

SYLOGIST LTD.

Condensed Consolidated Financial Statements
For the three and nine months ended June 30, 2020 and 2019



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, 2020, 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, 2020	September 30, 2019 ⁽¹⁾
Assets			
Current assets			
Cash and cash equivalents	5	\$ 42,519	\$ 53,096
Trade and other receivables	6	2,269	1,514
Prepaid expenses	7	1,713	1,581
Inventories		307	381
		46,808	56,572
Non-current assets			
Property and equipment	8	104	141
Right of use assets	3	557	-
Intangible assets	9	15,023	14,250
Goodwill	10	8,194	7,227
Deferred tax	11(a)	68	-
		23,946	21,618
Total assets		\$ 70,754	\$ 78,190
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	12	\$ 1,273	\$ 2,895
Deferred revenue	13	11,248	14,265
Deposits and retainers	13	1,557	180
Lease obligations	3	339	-
		14,417	17,340
Non-current liabilities			
Deferred tax	11(a)	2,169	2,351
Lease obligations	3	206	-
		2,375	2,351
Total liabilities		16,792	19,691
Shareholders' equity			
Issued capital	14(b)	79,566	78,667
Contributed surplus	14(c)	4,095	2,406
Foreign currency translation reserve		1,317	559
Deficit		(31,016)	(23,133)
		53,962	58,499
Total liabilities and shareholders' equity		\$ 70,754	\$ 78,190

⁽¹⁾ The Company adopted IFRS 16 *Leases* as described in note 3. Under the adoption, the comparative information is not restated.

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, 2020 and 2019
(Unaudited)

	Notes	Three months ended June 30,		Nine months ended June 30,	
		2020	2019 ⁽¹⁾	2020	2019 ⁽¹⁾
Revenue	15	\$ 9,965	\$ 9,786	\$ 28,248	\$ 28,690
Cost of sales		2,731	2,389	7,152	7,192
Gross profit		7,234	7,397	21,096	21,498
General and administrative		956	1,135	2,771	3,364
Executive bonuses		-	779	102	2,260
One-time executive bonus buyout	17	-	-	12,000	-
Professional fees		129	272	305	495
Acquisition-related costs		295	-	532	-
Sales and marketing		192	307	536	1,144
Product research		323	560	1,219	1,432
Depreciation of property and equipment	8	84	29	30	96
Amortization of intangible assets	9	1,002	915	3,031	2,741
Stock based compensation	14(c)	432	34	1,886	80
Foreign exchange (gain) loss		(5)	(35)	(107)	(60)
Interest income ⁽²⁾		(11)	(147)	(327)	(427)
Profit (loss) before income tax		3,837	3,548	(882)	10,373
Current income tax		138	1,042	515	3,418
Deferred income tax	11(a)	535	(158)	(1,025)	(712)
	11(b)	673	884	(510)	2,706
Profit (loss) for the period		3,164	2,664	(372)	7,667
Other comprehensive income					
To be recycled through income:					
Exchange differences on translating foreign operations		(926)	(310)	758	263
Total comprehensive income for the period		\$ 2,238	\$ 2,354	\$ 386	\$ 7,930
Attributable to:					
Owners of the company		\$ 2,238	\$ 2,354	\$ 386	\$ 7,930
Basic earnings per share		\$ 0.13	\$ 0.12	\$ (0.02)	\$ 0.34
Diluted earnings per share		\$ 0.13	\$ 0.12	\$ (0.02)	\$ 0.34
Basic weighted average number of shares outstanding	14(h)	23,756,752	22,560,919	23,761,838	22,237,940
Diluted weighted average number of shares outstanding	14(h)	23,770,731	22,861,449	23,796,097	22,612,092

⁽¹⁾ The Company adopted IFRS 16 Leases as described in note 3. Under the adoption, the comparative information is not restated.

⁽²⁾ Interest Income for periods ended June 30, 2020 and June 30, 2019 is net of immaterial interest expense amounts.

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

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

For the nine months ended June 30, 2020 and 2019
(Unaudited)

	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 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	14(d)	-	-	-	(6,301)	(6,301)
Exercise of options	14(c)	21,980	(6,589)	-	-	15,391
Adjustment on initial application of IFRS 15		-	-	-	48	48
Share buy-back and cancellation		(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
As at September 30, 2019		\$ 78,667	\$ 2,406	\$ 559	\$ (23,133)	\$ 58,499
(Loss) for the period		-	-	-	(372)	(372)
Foreign currency translation adjustment		-	-	758	-	758
Total comprehensive income for the period		-	-	758	(372)	386
Payment of dividends	14(d)	-	-	-	(7,372)	(7,372)
Exercise of options	14(f)	999	(197)	-	-	802
Share buy-back and cancellation	14(e)	(100)	-	-	(139)	(239)
Stock based compensation		-	1,886	-	-	1,886
Balance as at June 30, 2020		\$ 79,566	\$ 4,095	\$ 1,317	\$ (31,016)	\$ 53,962

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, 2020 and 2019
(Unaudited)

	Notes	Three months ended June 30,		Nine months ended June 30,	
		2020	2019 ⁽¹⁾	2020	2019 ⁽¹⁾
Operating Activities					
Profit (loss) before income tax		\$ 3,837	\$ 3,548	\$ (882)	\$ 10,373
Items not affecting cash					
Depreciation of property and equipment	8	15	29	51	101
Amortization of intangible assets	9	1,070	921	3,044	2,757
Stock based compensation	14(c)	432	34	1,886	80
Interest on lease obligations	3	11	-	31	-
Acquisition related costs		295	-	532	-
Cash taxes paid		(1,986)	(1,197)	(3,239)	(3,289)
Cash generated from operating activities before non-cash change in working capital		3,674	3,335	1,423	10,022
Changes in non-cash operating assets and liabilities					
Trade and other receivables	6	1,747	772	312	180
Inventory		27	3	75	(364)
Prepaid expenses and deposits	7	70	30	(103)	138
Trade and other payable	12	544	(275)	130	(291)
Deferred revenue, deposits and retainers	13	(915)	(2,060)	(1,703)	(251)
Cash generated from operations		5,147	1,805	134	9,434
Investing Activities					
Purchase of property and equipment	8	(11)	(13)	(14)	(62)
Acquisition of intangible assets	9	(1,056)	(86)	(1,383)	(372)
Interest received		99	147	345	408
Cash paid on the acquisition of Information Strategies, Inc.	4	(3,411)	-	(3,411)	-
Cash (utilized) generated in investing activities		(4,379)	48	(4,463)	(26)
Financing Activities					
Repayments of lease obligations	3	(105)	-	(262)	-
Proceeds from share issuance, less issue costs	14(b)	183	15,304	802	15,391
Repurchase of common shares	14(e)	-	-	(239)	(2,458)
Payment of dividends	14(d)	(2,614)	(2,103)	(7,372)	(6,301)
Cash (utilized) generated in financing activities		(2,536)	13,201	(7,071)	6,632
(Decrease) increase in cash and cash equivalents		(1,768)	15,054	(11,400)	16,040
Effect of currency translation adjustment on cash and cash equivalents		(557)	(104)	823	190
Cash and cash equivalents, beginning of the period		44,844	32,636	53,096	31,356
Cash and cash equivalents, end of the period		\$ 42,519	\$ 47,586	\$ 42,519	\$ 47,586

⁽¹⁾ The Company adopted IFRS 16 Leases as described in note 3. Under the adoption, the comparative information is not restated.

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

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

For the periods ended June 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, and Serenic Software 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, 520-3rd 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 July 29, 2020.

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

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condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in Note 3, "Summary of significant accounting policies" of the Company's audited consolidated financial statements for the year ended September 30, 2019, except for policy changes in accounting for leases associated with the Company's adoption of IFRS 16 *Leases* (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 audited consolidated financial statements of the Company for the year ended September 30, 2019.

(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.

(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:

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

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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 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 unaudited 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 costs in the consolidated statement of comprehensive income. SR&ED claims are subject to audits by relevant taxation authorities and the actual amount may change depending on the outcome of such audits.

Contracts with multiple products or services – contracts with customers often include promises to deliver multiple products, such as licenses and maintenance. Determining whether such

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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.

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. New accounting standards and interpretations adopted

New accounting standard and interpretations adopted and included in the Company's unaudited interim condensed consolidated financial statements are 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.

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

Sylogist Ltd.

Notes to the Consolidated Financial Statements
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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.

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.

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.

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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)
Lease payment		(6)
Exchange difference		2
Lease liability recognized as at October 1, 2019	\$	625
Current portion		272
Long-term portion		353
	\$	625

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

The following table summarizes the impact of adopting IFRS 16 on the Company's condensed consolidated statements of financial position at October 1, 2019:

(Unaudited)

	September 30, 2019	Adjustment due to IFRS 16	October 1, 2019
Assets			
Current assets			
Cash and cash equivalents	53,096	-	53,096
Restricted cash	-	-	-
Trade and other receivables	1,514	-	1,514
Prepaid expenses	1,581	(6)	1,575
Inventories	381	-	381
	56,572	(6)	56,566
Non-current assets			
Property and equipment	141	-	141
Right of use assets	-	630	630
Intangible assets	14,250	-	14,250
Goodwill	7,227	-	7,227
	21,618	630	22,248
Total assets	78,190	624	78,814
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	2,895	-	2,895
Deferred revenue	14,265	-	14,265
Deposits and retainers	180	-	180
Lease obligations	-	272	272
	17,340	272	17,612
Non-current liabilities			
Deferred tax	2,351	-	2,351
Lease obligations	-	353	353
	2,351	353	2,704
Total liabilities	19,691	625	20,316
Shareholders' equity			
Issued capital	78,667	-	78,667
Contributed surplus	2,406	-	2,406
Foreign currency translation reserve	559	(1)	558
Deficit	(23,133)	-	(23,133)
	58,499	(1)	58,498
Total liabilities and shareholders' equity	78,190	624	78,814

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Impact for the period

The following tables summarize the impact of adopting IFRS 16 on the Company's unaudited interim condensed consolidated financial statements as at and for the nine months ended June 30, 2020:

**Condensed Consolidated Statement of Financial Position
(Unaudited)**

	June 30, 2020 As reported	Adjustments	June 30, 2020 Balance without IFRS 16 adoption
Assets			
Current assets			
Cash and cash equivalents	42,519	-	42,519
Trade and other receivables	2,269	-	2,269
Prepaid expenses	1,713	-	1,713
Inventories	307	-	307
	46,808	-	46,808
Non-current assets			
Property and equipment	104	-	104
Right of use assets	557	(557)	-
Intangible assets	15,023	-	15,023
Goodwill	8,194	-	8,194
Deferred tax	68	-	68
	23,946	(557)	23,389
Total assets	70,754	(557)	70,197
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	1,273	-	1,273
Deferred revenue	11,248	-	11,248
Deposits and retainers	1,557	-	1,557
Lease obligations	339	(339)	-
	14,417	(339)	14,078
Non-current liabilities			
Deferred tax	2,169	-	2,169
Lease obligations	206	(206)	-
	2,375	(206)	2,169
Total liabilities	16,792	(545)	16,247
Shareholders' equity			
Issued capital	79,566	-	79,566
Contributed surplus	4,095	-	4,095
Foreign currency translation reserve	1,317	-	1,317
Deficit	(31,016)	(12)	(31,028)
	53,962	(12)	53,950
Total liabilities and shareholders' equity	70,754	(557)	70,197

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Condensed Consolidated Statement of Operations and Comprehensive Income
(Unaudited)

For the three months ended June 30, 2020

	June 30, 2020		June 30, 2020
	As reported	Adjustments	Balance without IFRS 16 adoption
Revenue	9,965	-	9,965
Cost of sales	2,731	-	2,731
Gross profit	7,234	-	7,234
General and administrative	956	106	1,062
Professional fees	129	-	129
Acquisition-related costs	295	-	295
Sales and marketing	192	-	192
Product research	323	-	323
Depreciation of property and equipment	84	-	84
Amortization of intangible assets	1,002	(75)	927
Stock based compensation	432	-	432
Foreign exchange (gain) loss	(5)	-	(5)
Interest income ⁽¹⁾	(11)	(11)	(22)
Profit before income tax	3,837	20	3,816
Current income tax	138	-	138
Deferred income tax	535	-	535
	673		673
Profit for the period	3,164		3,143
Other comprehensive income			
To be recycled through income:			
Exchange differences on translating foreign operations	(926)	-	(926)
Total comprehensive income for the period	2,238	-	2,217
Attributable to:			
Owners of the company	2,238	-	2,217
Basic earnings per share	0.13	-	0.13
Diluted earnings per share	0.13	-	0.13
Basic weighted average number of shares outstanding	23,756,752		23,756,752
Diluted weighted average number of shares outstanding	23,770,731		23,770,731

⁽¹⁾ Interest Income for period ended June 30, 2020 is net of interest expense amount.

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For the nine months ended June 30, 2020

	June 30, 2020		June 30, 2020
	As reported	Adjustments	Balance without IFRS 16 adoption
Revenue	28,248	-	28,248
Cost of sales	7,152	-	7,152
Gross profit	21,096	-	21,096
General and administrative	2,771	262	3,033
Executive bonuses	102	-	102
One-time executive bonus buyout	12,000	-	12,000
Professional fees	305	-	305
Acquisition-related costs	532	-	532
Sales and marketing	536	-	536
Product research	1,219	-	1,219
Depreciation of property and equipment	30	-	30
Amortization of intangible assets	3,031	(220)	2,811
Stock based compensation	1,886	-	1,886
Foreign exchange (gain) loss	(107)	-	(107)
Interest income ⁽¹⁾	(327)	(31)	(358)
Loss before income tax	(882)	11	(893)
Current income tax	515	-	515
Deferred income tax	(1,025)	-	(1,025)
	(510)	-	(510)
Loss for the period	(372)	-	(383)
Other comprehensive income			
To be recycled through income:			
Exchange differences on translating foreign operations	758	-	758
Total comprehensive loss for the period	386	-	375
Attributable to:	-		
Owners of the company	386	-	375
Basic earnings per share	(0.02)	-	(0.02)
Diluted earnings per share	(0.02)	-	(0.02)
Basic weighted average number of shares outstanding	23,761,838		23,761,838
Diluted weighted average number of shares outstanding	23,796,097		23,796,097

⁽¹⁾ Interest Income for period ended June 30, 2020 is net of interest expense amount.

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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:

Condensed Consolidated Statement of Cash Flows
(Unaudited)

For the three months ended June 30, 2020

	June 30, 2020		June 30, 2020
	As reported	Adjustments	Balance without IFRS 16 adoption
Cash generated in operating activities before non-cash change in working capital	\$ 3,674	\$ (86)	\$ 3,588
Cash utilized in financing activities	(2,536)	105	(2,431)

For the nine months ended June 30, 2020

	June 30, 2020		June 30, 2020
	As reported	Adjustments	Balance without IFRS 16 adoption
Cash utilized in operating activities before non-cash change in working capital	\$ 1,423	\$ (250)	\$ 1,173
Cash utilized in financing activities	(7,071)	262	(6,809)

4. 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, to be released in October 2020. Due to the complexity and timing of the acquisition, the Company is still in the process of determining and finalizing the fair value of the net assets acquired as part of the acquisition. The amounts determined on a provisional basis generally relate to net tangible asset assessments and measurement of the assumed liabilities, including acquired contract liabilities.

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.

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' and Sylogist' 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:

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Trade and other receivable	\$ 900
Trade and other payable	(503)
Deferred revenue	(64)
Deferred rent	(22)
Total net assets assumed	<u>\$ 311</u>
Intangible assets: customer list	\$ 309
Intangible assets: brand	537
Intangible assets: software code	779
Intangible assets: non-compete agreements	1,338
Goodwill	996
Deferred tax	(859)
Purchase price	\$ 3,100
Purchase price	\$ 3,100
Total net assets acquired	<u>311</u>
Cash impact of acquisition	\$ 3,411

The amount of revenue and profit generated by InfoStrat since the acquisition date and included in the unaudited interim consolidated statement of comprehensive income for the period ended on June 30, 2020, was approximately \$1,100 and \$190, 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 June 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 \$253 and were expensed in the unaudited interim consolidated financial statements.

5. Cash and cash equivalents

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

	<u>June 30, 2020</u>
Cash	\$ 9,375
Cash equivalents	<u>33,144</u>
Total	<u>\$ 42,519</u>

Cash equivalents are comprised of banker's acceptance with interest rates of 0.25% - 0.59% (June 30, 2019 of 1.99% - 2.47%), and maturity of 30 days.

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6. Trade and other receivables

	June 30, 2020
Trade receivables, gross	\$ 2,166
Allowance for doubtful accounts	(21)
Trade receivables	2,145
Other receivables ⁽¹⁾	124
Trade and other receivables	\$ 2,269

⁽¹⁾ Other receivables consist primarily of adjustments related to holdback receivable (Note 4).

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

7. Prepaid expenses

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

	June 30, 2020
Prepaid software royalties	\$ 1,218
Other prepaid expenses and deposits	495
	\$ 1,713

8. Property and equipment

	June 30, 2020		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,024	\$ 933	\$ 91
Furniture and equipment	298	289	9
Leasehold improvements	537	533	4
	\$ 1,859	\$ 1,755	\$ 104

During the nine months ended June 30, 2020, the Company purchased \$14 of equipment (June 30, 2019 - \$62) and \$21 (June 30, 2019 - \$5) of depreciation costs were categorized as a cost of goods sold.

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9. Intangible assets

	June 30, 2020		
	Cost	Accumulated Amortization	Net Book Value
Software licenses and rights	\$ 3,904	\$ 3,381	\$ 523
Customer lists	19,211	11,588	7,623
Software codes	14,377	8,749	5,628
Non-compete agreements	1,299	50	1,249
	\$ 38,791	\$ 23,768	\$ 15,023

During the nine months ended June 30, 2020, \$13 (June 30, 2019 - \$16) of amortization costs were categorized as a cost of goods sold. In the first nine months of fiscal 2020, the Company capitalized \$619 (June 30, 2019 - \$341) of development costs that have been reduced by \$67 (June 30, 2019 - \$53) of ITC's related to capitalized projects.

10. Goodwill

The carrying amount of goodwill can be analyzed as follows:

	June 30, 2020
Gross carrying amount from:	
Acquisition of Bellamy	\$ 1,934
Acquisition of Weave	771
Acquisition of Serenic	4,522
Acquisition of InfoStrat	996
Foreign exchange impact	(29)
	\$ 8,194

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 June 30, 2020
Property, equipment and intangibles	\$ (2,679)	\$ 554	\$ (859)	\$ 42	\$ (2,942)
Scientific research and development pools	(17)	17	-	52	52
Non-capital losses	310	414	-	-	724
Share issuance and other	35	40	-	(10)	65
	\$ (2,351)	\$ 1,025	\$ (859)	\$ 84	\$ (2,101)

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.

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	June 30, 2020
Deferred tax assets	\$ 68
Deferred tax liabilities	(2,169)
	\$ (2,101)

(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:

	Three months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
Profit (loss) before income tax	\$ 3,837	\$ 3,548	\$ (882)	\$ 10,373
Corporate income tax rate	25.0%	27.0%	25.0%	27.0%
Computed expected tax provision (recovery)	959	958	(221)	2,801
Increase (decrease) in income taxes resulting from:				
- Rate difference on foreign operations	(180)	(13)	(185)	(43)
- Stock based compensation expense	12	3	54	7
- Rate reduction ⁽¹⁾	(39)	-	(136)	-
- Other	(79)	(64)	(22)	(59)
Income tax expense	\$ 673	\$ 884	\$ (510)	\$ 2,706

(1) Reflects substantively enacted income tax rate reduction in Alberta

(c) The following is a summary of the Canadian tax pools available at the end of June 30, 2020, subject to confirmation by the income tax authorities:

	June 30, 2020
Capital cost allowance	\$ 3,269
Non-capital losses	2,098
	\$ 5,367

(d) The two US subsidiaries, Serenic Software (US) Corporation and Serenic Software Inc., have net operating losses of \$801 USD (\$1,081 CAD) and \$223 USD (\$301 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 (\$88 CAD) and \$291 USD (\$392 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 (\$642 CAD) of the Serenic Software (US) Corporation net operating losses in the

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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 £3,308 (\$5,568 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.

12. Trade and other payables

Trade and other payables can be summarized as follows:

	June 30, 2020
Trade payables	\$ 2,032
Short-term employee payable	651
Professional fees accrual	200
Supplier costs accrual	24
Corporate taxes payable	(1,700)
Other taxes payable	40
Miscellaneous	26
	\$ 1,273

13. Deferred revenue, deposits and retainers

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

	Deferred Revenue	Deposits and Retainers
Balance at October 1, 2019	\$ 14,265	\$ 180
New Contracts	17,162	1,653
Amount from Acquisitions to be amortized	45	26
Applied or Amortized	(20,224)	(302)
Balance, end of the period	\$ 11,248	\$ 1,557

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14. Share capital

(a) Authorized: Unlimited number of common shares

(b) Issued

	June 30, 2020	
	Number	\$
Common shares		
Balance at October 1, 2019	23,701,744	\$ 78,667
Repurchase of common shares	(30,000)	(100)
Issued on exercise of options	90,300	802
Grant date fair value of options exercised	-	197
Balance, end of the period	23,762,044	\$ 79,566
 Total share capital		\$ 79,566

(c) Contributed surplus

	June 30, 2020	
Balance at October 1, 2019	\$	2,406
Transfer to common share capital on exercise of options		(197)
Stock based compensation		1,886
Balance, end of the period	\$	4,095

(d) Dividends

During the nine months ended June 30, 2020, the Company paid regular dividends to shareholders totaling \$7,372 at an average dividend amount of \$0.31. In the same period in fiscal 2019, the Company paid regular dividends to shareholders totaling \$6,301 at an average dividend amount of \$0.285.

(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. Under the current NCIB, during the nine-month period ended June 30, 2020, the Company repurchased 30,000 common shares at an average price of \$7.97 for a total cost of \$239 of which \$139 was applied against the deficit and \$100 was applied against share capital. 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, of which \$1,966 was applied against the deficit and \$492 was applied against share capital. All purchases of its common shares are for cancellation. The NCIB which commenced on May 21, 2019, terminated on May 20, 2020.

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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, 2020, and changes during the period then ended, are as follows:

	June 30, 2020	
	Number of Options	Weighted Average Exercise Price
Outstanding at October 1, 2019	330,300	\$ 9.48
Granted	1,825,000	10.65
Exercised	(94,900)	8.45
Expired	(45,400)	9.19
Outstanding, end of the period	2,015,000	\$ 10.59
Options exercisable, end of the period	464,167	\$ 10.39

During the nine months ended June 30, 2020, 1,825,000 stock options were granted at an average exercise price of \$10.65 to directors and officers of the Company (June 30, 2019 – 15,000), 94,900 options were exercised (June 30, 2019 – 1,673,050) and 45,400 options expired (June 30, 2019 – 16,666). Last year, during the nine months ended June 30, 2019, 33,334 options were forfeited.

The stock-based compensation included in the condensed consolidated statement of comprehensive income for the three months ended June 30, 2020, was \$432 (June 30, 2019 – \$34). For the nine months ended June 30, 2020, the stock-based compensation included in the condensed consolidated statement of comprehensive income was \$1,886 (June 30, 2019 – \$80).

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:

	June 30, 2020
Risk-free interest rate	0.36%
Expected life (years)	5
Expected volatility	35%
Annualized dividend per share	\$0.44
Forfeiture rate	10%

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(g) The following table summarizes information about stock options outstanding and exercisable as at June 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	1.3 years
8.25	25,000	-	25,000	1.9 years
10.08	60,000	0.5 years	40,000	2.5 years
12.75	15,000	1.5 years	5,000	3.5 years
10.65	1,825,000	2.3 years	304,167	4.3 years
	<u>2,015,000</u>	<u>2.1 years</u>	<u>464,167</u>	<u>3.4 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, 2020, of 23,756,752 and 23,761,838 (June 30, 2019 – 22,560,919 and 22,237,940). During the same period, the diluted weighted average number of shares outstanding was 23,770,731 and 23,796,097 (June 30, 2019 – 22,861,449 and 22,612,092). For the three and nine month periods ended June 30, 2020, 13,979 and 34,259 options were included in the computation of diluted earnings per share (June 30, 2019 – 300,529 and 374,152).

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.

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.

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	Three months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
Licenses				
Canada	54	27	141	124
USA	38	1,272	340	2,484
	<u>92</u>	<u>1,299</u>	<u>481</u>	<u>2,608</u>
Subscription and maintenance				
Canada	1,903	2,000	5,719	6,080
USA	5,230	4,625	15,326	13,489
UK and Other	71	57	212	189
	<u>7,204</u>	<u>6,682</u>	<u>21,257</u>	<u>19,758</u>
Professional services				
Canada	235	219	574	684
USA	2,366	1,530	5,641	5,427
UK and Other	6	25	62	30
	<u>2,607</u>	<u>1,774</u>	<u>6,277</u>	<u>6,141</u>
Product revenue				
Canada	13	3	21	17
USA	49	28	211	162
UK and Other	-	-	1	4
	<u>62</u>	<u>31</u>	<u>233</u>	<u>183</u>
Total revenue				
Canada	2,205	2,249	6,455	6,905
USA	7,683	7,455	21,518	21,562
UK and Other	77	82	275	223
	<u>\$ 9,965</u>	<u>\$ 9,786</u>	<u>\$ 28,248</u>	<u>\$ 28,690</u>

	Nine months ended June 30,	
	2020	2019
Non-current assets		
Canada	16,988	17,080
USA	6,958	5,218
	<u>23,946</u>	<u>22,298</u>

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. Contracted not yet recognized revenue was \$11,248 as of June 30, 2020, of which majority will be recognized over the next twelve months.

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:

Contractual Obligations	Total	Fiscal 2020	Fiscal 2021-2022
Premise/Services	\$ 899	\$ 233	\$ 666

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(b) Contingencies

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

(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 and for the Company to realize significantly enhanced Adjusted EBITDA in the future, the Company paid executives a total of \$12 million.

18. Related party transactions

During the nine-month period ended June 30, 2020, the Company paid director's fees of \$120 (June 30, 2019 - \$90), and no fees are outstanding as of June 30, 2020. 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 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:

	June 30, 2020
Salaries and benefits-key management	\$ 989
Executive bonus	102
One-time executive bonus buyout	12,000
Stock based compensation	1,878
Directors' fees	120
	\$ 15,089

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.

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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 June 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 \$62 (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).

(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, 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 \$21 represents approximately 1% of the trade accounts receivable as of June 30, 2020 (September 30, 2019 - 0.3%). As at June 30, 2020, three customers accounted for 32% (September 30, 2019 - three customers accounted for 59%) of the Company's total trade accounts receivable. Revenue from one customer represented approximately \$2,593 or 9.2% of consolidated revenue earned during the nine-month period ended June 30, 2020 (June 30, 2019 - 14.5%).

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The aging of the trade receivables balance is as follows:

Aging of trade accounts receivable

	<u>June 30, 2020</u>
1-30 days	\$ 1,476
31-90 days	366
91 + days	<u>324</u>
Total trade receivables	2,166
Allowance for doubtful accounts	(21)
Other receivables ⁽¹⁾	<u>124</u>
Total accounts receivable	<u>\$ 2,269</u>

⁽¹⁾ Other receivables consist primarily of adjustments related to holdback receivable.

Allowance for doubtful accounts continuity schedule

	<u>June 30, 2020</u>
Balance at October 1, 2019	\$ (4)
Allowance recognized-net	<u>(17)</u>
Balance, end of the period	<u>\$ (21)</u>

(c) Liquidity risk

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

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

Trade and other payables:

	<u>June 30, 2020</u>
Trade payables	\$ 2,032
Corporate taxes payable	(1,700)
Accrued and other payable	<u>941</u>
Total trade and other payables	<u>\$ 1,273</u>

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.

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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, 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 \$425 (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.

21. Subsequent events

- (a)** On July 14, 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. All purchases of its common shares are for cancellation. The current NCIB terminates on the earlier of July 13, 2021, or when permitted purchases are completed. On July 24, 2020, under the current NCIB, the Company purchased 700 of its common shares at an average price of \$11.60 for a total cost of \$8.
- (b)** On July 16, 2020, the Company entered into a commitment letter with a Canadian chartered bank to obtain access to a \$40 million credit facility. The commitment includes capacity to expand the credit facility subject to certain terms and conditions. The primary purpose of the credit facility is to fund acquisitions. The credit facility can also be used for general corporate purposes.

Sylogist Ltd.

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

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Barry Foster, ⁽¹⁾ ⁽²⁾

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