

SYLOGIST LTD.

Consolidated Financial Statements

For the years ended September 30, 2017 and 2016





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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sylogist Ltd.

We have audited the accompanying consolidated financial statements of Sylogist Ltd., which comprise the consolidated statements of financial position as at September 30, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sylogist Ltd. as at September 30, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
January 15, 2018
Calgary, Alberta

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

(Audited)

	Notes	September 30, 2017	September 30, 2016
Assets			
Current assets:			
Cash and cash equivalents	5	\$ 28,753	\$ 28,369
Restricted cash	5	-	240
Trade and other receivables	6	3,492	5,013
Prepaid expenses	7	1,298	2,097
Inventories		28	133
		33,571	35,852
Non-current assets			
Property and equipment	8	305	488
Intangible assets	9	12,439	14,471
Goodwill	10	7,227	7,227
Deferred tax	11(a)	571	3,318
		20,542	25,504
Total assets		\$ 54,113	\$ 61,356
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	12	\$ 1,382	\$ 4,392
Deferred revenue	14	9,073	8,926
Deposits and retainers	14	286	372
Current obligation-Onerous contract	13(a)	33	-
Current portion of lease inducements	13(b)	38	39
		10,812	13,729
Non-current liabilities:			
Deferred tax	11(a)	2,641	3,399
Onerous Contract	13(a)	20	-
Lease inducements	13(b)	22	60
		2,683	3,459
Total liabilities		13,495	17,188
Shareholders' equity:			
Issued capital	15(b)	57,391	58,385
Contributed surplus	15(c)	8,679	7,997
Foreign currency translation reserve		(161)	(177)
Deficit		(25,291)	(22,037)
		40,618	44,168
Total liabilities and shareholders' equity		\$ 54,113	\$ 61,356

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

Approved on behalf of the Board:

"Fraser Elliott" Director
"Jim Wilson" Director

Sylogist Ltd.

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

For the years ended September 30, 2017 and 2016
(Audited)

	Notes	2017	2016
Revenue	16	\$ 32,928	\$ 35,848
Cost of sales		9,408	11,999
Gross profit		23,520	23,849
General and administrative		4,434	4,883
Executive bonuses		2,123	2,029
Professional fees		365	826
Acquisition-related costs		5	-
Sales and marketing		1,977	1,891
Product research		1,444	881
Depreciation of property and equipment	8	186	171
Amortization of intangible assets	9	2,516	2,413
Stock based compensation	15(f)	720	1,553
Foreign exchange loss		15	526
Interest income ⁽¹⁾		(198)	(235)
Profit before income tax		9,933	8,911
Current income tax		766	973
Deferred income tax	11(a)	1,948	1,302
	11(b)	2,714	2,275
Profit for the year		7,219	6,636
Other comprehensive income			
To be recycled through income:			
Exchange differences on translating foreign operations		16	401
Total comprehensive income for the year		\$ 7,235	\$ 7,037
Attributable to:			
Owners of the company		\$ 7,235	\$ 7,037
Basic earnings per share		\$ 0.32	\$ 0.28
Diluted earnings per share		\$ 0.32	\$ 0.28
Basic weighted average number of shares outstanding	15(h)	22,674,532	23,440,379
Diluted weighted average number of shares outstanding	15(h)	22,749,236	23,440,379

(1) Interest Income for years ended September 30, 2017 and September 30, 2016 is net of immaterial interest expense amounts.

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

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

For the years ended September 30, 2017 and 2016
(Audited)

	Notes	Share Capital	Contributed Surplus	Foreign Currency Translation Reserve	Deficit	Total Equity
As at September 30, 2015		\$ 62,214	\$ 6,704	\$ (578)	\$ (9,931)	\$ 58,409
Profit for the year		-	-	-	6,636	6,636
Foreign currency translation adjustment		-	-	401	-	401
Total comprehensive income for the year		-	-	401	6,636	7,037
Payment of dividends	15(d)	-	-	-	(8,576)	(8,576)
Exercise of options	15(f)	911	(260)	-	-	651
Share buy-back and cancellation		(4,740)	-	-	(10,166)	(14,906)
Stock based compensation		-	1,553	-	-	1,553
Balance as at September 30, 2016		\$ 58,385	\$ 7,997	\$ (177)	\$ (22,037)	\$ 44,168
Profit for the year		-	-	-	7,219	7,219
Foreign currency translation adjustment		-	-	16	-	16
Total comprehensive income for the year		-	-	16	7,219	7,235
Payment of dividends	15(d)	-	-	-	(7,473)	(7,473)
Exercise of options	15(f)	155	(38)	-	-	117
Share buy-back and cancellation	15(e)	(1,149)	-	-	(2,999)	(4,148)
Stock based compensation		-	720	-	-	720
Balance as at September 30, 2017		\$ 57,391	\$ 8,679	\$ (161)	\$ (25,291)	\$ 40,618

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

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

For the years ended September 30, 2017 and 2016
(Audited)

	Notes	2017	2016
Operating Activities			
Profit before income taxes		\$ 9,933	\$ 8,911
Items not affecting cash			
Depreciation of property and equipment	8	231	221
Amortization of intangible assets	9	2,552	2,455
Stock based compensation	15(f)	720	1,553
Amortization of assumed office leases		(120)	(201)
Cash taxes paid		(1,774)	(219)
Cash from operating activities before non-cash change in working capital		11,542	12,720
Changes in non-cash operating assets and liabilities			
Trade and other receivables	6	1,340	(2,126)
Inventory		105	36
Prepaid expenses and deposits	7	800	(125)
Trade and other payable	12	(1,804)	390
Deferred revenue, deposits and retainers	14	61	(438)
Cash generated from operations		12,044	10,457
Investing Activities			
Restricted cash	5	240	-
Purchase of property and equipment	8	(71)	(228)
Acquisition of intangible assets	9	(522)	(749)
Interest received ⁽¹⁾		181	224
Cash utilized in investing activities		(172)	(753)
Financing Activities			
Proceeds from share issuance, less issue costs	15(b)	117	651
Repurchase of common shares	15(e)	(4,148)	(14,906)
Payment of dividends	15(d)	(7,473)	(8,576)
Cash utilized in financing activities		(11,504)	(22,831)
Increase (decrease) in cash and cash equivalents		368	(13,127)
Effect of currency translation adjustment on cash and cash equivalents		16	401
Cash and cash equivalents, beginning of year		28,369	41,095
Cash and cash equivalents, end of year		\$ 28,753	\$ 28,369

(1) Interest received in 2016 of \$224 has been reclassified from operating activities to investing activities to conform with the 2017 presentation.

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

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Notes to the Consolidated Financial Statements
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For the years ended September 30, 2017 and 2016

1. Nature of operations

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

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

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

These audited annual consolidated financial statements were approved and authorised for issuance by the Board of Directors on January 15, 2018.

2. Consolidated financial statements

(a) Statement of presentation

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

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates, judgments and assumptions

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods

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could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are as follows:

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

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

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

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

Deferred income taxes – assumptions and estimates are made regarding the amount, utilization and timing of realization and/or settlement of the temporary differences between the accounting carrying value of the Company's assets versus the tax basis of those assets, and the tax rates at which the differences will be recovered or settled in the future. The Company has recorded the full deferred tax asset related to Sylogist's subsidiary Serenic Software Inc. 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

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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 depend on considerable risks and uncertainties.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law in the United States. 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 (“ITC’s”), are included in deferred taxes, and the utilization thereof are subject to an expiry date and are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes of estimates in future periods could be significant. A deferred tax asset is recognized for unused tax losses in each tax jurisdiction to the extent it is probable that the future taxable profits will be available against which they can be utilized.

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

3. Significant accounting policies

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

(a) Cash and cash equivalents

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

(b) Basis of consolidation

Subsidiaries:

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

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing. Identifiable assets acquired along with liabilities and contingent liabilities assumed in a business combination are measured initially at their

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fair values as of the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the consolidated statement of comprehensive income.

Transactions eliminated on consolidation:

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

(c) Financial instruments

Non-derivative financial instruments:

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

Financial assets at fair value through profit and loss:

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

Other:

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

Derivative financial instruments:

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

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

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

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Share capital:

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

Foreign currency translation adjustment reserve:

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

(d) Inventories

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

(e) Property and equipment

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

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

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

(f) Intangible assets

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

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

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

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(g) Impairment of tangible and intangible assets

At the end of each reporting period, management assesses the carrying amounts of its tangible and intangible assets for both external and internal indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

(h) Goodwill

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

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

(i) Revenue

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

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

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units is measured and allocated amongst the units of accounting based upon their fair values and the Company's relevant revenue recognition policies are applied to them, as outlined below.

Revenue from professional services is recognized as the services are performed. Revenue from the sale of software licenses is recognized when the licensing contract is signed and the software is shipped.

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

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

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

(j) Foreign currency translation

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

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

(k) Leases

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

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

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

(l) Share based compensation

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

(m) Income tax

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

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

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

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

(n) Investment tax credits

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

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

(o) Earnings per share

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

(p) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. There were no material provisions requiring recognition for the years ended September 30, 2017 and September 30, 2016.

4. 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.

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(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 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.

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5. Cash and cash equivalents

Cash and cash equivalents as of September 30, 2017 and September 30, 2016 consisted of the following:

	<u>2017</u>		<u>2016</u>
Cash	\$ 13,753	\$	10,869
Cash equivalents	<u>15,000</u>		<u>17,500</u>
Total	<u>\$ 28,753</u>	\$	<u>28,369</u>

Cash equivalents are comprised of banker's acceptances with interest rates of 1.25% - 1.5% (2016 1.01%-1.07%), and maturities from 61-90 days.

Restricted cash of \$240 relates to Serenic's acquisition and represents the holdback amount held by an Escrow Agent, which was released to vendor in October 2016 (Note 17b).

6. Trade and other receivables

	<u>2017</u>		<u>2016</u>
Trade receivables, gross	\$ 3,373	\$	3,985
Allowance for doubtful accounts	<u>(106)</u>		<u>(2)</u>
Trade receivables	<u>3,267</u>		<u>3,983</u>
Other receivables	<u>225</u>		<u>1,030</u>
Trade and other receivables	<u>\$ 3,492</u>	\$	<u>5,013</u>

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

7. Prepaid expenses

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

	<u>2017</u>		<u>2016</u>
Prepaid software royalties	\$ 857	\$	1,547
Other prepaid expenses and deposits	<u>441</u>		<u>550</u>
	<u>\$ 1,298</u>	\$	<u>2,097</u>

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8. Property and equipment

	Computer hardware	Computer equipment under finance lease	Furniture and equipment	Leasehold improvements	Total
Cost					
Balance at October 1, 2015	\$ 584	\$ 34	\$ 345	\$ 517	\$ 1,480
Additions	205	-	23	-	228
Disposals/retirements	(2)	-	-	-	(2)
Effect of movements in foreign exchange	(2)	-	(2)	-	(4)
Balance at September 30, 2016	\$ 785	\$ 34	\$ 366	\$ 517	\$ 1,702
Additions	57	-	4	10	71
Disposals/retirements	(6)	-	(12)	-	(18)
Effect of movements in foreign exchange	(11)	-	(3)	(1)	(15)
Balance at September 30, 2017	\$ 825	\$ 34	\$ 355	\$ 526	\$ 1,740
Accumulated Depreciation					
Balance at October 1, 2015	\$ 356	\$ 34	\$ 264	\$ 342	\$ 996
Depreciation charge for the year ⁽¹⁾	122	-	51	48	221
Disposals/retirements	(2)	-	-	-	(2)
Effect of movements in foreign exchange	-	-	(1)	-	(1)
Balance at September 30, 2016	\$ 476	\$ 34	\$ 314	\$ 390	\$ 1,214
Depreciation charge for the year ⁽¹⁾	155	-	24	52	231
Disposals/retirements	(5)	-	-	-	(5)
Effect of movements in foreign exchange	(2)	-	(3)	-	(5)
Balance at September 30, 2017	\$ 624	\$ 34	\$ 335	\$ 442	\$ 1,435
Carrying amounts					
At September 30, 2016	\$ 309	\$ -	\$ 52	\$ 127	\$ 488
At September 30, 2017	\$ 201	\$ -	\$ 20	\$ 84	\$ 305

(1) In fiscal 2017, \$45 (2016 - \$50) of depreciation costs were categorized as cost of goods sold.

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9. Intangible assets

	Software licenses, rights and patent	Customer lists	Software codes	Total
Cost				
Balance at October 1, 2015	\$ 3,190	\$ 11,777	\$ 9,450	\$ 24,417
Additions ⁽²⁾	68	-	681	749
Effect of movements in foreign exchange	(3)	(1)	(2)	(6)
Balance at September 30, 2016	\$ 3,255	\$ 11,776	\$ 10,129	\$ 25,160
Additions ⁽²⁾	25	-	497	522
Effect of movements in foreign exchange	(10)	(3)	(3)	(16)
Balance at September 30, 2017	\$ 3,270	\$ 11,773	\$ 10,623	\$ 25,666
Accumulated Amortization				
Balance at October 1, 2015	\$ 2,031	\$ 3,362	\$ 2,846	\$ 8,239
Amortization for the year ⁽¹⁾	450	1,012	993	2,455
Effect of movements in foreign exchange	(3)	(1)	(1)	(5)
Balance at September 30, 2016	\$ 2,478	\$ 4,373	\$ 3,838	\$ 10,689
Amortization for the year ⁽¹⁾	440	1,012	1,100	2,552
Effect of movements in foreign exchange	(9)	(2)	(3)	(14)
Balance at September 30, 2017	\$ 2,909	\$ 5,383	\$ 4,935	\$ 13,227
Carrying amounts				
At September 30, 2016	\$ 777	\$ 7,403	\$ 6,291	\$ 14,471
At September 30, 2017	\$ 361	\$ 6,390	\$ 5,688	\$ 12,439

(1) In fiscal 2017, \$36 (2016 - \$42) of amortization costs were categorized as cost of goods sold.

(2) During the year, the Company capitalized \$312, offset by \$9 of ITC's (2016 - \$467, offset by \$89 of ITC's) of software development costs and \$168 (2016 - \$335) of system implementation costs related to its internal systems upgrade.

10. Goodwill

The carrying amount of goodwill can be analyzed as follows:

	2017	2016
Gross carrying amount from:		
Acquisition of Bellamy	\$ 1,934	\$ 1,934
Acquisition of Weave	771	771
Acquisition of Serenic	4,522	4,522
	\$ 7,227	\$ 7,227

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The Company performed its annual impairment test as at September 30, 2017. For the purpose of annual impairment testing, all goodwill was allocated to the CGU which is expected to benefit from the synergies of the business combinations from which goodwill arose.

The recoverable amount of the CGU was determined based on value in use. The calculation used pre-tax cash flows covering a five year period based on financial budget and forecast approved by management, using an expected average growth rate of 3% and inflation rate of 2% and a risk adjusted discount rate of 33%. Key assumptions also include usual profit margins and growth within the international and North American markets determined by past experience. As at September 30, 2017, the recoverable amount of the CGU exceeded its carrying value by a considerable amount. If future results, in particular, future revenues, were to be significantly different from management's best estimates of key assumptions, the Company could potentially experience future impairment charges in respect of its goodwill.

11. Income tax

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

	As at September 30, 2016	Recognized in earnings	Other	As at September 30, 2017
Property, equipment and intangibles	\$ (4,559)	\$ 637	\$ (15)	\$ (3,937)
Scientific research and development pools	1,268	(165)	(26)	1,077
Non-capital losses	2,878	(2,298)	-	580
Share issuance and other	332	(122)	-	210
	\$ (81)	\$ (1,948)	\$ (41)	\$ (2,070)

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

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

	2017	2016
Deferred tax assets	\$ 571	\$ 3,318
Deferred tax liabilities	(2,641)	(3,399)
	\$ (2,070)	\$ (81)

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

	2017	2016
Profit before income taxes	\$ 9,933	\$ 8,911
Corporate income tax rate	27.0%	27.0%
Computed expected tax provision	2,682	2,406
Increase (decrease) in income taxes resulting from:		
- Rate difference on foreign operations	314	197
- Stock compensation expense	78	93
- Operating losses ⁽¹⁾	(343)	(424)
- Other	(17)	3
Income tax expense	\$ 2,714	\$ 2,275

(1) In the 2017 fiscal year, the Company utilized operating losses of approximately \$148 (\$114 USD) [2016 - \$151 (\$114 USD)] related to its Serenic Software Inc. subsidiary and approximately \$34 (\$26 USD) of operating losses utilized by Epic Data Corporation and approximately \$26 (£15) of trading losses utilized by Epic Data Limited. Also included in the operating losses is an income tax recovery of \$135 (\$104 USD) [2016 - \$273 (\$207 USD)], that the Company recognized related to its Serenic Software Inc. subsidiary based on the Company's determination that these assets will more likely than not be realized. The Company considered all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and the subsidiary's current year results.

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

	2017	2016
Capital cost allowance	\$ 2,803	\$ 1,450
Non-capital losses	-	9,006
Scientific research and development pools ⁽¹⁾	1,742	2,399
Cumulative eligible capital ⁽²⁾	-	1,854
Share issue costs and other	581	1,162
	\$ 5,126	\$ 15,871

(1) The Company has investment tax credits of \$832 (September 30, 2016 - \$850) available to reduce future federal taxes payable. The investment tax credits will shelter approximately \$5,546 of federal taxable income. The investment tax credits expire between 2030 and 2034. These amounts have been recognized in the consolidated financial statements.

(2) The Company's cumulative eligible capital tax pools were transferred to the capital cost allowance tax pools pursuant to new legislation that came into effect on January 1, 2017.

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(d) The two US subsidiaries, Epic Data Corporation and Serenic Software Inc., have net operating losses of \$980 USD (\$1,223 CAD) and \$1,192 USD (\$1,486 CAD), respectively, which are available to reduce taxable income in future periods subject to specific annual loss limitations with the maximum annual loss claim being approximately \$65 USD (\$81 CAD) and \$291 USD (\$363 CAD), respectively. The net operating losses carried forward expire at various dates up to 2034.

(e) The UK operations have trading losses of approximately £3,375 (\$5,710 CAD), which could reduce taxable income in future periods. The future tax benefit of the trading losses being carried forward has not been recognized in these consolidated financial statements. The trading losses carried forward do not expire but are subject to specific loss limitations and potential expiries if business operations are transformed.

12. Trade and other payables

Trade and other payables can be summarized as follows:

	<u>2017</u>	2016
Trade payables	\$ 363	\$ 1,707
Short-term employee payable	726	814
Professional fees accrual	227	408
Supplier costs accrual	16	428
Corporate taxes payable	-	865
Other taxes payable	33	29
Miscellaneous	17	141
	<u>\$ 1,382</u>	<u>\$ 4,392</u>

13. Onerous contract and leasehold inducements

a) Onerous contract

	<u>2017</u>
Onerous contract, beginning of the year	\$ -
Additions	98
Amortized during the year	<u>(45)</u>
Balance, end of the year	53
Less: Portion due within one year	<u>(33)</u>
	<u>\$ 20</u>

In Fiscal 2017, the Company streamlined its operations in Vancouver, BC resulting in excess office space and began negotiating with potential subtenants. As a result, a sublease loss liability of \$98 was accrued for in fiscal 2017. The obligation was calculated as the discounted future lease payments, net of expected sublease payments, as sublease rates at the time were below current rental rates and therefore, the provision included a rent

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shortfall. Accretion on the sublease loss provision is included in finance costs in the consolidated statements of income and comprehensive income.

b) Lease inducements

	2017	2016
Lease inducements, beginning of the year	\$ 99	\$ 143
Amortized during the year	(39)	(44)
Balance, end of the year	60	99
Less: Portion due within one year	(38)	(39)
	\$ 22	\$ 60

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

14. Deferred revenue, deposits and retainers

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

	Deferred Revenue	Deposits and Retainers
Balance at October 1, 2015	\$ 8,896	\$ 838
New Contracts	20,283	291
Applied or Amortized	(20,253)	(757)
Balance at September 31, 2016	8,926	372
New Contracts	19,626	1,123
Applied or Amortized	(19,479)	(1,209)
Balance at September 30, 2017	\$ 9,073	\$ 286

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15. Share capital

(a) Authorized: Unlimited number of common shares

(b) Issued

	2017		2016	
	Number	\$	Number	\$
Common shares				
Balance, beginning of the year	22,885,094	\$ 58,385	24,695,062	\$ 62,214
Repurchase of common shares	(452,200)	(1,149)	(1,880,600)	(4,740)
Issued on exercise of options	12,700	117	70,632	650
Fair value of options exercised	-	38	-	261
Balance, end of the year	22,445,594	\$ 57,391	22,885,094	\$ 58,385
Total share capital		\$ 57,391		\$ 58,385

Pursuant to Normal Course Issuer Bids ("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 \$4,148, of which \$2,999 was applied against deficit for the year ended September 30, 2017 and \$1,149 against share capital.

(c) Contributed surplus

	2017	2016
Balance, beginning of the year	\$ 7,997	\$ 6,704
Transfer to common share capital on exercise of options	(38)	(260)
Stock based compensation	720	1,553
Balance, end of the year	\$ 8,679	\$ 7,997

(d) Dividends

In fiscal 2017, the Company paid dividends to shareholders totaling \$7,473 at an average dividend amount of \$0.33 per share. This amount includes regular dividends paid totaling \$6,336 at an average dividend amount of \$0.28 per share and a special dividend paid on December 14, 2016, totaling \$1,137 at an average dividend amount of \$0.05 per share.

In fiscal 2016, the Company paid dividends to shareholders totaling \$8,576 at an average dividend amount of \$0.365 per share. This amount includes regular dividends paid totaling \$6,186 at an average dividend amount of \$0.265 per share and a special dividend paid on December 30, 2015, totaling \$2,390 at an average dividend amount of \$0.10 per share.

(e) Normal course issuer bid

On May 21, 2016, the Company commenced a Normal Course Issuer Bid ("NCIB"), to purchase up to 2,054,039 of its common shares, pursuant to which, and prior to September 30, 2016, it purchased 369,000 common shares at an average price of \$10.48 for a total cost of \$3,867. In fiscal 2016, the Company repurchased 1,880,600 Common Shares at an average price of \$7.93 for a total cost of \$14,906.

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For the period October 1, 2016 to the NCIB expiry on May 20, 2017, the Company repurchased 325,700 of its common shares at an average price of \$9.28 for a total cost of \$3,023.

On May 21, 2017, the Company commenced a NCIB to acquire up to 2,087,621 of its common shares over a 12-month period. For the period May 21, 2017 to September 30, 2017, the Company repurchased 126,500 of its common shares at an average price of \$8.89 for a total cost of \$1,125.

In fiscal 2017, the Company repurchased 452,200 Common Shares at an average price of \$9.17 for a total cost of \$4,148. All purchases of its common shares are for cancellation.

(f) Stock options

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

	<u>September 30, 2017</u>		<u>September 30, 2016</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of the year	1,989,384	\$ 9.19	2,183,350	\$ 9.20
Granted	246,666	9.65	-	-
Exercised	(12,700)	9.19	(70,632)	9.19
Forfeited	(66,667)	9.83	(40,000)	9.19
Expired	(176,666)	9.29	(83,334)	9.19
Outstanding, end of the year	<u>1,980,017</u>	<u>\$ 9.20</u>	<u>1,989,384</u>	<u>\$ 9.19</u>
Options exercisable, end of the year	<u>1,756,683</u>	<u>\$ 9.20</u>	<u>1,316,598</u>	<u>\$ 9.20</u>

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

	<u>2017</u>
Risk-free interest rate	<u>0.98%</u>
Expected life (years)	<u>5</u>
Expected volatility	<u>42%</u>
Annualized dividend per share	<u>\$0.280</u>
Forfeiture rate	<u>10%</u>

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In fiscal 2017, 246,666 stock options were granted at an average price of \$9.65 per share (2016 – Nil).

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

Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Period Until Exercisable	Number of Options Exercisable	Weighted-Average Remaining Contractual Life Post Vesting
\$ 9.19	1,678,350	-	1,678,350	1.8 years
9.19	76,667	0.7 years	53,333	2.7 years
9.48	15,000	-	15,000	1.8 years
10.10	110,000	2.0 years	10,000	4.0 years
8.25	100,000	2.6 years	-	-
	<u>1,980,017</u>	<u>0.3 years</u>	<u>1,756,683</u>	<u>1.8 years</u>

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

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

(h) The earnings per share have been calculated based on the weighted-average number of common shares outstanding during the year ended September 30, 2017, of 22,674,532 (2016 – 23,440,379). During the same period, the diluted weighted average number of shares outstanding was 22,749,236 (2016 – 23,440,379). For the year ended September 30, 2017, 74,704 options were included in the computation of diluted earnings per share (2016 – Nil).

16. Segmented information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the President and Chief Executive Officer. Historically, Sylogist has provided segmented information for both Private and Public Sector operations which, management

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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. Based on management's judgment, the Company concluded that there is one operating and reportable segment. This change in segment reporting did not have an impact on the Company's consolidated results for any period. Segment profit is measured as net profit (loss) before the consideration of income taxes. The Company does not identify or allocate working capital by reportable segment and there are no inter-segment revenues.

Geographical revenues and assets

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

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

Year ended September 30, 2017	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 10,914	\$ 21,332	\$ 682	\$ 32,928
Non-current assets	7,227	9,537	3,778	-	20,542

Year ended September 30, 2016	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 11,593	\$ 23,247	\$ 1,008	\$ 35,848
Non-current assets	7,227	14,146	4,131	-	25,504

17. Commitments and contingencies

(a) Commitments

Operating lease and service commitments

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

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

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(b) Contingencies

Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations. In connection with the Serenic acquisition, the vendor had commenced an action against the Company, which the Company had defended. In addition, the Company had counterclaimed against the vendor and its senior officers for misrepresentation damages. The claim and counterclaim were settled in their entirety in October 2016. In consideration of the settlement of all claims, the purchase price holdback held in trust by the Company's solicitors of \$240, plus accrued interest, was released to the vendor, with no other amounts being paid or payable.

(c) Indemnifications

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

18. Related party transactions

In fiscal 2017, the Company paid director's fees of \$80 (2016 - \$80), and no fees are outstanding as of September 30, 2017.

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

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

	<u>2017</u>	<u>2016</u>
Salaries and benefits-key management	\$ 1,100	\$ 1,297
Salaries and benefits- key management family members	-	9
Executive bonus	2,123	2,029
Stock based compensation	566	1,312
Directors' fees	80	80
	<u>\$ 3,869</u>	<u>\$ 4,727</u>

19. Capital risk management

The Company's objective, when managing capital, is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. Managed capital consists of the Company's current working capital (current assets less current liabilities). The Company sets the amount of managed capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to

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provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year-over-year sustainable, profitable growth. The Company is not subject to any externally imposed capital requirements.

20. Financial instruments

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

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

(a) Foreign currency rate risk management

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

As at September 30, 2017, the increase or decrease in profit before tax for each 1% change in the value of the Canadian dollar against the US dollar amounts to approximately \$55 (September 30, 2016 - \$92). For the same period, the increase or decrease in net income before taxes for each 1% change in the value of the Canadian dollar against the GBP amounts to approximately \$8 (September 30, 2016 - \$6).

(b) Credit risk

The Company is exposed to normal credit risk. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. As at September 30, 2017, the majority of the Company's cash and cash equivalents are held at one Canadian Chartered Bank. The Company has a concentration of credit risk. The concentration of credit risk is mitigated by having concentrations with credit worthy clients and broadening the Company's customer base. The allowance for doubtful accounts of \$106 represents approximately 3% of the trade accounts receivable as of September 30, 2017. Approximately 79% of the aged receivable over 91 days was collected by January 3, 2018. As at September 30, 2017, three customers accounted for 52% (September 30, 2016 – three customers accounted for 54%) of the Company's total trade accounts receivable. Revenue from one customer represented approximately \$4,034 or 12.3% of consolidated revenue earned during fiscal 2017 (September 30, 2016 – 13.7%).

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Aging of trade accounts receivable

	<u>2017</u>	2016
1-30 days	\$ 2,075	\$ 791
31-90 days	837	2,868
91 + days	461	326
Total trade receivables	<u>3,373</u>	3,985
Allowance for doubtful accounts	(106)	(2)
Other receivables	225	1,030
Total accounts receivable	<u>\$ 3,492</u>	<u>\$ 5,013</u>

Allowance for doubtful accounts continuity schedule

	<u>2017</u>	2016
Balance, beginning of the year	\$ (2)	\$ (34)
Allowance recognized-net	(104)	32
Balance, end of the year	<u>\$ (106)</u>	<u>\$ (2)</u>

(c) Liquidity risk

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

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

Trade and other payables:

	<u>2017</u>	2016
Trade payables	\$ 363	\$ 1,707
Corporate taxes payable	-	865
Accrued and other payable	1,019	1,820
Total trade and other payables	<u>\$ 1,382</u>	<u>\$ 4,392</u>

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

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(d) Interest rate risk

The Company's cash and cash equivalents are subject to interest rate price risk, as the value will fluctuate due to changes in market rates. As at September 30, 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 (September 30, 2016 - \$286) per annum.

(e) Fair value of financial instruments

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

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

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

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

Cash and cash equivalents have been classified as level 1.

Contingent considerations have been classified as level 3, and were valued by management based on achieving vesting conditions (Note 17b).

21. Subsequent events

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

(a) On October 19, 2017, Sylogist's subsidiary Serenic Software Inc. completed the acquisition of the assets of K12 Enterprise (K12E) and Sunpac Systems (Sunpac) from Jitasa, a privately held company, both K12E and Sunpac are providers of Enterprise Resource Planning solutions to the kindergarten to grade 12 education authorities in the United States. The total purchase price was \$4,400 (CAD) payable in cash (inclusive of a holdback of \$438 CAD) of \$1,800 (CAD) and by the assumption of certain liabilities, principally deferred revenue of \$2,600 (CAD). In addition, the Company expects to incur approximately \$110 (CAD) of acquisition-related costs. The results of the operations for K12E and Sunpac will be included in Sylogist's consolidated financial statements from the date of acquisition.

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(b) On November 20, 2017, the Company declared a quarterly eligible dividend of \$0.08 per share and a special dividend of \$0.05 per share on Sylogist's Common Shares, payable on December 12, 2017.

(c) On November 21, 2017, the Company announced the appointment of Taylor Gray, CA, CPA to its board, effective January 1, 2018. The Board of Directors has determined that Mr. Gray is an independent director pursuant to the rules of the TSX Venture Exchange. Concurrent with his appointment, Mr. Gray will be granted 60,000 stock options to acquire common shares of the Company, at the prevailing market price, in accordance with the Company's Stock Option Plan and all regulatory requirements, if any.

(d) Pursuant to a NCIB commenced on May 21, 2017, subsequent to September 30, 2017, the Company repurchased 9,800 of its Common Shares at an average price of \$10.10 per share for a total cost of \$99.

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Dave Elder,

Ron Cherkas, ⁽¹⁾⁽²⁾

C. Fraser Elliott, ⁽¹⁾⁽²⁾

Taylor Gray, ⁽¹⁾

⁽¹⁾ member of audit committee

⁽²⁾ member of compensation committee

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