tax audits or proceedings will not differ, which may materially impact operating results. In addition, tax laws are subject to change which may materially impact the Company's tax filings and operating results.

Potential Need for Future Financing

The Company may have fewer financial resources than some of its principal competitors. If the Company exceeds its growth expectations, it may require additional equity or debt financing. There can be no assurance that the Company will be able to obtain additional financial resources that may be required to successfully compete in its markets on favorable commercial terms, or at all. Failure to obtain such financing could result in the delay or abandonment of some or all of the Company's plans for product development, or in the Company being unable to satisfy its obligations as they become due.

Acquisition Related Liabilities

Sylogist may incur contingent liabilities through acquisitions which may be material, despite the Company's best efforts to estimate risks associated with the contingencies and the likelihood of them materializing. The Company's estimates could differ materially from such liabilities actually incurred.

Product Liability

Sylogist's products are highly complex and sophisticated and, from time to time, may contain design defects that are difficult to detect and correct. Errors may be found in new products after commencement of commercial shipments or, if discovered, Sylogist may not be able to successfully correct such errors in a timely manner, if at all. The occurrence of such errors and failures in Sylogist's products could result in a loss or delay in their market acceptance, and correcting these could require significant expenditure of capital. Sylogist's products are integrated into its customers' networks and equipment. The sale and support of these products may entail the risk of product liability or warranty claims based on damage to such networks and equipment. In addition, the failure of Sylogist's products to perform to customer expectations could give rise to warranty claims.

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Cyber Security

Sylogist manages cyber security risk by ensuring appropriate technologies, processes and practices are effectively designed and implemented to help prevent, detect and respond to threats as they emerge and evolve. The primary risks to Sylogist include, loss of data, destruction or corruption of data, compromising of confidential customer or employee information, leaked information, disruption of business, theft or extortion of funds, regulatory infractions, loss of competitive advantage and reputational damage, any of which could have a material adverse effect on Sylogist's competitive position, financial condition or results of operations. Sylogist applies technical and process controls in line with industry-accepted standards to protect its information assets and systems.

Maintenance of Disclosure Controls, Procedures and Internal Control Over Financial Reporting

The Company has opted out under the rules afforded to TSX Venture issuers with respect to the requirements under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings NI 52-109; therefore, Management and the Board do not make any representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, Management and the Board are not making any representations relating to the establishment and maintenance of:

- (a) Controls and other procedures designed to provide reasonable assurance that the information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (b) A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS.

In addition, Management and the Board would also like to highlight that the Company has identified certain weaknesses in ICFR specific to the Company, which are:

- (a) Due to the limited number of staff at Sylogist, it is not feasible to achieve the complete segregation of incompatible duties; and
- (b) Due to the limited number of staff, the Company has a risk of material misstatement related to non-routine complex accounting matters that may arise.

The Company believes these weaknesses are mitigated by: the active involvement of senior management and oversight by the board of directors in all the affairs of the Company; open lines of communication within the Company; present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by management and the board of directors; and the establishment of whistle-blower and code of conduct policies. However, these mitigating factors may not necessarily prevent a material misstatement from occurring as a result of the aforementioned weaknesses in the Company's internal controls over financial reporting. A system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.