

SYLOGIST LTD.

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

For the three and nine month periods ended June 30, 2019 and 2018



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Management's Discussion & Analysis

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The following Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") of Sylogist Ltd. ("Sylogist" or the "Company") should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and the related notes for the periods ended June 30, 2019 and 2018, as well as the Company's annual, audited Consolidated Financial Statements and Management's Discussion and Analysis of the Company for the fiscal year ended September 30, 2018. The Company's Financial Statements and MD&A consist of its results and the results of its wholly-owned subsidiaries; Sylogist USA Inc. and Serenic Software (U.K.) Limited, and its two indirect wholly-owned subsidiaries, Serenic Software Inc. and Serenic Software (US) Corporation.

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

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

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

This MD&A is dated as of August 12, 2019.

Forward-Looking Statements

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

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

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

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

- While growing revenue, Sylogist strives to maintain or exceed historical Adjusted EBITDA rates as a percentage of revenue. There can be short term trade-offs between revenue growth and Adjusted EBITDA (as defined in this MD&A) growth, as a typical acquisition can take 18 to 24 months to normalize and fully integrate into operations.
- Sylogist intends to continue to grow its business through strategic acquisitions, or investments, to expand its existing Public Sector (as defined in this MD&A) business. This will continue to be a focus as the Company looks to extend its reach. The Company continues to review and engage potential acquisition prospects that meet its selected acquisition criteria.
- Where deemed suitable and prospective, Sylogist makes investments in early stage technologies, through acquisition or internal development time and resources.
- 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 the market value is appropriate and the Company doesn't consider itself in a conflict given the internal and external initiatives underway, repurchasing its common shares in the market.
- In fiscal 2019, Sylogist expects to add further functionality to existing product lines to increase its footprint in the existing marketplace and expand its growth into other markets.
- The acquisition of common shares pursuant to the Company's Normal Course Issuer Bid.
- Estimated income tax pools and their utilization.
- Future dividends payable.
- 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.
- The Company will be adopting IFRS 16 on October 1, 2019 and is currently evaluating the impact of adopting this standard. The Company expects the adoption of this standard to increase assets and liabilities as it will be required to record a right-of-use asset and a corresponding lease liability in the Company's financial statements.
- 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.

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- 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.
- The Company expects to continue acquiring or investing in businesses, products and technologies that expand or complement the Company's current business, products and services.
- 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.
- The Company's results have been affected and it expects its future results could be adversely affected by significant foreign exchange fluctuations.

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 statements contained in this MD&A are made as of its date and Sylogist undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information or future events, unless so required by applicable securities laws.

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

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

Non-IFRS Measures

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

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

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

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

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

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

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

Overview

Sylogist is a software company that provides comprehensive, mission-critical enterprise resource planning ("ERP") solutions, including fund accounting, grant management and payroll, to public service organizations. The Company has two wholly-owned subsidiaries, Sylogist USA Inc. and Serenic Software (U.K.) Limited, and two indirect wholly-owned subsidiaries, Serenic Software Inc. and Serenic Software (US) Corporation. The Company and its subsidiaries operate globally as "Serenic Software". In addition, Serenic Software, under license from Microsoft Corporation, developed the "number one" add-in payroll and human resources software for use with Microsoft Dynamics® NAV, globally in many industries. Sylogist's public service customers include Local Governments, Non-Profit Organizations ("NPO"), Non-Governmental Organizations ("NGO"), Education Boards and Districts and Defense and Safety Contractors. The Company currently has over 1,000 customers worldwide that range in size and operational complexity, with the vast majority located in the USA and Canada and the remainder are in "U.K. and other" jurisdictions

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

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer. Based on management's judgment, the Company concluded that there is one operating and reportable segment, namely the Public Sector ("Public Sector").

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

Software license fees:

Software license fees are charged to the Company's customers for their use of its software products installed in-house or as hosted solutions. Virtually all of the Company's software license arrangements include other services, such as implementation and maintenance. The Company's software can be deployed as On-premise (installed within an organization's infrastructure) or Hosted (cloud deployment). The price the Company charges its customers is based on several variables being: the type of license; whether it is sold by a reselling partner or directly by the Company; which modules are included; the number of users being licensed; and the customers' jurisdiction. The timing of software license sales tends to be variable and unpredictable in nature, as the purchase decision and timing fluctuate with the customers' needs and budgets.

Subscription or SaaS (Software as a Service):

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

Maintenance Revenue:

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

Professional Services Revenues:

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

Product Revenues:

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

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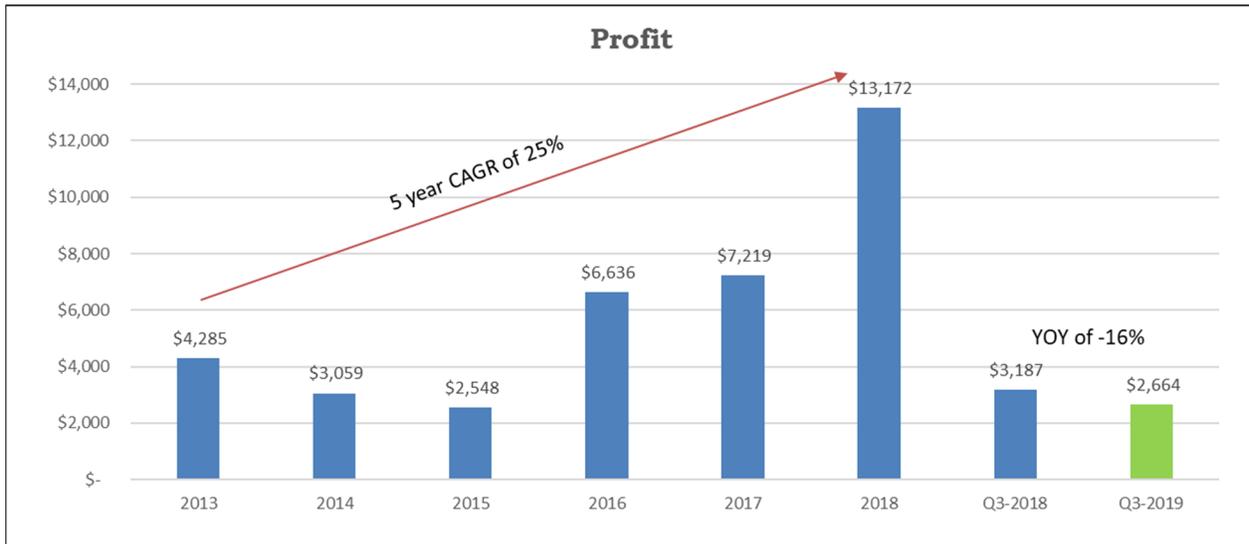
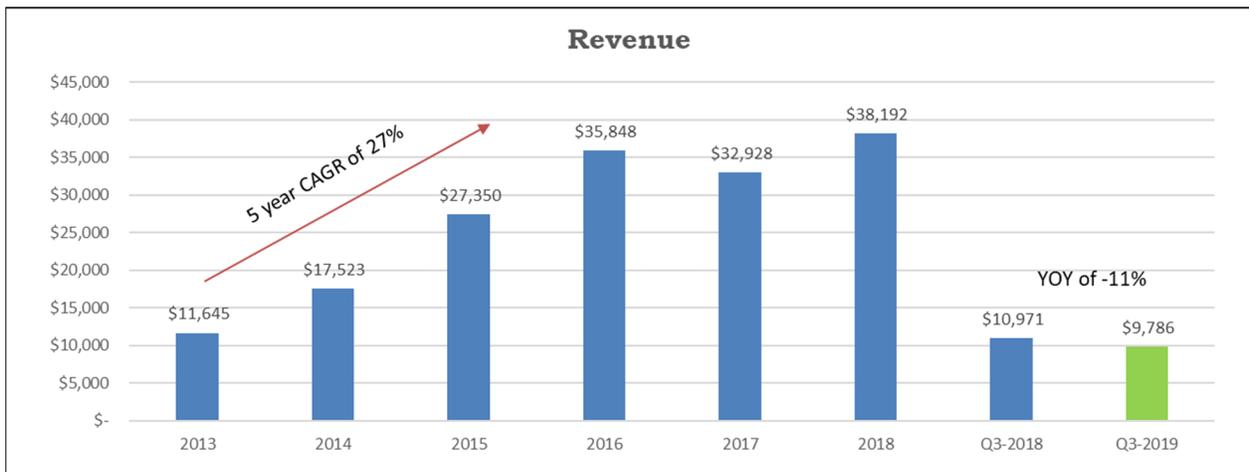
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and unpredictable in nature as the purchase decision and timing fluctuate with the Company’s customers’ needs and budgets.

Focus and Strategy

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

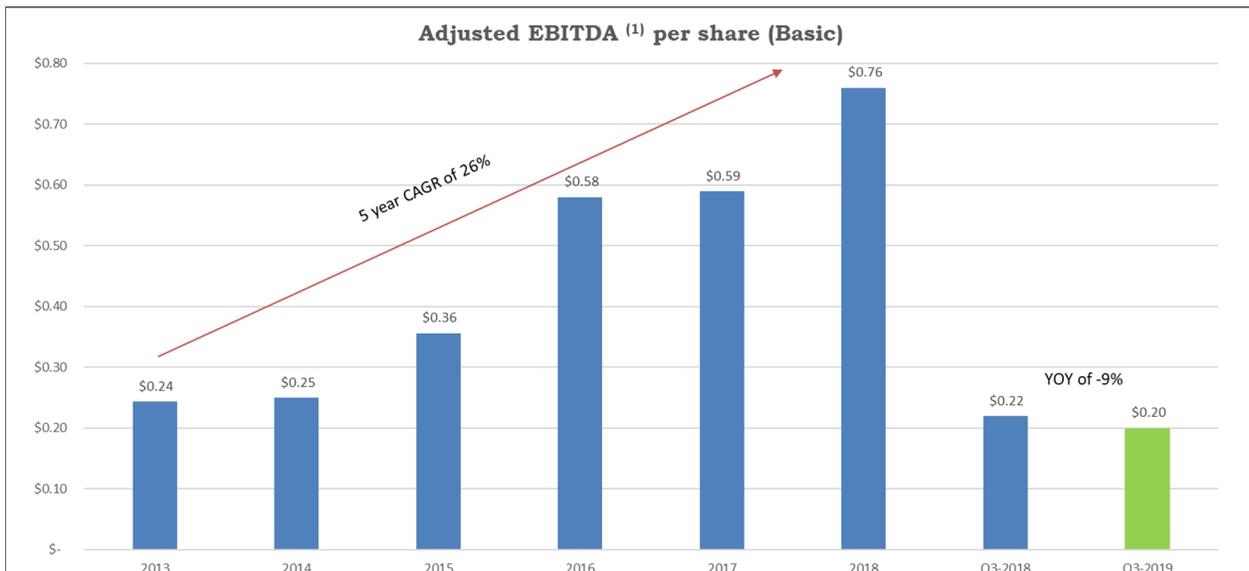
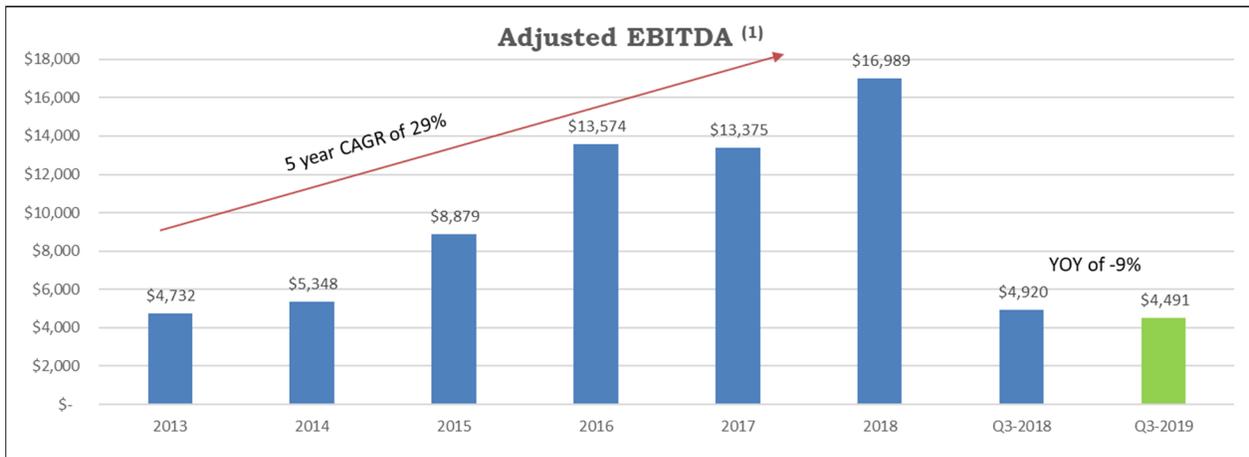
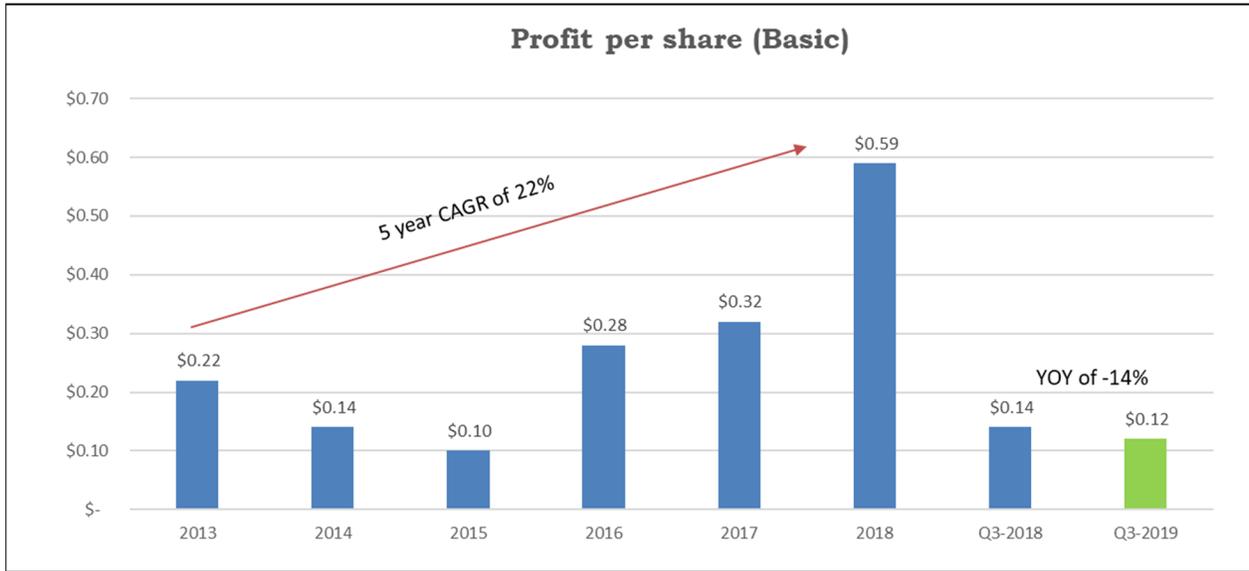
The following graphs demonstrate the Company’s historical revenue, profit, profit per share, Adjusted EBITDA, and Adjusted EBITDA per share compound annual growth rates (“CAGR”) since 2013, as well as comparisons of quarter-over-quarter for Q3 2019 vs. Q3 2018. Amounts are in thousands of Canadian dollars, except for 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.*

While growing revenue, Sylogist strives to maintain or exceed historical Adjusted EBITDA rates as a percentage of revenue. There can be short term trade-offs between revenue growth and Adjusted EBITDA growth, as a typical acquisition can take 18 to 24 months to normalize and fully integrate into operations. During the three-month period ended June 30, 2019, Sylogist delivered Adjusted EBITDA of \$4.5 million, or 46% of total revenues of \$9.8 million. Revenue decreased 11% compared to the same period in the last fiscal year due mainly to a large product sale of the Company's Uniview terminals in Q3 2018 with no comparable sale in Q3 2019. This decrease was partially offset by higher license sales and higher subscription and maintenance revenues, up 216% and 7%, respectively. The Company's revenue, profit, profit per share, Adjusted EBITDA and Adjusted EBITDA per share have increased at CAGRs of 27%, 25%, 22%, 29% and 26%, respectively for the past five years ending September 30, 2018.

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

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

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 and the Company doesn't consider itself in a conflict given the internal and external initiatives underway, repurchasing its common shares in the market.

Sylogist commenced dividend payments in February 2010. Based on the Company's June 30, 2019 closing stock price, the trailing twelve months' dividend yield, excluding special dividends, was 3.3%. The Company has paid \$50.9 million in dividends since February 2010.

On May 21, 2019, the Company commenced a further Normal Course Issuer Bid ("NCIB") to acquire up to 2,007,913 of its common shares over the ensuing 12-month period. During the nine-month period ended June 30, 2019, the Company repurchased 191,900 common shares at an average price of \$12.81 for a total cost of \$2.5 million. All purchases of its common shares are for cancellation. The current NCIB terminates on the earlier of May 20, 2020, or when permitted purchases are completed.

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Key Performance Indicators

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

Third Quarter 2019 Highlights

The following review is intended to assist in understanding Sylogist's financial position as at June 30, 2019, and its results of operations for the three months ended June 30, 2019. Financial and operational results for the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018 include:

- Revenues of approximately \$9.8 million, compared to approximately \$11 million in the third quarter of fiscal 2018.
- Gross Profit of \$7.4 million, compared to \$7.7 million in the same period last year.
- Gross Profit Margin of 76%, an increase of 9% over the third quarter of 2018.
- Profit before income tax of \$3.5 million.
- Adjusted EBITDA of \$4.5 million, compared to \$4.9 million in the same period last year.
- Adjusted EBITDA Margin of 46%, compared to 45% in the third quarter of 2018.
- Adjusted Working Capital was \$49.5 million as at June 30, 2019, compared to \$33.1 million as at June 30, 2018; principally due to the exercise of stock options by senior executives and directors.
- The Company paid regular dividends to shareholders of \$2.1 million in the third quarter of fiscal 2019, compared to \$1.8 million in the same period last year, an increase of 18%;
- Cash and cash equivalents totaled \$47.6 million compared to \$30.1 million in the same period last year.
- Cash generated from operations totaled \$1.8 million.
- Cash dividends declared of \$0.095 per share compared to \$0.08 per share in the third quarter of fiscal 2018, a 19% increase.

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Results of Operations

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

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

	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2019	2018	\$	%	2019	2018	\$	%
Revenue	9,786	10,971	(1,185)	-11%	28,690	29,097	(407)	-1%
Expenses, net of interest income	5,295	6,051	(756)	-12%	15,460	15,490	(30)	n/m
Profit before income tax	3,548	4,049	(501)	-12%	10,373	10,899	(526)	-5%
Amortization of intangible assets	915	817	98	12%	2,741	2,433	308	13%
Depreciation of property and equipment	29	39	(10)	-26%	96	133	(37)	-28%
Stock based compensation	34	87	(53)	-61%	80	249	(169)	-68%
Foreign exchange gain	(35)	(78)	43	-55%	(60)	(275)	215	-78%
Acquisition-related costs	-	6	(6)	-100%	-	168	(168)	-100%
Adjusted EBITDA ⁽¹⁾	4,491	4,920	(429)	-9%	13,230	13,607	(377)	-3%
Adjusted EBITDA Margin ⁽²⁾	46%	45%			46%	47%		
Income tax (recovery) expense								
Current income tax	1,042	816	226	28%	3,418	1,955	1,463	75%
Deferred income tax	(158)	46	(204)	n/m	(712)	243	(955)	n/m
Income tax expense	884	862	22	3%	2,706	2,198	508	23%
Profit for the period	2,664	3,187	(523)	-16%	7,667	8,701	(1,034)	-12%
Weighted average number of shares outstanding								
Basic	22,560,919	22,281,571			22,237,940	22,360,476		
Diluted	22,861,449	22,666,119			22,612,092	22,465,464		
Profit per share								
Basic	\$ 0.12	\$ 0.14	-0.02	-14%	\$ 0.34	\$ 0.39	(0.05)	-13%
Diluted	\$ 0.12	\$ 0.14	-0.02	-14%	\$ 0.34	\$ 0.39	(0.05)	-13%
Adjusted EBITDA per share								
Basic	\$ 0.20	\$ 0.22	-0.02	-9%	\$ 0.59	\$ 0.61	(0.02)	-3%
Diluted	\$ 0.20	\$ 0.22	-0.02	-9%	\$ 0.58	\$ 0.61	(0.03)	-5%
Working Capital	38,362	21,673	16,689	77%	38,362	21,673	16,689	77%
Working Capital per share (Basic shares outstanding at period end)	\$ 1.62	\$ 0.97	0.65	66%	\$ 1.62	\$ 0.97	0.65	66%
Adjusted Working Capital ⁽³⁾	49,461	33,036	16,425	50%	49,461	33,036	16,425	50%
Adjusted Working Capital per share (Basic shares outstanding at period end)	\$ 2.09	\$ 1.48	0.61	41%	\$ 2.09	\$ 1.48	0.61	41%
Cash dividends declared per share	\$ 0.095	\$ 0.080	0.015	19%	\$ 0.285	\$ 0.290	(0.005)	-2%
Total assets	74,725	58,955	15,770	27%	74,725	58,955	15,770	27%
Total long-term liabilities	2,502	2,192	310	14%	2,502	2,192	310	14%

n/m - "Not Meaningful"

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

Revenue analysis

(Amounts in thousands of Canadian dollars)

Revenue	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2019	2018	\$	%	2019	2018	\$	%
Licenses	1,299	411	888	216%	2,608	1,585	1,023	65%
Subscription and maintenance	6,682	6,273	409	7%	19,758	18,295	1,463	8%
Professional services	1,774	2,397	(623)	-26%	6,141	6,849	(708)	-10%
Product revenue	31	1,890	(1,859)	-98%	183	2,368	(2,185)	-92%
	\$ 9,786	\$ 10,971	\$ (1,185)	-11%	\$ 28,690	\$ 29,097	\$ (407)	-1%

For the three-month period ended June 30, 2019, total revenue decreased 11% to approximately \$9.8 million, compared to \$11 million in the same period last year.

License revenue increased to \$1.3 million in the third quarter of fiscal 2019, compared to \$411 thousand in the same period in the prior year. This growth in license revenue was due mainly to higher NPO ERP software sales.

Subscription and maintenance revenue increased by 7% to \$6.7 million, compared to \$6.3 million during the same period in fiscal 2018. The revenue growth was driven primarily by the educational sector which accounted for approximately \$465 thousand of the increase.

The decrease of 26% in professional services revenue compared to the prior year was due mainly to a large multi-year project with a U.S. customer from the manufacturing sector that was completed in December 2018.

The decrease in product revenue was primarily due a large product sale of the Company's "Uniview" terminal in the third quarter of fiscal 2018 and no comparable sale in the third quarter of fiscal 2019. This product sale represented a hardware refresh of the Company's Uniview terminals that happens every 4 to 5 years based on customers' demand. This hardware supports the use of the Company's integral software. This refresh accounted for \$1.8 million of the third quarter 2018 product revenues.

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

The Company's revenues were also impacted by foreign exchange fluctuations. Due to a large percentage of the Company's revenues being generated in the United States, the weakening of the Canadian dollar in relation to the United States dollar during the three months ended June 30, 2019, had a positive impact of approximately 3% on the Company's third quarter revenues (foreign exchange effects).

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For the nine month period ended June 30, 2019, total revenue decreased slightly by 1% to \$28.7 million compared to the same period last year.

License revenue increased from \$1.6 million in the first nine months of fiscal 2018 to \$2.6 million in the first nine months of fiscal 2019. The increase in license revenue was due mainly to higher NPO ERP software sales.

Subscription and maintenance revenue increased by 8% to \$19.8 million in the first nine months of fiscal 2019, compared to \$18.3 million in the same period in fiscal 2018. The revenue growth was driven primarily by the educational sector, which accounted for approximately \$1.2 million of the increase. In addition, key channel partners associated with the Company's NPO ERP also contributed to the growth in maintenance revenue.

Professional services revenue decreased by 10% to \$6.1 million in the first nine months of fiscal 2019, due mainly to a large multi-year project with a U.S. customer from the manufacturing sector which was completed in December 2018. This decrease was partly offset by growth from U.S. NPO customers.

Product revenue decreased to \$183 thousand during the first nine months of fiscal 2019, compared to \$2.4 million in the same period in fiscal 2018. The decrease was primarily due to timing of purchase decisions of the Company's customers, as there was a large product sale of the Company's "Uniview" terminal in the first nine months of fiscal 2018 and no comparable sale in the first six months of fiscal 2019.

Geographical revenues:

(Amounts in thousands of Canadian dollars)

	Three Months Ended June 30,				
	2019		2018	% Change	
Canada	\$	2,249	\$	2,653	-15%
U.S.A.		7,455		8,185	-9%
UK and other		82		133	-38%
	\$	9,786	\$	10,971	-11%
	Nine Months Ended June 30,				
	2019		2018	% Change	
Canada	\$	6,905	\$	7,880	-12%
U.S.A.		21,562		20,739	4%
UK and other		223		478	-53%
	\$	28,690	\$	29,097	-1%

Geographically, revenues in the Company's Canadian operations decreased 15% to \$2.2 million in the third quarter of fiscal 2019 compared to the same period last year. Revenue from its U.S.A. operations decreased from \$8.2 million in the third quarter of fiscal 2018 to \$7.5 million in the third quarter of fiscal 2019, driven mainly by a large product sale of the Company's Uniview terminal to a U.S. defense customer in Q3 2018 and no comparable sale in the third quarter 2019. U.K. and other operations decreased from \$133 thousand in the third quarter of fiscal 2018 to \$82 thousand in the third quarter of fiscal 2019.

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For the nine months ended June 30, 2019, revenues in the Canadian operations were \$6.9 million compared to \$7.9 million in the same period last year. Revenue from its U.S.A. operations increased 4% to \$21.6 million compared to the first nine months last year. U.K. and other operations revenues decreased 53% to \$223 thousand for the nine months ended June 30, 2019, compared to the same period last year.

Expenses net of interest income

(Amounts in thousands of Canadian dollars)

	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2019	2018	\$	%	2019	2018	\$	%
Expenses								
Cost of sales	2,389	3,255	(866)	-27%	7,192	7,759	(567)	-7%
General and administrative	1,135	1,094	41	4%	3,364	2,980	384	13%
Executive bonuses	779	812	(33)	-4%	2,260	2,033	227	11%
Professional fees	272	135	137	101%	495	398	97	24%
Sales and marketing	307	450	(143)	-32%	1,144	1,335	(191)	-14%
Product research	560	402	158	39%	1,432	1,200	232	19%
Interest income	(147)	(97)	(50)	52%	(427)	(215)	(212)	99%
	\$ 5,295	\$ 6,051	\$ (756)	-12%	\$ 15,460	\$ 15,490	\$ (30)	n/m

n/m - "Not Meaningful"

Overall expenses net of interest income for the third quarter of fiscal 2019 of \$5.3 million were 12% lower than the same period in fiscal 2018. The increase was mainly driven by lower cost of sales. Cost of sales of \$2.4 million was 27% lower than the same period of prior year due mainly to costs associated with a large hardware sale in the third quarter last year and no comparable sale in the same period this year. General and administrative expenses of \$1.2 million were 4% higher than the same period last year due mainly to severance costs associated with the Company's workforce efficiency initiative, expenses incurred to expand the board of directors and its corporate development team. Executive bonuses of \$779 thousand were 4% lower, as compared to \$812 thousand in the same period in the prior year. Professional fees increased by \$137 thousand compared to the prior year. The increase in professional fees relate to corporate financing services. Sales and marketing of \$307 thousand decreased by 32% compared to the same period of the prior year due mainly to fewer sales and marketing personnel. Product research increased by \$158 thousand or 39% compared to the prior year. For the nine month period ended June 30, 2019, overall expenses were fairly consistent with the prior year at \$15.5 million.

Cost of sales

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

During the three-month period ended June 30, 2019, cost of sales was 24% of revenues compared to cost of sales of 30% of revenues for the comparative period ended June 30, 2018. The decrease of cost of sales as a percentage of revenue for the three-month period ended June 30, 2019 was due mainly to lower hardware costs compared to the prior year. In the third quarter of 2018, the

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Company had a large product sale of the Company's Uniview terminals to a US defense contractor and no comparable sale in the third quarter of 2019.

For the first nine months of fiscal 2019, cost of sales was \$7.2 million or 25% of revenues, compared to \$7.8 million or 27% of revenue for the comparative period ended June 30, 2018. The decrease compared to the prior year was due mainly to lower product sales and associated hardware costs.

General and administrative

General and administrative expenses include salaries paid to management and administrative personnel, training, office, public company expenses, occupancy costs, as well as other costs associated with operations, including doubtful accounts. These costs were \$1.1 million or 12% of revenues in the third quarter of fiscal 2019 compared to \$1.1 million or 10% of revenues for the same period last year. The increase in general and administrative expenses was driven primarily by severance costs associated with the Company's workforce efficiency initiative, expenses incurred to expand the board of directors and its corporate development team.

For the nine months ended June 30, 2019, general and administrative expenses were \$3.4 million compared to \$3 million for the same period last year, an increase of 13%. This increase relates principally from the expansion of the Company's finance and corporate development teams compared to the prior year and costs associated with exiting previously leased office space. For the nine months ended June 30, 2019, general and administrative expenses represented 12% of total revenues compared to 10% of revenues in the same period last year.

Executive bonuses

During the three-month period ended June 30, 2019, executive bonuses were \$779 thousand or 8% of revenue compared to \$812 thousand or 7% of revenue for the three months ended June 30, 2018. The decrease in executive bonuses was due mainly to the decrease in profit for the period compared to the same period in the prior year. For the nine months ended June 30, 2019, executive bonuses were \$2.3 million or 8% of revenue compared to \$2 million or 7% of revenue for the nine months ended June 30, 2018.

Professional fees

During the three-month period ended June 30, 2019, professional fees, which consist primarily of legal, accounting, corporate financing services and recruitment fees, were \$272 thousand or 3% of revenue compared to \$135 thousand for the same period last year. The increase in professional fees was mainly due to fees related to corporate financing services incurred in the third quarter of 2019 and no comparable fees in the third quarter of 2018. For the nine months ended June 30, 2019, professional fees were \$495 thousand or 2% of revenues compared to \$398 thousand for the same period last year. The increase in professional fees was mainly attributable to higher corporate financing service 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 \$307 thousand in the third quarter of fiscal 2019 compared to the same period last year at \$450 thousand. The decrease compared to the prior year was mainly due to fewer sales and marketing personnel. For the nine months ended June 30, 2019, sales and marketing costs were \$1.1 million or 4% of revenue

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compared to \$1.3 million or 5% of revenue for the same period last year. The decrease compared to the prior year was due to the aforementioned decrease to sales and marketing personnel, partly offset by an increase in expenses related to the Company holding a major conference during the first quarter of fiscal 2019 and no comparable conference in the same period in fiscal 2018.

Product research and development

In the first nine months of fiscal 2019, certain of Sylogist's development projects met the criteria for deferral, resulting in \$341 thousand of costs associated with software development (2018 - \$488 thousand) being capitalized, offset by \$53 thousand (2018 - \$42 thousand) of investment tax credits ("ITCs").

For the three-month period ended June 30, 2019, research expense was \$560 thousand compared to \$402 thousand in the same period last year. The increase in research expense was due mainly to a lower percentage of costs being capitalized compared to the same period in the prior year. For the nine month period ended June 30, 2019, research expense was \$1.4 million compared to \$1.2 million in the same period last year due mainly to the expansion of the research and development team, which is aligned with the plan to expand product functionality and further its presence in the existing marketplace.

In fiscal 2019, the Company expects to continue to add further functionality to existing product lines to increase its footprint in the existing marketplace and expand its growth into other markets.

Interest Income

For the three-month period ended June 30, 2019, the Company generated interest income of \$147 thousand compared to \$97 thousand for the same period last year. During the nine month period ended June 30, 2019, the Company generated interest income of \$427 thousand compared to \$215 thousand for the same period last year. The increase in interest income is driven by the Company having more invested in cash equivalents in the first nine months of 2019 compared to the same period in the prior year.

Profit before income tax

For the three-month period ended June 30, 2019, the Company generated profit before income taxes of \$3.5 million compared to \$4 million for the same period last year. During the nine month period ended June 30, 2019, the Company generated profit before income taxes of \$10.4 million compared to \$10.9 million for the same period last year. The decrease in profit before income taxes was due mainly to lower revenue, higher product development costs, and higher professional services fees, costs associated with severance around the Company's workforce efficiency initiative, and lease exit costs. Revenue for the three and nine months ended June 30, 2019, decreased 11% and 1%, respectively, compared to decreases in expenses net of interest income of 12% and less than 1% for the three and nine months, respectively. The decrease in revenues for both periods was due mainly to fewer hardware sales. The decrease in expenses net of interest income was directly related to the decrease in revenues.

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Adjusted EBITDA/Adjusted EBITDA Margin

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

	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2019	2018	\$	%	2019	2018	\$	%
Adjusted EBITDA Calculation ⁽¹⁾								
Profit before income tax	\$ 3,548	\$ 4,049	\$ (501)	-12%	\$ 10,373	\$ 10,899	\$ (526)	-5%
Adjusted for:								
Depreciation of property and equipment	29	39	(10)	-26%	96	133	(37)	-28%
Amortization of intangible assets	915	817	98	12%	2,741	2,433	308	13%
Stock based compensation	34	87	(53)	-61%	80	249	(169)	-68%
Foreign exchange (gain) loss	(35)	(78)	43	-55%	(60)	(275)	215	-78%
Acquisition-related costs	-	6	(6)	n/m	-	168	(168)	n/m
Adjusted EBITDA	\$ 4,491	\$ 4,920	\$ (429)	-9%	\$ 13,230	\$ 13,607	\$ (377)	-3%
Adjusted EBITDA per basic weighted average number of shares outstanding	\$ 0.20	\$ 0.22	\$ (0.02)	-9%	\$ 0.59	\$ 0.61	\$ (0.02)	-3%
Adjusted EBITDA per diluted weighted average number of shares outstanding	\$ 0.20	\$ 0.22	\$ (0.02)	-9%	\$ 0.58	\$ 0.61	\$ (0.03)	-5%

n/m - "Not Meaningful"

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

Adjusted EBITDA for the three-month period ended June 30, 2019, was \$4.5 million compared to \$4.9 million for the same period last year. Lower Adjusted EBITDA in the third quarter of fiscal 2019 was principally due to lower product revenues, higher professional fees and higher product research expense. Adjusted EBITDA decreased despite the positive effect of the strengthening U.S. dollar, which increased EBITDA by approximately 4%. In the third quarter of fiscal 2019, the Adjusted EBITDA Margin was 46% compared to 45% for the same period last year. The increase in Adjusted EBITDA Margin was driven by a higher percentage decrease in expenses of 12% compared to 11% decrease in revenues.

Adjusted EBITDA for the nine months ended June 30, 2019, was \$13.2 million (46% Adjusted EBITDA Margin), compared to \$13.6 million (47% Adjusted EBITDA Margin) for the same period last year. The decrease in the Adjusted EBITDA Margin was driven by a slight decrease in total revenues compared to the same period in prior year, higher general and administrative expenses associated with one-time severance costs, as well as higher product research expense. For the nine months ended June 30, 2019, Adjusted EBITDA was positively affected by the impact of the strengthening of the U.S. dollar by approximately 4%.

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

(Amounts in thousands of Canadian dollars)

	Three months ended June 30,		Period-Over-Period Change		Nine months ended June 30,		Period-Over-Period Change	
	2019	2018	\$	%	2019	2018	\$	%
Profit before income taxes	\$ 3,548	\$ 4,049	\$ (501)	-12%	\$ 10,373	\$ 10,899	\$ (526)	-5%
Items not affecting cash								
Depreciation of property and equipment	29	44	(15)	-34%	101	164	(63)	-38%
Amortization of intangible assets	921	834	87	10%	2,757	2,468	289	12%
Stock based compensation	34	87	(53)	-61%	80	249	(169)	-68%
Cash taxes paid	(1,197)	(961)	(236)	25%	(3,289)	(1,023)	(2,266)	222%
Cash from operating activities before non-cash change in working capital	\$ 3,335	\$ 4,053	\$ (718)	-18%	\$ 10,022	\$ 12,757	\$ (2,735)	-21%
Cash from operating activities before non-cash change in working capital per basic weighted average number of shares outstanding	\$ 0.15	\$ 0.18	\$ (0.03)	-17%	\$ 0.45	\$ 0.57	\$ (0.12)	-21%
Cash from operating activities before non-cash change in working capital per diluted weighted average number of shares outstanding	\$ 0.15	\$ 0.18	\$ (0.03)	-17%	\$ 0.44	\$ 0.57	\$ (0.13)	-23%

The IFRS measure of cash from operating activities before working capital changes for the three and nine months ended June 30, 2019 of \$3.3 million and \$10 million, respectively, corresponds to the Adjusted EBITDA amounts of \$4.5 million and \$13.2 million for the same period this year. The variation in Adjusted EBITDA and cash from operating activities before working capital changes for the three and nine months ended June 30, 2019, was due mainly to cash taxes paid in the three and nine months ended June 30, 2019 related to the prior fiscal year.

Amortization

For the nine-month period ended June 30, 2019, the amortization of intangible assets represented the normal amortization expense for the acquisitions of the K12 Enterprise suite of products in October 2017, Serenic suite of products in July 2014, the Weave suite of products in November 2013, the Epic Data suite of products in July 2013, the acquisition of Payment Solutions in November 2012, and the one-time purchase of the perpetual license and software related to the Bellamy acquisition recorded in 2006 and 2008. In addition, during the period ended June 30, 2019, the Company recorded amortization of its internal ERP/CRM system. Total amortization costs related to intangible assets was \$2.7 million for the first nine months of fiscal 2019, compared to \$2.4 million for the same period last year mainly due to amortization from the acquisition of the K12 Enterprise suite of products.

Stock-based Compensation Plan

In the first nine months of fiscal 2019, the Company granted 15,000 stock options (June 30, 2018 – 110,000). In the same period 1,673,050 stock options were exercised (June 30, 2018 – 20,000), 33,334 stock options were forfeited (June 30, 2018 – Nil) and 16,666 options expired (June 30, 2018 – 16,667).

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 tax of \$34 thousand in the third quarter of fiscal 2019 compared to a non-cash charge of \$87 thousand in the same period last year. During the first nine months of fiscal 2019, a non-cash charge to profit before tax of \$80 thousand was made compared to \$249 thousand during the same period last year.

Foreign Exchange

A portion of the Company's revenue is generated through its wholly-owned U.S. and U.K. subsidiaries. In addition, some international contracts are denominated in U.S. and GBP

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currencies. Accordingly, Sylogist is susceptible to foreign exchange fluctuations. This exposure is reduced to the extent that the Company incurs some payroll and other operating expenses in those foreign currencies. According to IFRS, exchange gains and losses arising on translation of the Company's foreign operations are recorded as foreign currency translation adjustments in other comprehensive income. For the three-month period ended June 30, 2019, the foreign exchange differences on translating the Company's foreign operations was a loss of \$310 thousand compared to a gain of \$336 thousand for the same period last year. All other foreign exchange gains and losses are recorded in earnings for the period. For the three-month period ended June 30, 2019, the Company recorded a foreign exchange gain of \$35 thousand compared to a gain of \$78 thousand for the same period last year. These foreign exchange gains and losses are primarily the result of intercompany payables and receivables between the Company and its foreign subsidiaries.

For the nine months ended June 30, 2019, the foreign exchange differences on translating the Company's foreign operations was a gain of \$263 thousand compared to a gain of \$483 thousand for the same period last year. All other foreign exchange gains and losses are recorded in earnings for the period. For the nine months ended June 30, 2019, the Company recorded a foreign exchange gain of \$60 thousand compared to a gain of \$275 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

As at June 30, 2019, the carrying value of the deferred income tax assets was Nil (September 30, 2018 - Nil) and the carrying value of the deferred tax liability was \$2.5 million (September 30, 2018 - \$3.2 million), using the asset and liability method of accounting for income taxes. The Company recognizes deferred income tax assets to the extent it believes that these assets will more likely than not be realized. In making this determination, the Company considers all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. The Company offsets the deferred income tax assets against the deferred income tax liability when it has the legal right to do so.

For the third quarter of fiscal 2019, the Company recorded a current income tax expense of \$1 million compared to an income tax expense of \$816 thousand for the same period in the prior year. A deferred income tax recovery of \$158 thousand was recorded in the third quarter of fiscal 2019, compared to a deferred income tax expense of \$46 thousand in the third quarter of fiscal 2018.

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

	June 30, 2019
Capital cost allowance	\$ 3,563

In fiscal 2018, the Company has utilized all its investment tax credits.

(a) The two U.S. subsidiaries, Serenic Software (US) Corporation and Serenic Software Inc., have net operating losses of \$866 thousand USD (\$1.1 million CAD) and \$514 thousand USD (\$672 thousand CAD), respectively, which are available to reduce taxable income in future periods subject to specific annual loss limitations with the maximum annual loss claim being approximately \$65 thousand USD (\$85 thousand CAD) and \$291 thousand USD (\$380 thousand

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CAD), respectively. The net operating losses carried forward expire at various dates up to 2034. The Company has recognized all the Serenic Software Inc. net operating losses and \$455 thousand USD (\$596 thousand CAD) of the Serenic Software (US) Corporation net operating losses in the financial statements as the Company determined that these assets will more likely than not be realized. The Company considered all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and the subsidiary's current year results.

(b) The UK operations have trading losses of approximately £3.3 million (\$5.5 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 these interim condensed consolidated financial statements. The trading losses carried forward do not expire but are subject to specific loss limitations.

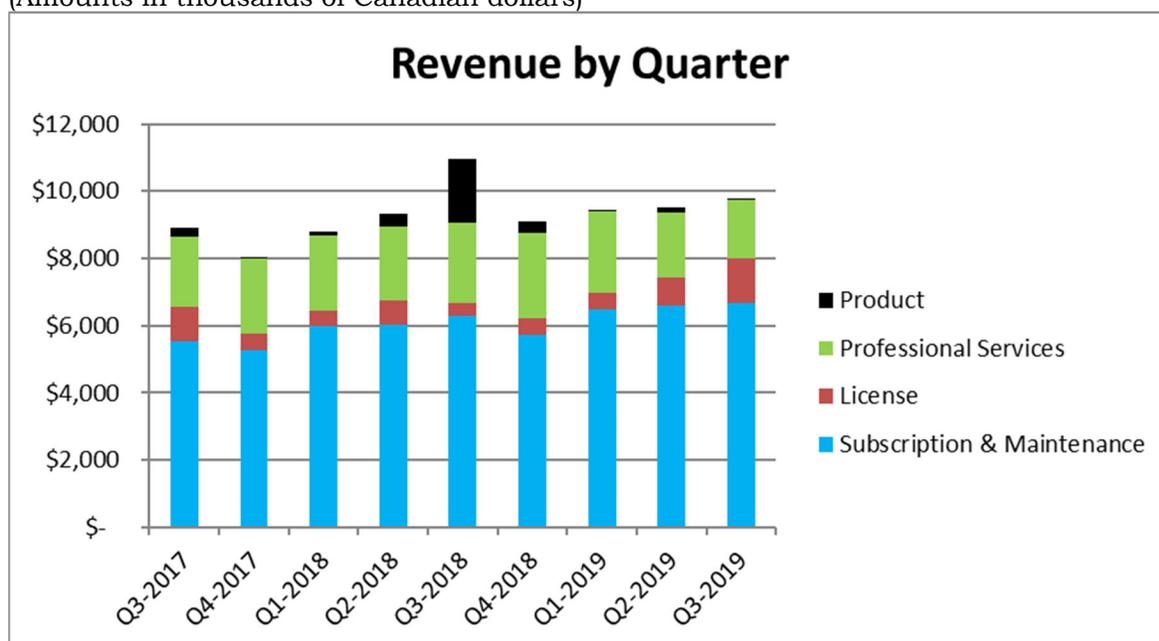
Profit

For the quarter ended June 30, 2019, the Company's profit was \$2.7 million compared to \$3.2 million for the same period in the prior year. The decrease was due mainly to lower product revenues, higher professional fees related to corporate financing services, higher general and administration severance costs, as well as higher product research expense recorded in the third quarter of fiscal 2019. These amounts were partially offset by lower cost of sales and lower sales and marketing costs.

Profit for the first nine months of fiscal 2019 was \$7.7 million compared to \$8.7 million for the same period in the prior year. This decrease was due mainly to higher taxes payable as a result of the Company's utilization of the fully deductible Canadian operating losses in the prior year compared to only partially deductible U.S. losses in the first nine months of fiscal 2019, as well as higher product research expense, executive bonuses and general and administrative expenses. These amounts were partially offset by higher interest income.

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)

2019	1-QTR		2-QTR		3-QTR	
Revenue	\$	9,402	\$	9,502	\$	9,786
Profit before income tax		3,589		3,234		3,548
Adjusted EBITDA ⁽¹⁾		4,537		4,201		4,491
Adjusted EBITDA per basic weighted number of shares ⁽²⁾		0.20		0.19		0.20
Profit for the period		2,628		2,373		2,664
Profit per basic weighted average shares outstanding		0.12		0.11		0.12
Profit per diluted weighted average shares outstanding		0.12		0.11		0.12
Dividends per share		0.095		0.095		0.095

2018	1-QTR		2-QTR		3-QTR		4-QTR		Full Year	
Revenue	\$	8,810	\$	9,316	\$	10,971	\$	9,095	\$	38,192
Profit before income tax		3,252		3,597		4,049		4,507		15,405
Adjusted EBITDA ⁽¹⁾		4,258		4,428		4,920		3,383		16,989
Adjusted EBITDA per basic weighted number of shares ⁽²⁾		0.19		0.20		0.22		0.15		0.76
Profit for the period		3,015		2,497		3,187		4,473		13,172
Profit per basic weighted average shares outstanding		0.13		0.12		0.14		0.20		0.59
Profit per diluted weighted average shares outstanding		0.12		0.12		0.14		0.20		0.58
Dividends per share		0.13		0.08		0.08		0.08		0.37

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

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

(2) Non-IFRS measure.

Summary of Quarterly Results

Revenue for the third quarter of fiscal 2019 decreased \$1.2 million, or 11% compared to the same period in fiscal 2018, to approximately \$9.8 million. The decrease in revenues was due mainly to a large product sale in the third quarter of 2018 and no comparable sale in the third quarter of 2019. Expenses, net of interest income, decreased \$756 thousand or 12% compared to the same period in fiscal 2018. The decrease was due mainly to lower cost of sales. Amortization expense increased from \$817 thousand to \$915 thousand compared to the same period in fiscal 2018. Profit before income tax decreased to \$3.5 million in the third quarter of fiscal 2019 compared to \$4 million in the third quarter of fiscal 2018 due mainly to lower product revenues, higher professional fees related to corporate financing services and higher general and administration expense related to severance costs. Adjusted EBITDA decreased by \$429 thousand or 9% to \$4.5 million.

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Revenue for the second quarter of fiscal 2019 increased \$186 thousand, or 2% compared to the same period in fiscal 2018, to approximately \$9.5 million. The increase in revenues was mainly from an increase in subscription and maintenance revenues, driven primarily by the educational sector. Expenses, net of interest income, increased \$415 thousand or 8% compared to the same period in fiscal 2018. The increase was due mainly to higher executive bonuses and general and administrative expenses from the expansion of the finance and corporate development teams. Amortization expense increased from \$801 thousand to \$913 thousand compared to the same period in fiscal 2018. Profit before income tax decreased to \$3.2 million in the second quarter of fiscal 2019 compared to \$3.6 million in the second quarter of fiscal 2018, due mainly to a larger increase in expenses compared to an increase in revenues. Adjusted EBITDA decreased by \$229 thousand or 5% to \$4.2 million.

Revenue for the first quarter of fiscal 2019 increased by \$592 thousand, or 7%, compared to the same period in fiscal 2018, to approximately \$9.4 million. The increase in revenues was driven mainly by the increased license and subscription and maintenance revenues associated with the Company's NPO business. Also contributing to the growth was incremental revenue from the K12 Enterprise and Sunpac Systems acquisition, as the acquisition took effect partially through the first quarter of fiscal 2018, compared to recognizing a full quarter of revenue in the first quarter of fiscal 2019. Expenses, net of interest income, increased \$313 thousand or 7% compared to the same period in fiscal 2018. The increase was driven mainly by higher sales and marketing costs and higher cost of sales. Amortization expense increased from \$815 thousand to \$913 thousand compared to the same period in 2018. Profit before income tax increased to \$3.6 million in the first quarter of fiscal 2019 compared to \$3.3 million in the first quarter of fiscal 2018 due mainly to a larger increase in revenues compared to an increase in expenses. Adjusted EBITDA increased by \$279 thousand to \$4.5 million.

Revenue for the fourth quarter of fiscal 2018 increased by \$1.1 million, or 13%, compared to the same period in fiscal 2017, to approximately \$9.1 million. The increase in revenues was driven mainly by the K12 Enterprise and Sunpac Systems acquisition. Expenses, net of interest income, increased \$877 thousand or 18% compared to the same period in fiscal 2017. The increase was driven mainly by higher cost of sales and executive bonuses. Amortization expense increased from \$630 thousand to \$1.4 million compared to the same period in 2017. This increase was due mainly to the amortization of the assets acquired related K12 Enterprise and Sunpac Systems acquisition. Profit before income tax increased to \$4.5 million in the fourth quarter of fiscal 2018 compared to \$2.4 million in the fourth quarter of fiscal 2017 due mainly to the onetime gain on bargain purchase associated with the K12 Enterprise and Sunpac Systems acquisition of \$3.5 million. Adjusted EBITDA increased by \$173 thousand to \$3.4 million.

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

Revenue for the second quarter of fiscal 2018 increased by \$1.2 million, or 15%, from the same period in fiscal 2017, to \$9.3 million. The increase in revenues was driven mainly by the K12 Enterprise and Sunpac Systems acquisition. Expenses, net of interest income, increased \$110 thousand or 2% compared to the same period in fiscal 2017. Amortization expense increased

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from \$629 thousand to \$801 thousand compared to the same period in 2017. Stock-based compensation expense decreased from \$149 thousand in Q2 2017 to \$100 thousand in Q2 2018. Profit before income tax increased to \$3.6 million in the second quarter of fiscal 2018 compared to \$2.6 million in the second quarter of fiscal 2017 due mainly to higher revenues. Adjusted EBITDA increased by \$1.1 million to \$4.4 million.

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

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

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

Revenue for the second quarter of fiscal 2017 decreased \$1.6 million, or 17% to \$8.1 million, compared to the same period in fiscal 2016. Expenses decreased from \$5.9 million or 19% compared to the same period in fiscal 2016. Amortization expense increased from \$606 thousand to \$629 thousand compared to the same period in 2016. Stock-based compensation expense decreased from \$423 thousand in Q2 2016 to \$149 thousand in Q2 2017. Profit before income tax increased to \$2.6 million in the second quarter of fiscal 2017 compared to \$2.5 million in the second quarter of fiscal 2016 due mainly to lower stock-based compensation and foreign exchange gains. Adjusted EBITDA decreased by 14% to \$3.3 million. All these decreases were driven primarily by the lower license sales compared to the same period last year.

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

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2019, the Company had adjusted working capital of \$49.5 million, compared to \$33.1 million as at September 30, 2018. As at June 30, 2019, the Company had cash and cash equivalents of \$47.6 million, compared to \$31.4 million as at September 30, 2018.

Adjusted Working Capital ⁽¹⁾

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

	June 30, 2019	September 30, 2018
Current assets	\$ 52,427	\$ 36,560
Current liabilities	(14,065)	(14,607)
Deferred revenue	11,099	11,161
	\$ 49,461	\$ 33,114
Per basic shares outstanding at period end	\$ 2.09	\$ 1.49

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

Sylogist's requirement for property and equipment ("PE") is generally limited to computers, network applications, telephone systems, servers and furniture and fixtures for leased space. Investment in PE for the nine months ending June 30, 2019, was \$62 thousand, compared to \$14 thousand in the same period of fiscal 2018.

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 June 30, 2019:

(Amounts in thousands of Canadian dollars)

Contractual Obligations	Total	Fiscal 2019-2020	Fiscal 2021-2022
Premise/Services	\$ 1,240	\$ 796	\$ 444

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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. As at June 30, 2019, 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 \$36 thousand (September 30, 2018 - \$33 thousand) represents approximately 1% of the trade accounts receivable as of June 30, 2019 (September 30, 2018 - 1%). Approximately 76% of the aged receivable over 91 days was collected by July 31, 2019. As at June 30, 2019, three customers accounted for 74% (September 30, 2018 - three customers accounted for 60%) of the Company's total trade accounts receivable. Revenue from one customer represented approximately \$4.2 million or 14.5% of consolidated revenue earned during the first nine months of fiscal 2019 (September 30, 2018 - 11%). The aging of the trade receivables balance is as follows:

(Amounts in thousands of Canadian dollars)

	June 30, 2019
1-30 days	\$ 1,770
31-90 days	91
91 + days	892
Total trade receivables	2,753
Allowance for doubtful accounts	(36)
Other receivables ⁽¹⁾	12
Total accounts receivable	\$ 2,729

⁽¹⁾ Other receivables consist primarily of interest receivable.

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

As at June 30, 2019, 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 June 30, 2019, the change in net income before taxes for each 1% change in the value of the Canadian dollar against the U.S. dollar amounts to approximately \$44 thousand (September 30, 2018 - \$25 thousand). For the same period, the increase or decrease in profit before income tax for each

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1% change in the value of the Canadian dollar against the GBP amounts to approximately \$3 thousand (September 30, 2018 - \$4 thousand).

Liquidity risk

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

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

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

Interest rate risk

The Company's cash and cash equivalents are subject to interest rate price risk, as the value will fluctuate due to changes in market rates. As at June 30, 2019, 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 \$476 thousand (September 30, 2018 - \$314 thousand) per annum.

OFF BALANCE SHEET FINANCIAL ARRANGEMENTS

The Company has not engaged in any off-balance sheet financial arrangements as at June 30, 2019.

TRANSACTIONS WITH RELATED PARTIES

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

For fiscal 2019, non-executive directors are entitled to an aggregate annual fee of \$130 thousand. They are entitled to reimbursement for expenses incurred in attending board and committee meetings. During the nine months ended June 30, 2019, the Company paid director's fees totaling \$90 thousand (June 30, 2018 - \$73 thousand).

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, the Vice President, Corporate Development and Investor Relations and the Vice President, Operations.

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Compensation of key management personnel was as follows:

(Amounts in thousands of Canadian dollars)

	June 30, 2019
Salaries and benefits-key management	\$ 1,127
Salaries and benefits- key management family member	20
Executive bonus	2,260
Stock based compensation	102
Directors' fees	90
	\$ 3,599

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 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. These estimates required for the discounted cash flow method are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature, these estimates are subject to 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.

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

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

Deferred income taxes - assumptions and estimates are made regarding the amount utilization and timing of realization and/or settlement of the temporary differences between the accounting carrying value of the Company's assets and liabilities versus the tax basis of those assets and liabilities, and the tax rates at which the differences will be recovered or settled in the future. The Company has recorded the full deferred tax asset related to Sylogist's Canadian non-capital losses that are subject to an expiry date. The Company has also recorded a deferred tax asset related to Serenic Software Inc. subsidiary based on a consideration of all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. These deferred tax assets are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement and depend on considerable risks and uncertainties.

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.

Outstanding share data

As of the date of this MD&A, the Company has 23,701,744 common shares issued and outstanding and 330,300 stock options to acquire common shares outstanding, with an average exercise price of \$9.48 per common share.

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Changes in significant accounting policies

Except as described below, the accounting policies applied in the unaudited interim condensed consolidated financial statements for the period ended June 30, 2019, are the same as those applied in the Company's consolidated financial statements for the year ended September 30, 2018.

(a) IFRS 15: Revenue from Contracts with Customers ("IFRS 15"):

Effective October 1, 2018, the Company adopted IFRS 15. The Company's accounting policy under IFRS 15 is as follows:

Revenue is recognized upon transfer of control of promised products or services to customers in amount that reflects the consideration the Company expects to receive in exchange for the products or services. The Company's contracts often include multiple products and services, which are generally capable of being distinct and accounted for as a separate performance obligation.

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the costs to be recoverable and has determined that certain sales incentive programs meet the requirements to be capitalized. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer to the customer for the goods and services to which the asset relates. The amortization period includes specifically identifiable contract renewals where there is no substantive renewal commission. The expected customer renewal period is estimated based on the historical life of customers, which the Company has determined to be ten years. The Company applies the practical expedient available under IFRS 15 and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

(b) IFRS 9: Financial Instruments ("IFRS 9"):

Effective October 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

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

Trade and other receivables that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of the Company's financial assets. Impairment of financial assets is based on an expected credit loss ("ECL") model under IFRS 9, rather than the incurred loss model under IAS 39. ECLs are probability-weighted estimate of credit losses. The Company calculated ECLs based on consideration of customer-specific factors and actual credit loss experience over the past two years. As a percentage of revenue, the Company's actual credit loss experience has not been material.

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New accounting standards and interpretations adopted and not yet adopted

- a) New accounting standards and interpretations adopted and included in the Company's unaudited interim condensed consolidated financial statements for the period ended June 30, 2019, are listed below.

IFRS 15 – Revenue from Contracts with Customers

The Company has adopted IFRS 15 "Revenue from Contracts with Customers" with an initial adoption date of October 1, 2018 as the standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. Accordingly, with the adoption of the new accounting standard, the Company has made an adjustment to retained earnings on October 1, 2018.

The adoption of this standard has not impacted the Company's current revenue recognition policy for license sales, maintenance and support contracts, 3rd party hardware and software sales or professional services.

In addition, the adoption of IFRS 15 does impact the recognition of customer acquisition costs. Prior to adopting IFRS 15, customer acquisition costs including commissions paid to employees and third-party referral fees were expensed upon commencement of the related contract revenue. Under IFRS 15, these costs are capitalized and amortized over the expected life of the customer, which the Company has determined to be 10 years.

The following tables summarizes the impact of adopting IFRS 15 on the Company's unaudited interim condensed consolidated financial statements for the nine months ended June 30, 2019. There was no impact on the Company's statements of cash flows for the nine months ended June 30, 2019.

	Impact of adopting IFRS 15 at October 1, 2018
Previously expensed contract acquisition costs – Prepaid Expenses	\$73
Related income tax impact	(25)
Impact at October 1, 2018 – Retained Earnings	\$48

The total impact net of related income tax recorded in retained earnings on October 1, 2018 was an increase of \$48 thousand.

IFRS 9 – Financial Instruments

The Company has adopted IFRS 9 "Financial Instruments" with an initial adoption date of October 1, 2018 as the standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

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The following table notes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at October 1, 2018:

Financial assets	Under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost

Impairment of financial assets IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at fair value through other comprehensive income "FVOCI", but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

There is no change to the initial measurement of the Company's financial assets and the Company has elected to measure loss allowances for trade and other receivables and contract assets at an amount equal to lifetime ECLs. The Company considers some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty. The ECLs were calculated based on the expected credit loss for each client with an accounts receivable balance of greater than 30 days past due. When determining the ECLs, the Company considers the client's financial position, service and payment history and economic conditions.

The adoption of IFRS 9 has not had an impact on the Company's accounting policies related to financial liabilities.

The Company has determined that the application of IFRS 9 at October 1, 2018, does not result in any additional impairment allowances and there will be no impact on the Company's financial position.

- b) The standards and interpretations that are issued but not yet effective for the quarter ended June 30, 2019 and have not been applied in preparing the Company's unaudited interim condensed consolidated financial statements are listed below.

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 Company will be adopting IFRS 16 on October 1, 2019 and is currently evaluating the impact of adopting this standard. The Company expects the adoption of this standard to increase assets and liabilities as it will be required to record a right-of-use asset and a corresponding lease liability in the Company's financial statements. The Company continues to assess the financial impact of adopting this standard, which will be completed and disclosed in the financial statements for the annual period beginning October 1, 2019.

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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.

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.

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Management of Growth and Integration of Acquisitions

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

Major Contracts

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

Government Contracts

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

Risk to Reputation

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

Volatility in Stock Price

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

Foreign Currency Risk

The Company operates internationally and, accordingly, a portion of Sylogist's financial resources is held in currencies other than the Canadian dollar, the functional currency of the Company. Further, the Company generates revenues and incurs expenses in U.S. dollars, Euros and British Pounds. The Company's exposure to the U.S. dollar, Euros and the British pound may change over time as the geographic mix of Sylogist's business changes. Consequently, the Company's

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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 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

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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 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.

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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.

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

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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 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

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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 U.S. 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.

Litigation

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

Taxation

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

Potential Need for Future Financing

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

Acquisition Related Liabilities

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

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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 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

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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.