

# **SYLOGIST LTD.**

## **Consolidated Financial Statements**

**For the years ended September 30, 2020 and 2019**





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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sylogist Ltd.

### ***Opinion***

We have audited the consolidated financial statements of Sylogist Ltd. (the "Company"), which comprise:

- the consolidated statements of financial position as at September 30, 2020 and September 30, 2019
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2020 and September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors’ report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report. We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

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

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

### ***Auditors’ Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.  
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all



relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Reinier Deurwaarder.

KPMG LLP

Chartered Professional Accountants  
Calgary, Canada  
December 16, 2020

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

	Notes	September 30, 2020	September 30, 2019 <sup>(1)</sup>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 42,797	\$ 53,096
Trade and other receivables	7	3,504	1,514
Prepaid expenses	8	1,581	1,581
Inventories		267	381
		<b>48,149</b>	56,572
<b>Non-current assets</b>			
Right of use assets and property and equipment	4	573	141
Intangible assets	9	14,061	14,250
Goodwill	10	8,173	7,227
		<b>22,807</b>	21,618
<b>Total assets</b>		<b>\$ 70,956</b>	\$ 78,190
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Trade and other payables	12	\$ 2,413	\$ 2,895
Deferred revenue	13	13,693	14,265
Deposits and retainers	13	156	180
Lease obligations	4	380	-
		<b>16,642</b>	17,340
<b>Non-current liabilities</b>			
Deferred tax	11(a)	2,324	2,351
Lease obligations	4	118	-
		<b>2,442</b>	2,351
<b>Total liabilities</b>		<b>19,084</b>	19,691
<b>Shareholders' equity</b>			
Issued capital	14(b)	79,564	78,667
Contributed surplus	14(c)	3,280	2,406
Foreign currency translation reserve		722	559
Deficit		(31,694)	(23,133)
		<b>51,872</b>	58,499
<b>Total liabilities and shareholders' equity</b>		<b>\$ 70,956</b>	\$ 78,190

<sup>(1)</sup> The Company adopted IFRS 16 *Leases* as described in note 4. Under the transition method used, the comparative information is not restated.

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

“Taylor Gray” \_\_\_\_\_ Director  
“Barry Foster” \_\_\_\_\_ Director

**Sylogist Ltd.**

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

**For the years ended September 30, 2020 and 2019**

	Notes	<b>2020</b>	2019 <sup>(1)</sup>
<b>Revenue</b>	15	<b>\$ 38,079</b>	\$ 37,612
<b>Cost of sales</b>		<b>10,025</b>	9,121
<b>Gross profit</b>		<b>28,054</b>	28,491
General and administrative		<b>4,132</b>	4,486
Executive bonuses		<b>921</b>	3,184
One-time executive bonus buyout	17	<b>12,000</b>	-
Professional fees		<b>758</b>	621
Acquisition-related costs		<b>710</b>	316
Sales and marketing		<b>728</b>	1,361
Product research		<b>1,483</b>	1,859
Depreciation of property and equipment		<b>38</b>	118
Amortization of intangible and ROU assets	9	<b>4,182</b>	3,624
Stock based compensation	14(c)	<b>1,072</b>	120
Foreign exchange gain		<b>(108)</b>	(39)
Interest income, net		<b>(334)</b>	(666)
<b>Profit before income tax</b>		<b>2,472</b>	13,507
<b>Current income tax</b>		<b>1,292</b>	4,365
<b>Deferred income tax</b>	11(a)	<b>(744)</b>	(867)
	11(b)	<b>548</b>	3,498
<b>Profit for the year</b>		<b>1,924</b>	10,009
<b>Other comprehensive income</b>			
<b>To be recycled through income:</b>			
Exchange differences on translating foreign operations		<b>163</b>	448
<b>Total comprehensive income for the year</b>		<b>\$ 2,087</b>	\$ 10,457
Basic and diluted earnings per share		<b>\$ 0.08</b>	\$ 0.44
Basic weighted average number of shares outstanding	14(h)	<b>23,762,916</b>	22,606,406
Diluted weighted average number of shares outstanding	14(h)	<b>23,800,319</b>	22,967,964

<sup>(1)</sup> The Company adopted IFRS 16 Leases as described in note 4. Under the transition method used, the comparative information is not restated.

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

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

**For the years ended September 30, 2020 and 2019**

	Notes	Share Capital	Contributed Surplus	Foreign Currency Translation Reserve	Deficit	Total Equity
As at September 30, 2018		\$ 56,981	\$ 8,930	\$ 111	\$ (22,554)	\$ 43,468
Profit for the year		-	-	-	10,009	10,009
Foreign currency translation adjustment		-	-	448	-	448
Total comprehensive income for the year		-	-	448	10,009	10,457
Payment of dividends	14(d)	-	-	-	(8,669)	(8,669)
Exercise of options	14(c)	22,178	(6,644)	-	-	15,534
Adjustment on initial application of IFRS 15		-	-	-	47	47
Share buy-back and cancellation		(492)	-	-	(1,966)	(2,458)
Stock based compensation		-	120	-	-	120
Balance as at September 30, 2019		\$ 78,667	\$ 2,406	\$ 559	\$ (23,133)	\$ 58,499
Profit for the year		-	-	-	1,924	1,924
Foreign currency translation adjustment		-	-	163	-	163
Total comprehensive income for the year		-	-	163	1,924	2,087
Payment of dividends	14(d)	-	-	-	(10,340)	(10,340)
Exercise of options	14(f)	1,000	(198)	-	-	802
Share buy-back and cancellation	14(e)	(103)	-	-	(145)	(248)
Stock based compensation		-	1,072	-	-	1,072
Balance as at September 30, 2020		\$ 79,564	\$ 3,280	\$ 722	\$ (31,694)	\$ 51,872

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

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

**For the years ended September 30, 2020 and 2019**

	Notes	2020	2019
<b>Operating Activities</b>			
Profit before income tax		\$ 2,472	\$ 13,507
Items not affecting cash			
Depreciation of property and equipment	4	67	130
Amortization of intangible assets	9	4,230	3,650
Stock based compensation	14(c)	1,072	120
Interest on lease obligations	4	40	-
Cash taxes paid		(3,748)	(4,200)
<b>Cash generated from operating activities before non-cash change in working capital</b>		<b>4,133</b>	<b>13,207</b>
<b>Changes in non-cash operating assets and liabilities</b>			
Trade and other receivables		(980)	1,110
Inventory		115	(327)
Prepaid expenses and deposits		30	250
Trade and other payable		845	(111)
Deferred revenue, deposits and retainers		(660)	2,864
<b>Cash generated from operations</b>		<b>3,483</b>	<b>16,993</b>
<b>Investing Activities</b>			
Purchase of property and equipment		(19)	(145)
Acquisition of intangible assets	9	(934)	(478)
Interest received		401	693
Cash paid on the acquisition of InfoStrat	5	(3,411)	-
<b>Cash (utilized) generated in investing activities</b>		<b>(3,963)</b>	<b>70</b>
<b>Financing Activities</b>			
Repayments of lease obligations	4	(375)	-
Proceeds from share issuance, less issue costs	14(b)	802	15,534
Repurchase of common shares	14(e)	(248)	(2,458)
Payment of dividends	14(d)	(10,340)	(8,669)
<b>Cash (utilized) generated in financing activities</b>		<b>(10,161)</b>	<b>4,407</b>
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(10,641)</b>	<b>21,470</b>
Effect of currency translation adjustment on cash and cash equivalents		342	270
<b>Cash and cash equivalents, beginning of the year</b>		<b>53,096</b>	<b>31,356</b>
<b>Cash and cash equivalents, end of the year</b>		<b>\$ 42,797</b>	<b>\$ 53,096</b>

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

**Sylogist Ltd.**

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

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**For the years ended September 30, 2020 and 2019**

**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, Serenic Software Inc. and Information Strategies, Inc.

Sylogist is headquartered in Calgary, Alberta, Canada with regional offices in Edmonton, Alberta, Newmarket, Ontario, Canada, Atlanta, Georgia, Lakewood, Colorado, and Washington, DC 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 audited annual consolidated financial statements were approved and authorised for issuance by the Board of Directors on December 16, 2020.

**2. Consolidated financial statements**

**(a) Statement of presentation**

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

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

**(b) Basis of measurement**

The 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.

**(c) Functional and presentation currency**

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of Sylogist. The functional currency of Serenic Software (US) Corporation, Serenic Software, Inc. and Information Strategies, 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.

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

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent

**Sylogist Ltd.**

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

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**For the years ended September 30, 2020 and 2019**

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

*Impact of the COVID-19 pandemic* – in March 2020, the World Health Organization declared coronavirus outbreak (“COVID-19”) a pandemic. Responses to the spread of COVID-19 resulted in a partial shutdown of the global economy leading to significant disruption to business operations and a significant increase in economic uncertainty with volatile commodity prices and currency exchange rates. In addition, the decrease in demand for crude oil has resulted in a significant decline in global energy prices. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. A potential adverse impact to the Company includes reductions in revenues and cash flows and increased risk of non-payment from customers. Estimates made during this period of extreme volatility are subject to a higher level of uncertainty and as a result, there may be a further prospective impact in future periods.

*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 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.

*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

**Sylogist Ltd.**

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

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**For the years ended September 30, 2020 and 2019**

and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

*Goodwill* – is not amortized but is subject to impairment testing at least once a year, or more frequently if events or changes in circumstances indicate the carrying amount maybe impaired. 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.’s net operating losses subject to an expiry date based on a consideration of all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. The Company’s deferred tax assets are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement and 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 costs in the consolidated statement of profit and 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.

*Contracts with multiple products or services* – contracts with customers often include promises to deliver multiple products, such as licenses and maintenance. Determining whether such bundled products and services are considered i) distinct performance obligations that should be separately recognized or ii) non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require significant judgment. The determination of the standalone selling prices for distinct performance obligations can also require judgment and estimates.

**Sylogist Ltd.**

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

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**For the years ended September 30, 2020 and 2019**

The Company also applies estimates when calculating professional services revenue from certain consulting contracts as it relates to remaining labour hours required to complete the contract. Estimates are continually and routinely revised as new information becomes available. In assessing revenue recognition, judgment is also used in assessing the ability to collect the corresponding account receivable.

### **3. Significant accounting policies**

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

#### **(a) Cash and cash equivalents**

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

#### **(b) Basis of consolidation**

*Subsidiaries:*

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

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued, and liabilities incurred or assumed at the date of closing. Identifiable assets acquired along with liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as of the acquisition date. The excess of the aggregate of (a) the consideration transferred to obtain control and (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date. In the case of a bargain purchase (the amount in (b) exceeds the aggregate of the amounts in (a)), the Company recognizes the resulting amount in profit or loss on the acquisition date, after reassessing whether it has correctly valued and identified all the assets acquired and liabilities assumed.

*Transactions eliminated on consolidation:*

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

#### **(c) Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Below is a list of the Company's financial instruments, their classification and subsequent measurement.

**Sylogist Ltd.**

**Notes to the Consolidated Financial Statements**  
(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)  
**For the years ended September 30, 2020 and 2019**

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<b>Financial instruments</b>	<b>Classification</b>	<b>Measurement</b>
Cash and cash equivalents	Amortized cost	Amortized cost
Trade and other receivables	Amortized cost	Amortized cost
Trade and other payables	Amortized cost	Amortized cost

The Company's financial assets are initially recognized at fair value plus any directly attributable transaction cost and are subsequently measured at amortized cost using the effective interest rate method less any provision for impairment.

The Company derecognizes a financial asset when the contractual rights to cash flows from the asset have expired or are transferred to another party and the Company has transferred substantially all risks and rewards of ownership. Any gain or loss on derecognition is recognized in the consolidated statement of profit and comprehensive income.

Financial liabilities are initially recognized at fair value, represented by the amount required to be paid plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within a year; otherwise, they are classified as non-current liabilities. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. Any gain or loss on derecognition is recognized in the consolidated statement of profit and comprehensive income.

*Share capital:*

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

**(d) Inventories**

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

**(e) Property and equipment**

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

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

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

**Sylogist Ltd.**

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

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**For the years ended September 30, 2020 and 2019**

**(f) Intangible assets**

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

Customer relationships	5 to 10 years
Technology:	
Software codes	2 to 10 years
Software licenses/rights/brand/patents	1 to 10 years
Non-compete agreements	over the life of the agreement

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

**(g) Impairment of tangible and intangible assets**

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

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

**(h) Goodwill**

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

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in future periods. When the excess of the consideration transferred less the assets and liabilities acquired is negative, a bargain purchase gain is recognized immediately in earnings.

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

**(i) Revenue**

Revenue is recognized upon transfer of control of products or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for the products or services. The nature of products and services from which the Company derives its revenue is described below.

*Contracts with multiple products or services*

Typically, the Company enters into contracts that contain multiple products and services such as software licenses, software-as-a-service (“SaaS”), maintenance, professional services, and hardware. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and Sylogist’s promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer.

When a contract consists of more than one performance obligation, revenue is allocated to each based on their estimated standalone selling price (“SSP”).

*Nature of products and services*

The Company sells on-premise software licenses on a perpetual basis. Revenue from the license of distinct software is recognized at the time that both the right-to-use the software has commenced and the software has been made available to the customer.

A portion of the Company’s sales are accounted for as product revenue. Product revenue is recognized when control of the product has transferred under the terms of an enforceable contract.

Revenue from “SaaS” arrangements, which allows customers to access and use the Company’s software without taking possession of the software, are provided on a subscription basis. Revenue from the SaaS subscription is recognized pro-rata over the term of the subscription.

Revenue from software maintenance agreements include telephone and on-line software support and unspecified software upgrades. These maintenance agreements are for twelve months and are evergreen arrangements. Software maintenance revenue is recognized pro-rata over the term of the agreement.

Professional services are provided for implementation services, consulting services, and training. Professional services are typically billed on time and material basis and revenue is recognized over time as the services are performed. For professional services contracts billed

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on a fixed price basis, revenue is recognized over time based on the proportion of services performed.

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 other receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

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

**(j) Foreign currency translation**

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

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

*Foreign currency translation adjustment reserve:*

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

**(k) Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumptions of the future

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economic benefits. In addition, the right-of-use assets may be periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Since the Company does not have any debt, its incremental borrowing rate must be estimated using such factors as the amount of the funds that would be borrowed if the Company bought the underlying right-of-use asset, the length of the borrowing term, the nature and quality of the underlying right-of-use asset and the economic environment of the jurisdiction in which the asset is located. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured whenever there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Cash payments for the principal portion of the lease liability are presented within the financing activities and the interest portion of the lease liability is presented within the operating activities of the statement of cash flows. Short-term lease payments not included in the measurement of the lease liability are presented within the operating activities of the statement of cash flows.

The Company applies the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

**(l) Share based compensation**

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

**(m) Income tax**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted substantively at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for

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taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

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

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

**(n) Investment tax credits**

The Company follows the income approach to account for investment tax credits. Under this method, ITC's related to operating expenditures are recorded as a reduction of the related expense and recognized in the period in which the related expenditures are charged to operations, provided there is reasonable assurance of realization. ITC's related to capital expenditures or internally developed intangibles are recorded as a reduction of the cost of the related asset, provided there is reasonable assurance of realization. The ITC's recorded are based on management's best estimates of amounts expected to be recovered and are subject to audit by the taxation authorities.

**(o) Earnings per share**

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

**4. New accounting standard adopted**

- (a) New accounting standard adopted and included in the Company's consolidated financial statements is listed below.

*IFRS 16 – Leases*

Effective October 1, 2019, the Company has adopted IFRS 16 *Leases*. 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 17, *Leases* and related interpretations.

IFRS 16 *Leases* specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases.

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At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumptions of the future economic benefits. In addition, the right-of-use assets may be periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Since the Company does not have any debt, its incremental borrowing rate must be estimated using such factors as the amount of the funds that would be borrowed if the Company bought the underlying right-of-use asset, the length of the borrowing term, the nature and quality of the underlying right-of-use asset and the economic environment of the jurisdiction in which the asset is located. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured whenever there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Cash payments for the principal portion of the lease liability are presented within the financing activities and the interest portion of the lease liability is presented within the operating activities of the statement of cash flows.

The Company applies the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term. Short-term lease payments not included in the measurement of the lease liability are presented within the operating activities of the statement of cash flows.

Under IAS 17

In the comparative period, all of the Company's leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

*Impact on transition*

The Company adopted IFRS 16 *Leases* using the modified retrospective approach, with no adjustment to opening retained earnings and no restatement of comparative figures. As such, comparative information continues to be reported under IAS 17 and related interpretations.

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Upon transition, the Company applied the following practical expedients available under IFRS 16 *Leases*:

- did not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases with a short-term remaining life as of the date of initial application. The lease payment associated with these leases will continue to be recognized as an expense on a straight-line basis over the lease term; and
- excluded initial direct costs of the head office lease from the measurement of the right-of-use asset.

The following table reconciles the Company's operating lease commitments at September 30, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease liability recognized on initial application of IFRS 16 *Leases*:

Operating lease commitments at September 30, 2019	\$	836
Operating costs commitments not recognized as a lease liability		(103)
Exemption for short-term leases		(41)
Discounting at the Company's incremental borrowing rate of 7%		(63)
Prepaid lease payments		(6)
Exchange difference		2
<b>Lease liability recognized as at October 1, 2019</b>	<b>\$</b>	<b>625</b>
Current portion		272
Long-term portion		353
	<b>\$</b>	<b>625</b>

The Right of Use ("ROU") assets recognized in the balance sheet equals the carrying amount of the lease liabilities recognized at that date.

The Company's actual cash flows are unaffected by IFRS 16. However, the principal reduction portion of lease payments is now classified as financing activities instead of operating activities.

The impact of adopting IFRS 16 on the Company's consolidated financial statements was immaterial.

## **5. Business acquisition**

On April 21, 2020, Sylogist completed the acquisition of all the common shares of Information Strategies, Inc. ("InfoStrat") for cash consideration of approximately \$3.5 million before post-closing adjustments. This includes a \$540 (CDN) holdback with respect to the settlement of outstanding customer accounts, which was released in October 2020.

InfoStrat, based in Washington, DC, is a long established, profitable business and a Microsoft Gold partner catering to federal and state government and not-for-profit/NGO organizations throughout the United States. It provides software solutions and professional services based on its proprietary intellectual property that uses Microsoft Dynamics 365 CRM and Sharepoint at its core. The acquisition extends Sylogist's public sector footprint to the US federal government and state government agencies, and further provides complementary intellectual property and delivery capabilities to better serve not-for-profit/NGO customers' needs.

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This transaction has been accounted for as a business combination using the acquisition method whereby the net assets acquired, and the liabilities assumed are recorded at fair value. The goodwill of \$996 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of InfoStrat's and Sylogist's Public Sector. None of the goodwill recognized is deductible for income tax purposes. The impact of acquisition accounting applied in connection with the acquisition of InfoStrat is as follows:

Net working capital acquired	\$	311
Intangible assets: customer list		309
Intangible assets: brand		537
Intangible assets: software code		779
Intangible assets: non-compete agreement		1,338
Deferred tax		(859)
Total identifiable net assets acquired	\$	2,415
Goodwill		996
Consideration paid	\$	3,411

The amount of revenue and profit generated by InfoStrat since the acquisition date and included in the consolidated statement of comprehensive income for the period ended on September 30, 2020, was \$2,442 and \$252, respectively. If the acquisition had occurred on October 1, 2019, management estimates that the Company's revenue would have increased by approximately \$2,790 and the profit for the period ending September 30, 2020, would have increased by approximately \$225. In determining these amounts, management has assumed that the fair values of the net assets acquired that were estimated and accounted for on the dates of acquisition, would have been the same as if the acquisition has occurred on October 1, 2019. The transactions costs related to the acquisition amounted to \$186 and were expensed in the consolidated financial statements.

## 6. Cash and cash equivalents

Cash and cash equivalents as of September 30, 2020 and September 30, 2019 consisted of the following:

	2020		2019	
Cash	\$	42,797	\$	51,096
Cash equivalents		-		2,000
Total	\$	42,797	\$	53,096

In fiscal 2019, cash equivalents were comprised of banker's acceptance with interest rate of 2.05% and maturity of 62 days.

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**7. Trade and other receivables**

	<b>2020</b>	<b>2019</b>
Trade receivables, gross	<b>\$ 1,913</b>	\$ 1,512
Allowance for doubtful accounts	<b>(4)</b>	(4)
Trade receivables	<b>1,909</b>	1,508
Other receivables <sup>(1)</sup>	<b>1,595</b>	6
Trade and other receivables	<b>\$ 3,504</b>	\$ 1,514

<sup>(1)</sup> Other receivables consist primarily of income tax receivables.

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

**8. Prepaid expenses**

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

	<b>2020</b>	<b>2019</b>
Prepaid software royalties	<b>\$ 1,199</b>	\$ 1,235
Other prepaid expenses and deposits	<b>382</b>	346
	<b>\$ 1,581</b>	\$ 1,581

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## 9. Intangible assets

	Software licenses, rights, brand and patent	Customer lists	Software codes	Non-competes agreements	Total
<b>Cost</b>					
Balance at October 1, 2018	\$ 3,301	\$ 18,517	\$ 12,645	\$ -	\$ 34,463
Additions <sup>(2)</sup>	63	-	351	-	414
Effect of movements in foreign exchange	5	173	2	-	180
Balance at September 30, 2019	\$ 3,369	\$ 18,690	\$ 12,998	\$ -	\$ 35,057
Additions <sup>(2)</sup>	27	-	804	-	831
Acquisitions	537	309	779	1,338	2,963
Effect of movements in foreign exchange	(26)	56	(39)	(68)	(77)
Balance at September 30, 2020	\$ 3,907	\$ 19,055	\$ 14,542	\$ 1,270	\$ 38,774
<b>Accumulated Amortization</b>					
Balance at October 1, 2018	\$ 3,270	\$ 7,569	\$ 6,282	\$ -	\$ 17,121
Amortization for the year <sup>(1)</sup>	42	2,215	1,394	-	3,651
Effect of movements in foreign exchange	5	29	1	-	35
Balance at September 30, 2019	\$ 3,317	\$ 9,813	\$ 7,677	\$ -	\$ 20,807
Amortization for the year <sup>(1)</sup>	80	2,239	1,446	113	3,878
Effect of movements in foreign exchange	2	25	1	-	28
Balance at September 30, 2020	\$ 3,399	\$ 12,077	\$ 9,124	\$ 113	\$ 24,713
<b>Carrying amounts</b>					
At September 30, 2019	\$ 52	\$ 8,877	\$ 5,321	\$ -	\$ 14,250
At September 30, 2020	\$ 508	\$ 6,978	\$ 5,418	\$ 1,157	\$ 14,061

(1) In fiscal 2020, \$48 (2019 - \$26) of amortization costs were categorized as cost of goods sold. Amortization included in the consolidated statements of comprehensive income for the year includes an amount related to ROU asset of \$352.

(2) During the year, the Company capitalized \$907, offset by \$104 of ITC's (2019 - \$400, offset by \$64 of ITC's) of software development costs.

## 10. Goodwill

The carrying amount of goodwill can be analyzed as follows:

	2020	2019
<b>Gross carrying amount from:</b>		
Acquisition of Bellamy	\$ 1,934	\$ 1,934
Acquisition of Weave	771	771
Acquisition of Serenic	4,522	4,522
Acquisition of InfoStrat	996	-
Foreign exchange impact	(50)	-
	<b>\$ 8,173</b>	<b>\$ 7,227</b>

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The Company performed its annual impairment test as at September 30, 2020. For the purpose of annual impairment testing, all goodwill was allocated to the CGU which is expected to benefit from the synergies of the business combinations from which goodwill arose.

The recoverable amount of the CGU was determined based on value in use. The calculation used pre-tax cash flows covering a five-year period based on financial budget and forecasts approved by management, using an expected average growth rate of 3% and inflation rate of 2% and a risk adjusted discount rate of 21.7%. Key assumptions also include profit margins within the international and North American markets determined by past experience. As at September 30, 2020, the recoverable amount of the CGU exceeded its carrying value by a considerable amount. If future results, in particular, future revenues, were to be significantly different from management's best estimates of key assumptions, the Company could potentially experience future impairment charges in respect of its goodwill.

## 11. Income tax

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

	As at September 30, 2019	Recognized in earnings	Recognized from business acquisition	Other	As at September 30, 2020
Property, equipment and intangibles	\$ (2,679)	\$ 745	\$ (850)	\$ 62	\$ (2,722)
Scientific research and development pools	(17)	26	-	71	80
Non-capital losses	310	(98)	-	-	212
Share issuance and other	35	71	-	-	106
	<u>\$ (2,351)</u>	<u>\$ 744</u>	<u>\$ (850)</u>	<u>\$ 133</u>	<u>\$ (2,324)</u>

  

	As at September 30, 2018	Recognized in earnings	Recognized from business acquisition	Other	As at September 30, 2019
Property, equipment and intangibles	\$ (3,348)	\$ 669	\$ -	\$ -	\$ (2,679)
Scientific research and development pools	(250)	250	-	(17)	(17)
Non-capital losses	400	(90)	-	-	310
Share issuance and other	15	38	-	(18)	35
	<u>\$ (3,183)</u>	<u>\$ 867</u>	<u>\$ -</u>	<u>\$ (36)</u>	<u>\$ (2,351)</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:

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	<b>2020</b>	2019
Profit before income taxes	<b>\$ 2,472</b>	\$ 13,507
Corporate income tax rate	<b>25.0%</b>	27.0%
Computed expected tax provision	<b>618</b>	3,647
Increase (decrease) in income taxes resulting from:		
- Rate difference on foreign operations	<b>72</b>	(110)
- Stock option compensation expense	<b>13</b>	12
- Rate adjustment <sup>(1)</sup>	<b>(182)</b>	-
- Operating losses	<b>(30)</b>	(30)
- Other	<b>57</b>	(21)
<b>Income tax expense</b>	<b>\$ 548</b>	\$ 3,498

(1) Benefit from recognizing a substantively enacted income tax rate reduction in Alberta from 12% to 8%.

(c) The following is a summary of the Canadian tax pools available at the end of September 2020, subject to confirmation by the income tax authorities:

	<b>2020</b>	2019
Capital cost allowance	<b>\$ 3,197</b>	\$3,469

(d) The two US subsidiaries, Serenic Software (US) Corporation and Serenic Software Inc., have cumulative net operating losses of \$785 USD (\$1,048 CAD) and \$150 USD (\$201 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 (\$87 CAD) and \$150 USD (\$201 CAD), respectively. The net operating losses carried forward expire at various dates up to 2034. The Company has recognized the Serenic Software Inc. net operating losses and \$455 USD (\$608 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 £3,314 (\$5,700 CAD), which could reduce taxable income in future periods. The future tax benefit of the trading losses being carried forward has not been recognized in these consolidated financial statements. The trading losses carried forward do not expire but are subject to specific loss limitations.

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**12. Trade and other payables**

Trade and other payables can be summarized as follows:

	<u>2020</u>	<u>2019</u>
Trade payables	\$ 372	\$ 555
Short-term employee payable	1,500	781
Professional fees accrual	475	332
Supplier costs accrual	26	57
Corporate taxes payable	-	1,131
Other taxes payable	31	36
Miscellaneous	9	3
	<u>\$ 2,413</u>	<u>\$ 2,895</u>

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

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

	<u>Deferred Revenue</u>	<u>Deposits and Retainers</u>
Balance at October 1, 2018	\$ 11,161	\$ 420
New Contracts	29,095	203
Applied or Amortized	(25,991)	(443)
Balance at September 30, 2019	\$ 14,265	\$ 180
New Contracts	25,863	1,700
Amount from Acquisitions to be amortized	37	27
Applied or Amortized	(26,472)	(1,751)
Balance at September 30, 2020	<u>\$ 13,693</u>	<u>\$ 156</u>

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

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

**(b) Issued**

	2020		2019	
	Number	\$	Number	\$
<b>Common shares</b>				
Balance, beginning of the year	23,701,744	\$ 78,667	22,205,594	\$ 56,981
Repurchase of common shares	(30,700)	(103)	(191,900)	(492)
Issued on exercise of options	94,900	802	1,688,050	15,534
Grant date fair value of options exercised	-	198	-	6,644
Balance, end of the year	<b>23,765,944</b>	<b>\$ 79,564</b>	23,701,744	\$ 78,667
Total share capital		<b>\$ 79,564</b>		\$ 78,667

**(c) Contributed surplus**

	2020		2019	
Balance, beginning of the year	\$	2,406	\$	8,930
Transfer to common share capital on exercise of options		(198)		(6,644)
Stock based compensation		1,072		120
Balance, end of the year	\$	<b>3,280</b>	\$	2,406

**(d) Dividends**

In fiscal 2020, the Company paid regular dividends to shareholders totaling \$10,340 (2019 - \$8,669) at an average dividend amount of \$0.435 (2019 - \$0.385) per share.

**(e) Normal course issuer bid**

On July 15, 2020, the Company commenced a further Normal Course Issuer Bid ("NCIB") to acquire up to 2,141,228 of its common shares over the ensuing 12-month period. In fiscal 2020, the Company repurchased 30,700 common shares at an average price of \$8.06 for a total cost of \$248, of which \$145 was applied against deficit for the year ended September 30, 2020 and \$103 was applied against share capital. The current NCIB terminates on the earlier of July 14, 2021, or when permitted purchases are completed.

In fiscal 2019, the Company repurchased 191,900 common shares at an average price of \$12.81 for a total cost of \$2,458, of which \$1,966 was applied against the deficit for the year ended September 30, 2019 and \$492 was applied against share capital.

All purchases of its common shares are for cancellation.

**Sylogist Ltd.**

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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 2,374,094 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, and vest at such times as determined by the directors at the date of grant, which has generally been over three years. The exercise price of each option is determined by the directors at the market price at the date of grant. A summary of the status of the Company's stock option plan as at September 30, 2020 and 2019, and changes during the years then ended, is as follows:

	2020		2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of the year	330,300	\$ 9.48	2,053,350	\$ 9.24
Granted	1,825,000	10.65	15,000	12.75
Exercised	(94,900)	8.45	(1,688,050)	9.20
Forfeited	(1,000,000)	10.65	(33,334)	10.10
Expired	(45,400)	9.19	(16,666)	10.10
Outstanding, end of the year	1,015,000	\$ 10.54	330,300	\$ 9.48
Options exercisable, end of the year	464,167	\$ 10.39	243,631	\$ 9.16

The stock-based compensation included in the consolidated statement of comprehensive income statement was \$1,072 (2019 - \$120).

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:

	2020	2019
Risk-free interest rate	1.58%	1.58%
Expected life (years)	5	5
Expected volatility	34%	34%
Annualized dividend per share	\$0.50	\$0.40
Forfeiture rate	10%	10%

**Sylogist Ltd.**

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(g) The following table summarizes information about stock options outstanding and exercisable as at September 30, 2020:

Exercise Prices	Number of Options Outstanding	Weighted- Average Remaining Period Until Exercisable	Number of Options Exercisable	Weighted- Average Remaining Contractual Life Post Vesting
\$ 10.10	90,000	-	90,000	1.0 years
8.25	25,000	-	25,000	1.6 years
10.08	60,000	0.3 years	40,000	2.3 years
12.75	15,000	1.3 years	5,000	3.3 years
10.65	825,000	2.1 years	304,167	4.0 years
	<u>1,015,000</u>	<u>1.7 years</u>	<u>464,167</u>	<u>3.2 years</u>

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2019:

Exercise Prices	Number of Options Outstanding	Weighted- Average Remaining Period Until Exercisable	Number of Options Exercisable	Weighted- Average Remaining Contractual Life Post Vesting
\$ 9.19	65,300	-	65,300	0.7 years
10.10	90,000	0.01 years	66,665	2.0 years
8.25	100,000	0.6 years	91,666	2.6 years
10.08	60,000	1.3 years	20,000	3.3 years
12.75	15,000	2.3 years	-	-
	<u>330,300</u>	<u>1.6 years</u>	<u>243,631</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 year ended September 30, 2020, of 23,762,916 (2019 – 22,606,406). During the same period, the diluted weighted average number of shares outstanding was 23,800,319 (2019 – 22,967,964). For the year ended September 30, 2020, 37,403 options were included in the computation of diluted earnings per share (2019 – 361,558).

## 15. 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.

**Sylogist Ltd.**

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**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 are 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.

	<u>2020</u>	2019
<b>Licenses</b>		
Canada	<b>196</b>	145
USA	<b>460</b>	2,598
	<b>656</b>	2,743
<b>Subscription and maintenance</b>		
Canada	<b>7,729</b>	7,989
USA	<b>20,482</b>	18,457
UK and Other	<b>282</b>	276
	<b>28,493</b>	26,722
<b>Professional services</b>		
Canada	<b>741</b>	840
USA	<b>7,803</b>	6,950
UK and Other	<b>71</b>	75
	<b>8,615</b>	7,865
<b>Product revenue</b>		
Canada	<b>34</b>	35
USA	<b>280</b>	243
UK and Other	<b>1</b>	4
	<b>315</b>	282
<b>Total revenue</b>		
Canada	<b>8,700</b>	9,009
USA	<b>29,025</b>	28,248
UK and Other	<b>354</b>	355
	<b>\$ 38,079</b>	\$ 37,612

	<u>2020</u>	2019
<b>Non-current assets</b>		
Canada	<b>15,849</b>	16,660
USA	<b>6,958</b>	4,958
	<b>22,807</b>	21,618

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized and includes deferred revenue that will be recognized as revenue in future periods. As of September 30, 2020, contracted not yet recognized revenue was \$14,099 (2019 - \$14,265), of which majority will be recognized over the next twelve months.

**Sylogist Ltd.**

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**16. Commitments and contingencies**

**(a) Commitments**

*Operating lease and service commitments*

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

<b>Contractual Obligations</b>	<b>Total</b>	<b>Fiscal 2021</b>	<b>Fiscal 2022</b>
Premise/Services	<b>\$ 1,026</b>	\$ 858	\$ 168

**(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.

**17. One-time executive bonus buyout**

Effective October 15, 2019, the Company entered into new compensation arrangements with its Chief Executive Officer and Executive Vice President that provides for annual incentive bonuses based primarily on strategic value improvements in the Company going forward. To facilitate the change the Company paid these executives a total of \$12 million.

**18. Related party transactions**

In fiscal 2020, the Company paid director's fees of \$160 (2019 - \$130), and \$214 for special committee fees (2019 - Nil). No fees are outstanding as of September 30, 2020.

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

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

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	2020		2019
Salaries and benefits-key management	\$ 1,319	\$	1,667
Salaries and benefits- key management family member	-		20
Executive bonus	921		3,184
One-time executive bonus buyout	12,000		-
Stock based compensation	1,064		139
Directors' fees	160		130
Special committee fees	214		-
	<b>\$ 15,678</b>	\$	<b>5,140</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's financial instruments consist of cash, trade and other receivables and trade and other payables. The carrying values of the Company's financial instruments approximate their fair values due to the short-term nature of these 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.

### (a) Foreign currency rate risk management

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

As at September 30, 2020, 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 \$36 (September 30, 2019 - \$6). 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 \$5 (September 30, 2019 - \$4).

**Sylogist Ltd.**

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**(b) Credit risk**

The Company is exposed to normal credit risk. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. As at September 30, 2020, 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 \$4 represents approximately 0.2% of the trade accounts receivable as of September 30, 2020 (September 30, 2019 – 3%). As at September 30, 2020, three customers accounted for 23% (September 30, 2019 – three customers accounted for 59%) of the Company's total trade accounts receivable. Revenue from one customer represented approximately \$2,829 or 7% of consolidated revenue earned during fiscal 2020 (September 30, 2019 – 14%).

**Aging of trade accounts receivable**

	<u>2020</u>	2019
1-30 days	\$ 1,693	\$ 1,300
31-90 days	309	185
91 + days	<u>(89)</u>	27
Total trade receivables	1,913	1,512
Allowance for doubtful accounts	(4)	(4)
Other receivables <sup>(1)</sup>	<u>1,595</u>	6
Total accounts receivable	\$ 3,504	\$ 1,514

<sup>(1)</sup> Other receivables consist primarily of income tax receivables.

**Allowance for doubtful accounts continuity schedule**

	<u>2020</u>	2019
Balance, beginning of the year	\$ (4)	\$ (33)
Allowance recognized-net	-	29
Balance, end of the year	<u>\$ (4)</u>	<u>\$ (4)</u>

**(c) Liquidity risk**

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

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

**Sylogist Ltd.**

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**Trade and other payables:**

	<b>2020</b>	2019
Trade payables	<b>\$ 372</b>	\$ 555
Corporate taxes payable	-	1,131
Accrued and other payable	<b>2,041</b>	1,209
Total trade and other payables	<b>\$ 2,413</b>	\$ 2,895

Sylogist expects that cash flow from operations generated in fiscal 2020, 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 September 30, 2020, 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 \$428 (September 30, 2019 - \$531) per annum.

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

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

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

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

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

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

**Sylogist Ltd.**

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**21. Subsequent events**

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

(a) On October 9, 2020, the Company had secured a \$40 million credit facility with a Canadian chartered bank. The credit facility can be used for general corporate purposes. The facility is committed for the first year, and renewable annually subject to agreement between the lender and Sylogist, during which time Sylogist will pay no standby or commitment fees. The credit facility carries a floating interest rate of the Canadian prime bank rate. The Company has not drawn on this credit facility.

(b) On October 21, 2020, the Company settled its holdback with the shareholders of InfoStrat. InfoStrat's shareholders received USD \$341 and the remainder went to Sylogist.

(c) On November 9, 2020, the Company declared a quarterly eligible dividend of \$0.125 per share on Sylogist's common shares, payable on December 15, 2020.

(d) On November 10, 2020, the Company granted 810,000 options to purchase common shares at a price of \$10.30 per share to the directors and officers of the Company.

**Sylogist Ltd.**  
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**DIRECTORS OF SYLOGIST**

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Dave Elder,

Bill Wood, <sup>(5)</sup>

Ron Cherkas, <sup>(4)</sup>

C. Fraser Elliott, <sup>(4)</sup>

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

Barry Foster, Chairman of the Board <sup>(1)(2)</sup>

Lester Fernandes, <sup>(1)</sup>

Craig O'Neill, <sup>(1)(2)</sup>

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

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

<sup>(3)</sup> retired effective September 30, 2020

<sup>(4)</sup> stepped down effective August 12, 2020

<sup>(5)</sup> member of the board effective November 9, 2020

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