

# **SYLOGIST LTD.**

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

**For the years ended September 30, 2017 and 2016**



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Management's Discussion & Analysis  
For the years ended September 30, 2017 and 2016

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

The following Management's Discussion and 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 audited consolidated financial statements and the related notes for the years ended September 30, 2017 and 2016. 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](http://www.sylogist.com), as well as on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A is dated as of January 15, 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 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:

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- 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 business. This will continue to be a focus as the Company looks to extend its reach.
- Sylogist 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.
- Sylogist plans further expansion into the local government market and K-12 education markets.
- 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 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.
- 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.

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

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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](http://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 Earnings”.

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 Earnings” used in this MD&A are calculated as follows:

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

Adjusted EBITDA: 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 Earnings: profit for the period adjusted for certain non-cash expenses (income) such as amortization of intangible assets, stock based compensation, deferred income taxes as well as foreign exchange gains or losses and certain other expenses (income).

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 technology innovation company, which provides proprietary intellectual property solutions to a wide range of customers. Sylogist’s technology infrastructures facilitate the collection of large volumes of data, which can then be analyzed, reported on and disseminated through its software applications. The Company’s products, in addition to being their accounting foundation, allow customers to analyze their data to uncover trends, identify

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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.

Historically Sylogist has provided segmented information for both Private and Public Sector operations which, management believed, would provide a more meaningful basis for evaluating the nature and financial effects of the business activities that Sylogist was engaged in to the users of the financial statements. With the accounting system conversion and internal organizational changes, which went into effect at the Company at the beginning of the 2017 fiscal year, management had an opportunity to re-evaluate the Company's current financial reporting system and determined that a distinction between Public and Private Sectors was no longer relevant in the assessment of segment performance and a resource allocation decision-making process.

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. The Company has applied the aggregation criteria in IFRS 8.12 and aggregated individual business units whose production process, products, distribution methods and target markets are similar. Based on management's judgment, the Company concluded that there is one operating and reportable segment, being Public Sector ("Public Sector"). Other operating segments whose assets, revenue and profit are less than 10% of the Company's overall assets, revenue and profit, on a consolidated basis, have been grouped into Public Sector for reporting purposes. This change in segment reporting did not have an impact on the Company's consolidated results for any period.

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 as "Serenic Software", "Kenek Software", "Epic Data" and "Payment Solutions", and develop software and hardware solutions and provide implementation services to the Public Sector market comprised mainly of local governments, school districts, regional utility authorities, defense contractors, non-profit ("NFP") and non-governmental organizations ("NGO"). Serenic Software's business is principally the sale of proprietary enterprise application software and its strength rests in servicing NGO, NFP, and K-12 education markets, with further expansion planned into the local government market and K-12 education markets. Kenek Software is the primary provider, under license from Microsoft Corporation in North America and other international markets, of payroll and human resources software for Public Sector customers, using Microsoft's largest accounting platform, Dynamics NAV. Epic Data develops software and hardware solutions for data collection and operations management, which provides customers with the capability of having mobile devices interact directly with data collection systems and large enterprise resource planning ("ERP") systems. Payment Solutions ("PS") develops payment management solutions capable of controlling all aspects of payment management, traditionally at fueling sites, with expanded focus to include aviation and marine fuel, Europay, MasterCard, Visa (collectively "EMV") and Debit card transaction processing.

Sylogist's revenues consist of software license fees, subscription and maintenance services, professional services and product sales. Software license fees are fees charged to the Company's customers for their use of its software products as installed in-house or hosted solutions. Subscription and maintenance revenues consist of fees charged under hosted or cloud-based subscription arrangements, recurring fees derived from software as a service arrangements, as well as fees for customer maintenance and support on the Company's software products post-delivery. Revenues from professional services consist of fees charged for

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implementation services, consulting services, and training. Product revenues consist of fees charged for the resale of third party products that form part of the Company's offering, as well as sales of the Company's internally assembled products.

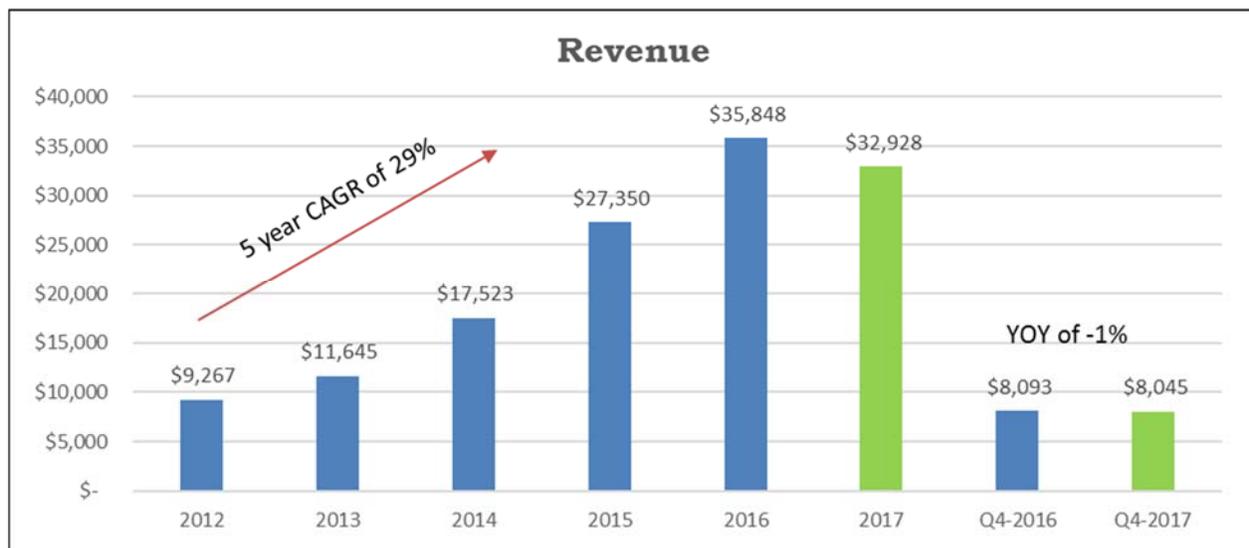
For the year ended September 30, 2017, the Company's ten largest customers accounted for approximately 35% of total revenues, with one customer accounting for approximately 12% of total revenues. Subscription and maintenance revenue represented 65% of total revenue for the year ended September 30, 2017, compared to 57% for the same period in the previous fiscal year. The Company continues to generate significant revenues from its operations internationally. In the year ended September 30, 2017, approximately 67% of total revenue was derived outside of Canada, compared to 68% in the prior year.

Sylogist is headquartered in Calgary, Alberta, Canada with operations offices in Edmonton, Alberta, King City, Ontario, Canada, Atlanta, Georgia and Lakewood, Colorado, U.S.A, as well as Oxford, Oxfordshire in the United Kingdom. The Company's registered office is located at Suite 1900, 520-3<sup>rd</sup> SW; Calgary, Alberta, Canada, T2P 0R3. Sylogist is a Tier 1 listed issuer on the TSX Venture Exchange trading under the symbol SYZ.

### **Focus and Strategy**

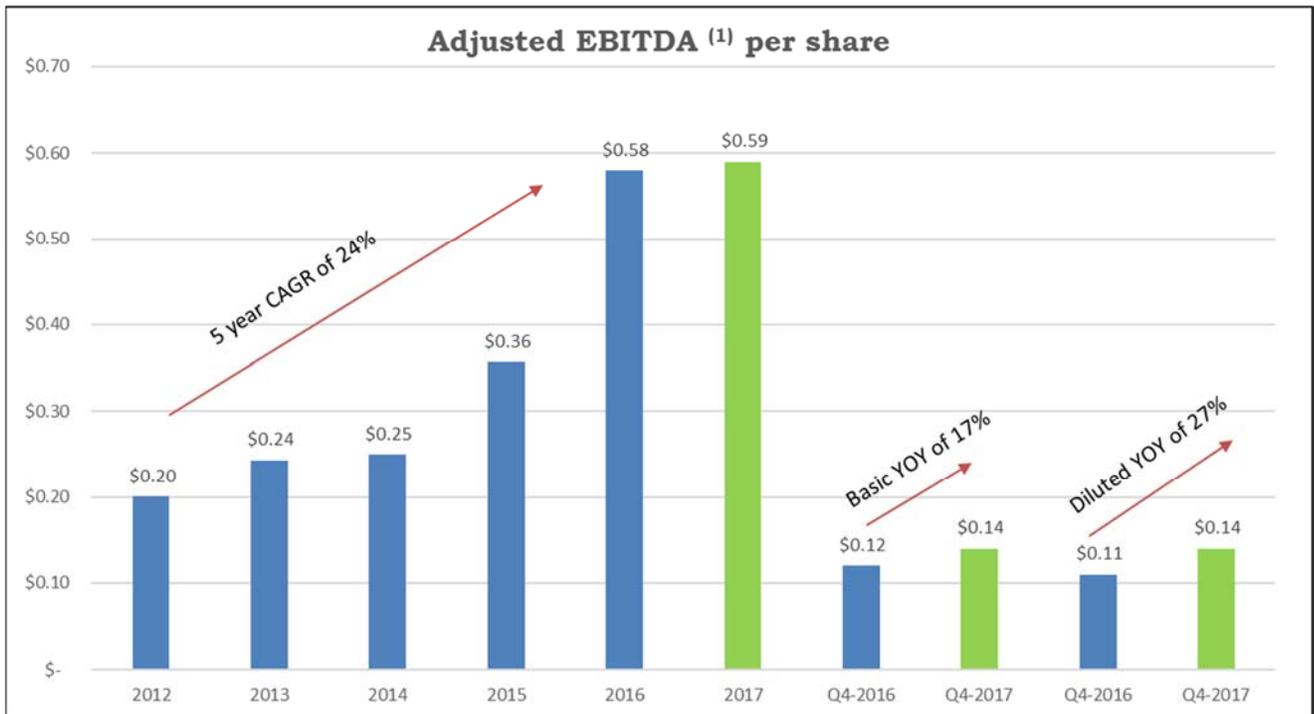
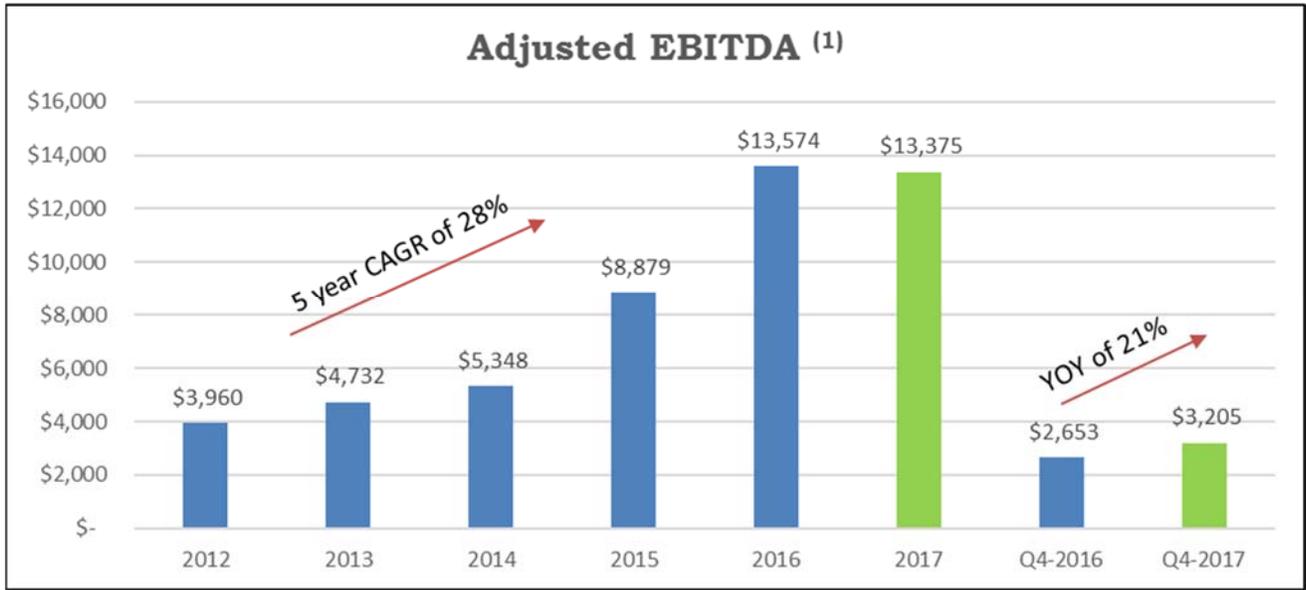
Sylogist has established a strong track record of growth, focused on cash flow and on strategic acquisitions of software companies with proven technologies and growth potential, which can benefit from Sylogist's management strategies and discipline.

The following graphs demonstrate the Company's historical revenue, Adjusted EBITDA, and Adjusted EBITDA per share compound annual growth rates ("CAGR") since 2012 as well as a comparison quarter-over-quarter for Q4 2017 vs. Q4 2016. Amounts are in thousands of Canadian dollars, except per share amounts.



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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.

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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. In fiscal 2017, Sylogist delivered Adjusted EBITDA of \$13.4 million, or 41% of total revenues of \$32.9 million. Revenue decreased 8% compared to the last fiscal year. The decrease in revenue in fiscal 2017 compared to fiscal 2016 was due mainly to lower license sales, professional services and product sales compared to the prior year. The decrease in license sales, which tend to be variable, was due primarily to significant license sales that occurred in 2016 and no comparable sales in 2017. Lower professional services revenue was due mainly to the difference in the magnitude of implementation phases on current projects in 2017 compared to the prior year. The timing of product sales tends to be variable.

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 of 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 customers and prospects, reflecting the changes required by them. This has and will continue to include the development of new software applications.

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 September 30, 2017 closing stock price, the trailing twelve months' dividend yield, excluding special dividends, was 3.2%. The Company has paid \$39.2 million in dividends since February, 2010.

On May 21, 2017, the Company commenced a further Normal Course Issuer Bid ("NCIB") to acquire up to 2,087,621 of its common shares over the ensuing 12-month period. Pursuant to a NCIB, during the year ended September 30, 2017, the Company repurchased 452,200 of its common shares at an average price of \$9.17 per share for a total cost of \$4.1 million. All purchases of its common shares are for cancellation.

**Key Performance Indicators**

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

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**Fiscal 2017 Highlights**

The following review is intended to assist in understanding Sylogist's financial position as at September 30, 2017, and its results of operations for the year ended September 30, 2017. Financial and operational results for the year include:

- Revenues of \$32.9 million;
- Gross Profit of \$23.5 million;
- Gross Profit Margin of 71% compared to 67% in 2016;
- Profit of \$7.2 million, an increase of 9% over fiscal 2016;
- Adjusted EBITDA of \$13.4 million compared to \$13.6 million in the prior year;
- Adjusted EBITDA Margin of 41% compared to 38% in 2016;
- Adjusted Earnings of \$12.4 million, consistent with the prior year;
- Adjusted Working Capital was \$31.8 million, an increase of 3% compared to 2016, principally due to the net effect of a decrease in trade payables partially offset by the payment of dividends and the repurchase of Sylogist common shares;
- The Company paid regular and special dividends to shareholders totaling \$7.5 million in 2017;
- Cash and cash equivalents totaled \$28.8 million; and
- Cash generated from operations totaled \$12 million, an increase of 12% over 2016.

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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 September 30,		Period-Over Period Change		Twelve months ended September 30,				Year ended September 30, 2015
	2017	2016	\$	%	2017	2016	\$	%	
<b>Revenue</b>	<b>8,045</b>	8,092	(47)	-1%	<b>32,928</b>	35,848	(2,920)	-8%	27,350
Expenses, net of interest income	<b>4,835</b>	5,438	(603)	-11%	<b>19,553</b>	22,274	(2,721)	-12%	18,471
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>3,210</b>	2,654	556	21%	<b>13,375</b>	13,574	(199)	-1%	8,879
Adjusted EBITDA %	40%	33%			41%	38%			32%
Amortization of intangible assets	<b>630</b>	604	26	4%	<b>2,516</b>	2,413	103	4%	2,694
Depreciation of property and equipment	<b>43</b>	44	(1)	-2%	<b>186</b>	171	15	9%	172
Stock based compensation	<b>22</b>	(6)	28	n/m	<b>720</b>	1,553	(833)	-54%	4,314
Foreign exchange loss	<b>155</b>	11	144	n/m	<b>15</b>	526	(511)	-97%	(629)
Acquisition-related costs	<b>5</b>	-	5	n/m	<b>5</b>	-	5	n/m	(119)
Interest expense	-	-	-	n/m	-	-	-	n/m	2
Profit before income tax	<b>2,355</b>	2,001	354	18%	<b>9,933</b>	8,911	1,022	11%	2,445
<b>Income tax (recovery) expense</b>									
Current income tax	<b>(388)</b>	(1,005)	617	-61%	<b>766</b>	973	(207)	-21%	197
Deferred income tax	<b>810</b>	1,114	(304)	-27%	<b>1,948</b>	1,302	646	50%	(300)
Income tax expense	<b>422</b>	109	313	287%	<b>2,714</b>	2,275	439	19%	(103)
<b>Profit for the period</b>	<b>1,933</b>	1,892	41	2%	<b>7,219</b>	6,636	583	9%	2,548
<b>Adjusted Earnings <sup>(2)</sup></b>	<b>3,550</b>	3,615	(65)	-2%	<b>12,418</b>	12,430	(12)	0%	8,627
Weighted average number of shares outstanding									
Basic	<b>22,572,094</b>	22,984,362			<b>22,674,532</b>	23,440,379			24,928,795
Diluted	<b>22,578,979</b>	23,280,070			<b>22,749,236</b>	23,440,379			24,973,674
<b>Profit per share</b>									
Basic	<b>\$ 0.09</b>	\$ 0.08	0.01	13%	<b>\$ 0.32</b>	\$ 0.28	0.04	14%	\$ 0.10
Diluted	<b>\$ 0.09</b>	\$ 0.08	0.01	13%	<b>\$ 0.32</b>	\$ 0.28	0.04	14%	\$ 0.10
<b>Adjusted EBITDA per share</b>									
Basic	<b>\$ 0.14</b>	\$ 0.12	0.02	17%	<b>\$ 0.59</b>	\$ 0.58	0.01	2%	\$ 0.36
Diluted	<b>\$ 0.14</b>	\$ 0.11	0.03	27%	<b>\$ 0.59</b>	\$ 0.58	0.01	2%	\$ 0.36
<b>Adjusted Earnings per share</b>									
Basic	<b>\$ 0.16</b>	\$ 0.16	0.00	0%	<b>\$ 0.55</b>	\$ 0.53	0.02	4%	\$ 0.35
Diluted	<b>\$ 0.16</b>	\$ 0.16	0.00	0%	<b>\$ 0.55</b>	\$ 0.53	0.02	4%	\$ 0.35
<b>Adjusted Working Capital <sup>(3)</sup></b>	<b>31,832</b>	31,049	783	3%	<b>31,832</b>	31,049	783	3%	\$ 42,463
<b>Adjusted Working Capital per share</b> (Basic shares outstanding at period end)	<b>\$ 1.42</b>	\$ 1.36	0.06	4%	<b>\$ 1.42</b>	\$ 1.36	0.06	4%	\$ 1.72
Cash dividends declared per share	<b>\$ 0.070</b>	\$ 0.070	-	0%	<b>\$ 0.330</b>	\$ 0.365	(0.04)	-10%	\$ 0.245
Total assets	<b>54,113</b>	61,356	(7,243)	-12%	<b>54,113</b>	61,356	(7,243)	-12%	75,650
Total long-term liabilities	<b>2,683</b>	3,459	(776)	-22%	<b>2,683</b>	3,459	(776)	-22%	4,221

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.*
- 2) *Adjusted Earnings is a non-IFRS measure, defined as: profit for the period adjusted for certain non-cash expenses (income) such as amortization of intangible assets, stock based compensation, deferred income taxes, as well as foreign exchange gains or losses and certain other expenses (income).*
- 3) *Adjusted Working Capital is a non-IFRS measure, defined as: current assets less current liabilities adjusted for deferred revenue.*

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**Revenue analysis**

(Amounts in thousands of Canadian dollars)

Revenue	Three months ended September 30,		Period-Over Period Change		Twelve months ended September 30,		Period-Over Period Change	
	<u>2017</u>	2016	\$	%	<u>2017</u>	2016	\$	%
Licenses	<b>465</b>	586	(121)	-21%	<b>2,768</b>	4,498	(1,730)	-38%
Subscription and maintenance	<b>5,279</b>	5,213	66	1%	<b>21,564</b>	20,347	1,217	6%
Professional services	<b>2,251</b>	2,093	158	8%	<b>7,991</b>	9,785	(1,794)	-18%
Product revenue	<b>50</b>	200	(150)	-75%	<b>605</b>	1,218	(613)	-50%
	<b>\$ 8,045</b>	\$ 8,092	\$ (47)	-1%	<b>\$ 32,928</b>	\$ 35,848	\$ (2,920)	-8%

For the three-month period ended September 30, 2017, total revenue decreased 1% to approximately \$8.0 million compared to the same period last year. License revenue decreased from \$586 thousand in the fourth quarter of fiscal 2016 to \$465 thousand in the fourth quarter of fiscal 2017; subscription and maintenance revenue increased by 1% to \$5.3 million; professional services increased 8% to \$2.3 million compared to \$2.1 million in the fourth quarter of 2016 and product revenue decreased by 75% to \$50 thousand compared to the same period last year. The Company's license revenue is dependent on the number of licenses sold in the period, as well as the timing of revenue recognition. The increase in professional services revenue compared to the prior year was due mainly to increased professional service engagements in the fourth quarter of 2017 compared to the prior year. The timing of product sales also tends to be variable. The decrease in product revenue was driven primarily by a large product sale recorded in the fourth quarter of fiscal 2016 and no comparable sale in the fourth quarter of 2017. The Company's revenues are 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 fourth quarter revenues (foreign exchange effects).

For the year ended September 30, 2017, total revenue decreased 8% to \$32.9 million compared to last year. License revenue decreased from \$4.5 million in fiscal 2016 to \$2.8 million in fiscal 2017; subscription and maintenance revenue increased by 6% to \$21.6 million; professional services revenue decreased by 18% to \$8 million; and product revenue decreased by 50% to \$605 thousand compared to the prior year. The overall decrease was due primarily to significant license sales that occurred in 2016 and no comparable sales in 2017. In addition, there continues to be a market shift to the subscription model. The United States to Canadian dollar exchange rate was fairly flat compared to the prior year having a slightly negative impact of less than 1% on revenues.

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**Geographical revenues:**

(Amounts in thousands of Canadian dollars)

	Three Months Ended September 30,				
	2017		2016	% Change	
Canada	\$	2,826	\$	2,801	1%
U.S.A.		5,023		5,103	-2%
UK and other		196		188	4%
	\$	8,045	\$	8,092	-1%

	Year Ended September 30,				
	2017		2016	% Change	
Canada	\$	10,914	\$	11,593	-6%
U.S.A.		21,332		23,247	-8%
UK and other		682		1,008	-32%
	\$	32,928	\$	35,848	-8%

Geographically, revenues were flat in the Company's Canadian operations at \$2.8 million in the fourth quarters of fiscal 2016 and 2017. Revenue from its U.S.A. operations decreased from \$5.1 million in the fourth quarter of fiscal 2016 to \$5 million in the fourth quarter of fiscal 2017, driven mainly by lower license sales in the U.S.A., UK and other operations increased from \$188 thousand in the fourth quarter of fiscal 2016 to \$196 thousand in the fourth quarter of fiscal 2017.

For the year ended September 30, 2017, Canadian revenues decreased by 6% to \$10.9 million compared to last year. Revenue from its U.S.A operations decreased from \$23.2 million in fiscal 2016 to \$21.3 million in fiscal 2017. UK and other operations decreased by 32% to \$682 thousand for the year ended September 30, 2017, compared to last fiscal year.

**Expenses net of interest income**

(Amounts in thousands of Canadian dollars)

	Three months ended		Period-Over Period Change		Twelve months ended		Period-Over Period Change	
	September 30,		\$	%	September 30,		\$	%
	2017	2016			2017	2016		
Expenses								
Cost of sales	1,927	2,750	(823)	-30%	9,408	11,999	(2,591)	-22%
General and administrative	1,319	1,297	22	2%	4,434	4,883	(449)	-9%
Executive bonuses	563	520	43	8%	2,123	2,029	94	5%
Professional fees	98	167	(69)	-41%	365	826	(461)	-56%
Sales and marketing	454	512	(58)	-11%	1,977	1,891	86	5%
Product research	528	241	287	119%	1,444	881	563	64%
Interest income	(54)	(49)	(5)	10%	(198)	(235)	37	-16%
	\$ 4,835	\$ 5,438	\$ (603)	-11%	\$ 19,553	\$ 22,274	\$ (2,721)	-12%

Overall expenses net of interest income for the fourth quarter of fiscal 2017 of \$4.8 million were 11% lower than the same period in fiscal 2016. The main decrease was driven by decreased cost of sales as a result of a full quarter of revised royalty rates payable to Microsoft pursuant to the Company's agreement with Microsoft executed in August of 2016. General and

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administrative expenses increased 2% compared to the prior year driven primarily by increased travel expenses and allowance for doubtful accounts in the current year compared to the prior year. Executive bonuses increased by 8% compared to the prior year. This increase was due to increased profitability. Professional fees decreased by \$69 thousand or 41% driven mainly by decreased legal fees compared to the prior year. Sales and marketing expenses decreased by \$58 thousand or 11%. Product research increased by \$287 thousand or 119% compared to the prior year. This increase was driven mainly by nonrecurring severance costs of \$200 thousand related to the realignment of the Company's product research department. For the year ended September 30, 2017, overall expenses decreased 12%, or approximately \$2.7 million, to \$19.6 million compared to \$22.3 million during the same period last year.

**Cost of sales**

During the three-month period ended September 30, 2017, cost of sales was \$1.9 million or 24% of revenues compared to \$2.8 million or 34% of revenues for the comparative period ended September 30, 2016. For the year ended September 30, 2017, cost of sales was \$9.4 million (29% of revenue) compared to \$12 million (33% of revenue) in fiscal 2016. As a result of the Company's agreement with Microsoft, royalty payments to Microsoft have been reduced. Accordingly, the Company continues to see the benefits in the reduced royalty rates in fiscal 2017. However, the full benefit of this change will not be realized until fiscal 2018.

**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 \$1.3 million or 16% of revenues in the fourth quarter of fiscal 2017 and 2016. General and administrative expenses increased by 2% compared to the same period last year. This increase was due mainly to increased travel expenses and increased allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts for estimated losses in its accounts receivable portfolio. Of the \$106 thousand reserved as of September 30, 2017, the company has collected 31% as of the date of this report.

For the year ended September 30, 2017, general and administrative expenses were \$4.4 million compared to \$4.9 million for the same period last year, a decrease of 9%. This decrease principally relates to decreased executive compensation and lower IT consulting expenses compared to the prior year. For the year ended September 30, 2017, general and administrative expenses represented 13% of total revenues compared to 14% in the prior year.

**Executive bonuses**

During the three-month period ended September 30, 2017, executive bonuses were \$563 thousand or 7% of revenue compared to \$520 thousand or 6% of revenue for the three months ended September 30, 2016. For the year ended September 30, 2017, executive bonuses were \$2.1 million or 6% of revenue compared to \$2 million or 6% of revenue for the year ended September 30, 2016.

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**Professional fees**

During the three-month period ended September 30, 2017, professional fees, which consists primarily of legal and accounting fees were \$98 thousand or 1% of revenue compared to \$167 thousand or 2% of revenue for the same period last year. For the year ended September 30, 2017, professional fees were \$365 thousand or 1% of revenues compared to \$826 thousand or 2% of revenue for the same period last year. The decrease in professional fees was mainly due to lower legal 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 are also included in this category. Sales and marketing costs were lower at \$454 thousand in the fourth quarter of fiscal 2017 compared to \$512 thousand for the same period last year. For the year ended September 30, 2017, sales and marketing costs were \$2 million or 5% higher than the same period last year. The increase over the prior year was due to Company holding two major conferences in fiscal 2017 compared to only one major conference in the same period last year.

**Product research and development**

In fiscal 2017, certain of Sylogist's development projects met the criteria for deferral, resulting in \$312 thousand of costs associated with software development (2016 - \$467 thousand) being capitalized, offset by \$9 thousand (2016 - \$89 thousand) of investment tax credits ("ITCs").

For the three-month period ended September 30, 2017, research expense was \$528 thousand compared to \$241 thousand in the same period last year. For the fiscal year ended September 30, 2017, research expense was \$1.4 million compared to \$881 thousand in the same period last year. This increase is driven mainly by nonrecurring severance costs of \$200 thousand related to the realignment of the Company's product research department. In addition, the Company incurred increased research and development expenses related to its preparation for the launch of its new international offerings built on the Microsoft platform Dynamics NAV.

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 September 30, 2017, the Company generated interest income of \$54 thousand compared to \$49 thousand for the same period last year. During the year ended September 30, 2017, the Company generated interest income of \$198 thousand compared to \$235 thousand for the same period last year. The decrease in interest income is driven by the Company having less invested in cash equivalents in 2017 compared to the prior year.

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### Adjusted EBITDA

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

	Three months ended September 30,		Period-Over Period Change		Twelve months ended September 30,		Period-Over Period Change	
	2017	2016	\$	%	2017	2016	\$	%
Adjusted EBITDA Calculation <sup>(1)</sup>								
<b>Profit before income tax</b>	<b>\$ 2,355</b>	<b>\$ 2,001</b>	<b>\$ 354</b>	<b>18%</b>	<b>\$ 9,933</b>	<b>\$ 8,911</b>	<b>\$ 1,022</b>	<b>11%</b>
<b>Adjusted for:</b>								
Depreciation of property and equipment	43	44	(1)	-2%	186	171	15	9%
Amortization of intangible assets	630	604	26	4%	2,516	2,413	103	4%
Stock based compensation	22	(6)	28	n/m	720	1,553	(833)	-54%
Foreign exchange (gain) loss	155	11	144	n/m	15	526	(511)	-97%
Acquisition-related costs	5	-	5	n/m	5	-	5	n/m
Adjusted EBITDA	<b>\$ 3,210</b>	<b>\$ 2,654</b>	<b>\$ 556</b>	<b>21%</b>	<b>\$ 13,375</b>	<b>\$ 13,574</b>	<b>\$ (199)</b>	<b>-1%</b>
Adjusted EBITDA per basic weighted average number of shares outstanding	<b>\$ 0.14</b>	<b>\$ 0.12</b>	<b>\$ 0.02</b>	<b>17%</b>	<b>\$ 0.59</b>	<b>\$ 0.58</b>	<b>\$ 0.01</b>	<b>2%</b>
Adjusted EBITDA per diluted weighted average number of shares outstanding	<b>\$ 0.14</b>	<b>\$ 0.11</b>	<b>\$ 0.03</b>	<b>27%</b>	<b>\$ 0.59</b>	<b>\$ 0.58</b>	<b>\$ 0.01</b>	<b>2%</b>

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 September 30, 2017, was \$3.2 million compared to \$2.7 million for the same period last year. Higher Adjusted EBITDA in the fourth quarter of fiscal 2017 was principally due to lower cost of sales and lower executive compensation expense. Adjusted EBITDA increased despite the negative affect due to the strengthening of the Canadian dollar which negatively impacted Adjusted EBITDA, by approximately 5%. In the fourth quarter of fiscal 2017, Adjusted EBITDA, as a percentage of total revenue, was 40% compared to 33% for the same period last year. The increase in percentage margin was driven mainly by a higher percentage decrease in expenses of 11% compared to only a 1% decrease in revenues.

Adjusted EBITDA for the year ended September 30, 2017, was \$13.4 million (41% of total revenue), compared to \$13.6 million (38% of total revenue) for the same period last year. The decrease in Adjusted EBITDA was due mainly to lower revenues. The increase in Adjusted EBITDA as a percentage of revenue was due to primarily to lower cost of sales. In addition, the overall increase in Adjusted EBITDA was despite the negative affect due to the strengthening of the Canadian dollar which negatively impacted Adjusted EBITDA by approximately 1%.

### Amortization

For the year ended September 30, 2017, the amortization of intangible assets represented the normal amortization expense attributed to the acquisition of the 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 year ended September 30, 2017, the Company recorded amortization of its new internal ERP/CRM system. Total amortization costs related to intangible assets was \$2.5 million for fiscal 2017, compared to \$2.4 million for the same period last year.

### Stock based Compensation Plan

In fiscal 2017, the Company granted 246,666 stock options (2016 – Nil). In the same period, 176,666 stock options expired (2016 – 83,334), 66,667 stock options were forfeited (2016 – 40,000) and 12,700 stock options were exercised (2016 – 70,632).

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The compensation cost for the stock options has been determined based on the fair value method. It resulted in a non-cash charge to profit before income taxes of \$22 thousand in the fourth quarter of fiscal 2017 compared to a non-cash recovery of \$6 thousand in the same period last year. During the year ended September 30, 2017, a non-cash charge to income of \$720 thousand was made compared to \$1.6 million 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 September 30, 2017, the foreign exchange differences on translating the Company's foreign operations was a loss of \$4 thousand compared to a gain of \$54 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 September 30, 2017, the Company recorded a foreign exchange loss of \$155 thousand compared to a loss of \$11 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 year ended September 30, 2017, the foreign exchange differences on translating the Company's foreign operations was a loss of \$16 thousand compared to a loss of \$401 thousand for the same period last year. All other foreign exchange gains and losses are recorded in earnings for the period. For the year ended September 30, 2017, the Company recorded a foreign exchange loss of \$15 thousand compared to a loss of \$526 thousand for the same period last 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**

At September 30, 2017, the carrying value of the deferred income tax assets was \$571 thousand (September 30, 2016 - \$3.3 million) and the carrying value of the deferred tax liability was \$2.6 million (September 30, 2016 - \$3.4 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 offset.

For the fourth quarter of fiscal 2017, the Company recorded a current income tax recovery of \$388 thousand compared to an income tax recovery of \$1 million for the same period in the prior year. A deferred income tax expense of \$810 thousand was recorded in the fourth quarter of fiscal 2017 compared to a deferred tax expense of \$1.1 million in the fourth quarter of fiscal 2016. Presently, the Company's Canadian operations do not expect to pay federal taxes in the near future based on existing tax pools, planned activities and the current forecast of taxable income.

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

	<b>2017</b>
Capital cost allowance	<b>\$ 2,803</b>
Scientific research and development pools <sup>(1)</sup>	<b>1,742</b>
Share issue costs and other	<b>581</b>
	<b>\$ 5,126</b>

*(1) The Company has investment tax credits of \$832 thousand (September 30, 2016 - \$850 thousand) available to reduce future federal taxes payable. The investment tax credits will shelter approximately \$5.5 million of federal taxable income. The investment tax credits expire between 2030 and 2034. These amounts have been recognized in the consolidated financial statements.*

(a) The two U.S. subsidiaries, Epic Data Corporation and Serenic Software Inc., have net operating losses of \$1 million USD (\$1.2 million CAD) and \$1.2 million USD (\$1.5 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 (\$81 thousand CAD) and \$291 thousand USD (\$363 thousand CAD), respectively. The net operating losses carried forward expire at various dates up to 2034.

(b) The U.K. operations have trading losses of approximately £3.4 million (\$5.7 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 consolidated financial statements. The trading losses carried forward do not expire but are subject to specific loss limitations and potential expiries if business operations are transformed.

**Profit**

For the quarters ended September 30, 2017 and 2016, the Company's profit was \$1.9 million. Profit for the year ended September 30, 2017 was \$7.2 million compared to \$6.6 million last year. Despite the decrease in revenues, the increase in profit was due to decreased cost of sales, decreased stock based compensation expense, lower general and administrative expenses and lower professional fees compared to the prior year.

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### Adjusted Earnings

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

Adjusted Earnings Calculation <sup>(1)</sup>

**Profit for the period**  
**Adjusted for:**  
Amortization of intangible assets  
Stock based compensation  
Foreign exchange (gain) loss  
Deferred income taxes  
Adjusted Earnings (loss)  
Adjusted Earnings (loss) per basic weighted average number of shares outstanding  
Adjusted Earnings (loss) per diluted weighted average number of shares outstanding

Three months ended September 30,		Period-Over Period Change		Twelve months ended September 30,		Period-Over Period Change	
2017	2016	\$	%	2017	2016	\$	%
\$ 1,933	\$ 1,892	\$ 41	2%	\$ 7,219	\$ 6,636	\$ 583	9%
<b>630</b>	604	26	4%	<b>2,516</b>	2,413	103	4%
<b>22</b>	(6)	28	n/m	<b>720</b>	1,553	(833)	-54%
<b>155</b>	11	144	n/m	<b>15</b>	526	(511)	-97%
<b>810</b>	1,114	(304)	-27%	<b>1,948</b>	1,302	646	50%
\$ <b>3,550</b>	\$ 3,615	\$ (65)	-2%	\$ <b>12,418</b>	\$ 12,430	\$ (12)	n/m
\$ <b>0.16</b>	0.16	\$ -	0%	\$ <b>0.55</b>	\$ 0.53	\$ 0.02	4%
\$ <b>0.16</b>	0.16	\$ -	0%	\$ <b>0.55</b>	\$ 0.53	\$ 0.02	4%

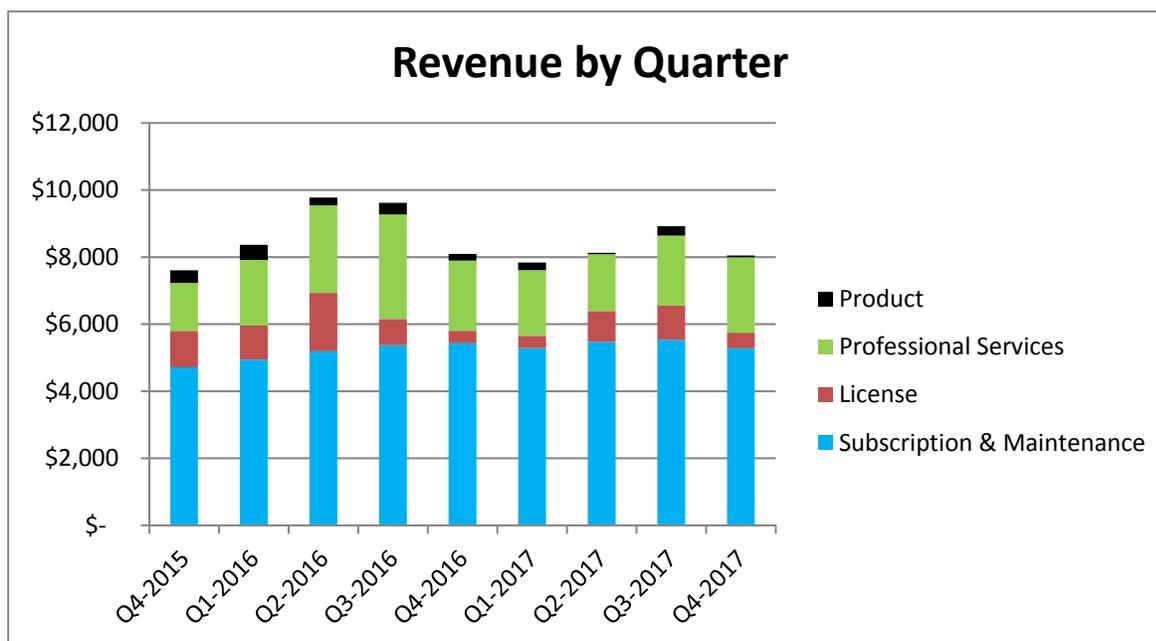
n/m - "Not Meaningful"

(1) Adjusted Earnings is a non-IFRS measure, defined as: profit for the period adjusted for certain non-cash expenses (income) such as amortization of intangible assets, stock based compensation, deferred income taxes as well as foreign exchange gains or losses and certain other expenses (income).

Adjusted Earnings for the three-month periods ended September 30, 2017 and 2016, were \$3.6 million. Adjusted Earnings for the years ended September 30, 2017 and 2016 were \$12.4 million. Despite the decreased revenues, Adjusted Earnings remained flat due to decreased general and administrative expenses, professional fees and foreign exchange gains compared to the prior year.

### 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)

2017	1-QTR	2-QTR	3-QTR	4-QTR	Full Year
Revenue	\$ 7,841	\$ 8,125	\$ 8,917	\$ 8,045	\$ 32,928
Adjusted EBITDA <sup>(1)</sup>	2,736	3,349	4,085	3,205	13,375
Adjusted EBITDA per basic weighted number of shares <sup>(3)</sup>	0.12	0.15	0.18	0.14	0.59
Adjusted Earnings <sup>(2)</sup>	2,474	2,895	3,499	3,550	12,418
Adjusted Earnings per basic weighted number of shares <sup>(3)</sup>	0.11	0.13	0.15	0.16	0.55
Profit for the period	1,261	1,821	2,204	1,933	7,219
Profit per basic weighted average shares outstanding <sup>(3)</sup>	0.05	0.08	0.10	0.09	0.32
Profit per diluted weighted average shares outstanding <sup>(3)</sup>	0.05	0.08	0.10	0.09	0.32
Dividends per share	0.120	0.070	0.070	0.070	0.330

2016	1-QTR	2-QTR	3-QTR	4-QTR	Full Year
Revenue	\$ 8,365	\$ 9,774	\$ 9,617	\$ 8,092	\$ 35,848
Adjusted EBITDA <sup>(1)</sup>	3,240	3,912	3,768	2,654	13,574
Adjusted EBITDA per basic weighted number of shares <sup>(3)</sup>	0.13	0.17	0.16	0.12	0.58
Adjusted Earnings <sup>(2)</sup>	2,711	3,140	2,964	3,615	12,430
Adjusted Earnings per basic weighted number of shares <sup>(3)</sup>	0.11	0.13	0.13	0.16	0.53
Profit (loss) for the period	1,476	1,610	1,657	1,892	6,635
Profit (loss) per basic weighted average shares outstanding <sup>(3)</sup>	0.06	0.07	0.07	0.08	0.28
Profit (loss) per diluted weighted average shares outstanding <sup>(3)</sup>	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) Adjusted Earnings is a non-IFRS measure, defined as: profit for the period adjusted for certain non-cash expenses (income) such as amortization of intangible assets, stock based compensation, deferred income taxes, as well as foreign exchange gains or losses and certain other expenses (income).

(3) Non-IFRS measure.

**Summary of Quarterly Results**

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. 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%. 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.

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. Adjusted EBITDA increased by 8% to \$4.1 million. Higher Adjusted EBITDA in the third quarter of fiscal 2017 was principally due

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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%. 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.

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. 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. 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 gains.

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. 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. 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.

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. 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. Amortization expense decreased from \$631 thousand to \$604 thousand. Stock based compensation expense decreased from \$694 million 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.

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. 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. Amortization expense decreased from \$697 thousand Q3 2015 to \$599 thousand Q3 2016. Stock based compensation expense decreased from \$1 million in Q3 2015 to \$449 thousand in Q3 2016. 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

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stock based compensation, offset to a degree by foreign exchange losses and higher income taxes.

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

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. 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. Amortization expense decreased from \$678 thousand to \$604 thousand compared to the same period in 2015. Stock based compensation 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. 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.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2017, the Company had adjusted working capital of \$31.8 million, compared to \$31 million as at September 30, 2016. As at September 30, 2017, the Company had cash and cash equivalents of \$28.8 million (September 30, 2016 - \$28.4 million).

### **Adjusted Working Capital <sup>(1)</sup>**

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

	<b>September 30, 2017</b>	September 30, 2016
Current assets	\$ 33,379	\$ 35,852
Current liabilities	(10,621)	(13,729)
Deferred revenue	9,073	8,926
	\$ 31,831	\$ 31,049
Per basic shares outstanding at period end	\$ 1.42	\$ 1.36

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 fiscal 2017 was \$71 thousand, compared to \$228 thousand in 2016.

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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.

The Company has entered into various leases for its operating premises and service commitments. The following table discloses Sylogist's contractual obligations as at September 30, 2017:

(Amounts in thousands of Canadian dollars)

<b>Contractual Obligations</b>	<b>Total</b>	<b>Fiscal 2018</b>	<b>Fiscal 2019-2020</b>	<b>Fiscal 2020-2022</b>
<b>Premise/Services</b>	<b>\$ 1,682</b>	<b>\$ 764</b>	<b>\$ 607</b>	<b>\$ 311</b>

**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 14% of the Company's total trade accounts receivable (September 30, 2016 – 8%), 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 \$106 thousand represents approximately 3.1% of the trade accounts receivable as at September 30, 2017 (September 30, 2016 – 0.1%). Most sales are invoiced with payment terms of 30 to 60 days. As at September 30, 2017, three customers accounted for 52% of the total trade accounts receivable (September 30, 2016 – 54%). Revenue from one customer represented approximately \$4 million or 12.3% of consolidated revenue earned during fiscal 2017 (September 30, 2016 – 13.7%). The aging of the trade receivables balance is as follows:

(Amounts in thousands of Canadian dollars)

	<b>2017</b>
1-30 days	<b>\$ 2,075</b>
31-90 days	<b>837</b>
91 + days	<b>461</b>
Total trade receivables	<b>3,373</b>
Allowance for doubtful accounts	<b>(106)</b>
Other receivables	<b>225</b>
Total accounts receivable	<b>\$ 3,492</b>

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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 September 30, 2017, 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.

### **Foreign currency rate risk management**

A portion of the Company's sales are made to customers in the United States and Europe. Accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company does not have any exposure to highly inflationary foreign currencies. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and trade accounts receivable to offset foreign currency payables. As at September 30, 2017, 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 \$55 thousand (September 30, 2016 - \$92 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 \$8 thousand (September 30, 2016 - \$6 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 September 30, 2017, the increase or decrease in profit before tax for each 1% change in interest rates on the Company cash and cash equivalents amounts to approximately \$288 thousand (September 30, 2016 - \$286 thousand) per annum.

## **OFF BALANCE SHEET FINANCIAL ARRANGEMENTS**

The Company has not engaged in any off-balance sheet financial arrangements as at September 30, 2017.

## **TRANSACTIONS WITH RELATED PARTIES**

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

For fiscal 2017, 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 fiscal 2017, the Company paid director's fees totaling \$80 thousand (2016 - \$80 thousand).

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

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)

	<b>2017</b>
Salaries and benefits-key management	<b>\$ 1,100</b>
Executive bonus	<b>2,123</b>
Stock based compensation	<b>566</b>
Directors' fees	<b>80</b>
	<b>\$ 3,869</b>

**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

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value of the intangible asset (if any) at the end of the discrete projection period to arrive at a conclusion with respect to the estimated fair value of the subject intangible assets.

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

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

*Deferred income taxes* - assumptions and estimates are made regarding the amount utilization and timing of realization and/or settlement of the temporary differences between the accounting carrying value of the Company's assets versus the tax basis of those assets, and the tax rates at which the differences will be recovered or settled in the future. The Company has recorded the full deferred tax asset related to Sylogist's 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 Tax Cuts and Jobs Act was enacted into law in the United States. The Tax Cuts and Jobs Act has, among other things, reduced the United States' corporate tax rate to 21%. The Company has been paying taxes in the United States at a corporate rate of 35%. The Company is currently analyzing the impact to future reporting periods, primarily due to the re-measurement of deferred tax assets and liabilities.

*Investment tax credits* - The amounts recorded as investment tax credits ("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 scientific research and experimental development ("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.

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### **Outstanding share data**

As of the date of this MD&A, the Company has 22,435,794 common shares issued and outstanding and 2,023,350 stock options to acquire common shares outstanding, with an average exercise price of \$9.22 per common share.

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

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

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

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

#### IAS 1 – Presentation of Financial Statements

In December 2014, the IASB issued amendments to IAS 1. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when preparing their financial statements. The amendments may impact presentation relating to materiality, presentation of financial position and profit or loss and other comprehensive income, and notes to the financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have a material effect on the Company's consolidated financial statements.

(b) The standards and interpretations that are issued but not yet effective up to the date of issuances of the Company's consolidated financial statements are listed below. The Company is currently analyzing existing contractual agreements to determine the impact, with no definitive conclusion yet made, 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

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leases where the lease term is twelve months or less and for leases of low value items. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15.

The Company is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either: a) apply IFRS 16 with full retrospective effect; or b) recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening equity at the date of initial application. The standard will be effective on October 1, 2019 for the Company.

### **IFRS 9 – Financial Instruments**

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

### **IFRS 15 – Revenue from Contracts with Customers**

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

## **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 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.

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**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 assurances 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 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.

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**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. 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

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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 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

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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.

**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.

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**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 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

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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, 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.

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**Litigation**

The Company is 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.

**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

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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.