

# **SYLOGIST LTD.**

**Condensed Consolidated Financial Statements**  
**For the three and nine months ended June 30, 2019 and 2018**



**Management's Comments on Unaudited Interim Condensed Consolidated  
Financial Statements**

The accompanying unaudited interim condensed consolidated financial statements of Sylogist Ltd. for the three and nine month periods ended June 30, 2019, have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed or audited by the Company's external auditors.

Signed "*Jim Wilson*"

James D. Wilson, President and CEO

Signed "*Xavier Shorter*"

Xavier Shorter, V.P. Finance and CFO

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

**(Unaudited)**

	Notes	June 30, 2019	September 30, 2018 <sup>(1)</sup>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 47,586	\$ 31,356
Trade and other receivables	7	2,729	3,317
Prepaid expenses	8	1,693	1,831
Inventories		419	56
		<b>52,427</b>	36,560
<b>Non-current assets</b>			
Property and equipment	9	87	129
Intangible assets	10	14,984	17,342
Goodwill	11	7,227	7,227
		<b>22,298</b>	24,698
<b>Total assets</b>		<b>\$ 74,725</b>	\$ 61,258
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Trade and other payables	13	\$ 2,735	\$ 2,983
Deferred revenue	14	11,099	11,161
Deposits and retainers	14	231	420
Other current liabilities <sup>(2)</sup>		-	43
		<b>14,065</b>	14,607
<b>Non-current liabilities</b>			
Deferred tax	12(a)	2,502	3,183
		<b>2,502</b>	3,183
<b>Total liabilities</b>		<b>16,567</b>	17,790
<b>Shareholders' equity</b>			
Issued capital	15(b)	78,469	56,981
Contributed surplus	15(c)	2,421	8,930
Foreign currency translation reserve		374	111
Deficit		<b>(23,106)</b>	(22,554)
		<b>58,158</b>	43,468
<b>Total liabilities and shareholders' equity</b>		<b>\$ 74,725</b>	\$ 61,258

<sup>(1)</sup> The Company adopted IFRS 15 and IFRS 9 as described in note 4(a). Under these adoptions, the comparative information is not restated.

<sup>(2)</sup> Other liabilities consist of lease inducements and onerous contract obligations.

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.  
Approved on behalf of the Board:

"Taylor Gray" Director

"Jim Wilson" Director

**Sylogist Ltd.**

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

**For the three and nine months ended June 30, 2019 and 2018**  
**(Unaudited)**

	Notes	Three months ended June 30,		Nine months ended June 30,	
		2019	2018	2019	2018 <sup>(1)</sup>
<b>Revenue</b>	16	<b>\$ 9,786</b>	\$ 10,971	<b>\$ 28,690</b>	\$ 29,097
<b>Cost of sales</b>		<b>2,389</b>	3,255	<b>7,192</b>	7,759
<b>Gross profit</b>		<b>7,397</b>	7,716	<b>21,498</b>	21,338
General and administrative		<b>1,135</b>	1,094	<b>3,364</b>	2,980
Executive bonuses		<b>779</b>	812	<b>2,260</b>	2,033
Professional fees		<b>272</b>	135	<b>495</b>	398
Acquisition-related costs		<b>-</b>	6	<b>-</b>	168
Sales and marketing		<b>307</b>	450	<b>1,144</b>	1,335
Product research		<b>560</b>	402	<b>1,432</b>	1,200
Depreciation of property and equipment	9	<b>29</b>	39	<b>96</b>	133
Amortization of intangible assets	10	<b>915</b>	817	<b>2,741</b>	2,433
Stock based compensation	15(c)	<b>34</b>	87	<b>80</b>	249
Foreign exchange gain		<b>(35)</b>	(78)	<b>(60)</b>	(275)
Interest income <sup>(2)</sup>		<b>(147)</b>	(97)	<b>(427)</b>	(215)
<b>Profit before income tax</b>		<b>3,548</b>	4,049	<b>10,373</b>	10,899
<b>Current income tax</b>		<b>1,042</b>	816	<b>3,418</b>	1,955
<b>Deferred income tax</b>	12(a)	<b>(158)</b>	46	<b>(712)</b>	243
	12(b)	<b>884</b>	862	<b>2,706</b>	2,198
<b>Profit for the period</b>		<b>2,664</b>	3,187	<b>7,667</b>	8,701
<b>Other comprehensive income/(loss)</b>					
<b>To be recycled through income:</b>					
Exchange differences on translating foreign operations		<b>(310)</b>	336	<b>263</b>	483
<b>Total comprehensive income for the period</b>		<b>\$ 2,354</b>	\$ 3,523	<b>\$ 7,930</b>	\$ 9,184
<b>Attributable to:</b>					
Owners of the company		<b>\$ 2,354</b>	\$ 3,523	<b>\$ 7,930</b>	\$ 9,184
Basic earnings per share		<b>\$ 0.12</b>	\$ 0.14	<b>\$ 0.34</b>	\$ 0.39
Diluted earnings per share		<b>\$ 0.12</b>	\$ 0.14	<b>\$ 0.34</b>	\$ 0.39
Basic weighted average number of shares outstanding	15(h)	<b>22,560,919</b>	22,281,571	<b>22,237,940</b>	22,360,476
Diluted weighted average number of shares outstanding	15(h)	<b>22,861,449</b>	22,666,119	<b>22,612,092</b>	22,465,464

<sup>(1)</sup> The Company adopted IFRS 15 and IFRS 9 as described in note 4(a). Under these adoptions, the comparative information is not restated.

<sup>(2)</sup> Interest Income for periods ended June 30, 2019 and June 30, 2018 is net of immaterial interest expense amounts.

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

**Sylogist Ltd.**

**Condensed Consolidated Statements of Changes in Shareholders' Equity**  
**(In thousands of Canadian dollars)**

**For the nine months ended June 30, 2019 and 2018**  
**(Unaudited)**

	Notes	Share Capital	Contributed Surplus	Foreign Currency Translation Reserve	Deficit	Total Equity <sup>(1)</sup>
As at September 30, 2017		\$ 57,391	\$ 8,679	\$ (161)	\$ (25,291)	\$ 40,618
Profit for the period		-	-	-	8,701	8,701
Foreign currency translation adjustment		-	-	483	-	483
Total comprehensive income for the period		-	-	483	8,701	9,184
Payment of dividends	15(d)	-	-	-	(6,484)	(6,484)
Exercise of options	15(c)	255	(71)	-	-	184
Share buy-back and cancellation		(502)	-	-	(1,531)	(2,033)
Stock based compensation		-	249	-	-	249
Balance as at June 30, 2018		\$ 57,144	\$ 8,857	\$ 322	\$ (24,605)	\$ 41,718
As at September 30, 2018		\$ 56,981	\$ 8,930	\$ 111	\$ (22,554)	\$ 43,468
Profit for the period		-	-	-	7,667	7,667
Foreign currency translation adjustment		-	-	263	-	263
Total comprehensive income for the period		-	-	263	7,667	7,930
Payment of dividends	15(d)	-	-	-	(6,301)	(6,301)
Exercise of options	15(f)	21,980	(6,589)	-	-	15,391
Adjustment on initial application of IFRS 15	4(a)	-	-	-	48	48
Share buy-back and cancellation	15(e)	(492)	-	-	(1,966)	(2,458)
Stock based compensation		-	80	-	-	80
Balance as at June 30, 2019		\$ 78,469	\$ 2,421	\$ 374	\$ (23,106)	\$ 58,158

<sup>(1)</sup> The Company adopted IFRS 15 and IFRS 9 as described in note 4(a). Under these adoptions, the comparative information is not restated.

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

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

**For the three and nine months ended June 30, 2019 and 2018**  
**(Unaudited)**

	Notes	Three months ended June 30,		Nine months ended June 30,	
		2019	2018	2019	2018 <sup>(1)</sup>
<b>Operating Activities</b>					
Profit before income taxes		\$ 3,548	\$ 4,049	\$ 10,373	\$ 10,899
Items not affecting cash					
Depreciation of property and equipment	9	29	44	101	164
Amortization of intangible assets	10	921	834	2,757	2,468
Stock based compensation	15(c)	34	87	80	249
Cash taxes paid		(1,197)	(961)	(3,289)	(1,023)
<b>Cash from operating activities before non-cash change in working capital</b>		<b>3,335</b>	<b>4,053</b>	<b>10,022</b>	<b>12,757</b>
<b>Changes in non-cash operating assets and liabilities</b>					
Trade and other receivables	7	772	(1,861)	180	(1,266)
Inventory		3	(9)	(364)	(33)
Prepaid expenses and deposits	8	30	48	138	(559)
Trade and other payable	13	(275)	808	(291)	737
Deferred revenue, deposits and retainers	14	(2,060)	(867)	(251)	(263)
<b>Cash generated from operations</b>		<b>1,805</b>	<b>2,172</b>	<b>9,434</b>	<b>11,373</b>
<b>Investing Activities</b>					
Purchase of property and equipment	9	(13)	-	(62)	(14)
Acquisition of intangible assets	10	(86)	(190)	(372)	(494)
Interest received		147	91	408	180
Cash paid on the acquisition of K12 Enterprise & Sunpac Systems	5	-	-	-	(1,728)
<b>Cash generated (utilized) in investing activities</b>		<b>48</b>	<b>(99)</b>	<b>(26)</b>	<b>(2,056)</b>
<b>Financing Activities</b>					
Proceeds from share issuance, less issue costs	15(b)	15,304	184	15,391	184
Repurchase of common shares	15(e)	-	(736)	(2,458)	(2,033)
Payment of dividends	15(d)	(2,103)	(1,780)	(6,301)	(6,484)
<b>Cash generated (utilized) in financing activities</b>		<b>13,201</b>	<b>(2,332)</b>	<b>6,632</b>	<b>(8,333)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>15,054</b>	<b>(259)</b>	<b>16,040</b>	<b>984</b>
Effect of currency translation adjustment on cash and cash equivalents		(104)	273	190	372
<b>Cash and cash equivalents, beginning of the period</b>		<b>32,636</b>	<b>30,095</b>	<b>31,356</b>	<b>28,753</b>
<b>Cash and cash equivalents, end of the period</b>		<b>\$ 47,586</b>	<b>\$ 30,109</b>	<b>\$ 47,586</b>	<b>\$ 30,109</b>

<sup>(1)</sup> The Company adopted IFRS 15 and IFRS 9 as described in note 4(a). Under these adoptions, the comparative information is not restated.

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

**Sylogist Ltd.**

**Notes to the Condensed Consolidated Financial Statements**  
**(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)**

**June 30, 2019 and 2018**

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**1. Nature of operations**

Sylogist Ltd. (the “Company” or “Sylogist”) (TSX-V: SYZ) is a software company that provides comprehensive, mission-critical enterprise resource planning (“ERP”) solutions, including fund accounting, grant management and payroll to public service organizations. Sylogist’s public service customers include Local Governments, Non-Profit Organizations (“NPO”), Non-Governmental Organizations (“NGO”), Education Boards and Districts and Defense and Safety Contractors.

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

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

These unaudited interim condensed consolidated financial statements were approved and authorised for issuance by the Board of Directors on August 12, 2019.

**2. Condensed consolidated financial statements**

**(a) Business combinations**

Acquisitions have been accounted for using the acquisition method required by IFRS 3 Business Combinations. Goodwill arising on acquisition is measured as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, if any, less the net recognized amount of the estimated fair value of identifiable assets acquired and liabilities assumed (subject to certain exemptions to fair value measurement principles such as deferred tax assets or liabilities), all measured as of the acquisition date. When the consideration transferred is less than the estimated fair value of assets acquired and liabilities assumed, a bargain purchase gain is recognized immediately in the consolidated statements of income. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred.

The Company uses its best estimates and assumptions to accurately value assets and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill, upon conclusion of the measurement period or final determination of the values.

**(b) Statement of presentation**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board. In addition, the unaudited interim condensed consolidated financial statements have been prepared in accordance with the

**Sylogist Ltd.**

**Notes to the Condensed Consolidated Financial Statements**  
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**June 30, 2019 and 2018**

accounting policies set out in Note 3, "Summary of significant accounting policies" of the Company's consolidated financial statements for the year ended September 30, 2018 except for policy changes in accounting for revenues associated with the Company's adoption of IFRS 15 – Revenue from Contracts with Customers and changes in accounting for financial instruments IFRS 9 – Financial Instruments (see Note 3 "Changes in significant accounting policies" in the Notes to these unaudited interim condensed consolidated financial statements). All other accounting policies were consistently applied to all periods. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended September 30, 2018.

**(c) Basis of measurement**

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

**(d) Functional and presentation currency**

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of Sylogist. The functional currency of Serenic Software (US) Corporation and Serenic Software, Inc. has been determined to be the United States' dollar, and the functional currency of Serenic Software (UK) Limited has been determined to be the British Pound.

**(e) Use of estimates, judgments and assumptions**

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the unaudited interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these unaudited interim condensed consolidated financial statements are as follows:

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

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

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of the forecasted cash flows is 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.

*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 subsidiary Serenic Software Inc. net operating losses, subject to an expiry date, based on a consideration of all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. The Company's deferred tax assets are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement and depend on considerable risks and uncertainties.

*Investment tax credits* - The amounts recorded as investment tax credits ("ITCs"), 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 interim condensed 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

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subject to audits by relevant taxation authorities and the actual amount may change depending on the outcome of such audits.

### **3. Changes in significant accounting policies**

Except as described below, the accounting policies applied in these unaudited interim condensed consolidated financial statements 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 impact of the transaction is shown in note 4(a) below. 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.

(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. The impact of the transaction is shown in note 4(a) below.

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.

### **4. 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 are listed below.

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**Notes to the Condensed Consolidated Financial Statements**  
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*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, 3<sup>rd</sup> 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.

*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:

<b>Financial assets</b>	<b>Under IAS 39</b>	<b>New classification under IFRS 9</b>
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 nine months 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) recognize 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; however, the Company expects the adoption of this standard

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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.

**5. Business acquisition**

On October 19, 2017, Sylogist's subsidiary, Serenic Software Inc., completed the acquisition of the operating assets and assumption of certain liabilities of K12 Enterprise and Sunpac Systems for cash consideration of \$1,700.

The K12 Enterprise's software, K12E, is a software-as-a-service (SaaS) solution, offered on a subscription basis and is based on Sylogist's Navigator ERP solution. Navigator ERP extends the functional capabilities of Microsoft Dynamics, to address the public sector and not-for-profit market places worldwide. K12E is a certified solution, with customers in 7 U.S. states and in Canada. K12E is installed in North Carolina local educational authorities, along with other school boards in the states of New York, Texas, Virginia, Ohio, Pennsylvania and Maryland. In addition, the K12E intellectual property ("IP") nearly doubles the Company's Navigator IP portfolio. This IP will enhance Sylogist's Navigator ERP suite and NaviPayroll products, making the acquired IP a valuable upgrade to the Company's over 1,000 current customers. Sunpac Systems, a legacy solution provider, is a supplier of large, local education authority solutions in North Carolina.

This transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired, and the liabilities assumed were recorded at fair value. The allocation of the purchase consideration to estimated fair values of net assets acquired is as follows:

<b>October 19, 2017</b>	<b>Fair value of net assets acquired</b>
Intangible assets	\$ 8,164
Total assets	8,164
Deferred tax liabilities	1,584
Deferred revenue	2,184
Total liabilities	3,767
<b>Net assets acquired</b>	<b>\$ 4,397</b>

The acquisition of this business resulted in a gain on acquisition of \$2,697 as a consequence of buying the business from a seller intending to leave the IP space. The gain on bargain purchase was separately presented in the consolidated statement of comprehensive income for the year ended September 30, 2018.

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**6. Cash and cash equivalents**

Cash and cash equivalents as of June 30, 2019:

	<u>June 30, 2019</u>
Cash	\$ 29,728
Cash equivalents	17,858
Total	<u>\$ 47,586</u>

Cash equivalents are comprised of banker's acceptance with interest rates of 1.99% - 2.47% (June 30, 2018 of 1.69% - 2.15%), and maturities of up to 61 days (June 30, 2018 - 63 days).

**7. Trade and other receivables**

	<u>June 30, 2019</u>
Trade receivables, gross	\$ 2,753
Allowance for doubtful accounts	<u>(36)</u>
Trade receivables	2,717
Other receivables <sup>(1)</sup>	12
Trade and other receivables	<u>\$ 2,729</u>

<sup>(1)</sup> Other receivables consist primarily of interest receivable.

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

**8. Prepaid expenses**

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

	<u>June 30, 2019</u>
Prepaid software royalties	\$ 1,230
Other prepaid expenses and deposits	463
	<u>\$ 1,693</u>

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**9. Property and equipment**

	June 30, 2019		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 917	\$ 860	\$ 57
Furniture and equipment	295	278	17
Leasehold improvements	536	523	13
	\$ 1,748	\$ 1,661	\$ 87

During the nine months ended June 30, 2019, the Company purchased \$62 of equipment (June 30, 2018 - \$14) and \$5 (June 30, 2018 - \$31) of depreciation costs were categorized as a cost of goods sold.

**10. Intangible assets**

	June 30, 2019		
	Cost	Accumulated Amortization	Net Book Value
Software licenses and rights	\$ 3,307	\$ 3,302	\$ 5
Customer lists	18,612	9,236	9,376
Software codes	12,949	7,346	5,603
	\$ 34,868	\$ 19,884	\$ 14,984

During the nine months ended June 30, 2019, \$16 (June 30, 2018 - \$35) of amortization costs were categorized as a cost of goods sold. In the first nine months of fiscal 2019, the Company capitalized \$341 (June 30, 2018 - \$488) of development costs that have been reduced by \$53 (June 30, 2018 - \$42) of ITCs related to capitalized projects.

**11. Goodwill**

The carrying amount of goodwill can be analyzed as follows:

	June 30, 2019	
<b>Gross carrying amount from:</b>		
Acquisition of Bellamy	\$	1,934
Acquisition of Weave		771
Acquisition of Serenic		4,522
	\$	7,227

**12. Income tax**

(a) Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The Company recognized deferred income tax assets on tax losses carried forward and other temporary differences to the extent that the realization of the related

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tax benefits through reversal of deferred tax liabilities, future taxable profit and tax planning strategies is probable. The components of the Company's deferred income tax assets and liabilities are as follows:

	<b>As at September 30, 2018</b>	<b>Recognized in earnings</b>	<b>Other</b>	<b>As at June 30, 2019</b>
Property, equipment and intangibles	\$ (3,348)	\$ 528	\$ -	\$ (2,820)
Scientific research and development pools	(250)	249	(15)	(16)
Non-capital losses	400	(68)	-	332
Share issuance and other	15	3	(16)	2
	<u>\$ (3,183)</u>	<u>\$ 712</u>	<u>\$ (31)</u>	<u>\$ (2,502)</u>

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

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

	<b>Three months ended June 30,</b>		<b>Nine months ended June 30,</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
Profit before income taxes	<b>\$ 3,548</b>	\$ 4,049	<b>\$ 10,373</b>	\$ 10,899
Corporate income tax rate	<b>27.0%</b>	27.0%	<b>27.0%</b>	27.0%
Computed expected tax provision	<b>958</b>	1,093	<b>2,801</b>	2,943
Increase (decrease) in income taxes resulting from:				
- Rate difference on foreign operations	<b>(13)</b>	(45)	<b>(43)</b>	81
- Stock option compensation expense	<b>3</b>	12	<b>7</b>	36
- Rate adjustment <sup>(1)</sup>	-	-	-	(698)
- Operating losses	-	(156)	-	(156)
- Other	<b>(64)</b>	(42)	<b>(59)</b>	(8)
<b>Income tax expense</b>	<b>\$ 884</b>	\$ 862	<b>\$ 2,706</b>	\$ 2,198

(1) The rate reduction relates to a decrease in the United States federal statutory tax rate from 35% to 21% based on the United States' Tax Cuts and Jobs Act enacted December 22, 2017.

(c) The following is a summary of the Canadian tax pools available at the end of June 30, 2019, subject to confirmation by the income tax authorities:

	<b>June 30, 2019</b>
Capital cost allowance	<u><b>\$ 3,563</b></u>

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

(d) The two US subsidiaries, Serenic Software (US) Corporation and Serenic Software Inc., have net operating losses of \$866 USD (\$1,133 CAD) and \$514 USD (\$672 CAD), respectively, which are available to reduce taxable income in future periods subject to specific annual loss limitations with the maximum annual loss claim being approximately \$65 USD (\$85 CAD) and

**Sylogist Ltd.**

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\$291 USD (\$380 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 USD (\$596 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.

(e) The UK operations have trading losses of approximately £3,326 (\$5,529 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.

**13. Trade and other payables**

Trade and other payables can be summarized as follows:

	<b>June 30, 2019</b>	
Trade payables	<b>\$</b>	<b>1,061</b>
Short-term employee payable		<b>502</b>
Professional fees accrual		<b>145</b>
Supplier costs accrual		<b>57</b>
Corporate taxes payable		<b>951</b>
Other taxes payable		<b>10</b>
Miscellaneous		<b>9</b>
	<b>\$</b>	<b>2,735</b>

**14. Deferred revenue, deposits and retainers**

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

	<b>Deferred Revenue</b>		<b>Deposits and Retainers</b>	
Balance at October 1, 2018	\$	11,161	\$	420
New Contracts		19,030		151
Applied or Amortized		(19,092)		(340)
Balance, end of the period	<b>\$</b>	<b>11,099</b>	<b>\$</b>	<b>231</b>

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**15. Share capital**

**(a) Authorized: Unlimited number of common shares**

**(b) Issued**

	<b>June 30, 2019</b>	
	<b>Number</b>	<b>\$</b>
<b>Common shares</b>		
Balance at October 1, 2018	<b>22,205,594</b>	<b>\$ 56,981</b>
Repurchase of common shares <sup>(1)</sup>	<b>(191,900)</b>	<b>(492)</b>
Issued on exercise of options	<b>1,673,050</b>	<b>15,391</b>
Fair value of options exercised	<b>-</b>	<b>6,589</b>
Balance, end of the period	<b>23,686,744</b>	<b>\$ 78,469</b>
Total share capital		<b>\$ 78,469</b>

(1) Pursuant to Normal Course Issuer Bids, during the nine months ended June 30, 2019, the Company repurchased 191,900 (June 30, 2018 - 196,500) of its common shares at an average price of \$12.81 (June 30, 2018 - \$10.35) per share for a total cost of \$2,458 (June 30, 2018 - \$2,033), of which \$1,966 (June 30, 2018 - \$1,531) was applied against deficit for the period ended June 30, 2019 and \$492 (June 30, 2018 - \$502) against share capital.

**(c) Contributed surplus**

	<b>June 30, 2019</b>	
	<b>\$</b>	<b></b>
Balance at October 1, 2018	<b>\$ 8,930</b>	
Transfer to common share capital on exercise of options		<b>(6,589)</b>
Stock based compensation		<b>80</b>
Balance, end of the period	<b>\$ 2,421</b>	

**(d) Dividends**

During the nine months ended June 30, 2019, the Company paid regular dividends to shareholders totaling \$6,301 at an average dividend amount of \$0.285 per share. In the same period in fiscal 2018, the Company paid dividends to shareholders totaling \$6,484. This amount includes regular dividends paid totaling \$5,362 at an average dividend amount of \$0.24 per share and a special dividend totaling \$1,122 at an average dividend amount of \$0.05 per share.

**(e) Normal course issuer bid**

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 \$2,458. 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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**(f) Stock options**

The Company has a stock option plan under which directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive stock options. The aggregate number of common shares to be issued, upon exercise of all options granted under the plan, shall not exceed 10% of the issued common shares of the Company, at the time the options were granted. Options granted under the plan generally have a term of five years, but may not exceed five years, and vest at such times as determined by the directors at the date of grant, which has generally been over three years. The exercise price of each option is determined by the directors at the market price at the date of grant. A summary of the status of the Company's stock option plan as at June 30, 2019, and changes during the period then ended, are as follows:

	<b>June 30, 2019</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at October 1, 2018	<b>2,053,350</b>	<b>\$ 9.24</b>
Granted	<b>15,000</b>	<b>12.75</b>
Exercised	<b>(1,673,050)</b>	<b>9.20</b>
Forfeited	<b>(33,334)</b>	<b>10.10</b>
Expired	<b>(16,666)</b>	<b>10.10</b>
Outstanding, end of the period	<b>345,300</b>	<b>\$ 9.48</b>
Options exercisable, end of the period	<b>233,631</b>	<b>\$ 9.28</b>

During the nine months ended June 30, 2019, 15,000 stock options were granted (June 30, 2018 – 110,000), 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 fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

	<b>2019</b>
Risk-free interest rate	<b>1.95%</b>
Expected life (years)	<b>5</b>
Expected volatility	<b>33%</b>
Annualized dividend per share	<b>\$0.38</b>
Forfeiture rate	<b>10%</b>

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(g) The following table summarizes information about stock options outstanding and exercisable as at June 30, 2019:

<b>Exercise Prices</b>	<b>Number of Options Outstanding</b>	<b>Weighted- Average Remaining Period Until Exercisable</b>	<b>Number of Options Exercisable</b>	<b>Weighted- Average Remaining Contractual Life Post Vesting</b>
\$ 9.19	65,300	-	65,300	0.9 years
9.48	15,000	-	15,000	0.1 years
10.10	90,000	0.3 years	66,665	2.3 years
8.25	100,000	0.9 years	66,666	2.9 years
10.08	60,000	1.5 years	20,000	3.5 years
12.75	15,000	2.6 years	-	-
	<u>345,300</u>	<u>0.8 years</u>	<u>233,631</u>	<u>1.8 years</u>

(h) The earnings per share have been calculated based on the weighted-average number of common shares outstanding during the three and nine month periods ended June 30, 2019, of 22,560,919 and 22,237,940 (June 30, 2018 - 22,281,571 and 22,360,476). During the same period, the diluted weighted average number of shares outstanding was 22,861,449 and 22,612,092 (June 30, 2018 - 22,666,119 and 22,465,464). For the three and nine month periods ended June 30, 2019, 300,529 and 374,152 options were included in the computation of diluted earnings per share (June 30, 2018 - 384,548 and 104,987).

## 16. Segmented information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the President and Chief Executive Officer. Based on management's judgment, the Company has one operating and reportable segment, the Public Sector. Segment profit is measured as net profit (loss) before the consideration of income taxes. The Company does not identify or allocate working capital by reportable segment and there are no inter-segment revenues.

### Geographical revenues and assets

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

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

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Three month period ended June 30, 2019	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 2,249	\$ 7,455	\$ 82	\$ 9,786
Non-current assets	7,227	9,853	5,218	-	22,298
<hr/>					
Three month period ended June 30, 2018	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 2,653	\$ 8,185	\$ 133	\$ 10,971
Non-current assets	7,227	9,167	5,843	-	22,237
<hr/>					
Nine month period ended June 30, 2019	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 6,905	\$ 21,562	\$ 223	\$ 28,690
Non-current assets	7,227	9,853	5,218	-	22,298
<hr/>					
Nine month period ended June 30, 2018	Corporate	Canada	USA	UK and Other	Total
Revenue	\$ -	\$ 7,880	\$ 20,739	\$ 478	\$ 29,097
Non-current assets	7,227	9,167	5,843	-	22,237

## 17. Commitments and contingencies

### (a) Commitments

#### *Operating lease and service commitments*

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

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

### (b) Contingencies

Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations.

### (c) Indemnifications

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

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**18. Related party transactions**

During the nine-month period ended June 30, 2019, the Company paid director's fees of \$90 (June 30, 2018 - \$73). The four non-executive directors are each entitled to an annual fee of \$40.

Directors and executive officers, along with certain employees, also participate in the Company's stock option plan (Note 15f).

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

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

**19. Capital risk management**

The Company's objective, when managing capital, is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. Managed capital consists of the Company's current working capital (current assets less current liabilities). The Company sets the amount of managed capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year-over-year sustainable, profitable growth. The Company is not subject to any externally imposed capital requirements.

**20. Financial instruments**

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

Financial instrument:	Category:
Cash and cash equivalents	Amortized costs
Trade and other receivable	Amortized costs
Trade and other payables	Other financial liabilities

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**(a) Foreign currency rate risk management**

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

As at June 30, 2019, the increase or decrease in profit before tax for each 1% change in the value of the Canadian dollar against the US dollar amounts to approximately \$44 (September 30, 2018 - \$25). For the same period, the increase or decrease in net income before taxes for each 1% change in the value of the Canadian dollar against the GBP amounts to approximately \$3 (September 30, 2018 - \$4).

**(b) Credit risk**

The Company is exposed to normal credit risk. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. As at 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 (September 30, 2018 - \$33) 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 \$4,161 or 14.5% of consolidated revenue earned during the first nine months of fiscal 2019 (September 30, 2018 - 10.6%).

**Aging of trade accounts receivable**

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

<sup>(1)</sup> Other receivables consist primarily of interest receivable.

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**Allowance for doubtful accounts continuity schedule**

	<b>June 30, 2019</b>
Balance at October 1, 2018	\$ (33)
Allowance recognized-net	(3)
Balance, end of the period	\$ (36)

**(c) Liquidity risk**

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

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

**Trade and other payables:**

	<b>June 30, 2019</b>
Trade payables	\$ 1,061
Corporate taxes payable	951
Accrued and other payable	723
Total trade and other payables	\$ 2,735

Sylogist expects that cash flow from operations generated in fiscal 2019, together with cash and cash equivalents on hand, will be more than sufficient to fund its requirements for investments in working capital, maintenance, capital expenditures, and product development. As these variables change, liquidity risk may necessitate the need for the Company to conduct equity issues or obtain project or working capital financing.

**(d) Interest rate risk**

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

**(e) Fair value of financial instruments**

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

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

Cash and cash equivalents have been classified as level 1.

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**HEAD OFFICE**

Suite 102, 5 Richard Way SW  
Calgary, Alberta, Canada  
T3E 7M8

Telephone: (403) 266-4808

Toll Free: 1-888-266-4808

Fax: (403) 233-0845

Website: [www.Sylogist.com](http://www.Sylogist.com)

**DIRECTORS OF SYLOGIST**

Jim Wilson, Chairman of the Board

Dave Elder,

Ron Cherkas, <sup>(1)</sup> <sup>(2)</sup>

C. Fraser Elliott, <sup>(1)</sup> <sup>(2)</sup>

Taylor Gray, <sup>(1)</sup> <sup>(2)</sup>

Barry Foster, <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>

<sup>(1)</sup> member of audit committee

<sup>(2)</sup> member of compensation committee

<sup>(3)</sup> effective June 25, 2019

**SHARE LISTING**

TSX Venture Exchange: SYZ

**SOLICITORS**

Borden Ladner Gervais LLP  
Suite 1900, 520-3<sup>rd</sup> Avenue SW  
Calgary, Alberta  
T2P 0R3

**BANK**

TD Bank Financial Group  
Commercial Banking Centre  
148 Edmonton Centre  
Edmonton, Alberta  
T5J 2Y8

**TRANSFER AGENT**

Computershare Investor Services  
Suite 600, 530 Eighth Avenue SW  
Calgary, Alberta  
T2P 3S8

**AUDITOR**

Deloitte LLP  
700, 850 2<sup>nd</sup> Street SW  
Calgary, Alberta  
T2P 0R8

