

SYLOGIST ENERGY CORPORATION

MATERIAL CHANGE REPORT

Form 51-102F3

Item 1 - Name and Address of Company

Sylogist Ltd. (“**Sylogist**” or the “**Company**”)
Suite 102, 5 Richard Way S.W.
Calgary, Alberta T3E 7M8

Item 2 - Date of Material Change

The material change occurred on October 15, 2019.

Item 3 - News Release

A news release announcing the material change was issued through CNW Group on October 15, 2019.

Item 4 - Summary of Material Change

Effective October 15, 2019, the Company has agreed to the buy-out of the contractual bonus compensation arrangements with the CEO and the Executive Vice President for a one-time cash payment of \$12 million. In consideration of moving forward under new arrangements, the executives have agreed to reduce their change of control compensation, calculated as a percentage of the Company’s fully diluted market capitalization, (i) by 50% and (ii) to a total collective limit of \$15 million (such limit being achieved should the market capitalization at the time of a change of control exceed \$500 million).

Item 5 - Full Description of Material Change

5.1 Full Description of Material Change

Background

Over its several months’ review of executive compensation, the Compensation Committee and Sylogist’s executive team came to conclude that adopting a plan focusing on operational growth and stock performance is now best suited for the Company. Based on stakeholder discussions and feedback to the Company’s September, 2019 press release, a consensus opinion emerged and the Compensation Committee has determined to eliminate the Company’s current cash bonus structure altogether, understanding there is a one-time cost to the Company in doing so.

Effective October 15, 2019, the Company has agreed to the buy-out of the contractual bonus compensation arrangements with the CEO and the Executive Vice President on the terms described below. These executives will remain in their respective positions, with current base salaries and benefits continuing, along with a new bonus plan. The basis of the new bonus plan is intended to reward both incremental growth and operating performance improvements on a year over year basis as determined by the Compensation Committee.

The CEO's and the Executive Vice President's historical employment agreements entitled them, collectively, to 12% of the Company's internally calculated operating cash flow and came into effect when the Company had very little cash flow. Further, the Company was then seeking to acquire companies, as it continues to do today, with technology and customer advantages, which typically would have little if any cash flow at the time of acquisition. It was the stated intention of the Compensation Committee, that by acquiring smartly and applying their management skills, Sylogist's executive team would generate sustainable growth and profitability.

From modest beginnings, Sylogist has grown substantially. At June 30, 2019, the trailing 9 months' period reported Adjusted EBITDA(1) was \$13.2 million and cash flow from operations (before non-cash working capital adjustments) was \$10 million. The executives' collective cash bonuses for that period was \$2.26 million. Over the years, cash bonuses have risen with cash flow performance. Given the magnitude of current cash flow and potential for growth of cash flow, some shareholders have expressed a preference of limiting cash bonuses so these funds can be reinvested in the business.

Contractual Changes

The executives have agreed to relinquish their current cash bonus entitlement for the one-time cash payment of \$12 million. Doing so immediately adds, based on annualizing fiscal 2019 nine month results, \$2.2 million of after tax cash flow, results in a 17% improvement in operating cash flow (before non-cash working capital adjustments) and improves after tax profitability by 21%. The payment is non-dilutive to shareholders and, on an after-tax basis, is less than 4 times the Company's annual trailing cash flow associated with the bonus payments. In addition, a higher percentage of cash flow growth will now accrue to shareholders. This transaction will result in a one-time charge to earnings in Q1 of fiscal 2020.

Further, the Compensation Committee has heard concerns that, like executive bonuses otherwise payable, the potential executive payouts, in the event of a change of control, have grown and could become, over time, significantly larger. In consideration of moving forward under new arrangements, the executives have agreed to reduce their change of control compensation, calculated as a percentage of the Company's fully diluted market capitalization, (i) by 50% and (ii) to a total collective limit of \$15 million (such limit being achieved should the market capitalization at the time of a change of control exceed \$500 million).

The Company currently has 2,370,174 stock options available for issuance under its Stock Option Plan, of which 330,000 are outstanding. The Board of Directors has approved the issuance of 1,825,000 stock options, at the market price of the Company's shares at the time of issuance and subject to all applicable regulatory trading restrictions, to directors and officers consistent with its past practices. As previously advised, Sylogist has had a consistent and growing dividend track record with low stock price volatility, small daily trading volumes and a large percentage of USA based revenue, which characteristics make stock options the lowest cost, and a non-cash cost, form of equity compensation.

5.2 Disclosure for Restructuring Transactions

Not applicable.

Item 6 - Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7 - Omitted Information

Not applicable.

Item 8 - Executive Officer

David Elder, Executive Vice President
Telephone: (403) 266-4808

Item 9 - Date of Report

This report is dated October 17, 2019.

Forward-looking Statements

Certain statements in this material change report may be forward-looking statements within the meaning of applicable securities laws and regulations. These statements typically use words such as expect, believe, estimate, project, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology. Forward-looking information in this material change report includes statements with respect to the elimination of the current cash bonus structure for certain executives for a one-time cash payment, a new cash bonus structure being put in place, certain executives remaining in their current roles, relinquishing their bonus entitlements for a one-time cash payment, improvements in operating cash flow and profitability, the executives agreeing to voluntarily reduce their change of control compensation by 50% and the terms thereof and the issuance of stock options to the Company's directors and officers. By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the beliefs and plans and other forward-looking expectations expressed herein will not be achieved or will prove inaccurate. Although Sylogist believes that the expectations reflected in these forward-looking statements are reasonable, it provides no assurance that these expectations will prove to have been correct. Forward-looking information involves risks, uncertainties and other factors that could cause actual events, results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward-looking information. Additional information regarding some of these risks, uncertainties and other factors may be found under in the management's discussion and analysis for the period ended June 30, 2019, and other documents available on the Company's profile at www.sedar.com. Although Sylogist believes that the material assumptions and factors used in preparing the forward-looking information in this material change report are reasonable, undue reliance should not be placed on such information, which only applies as of the date of this material change report, and no assurance can be given that such events will occur. Sylogist disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, other than as required by law.

Certain information set out in this material change report 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.

Non-GAAP Financial Measures

(1) Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Working Capital are non-GAAP financial measures: Adjusted EBITDA is 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 Margin refers to Adjusted EBITDA as a percentage of revenue. Adjusted Working Capital is defined as current assets less current liabilities adjusted for deferred revenue.

This material change report makes reference to certain non-GAAP measures. These measures are not recognized measures under Canadian GAAP, do not have a standardized meaning prescribed by Canadian GAAP and are therefore may not be comparable to similar measures presented by other issuers. These measures are provided as additional information to complement measures under GAAP by providing further understanding of the Company's expected results of operations from management's perspective. Accordingly, such measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under Canadian GAAP.

Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Working Capital are provided to investors as alternative methods for assessing the Company's operating results in a manner that is focused on the Company's ongoing operations and to provide a more consistent basis for comparison between periods. These measures should not be construed as alternatives to net profit (loss) or cash flow from operating activities determined in accordance with GAAP as an indicator of the Company's performance. For further information regarding non-GAAP measures used by the Company, please refer to the management's discussion and analysis of the Company, copies of which are available on Sylogist's SEDAR profile at www.sedar.com.