



A Symbol of **Leadership**

# 3rd Quarter Fiscal 2020 Report



# Management's Discussion and Analysis of Financial Condition and Results of Operations dated February 27, 2020

The following discussion and analysis should be read in conjunction with the Condensed Interim Consolidated Financial Statements of Tecsys Inc. (the "Company") and Notes thereto, which are included in this document, and the annual report for the year ended April 30, 2019. The Company's third quarter of fiscal year 2020 ended on January 31, 2020. Additional information about the Company, including copies of the continuous disclosure materials such as the annual information form and the management proxy circular are available through the SEDAR Website at <http://www.sedar.com>.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

This document and the condensed interim consolidated financial statements are expressed in Canadian dollars unless it is otherwise indicated. The Company and its subsidiaries functional currency is the Canadian dollar with the exception of Danish subsidiaries (Danish kroner).

## Overview

Tecsys is a global provider of supply chain solutions that equip organizations with industry-leading services and tools to achieve operational success. Tecsys' solutions are designed to create clarity out of the complex supply chain challenges facing organizations today. Tecsys solutions include warehouse management, distribution and transportation management, supply management at point-of-use, distributed order management, as well as financial management and analytics solutions.

Customers running on Tecsys' Itopia® supply chain platform are confident knowing they can execute, day in and day out, regardless of business fluctuations or changes in technology. As their businesses grow more complex, organizations operating a Tecsys platform can adapt and scale to business needs or size, expand and collaborate with customers, suppliers and partners as one borderless enterprise, and transform their supply chains at the speed that their growth demands. From demand planning to demand fulfillment, Tecsys puts power into the hands of both front-line workers and back office planners, helping business leaders focus on the future of their products, services and people, not on their operational challenges.

Tecsys is the market leader in North America for supply chain solutions for health systems and hospitals. Over 1,000 small, mid-size and large customers trust their supply chains to Tecsys in the healthcare, service parts, third-party logistics, retail and general wholesale high-volume distribution industries.

With the acquisition of OrderDynamics Corporation on November 14, 2018, Tecsys has added major customers in the retail industry located in Canada, the U.S., Europe and Australia. With the acquisition of PCSYS A/S on February 1, 2019, Tecsys has added hundreds of customers in the manufacturing, retail and logistics industries, most of which are based in Europe. Please refer to the 2019 annual report for a full description of these business acquisitions.

## Quarterly Selected Financial Data

(Quarterly data are unaudited)

In thousands of Canadian dollars, except per share data

	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Total Revenue</b>	26 847	26 008	24 250	23 191	18 792	18 184	16 282	18 908
<b>Profit (Loss)</b>	834	1 404	(267)	79	(1 429)	596	13	1 802
<b>Comprehensive Income (Loss)</b>	818	1 439	(488)	(143)	(1 307)	552	63	1 493
<b>Adjusted EBITDA<sup>1</sup></b>	2 648	3 677	1 995	684	(98)	1 654	536	2 307
<b>Basic and Diluted Earnings per Common Share</b>	0.06	0.11	(0.02)	0.01	(0.11)	0.05	NIL	0.13

In the third quarter of fiscal 2020, the Company recorded \$0.3 million of stock-based compensation expense, which has a negative impact on Profit and no impact on Adjusted EBITDA<sup>1</sup> as this item is excluded from Adjusted EBITDA<sup>1</sup>. Adjusted EBITDA<sup>1</sup> was also positively impacted by \$0.3 million resulting from the implementation of International Financial Reporting Standard No. 16 - "Leases". See further discussion under Change in Accounting Policies.

In the second quarter of fiscal 2020, the Company recorded \$0.3 million of stock-based compensation expense and a \$0.2 million cost for the fair value of contingent consideration to be paid for PCSYS. This change in the fair value of the contingent consideration resulted from strong financial performance of PCSYS that increased contingent consideration expected to be paid to the sellers (Earnout). The Earnout period ended on September 30, 2019 and is the only Earnout period associated with the acquisition. The above amounts had a negative impact on Profit and no impact on Adjusted EBITDA<sup>1</sup> as these items are excluded from Adjusted EBITDA<sup>1</sup>. Adjusted EBITDA<sup>1</sup> was positively impacted by a quarterly sequential improvement from OrderDynamics, which achieved slightly positive Adjusted EBITDA<sup>1</sup> in the second quarter of fiscal 2020. Adjusted EBITDA<sup>1</sup> was also positively impacted by \$0.3 million resulting from the implementation of International Financial Reporting Standard No. 16 - "Leases". See further discussion under Change in Accounting Policies.

In the first quarter of fiscal 2020, the Company recorded \$0.4 million of restructuring costs related to acquisition integration (primarily severance) and \$0.2 million stock-based compensation expense. This had a negative impact on Profit and no impact on Adjusted

<sup>1</sup> Refer to section at end of MD&A titled "Non-IFRS Performance Measure"

EBITDA<sup>1</sup> as these items are excluded from Adjusted EBITDA<sup>1</sup>. Adjusted EBITDA<sup>1</sup> was positively impacted by \$0.3 million resulting from the implementation of International Financial Reporting Standard No. 16 - "Leases". See further discussion under Change in Accounting Policies.

In the fourth quarter of fiscal 2019, the Company recorded \$0.5 million of costs related to the acquisitions of OrderDynamics and PCSYS and \$0.1 million related to stock-based compensation expense. This had a negative impact on Profit. Also, included in the fourth quarter of fiscal 2019 is the loss related to OrderDynamics of \$1.1 million. This had a negative \$1.1 million impact on Profit and a negative \$0.9 million impact on Adjusted EBITDA<sup>1</sup>. The total of the above items had a \$1.7 million negative impact on Profit and a \$0.9 million negative impact on Adjusted EBITDA<sup>1</sup> in the fourth quarter of fiscal 2019. The decline in our organic perpetual license revenue in the fourth quarter was influenced by a shift to SaaS subscription bookings<sup>2</sup>. During the fourth quarter of fiscal 2019, approximately 60% of our software product bookings<sup>2</sup> were SaaS compared to 4% in the fourth quarter of fiscal 2018. This had a material impact on Profit and Adjusted EBITDA<sup>1</sup> in the fourth quarter as these bookings<sup>2</sup> result in revenue recognition over the coming years (typically five-year contracts recognized rateably) as opposed to up front revenue recognition for perpetual license bookings<sup>2</sup>.

In the third quarter of fiscal 2019, the Company recorded \$0.8 million of costs related to the acquisitions of OrderDynamics and PCSYS and \$0.1 million related to stock-based compensation expense. This had a negative impact on Profit and Comprehensive Loss. Also, included in the third quarter of fiscal 2019 is the loss related to OrderDynamics of \$0.7 million. This had a negative \$0.7 million impact on Profit and Comprehensive Loss and a negative \$0.6 million impact on Adjusted EBITDA<sup>1</sup>. Additionally, the third quarter of fiscal 2019 included non-recurring marketing rebranding program costs of \$0.4 million. This had a negative impact on Profit, Comprehensive Loss and Adjusted EBITDA<sup>1</sup>. The total of the above items had a \$2.0 million negative impact on Profit and Comprehensive Loss and a \$1.0 million negative impact on Adjusted EBITDA<sup>1</sup> in the third quarter of fiscal 2019.

In the fourth quarter of fiscal 2018, the Company recorded \$0.1 million of Canadian federal non-refundable research and development tax credits and \$0.9 million of deferred tax recovery. This had a positive impact on Profit and Comprehensive Income in that period.

## Results of Operations

*Three months ended January 31, 2020 compared to three months ended January 31, 2019*

### Revenue

Total revenue for the third quarter ended January 31, 2020 increased to \$26.8 million, \$8.1 million or 43% higher, compared to \$18.8 million for the same period of fiscal 2019. The OrderDynamics and PCSYS acquisitions contributed an increase of \$5.1 million in revenue while organic revenue was up \$2.9 million or 17%. The U.S. dollar averaged CA\$1.3163 in the third quarter of fiscal 2020 in comparison to CA\$1.3304 in the third quarter of fiscal 2019. Approximately 55% (2019 – 63%) of the Company's revenues were generated in U.S. dollars during the third quarter of fiscal 2020. In comparison to the third quarter of fiscal 2019, the weaker U.S. dollar offset by the Company's partial hedging of U.S. revenue did not have a material impact on revenue. The weaker U.S. dollar did not have a material impact on cost of sales and operating expenses during the third quarter of fiscal 2020 compared to the fiscal 2019 period.

Overall total contract bookings<sup>2</sup> amounted to \$29.9 million in the third quarter of fiscal 2020, an increase of 75% in comparison to \$17.1 million for the same period last year. Organic bookings<sup>2</sup> increased by 51% compared to the same quarter last year with the balance of the increase resulting from OrderDynamics and PCSYS bookings<sup>2</sup>. During the third quarter of fiscal 2020, the Company signed 8 new accounts with a total contract value of \$8.3 million compared to 7 new accounts with a total contract value of \$5.6 million in the third quarter of fiscal 2019.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology products, amounted to \$1.5 million in the third quarter of fiscal 2020, which remained flat compared to the same period last year. In the third quarter of fiscal 2020, SaaS subscription bookings<sup>2</sup> (measured on an Annual Recurring Revenue basis<sup>2</sup>) were \$2.0 million compared to \$0.5 million in the third quarter of fiscal 2019. Perpetual license bookings<sup>2</sup> in the third quarter of fiscal 2020 were \$1.5 million compared to \$1.6 million in the third quarter of fiscal 2019.

Third party products revenue increased to \$4.4 million, up \$3.1 million or 234% in the third quarter of fiscal 2020 in comparison to \$1.3 million for the same period last year. The increase was the result of the acquisition of PCSYS, which contributed \$2.4 million as well as higher revenue in the organic business which contributed \$0.7 million of the increase.

Cloud, maintenance and subscription revenue increased to \$10.6 million, up \$2.5 million or 31%, in the third quarter of fiscal 2020 in comparison to \$8.1 million for the same period last year. The increase is the result of \$1.5 million of contribution from the acquisitions of OrderDynamics and PCSYS as well as \$1.0 million or 14% growth in our organic business, driven primarily by SaaS. Total Annual Recurring Revenue<sup>2</sup> at January 31, 2020 is \$42.5 million compared to \$32.7 million at January 31, 2019 and up \$2.0 million from \$40.5 million at October 31, 2019. A significant amount of Annual Recurring Revenue (ARR)<sup>2</sup> is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR<sup>2</sup>. During the third quarter of fiscal 2020, exchange movements had a favorable impact on ARR of \$0.1 million.

Professional services revenue increased to \$9.9 million, up \$2.5 million or 35%, in the third quarter of fiscal 2020 in comparison to \$7.3 million for the same period last year. The organic business contributed \$1.3 million of the increase (up 19% from the same period last year). Acquisitions of OrderDynamics and PCSYS contributed \$1.2 million of the overall professional services revenue increase. Professional Services Bookings<sup>2</sup> in the quarter were \$12.9 million compared to \$10.7 million in the third quarter of fiscal 2019 and \$9.7 million in the second quarter of fiscal 2020.

<sup>1</sup> Refer to section at end of MD&A titled "Non-IFRS Performance Measure"

<sup>2</sup> Refer to section at end of MD&A titled "Key Performance Indicators"

## Cost of Revenue

Total cost of revenue increased to \$14.0 million, up \$4.7 million or 50%, in the third quarter of fiscal 2020, in comparison to \$9.4 million for the same period in fiscal 2019. The increase is primarily attributable to higher services costs of \$2.2 million and higher product costs of \$2.5 million.

The cost of products increased to \$3.5 million, up \$2.5 million or 248%, in the third quarter of fiscal 2020 in comparison to \$1.0 million for the same period last year. The increase is mainly due to the acquisition of PCSYS, which had an impact of \$1.9 million related to hardware cost of revenue, while the organic business increased by \$0.6 million.

The cost of services increased to \$10.0 million, up \$2.2 million or 27%, in the third quarter of fiscal 2020 in comparison to \$7.9 million for the same period last year. The increase is primarily the result of OrderDynamics and PCSYS, which contributed \$1.3 million including \$0.2 million of intangible amortization. Organic cost of services increased primarily as a result of direct costs associated with higher revenue. The cost of services includes tax credits of \$0.4 million for the third quarter of fiscal 2020 in comparison to \$0.5 million in the third quarter of fiscal 2019.

## Gross Profit

Gross profit increased to \$12.8 million, up \$3.4 million or 36%, in the third quarter of fiscal 2020 in comparison to \$9.4 million for the same period last year. This is mainly attributable to higher service margin of \$2.9 million. Total gross profit percentage in the third quarter of fiscal 2020 was 48% compared to 50% in the same period of fiscal 2019.

Services gross profit during the third quarter of fiscal 2020 increased by \$2.9 million to \$10.4 million in comparison to \$7.6 million for the same period last year. Services gross profit was 51% in the third quarter of fiscal 2020 in comparison to 49% for the same period last year.

The products margin increased by \$0.5 million in the third quarter of fiscal 2020 compared to the same period last year. This was primarily the result of PCSYS hardware driven products margin.

## Operating Expenses

Total operating expenses for the third quarter of fiscal 2020 increased to \$11.4 million, higher by \$0.3 million or 3%, compared to \$11.1 million for the same period last year. The acquisition of PCSYS contributed \$0.9 million of the increase, partially offset by lower operating expenses from the organic business. The most notable differences between the third quarter of fiscal 2020 in comparison with the same period in fiscal 2019 are as follows:

- Sales and marketing expenses increased to \$5.4 million, \$0.9 million higher than the comparable quarter last year. The acquisitions of OrderDynamics and PCSYS contributed to \$0.5 million of the increase while the increase in the organic business is primarily due to higher personnel costs including commissions partially offset by lower marketing expenses driven by prior year non-recurring rebranding program costs.
- General and administrative expenses decreased to \$2.4 million, \$0.7 million lower than the comparable quarter last year. The prior year Q3 included \$0.8 million of acquisition costs while PCSYS contributed \$0.2 million of general and administrative costs in Q3 of fiscal 2020 (versus \$nil in the prior year period). Stock-based compensation costs contributed \$0.1 million of additional general and administrative expenses in the quarter compared to the same period last year.
- Net R&D expenses increased to \$3.6 million, \$0.1 million higher than the comparable quarter last year. The acquisitions of OrderDynamics and PCSYS contributed \$0.5 million of the increase, offset by lower expenses from the organic business. The Company recorded \$0.5 million of refundable and non-refundable R&D and e-business tax credits in the third quarter of fiscal 2020 compared to \$0.5 million for the same quarter in the prior year. The Company amortized deferred development costs and other intangible assets of \$0.1 million in the third quarter of fiscal 2020 compared to \$0.3 million for the same quarter in the prior year. Additionally, the Company deferred \$0.2 million of development costs in the third quarter of fiscal 2020 compared to \$nil in the same period of last year.

## Profit (loss) from Operations

The Company recorded profit from operations of \$1.4 million in the third quarter of fiscal 2020 in comparison to a loss from operations of \$1.7 million for the same period in fiscal 2019. Contributing to the increase in profit is higher professional services and cloud, maintenance and subscription margin, profit from PCSYS and lower acquisition costs and non-recurring rebranding program costs. The Company is seeing increased software as a service (SaaS) bookings<sup>2</sup>. This had an impact on operating profit in the current period and will continue to affect operating profit in the medium term.

## Net Finance costs (income)

In the third quarter of fiscal 2020, the Company recorded \$0.3 million in net finance costs in comparison to \$nil in net finance income for the comparable quarter last year. These costs in the current period relate primarily to \$0.3 million from interest expense on long-term debt and interest expense resulting from new accounting under IFRS 16. See also Change in Accounting Policies.

## Income Taxes

In the third quarter of fiscal 2020, the Company recorded income tax expense of \$0.3 million in comparison to an income tax recovery of \$0.3 million in the third quarter of fiscal 2019.

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<sup>2</sup> Refer to section at end of MD&A titled "Key Performance Indicators"

## Profit (loss)

The Company recorded a profit of \$0.8 million or \$0.06 per share in the third quarter of fiscal 2020 in comparison to a loss of \$1.4 million or \$(0.11) per share in the third quarter of fiscal 2019.

## Results of Operations

*Nine months ended January 31, 2020 compared to nine months ended January 31, 2019*

### Revenue

Total revenue for the nine months ended January 31, 2020 increased to \$77.1 million, \$23.8 million or 45% higher, compared to \$53.3 million for the same period of fiscal 2019. The OrderDynamics and PCSYS acquisitions contributed \$17.6 million of the revenue variance while organic revenue was up \$6.3 million or 12%. The U.S. dollar averaged CA\$1.3228 in the first nine months of fiscal 2020 in comparison to CA\$1.3176 in the first nine months of fiscal 2019. Approximately 55% (2019 – 63%) of the Company's revenues were generated in U.S. dollars during the first nine months of fiscal 2020. In comparison to the first nine months of fiscal 2019, the stronger U.S. dollars, partially offset by the Company's hedging of U.S revenue in the first nine months of fiscal 2019 gave rise to a favorable revenue variance of \$0.8 million. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately \$0.1 million in the first nine months of fiscal 2020 as compared to the first nine months of fiscal 2019.

Overall total contract bookings<sup>2</sup> amounted to \$71.8 million in the first nine months of fiscal 2020, an increase of 63% in comparison to \$44.0 million for the same period last year. The increase was the result of OrderDynamics and PCSYS bookings<sup>2</sup> in the first nine months of fiscal 2020 as well as organic bookings<sup>2</sup> growth of 24%. During the first nine months of fiscal 2020, the Company signed 26 new accounts with a total contract value of \$27.3 million, up 214% compared to 15 new accounts with a total contract value of \$8.7 million in the first nine months of fiscal 2019.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology products, decreased to \$3.7 million in the first nine months of fiscal 2020, \$1.7 million or 31% lower in comparison to \$5.3 million for the same period last year. The decline was driven by lower perpetual license revenue which was influenced by a shift to SaaS subscription bookings<sup>2</sup>. In the first nine months of fiscal 2020, SaaS subscriptions bookings<sup>2</sup> (measured on an Annual Recurring Revenue basis<sup>2</sup>) were \$4.7 million compared to \$0.6 million in the first nine months of fiscal 2019. Perpetual license bookings<sup>2</sup> in the first nine months of fiscal 2020 were \$3.3 million compared to \$4.7 million in the first nine months of fiscal 2019.

Third party products revenue increased to \$11.6 million, up \$7.5 million or 182% in the first nine months of fiscal 2020 in comparison to \$4.1 million for the same period last year. The increase was the result of the acquisition of PCSYS, which contributed \$6.9 million towards the increase while the organic business contributed \$0.6 million of the increase.

Cloud, maintenance and subscription revenue increased to \$30.4 million, up \$8.5 million or 39%, in the first nine months of fiscal 2020 in comparison to \$21.9 million for the same period last year. The increase is the result of \$6.0 million of contribution from the acquisitions of OrderDynamics and PCSYS as well as \$2.5 million or 12% growth in our organic business, driven primarily by SaaS. Total Annual Recurring Revenue<sup>2</sup> at January 31, 2020 is \$42.5 million compared to \$32.7 million at January 31, 2019. A significant amount of Annual Recurring Revenue (ARR)<sup>2</sup> is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR<sup>2</sup>. During the first nine months of fiscal 2020, exchange movements had a \$0.4 million negative impact on ARR.

Professional services revenue increased to \$29.8 million, up \$9.5 million or 47%, in the first nine months of fiscal 2020 in comparison to \$20.3 million for the same period last year. The organic business contributed \$5.3 million of the increase (up 26% from the same period last year). The significant increase in professional services revenue from the organic business results from the accumulation of professional services backlog over the previous quarters. Acquisitions of OrderDynamics and PCSYS contributed \$4.2 million of the overall professional services revenue increase. Professional Services Bookings<sup>2</sup> in the first nine months of fiscal 2020 were \$30.0 million compared to \$28.1 million in the first nine months of fiscal 2019.

### Cost of Revenue

Total cost of revenue increased to \$39.7 million, up \$13.0 million or 48%, in the first nine months of fiscal 2020, in comparison to \$26.7 million for the same period in fiscal 2019. The increase is primarily attributable to higher services costs of \$7.3 million and higher product costs of \$5.6 million.

The cost of products increased to \$9.3 million, up \$5.6 million or 154%, in the first nine months of fiscal 2020 in comparison to \$3.7 million for the same period last year. The increase is mainly due to the acquisition of PCSYS, which added \$5.4 million of hardware cost of revenue.

The cost of services increased to \$28.8 million, up \$7.3 million or 34%, in the first nine months of fiscal 2020 in comparison to \$21.5 million for the same period last year. The increase is primarily the result of the acquisitions of OrderDynamics and PCSYS, which contributed \$5.2 million including \$0.6 million of intangible amortization. Organic cost of services increased primarily as a result of direct costs associated with higher revenue. The cost of services includes tax credits of \$1.2 million for the first nine months of fiscal 2020 compared to \$1.5 million for the same period last year.

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<sup>2</sup> Refer to section at end of MD&A titled "Key Performance Indicators"

## Gross Profit

Gross profit increased to \$37.4 million, up \$10.9 million or 41%, in the first nine months of fiscal 2020 in comparison to \$26.5 million for the same period last year. This is mainly attributable to higher service margin of \$10.7 million. Total gross profit percentage in the first nine months of fiscal 2020 was 49% compared to 50% in the same period of fiscal 2019. Gross margin percentage was negatively impacted by lower proprietary license revenue as well as a higher mix of third-party products and hardware.

Services gross profit during the first nine months of fiscal 2020 increased by \$10.7 million to \$31.4 million in comparison to \$20.7 million for the same period last year. Services gross profit was 52% in the first nine months of fiscal 2020 in comparison to 49% for the same period last year.

The products margin increased by \$0.2 million in the first nine months of fiscal 2020 compared to the same period last year primarily as a result higher third-party product contribution from PCSYS partially offset by lower proprietary product revenue of \$1.7 million. The lower proprietary product revenue was primarily the result of lower license revenue and was directly impacted by the shift to SaaS bookings<sup>2</sup> noted above.

## Operating Expenses

Total operating expenses for the first nine months of fiscal 2020 increased to \$33.3 million, higher by \$5.8 million or 21%, compared to \$27.5 million for the same period last year. The acquisitions of OrderDynamics and PCSYS contributed \$5.8 million of the increase. The most notable differences between the first nine months of fiscal 2020 in comparison with the same period in fiscal 2019 are as follows:

- Sales and marketing expenses increased to \$14.8 million, \$2.7 million higher than the comparable first nine months of last year. The acquisitions of OrderDynamics and PCSYS contributed \$2.1 million of the increase while the increase in the organic business is primarily due to higher personnel costs including commission partially offset by lower marketing program expenses (see also previous comments on non-recurring marketing rebranding costs in Q3 of prior year).
- General and administrative expenses increased to \$7.1 million, \$0.6 million higher than the comparable first nine months of last year. The acquisition of PCSYS contributed \$0.6 million of the increase. For the remaining business, acquisition-related costs decreased by \$0.8 million and is offset by higher costs related to stock option compensation and higher personnel related costs. The general and administrative expenses of PCSYS includes a \$0.2 million fair value adjustment on the contingent consideration (Earnout) for the acquisition of PCSYS. The Earnout period ended on September 30, 2019 and is the only Earnout period associated with the acquisition. Earnout consideration of \$1.1 million was paid in December 2019.
- Net R&D expenses increased to \$10.9 million, \$2.1 million higher than the comparable first nine months of last year. The acquisitions of OrderDynamics and PCSYS contributed \$2.6 million of the increase while the organic business decreased by \$0.5 million. The Company recorded \$1.5 million of refundable and non-refundable R&D and e-business tax credits in the first nine months of fiscal 2020 compared to \$1.3 million in the first nine months of fiscal 2019. The Company amortized deferred development costs and other intangible assets of \$0.4 million in the first nine months of fiscal 2020 compared to \$0.9 million for the same period in the prior year. Additionally, the Company deferred \$0.5 million of development costs in the first nine months of fiscal 2020 compared to \$0.1 million in the prior year period.
- Restructuring costs increased to \$0.4 million, compared to \$nil in the comparable first nine months of last year. These costs are related to acquisition integration costs, primarily for severance, and were incurred in the first quarter of fiscal 2020.

## Profit (loss) from Operations

The Company recorded a profit from operations of \$4.1 million in the first nine months of fiscal 2020 in comparison to a loss from operations of \$1.0 million for the same period in fiscal 2019. Contributing to the increase in profit is higher professional services and cloud, maintenance and subscription margin and profit from PCSYS partially offset by fair value adjustment of contingent consideration Earnout of PCSYS, stock-based compensation, increased operating expenses and the decrease in license revenue mentioned previously. The Company is seeing increased software as a service (SaaS) bookings<sup>2</sup>. This had an impact on operating profit in the current period and will continue to affect operating profit in the medium term.

## Net Finance costs (income)

In the first nine months of fiscal 2020, the Company recorded \$1.0 million in net finance costs in comparison to net finance income of \$0.1 million for the comparable first nine months of last year. These costs in the current period relate primarily to foreign exchange loss of \$0.2 million and \$0.8 million related to interest expense on long-term debt and interest expense resulting from new accounting under IFRS 16. See also Change in Accounting Policies.

## Income Taxes

In the first nine months of fiscal 2020, the Company recorded income tax expense of \$1.1 million in comparison to an income tax expense of \$nil million in the first nine months of fiscal 2019. In the first nine months of fiscal 2020, the consolidated effective tax rate was 37%. The effective tax rate is higher than the combined basic federal and provincial statutory income tax rate of approximately 27% due to unrecognized tax benefits on OrderDynamics operating losses. The Company has not recorded deferred tax assets related to OrderDynamics operating losses, in spite of significant improvement in operating results, as OrderDynamics has not yet demonstrated a history of taxable profit.

<sup>2</sup> Refer to section at end of MD&A titled "Key Performance Indicators"

## Profit (loss)

The Company recorded a profit of \$2.0 million or \$0.15 per share in the first nine months of fiscal 2020 in comparison to a loss of \$0.8 million or \$(0.06) per share in the first nine months of fiscal 2019.

## Liquidity and Capital Resources

On January 31, 2020, current assets totaled \$41.3 million, \$2.8 million higher compared to the end of fiscal 2019. Cash and cash equivalents decreased to \$11.9 million compared to \$14.9 million as at April 30, 2019. Accounts receivable and work in progress totaled \$17.1 million on January 31, 2020 compared to \$15.8 million as at April 30, 2019. The increase in accounts receivable and work in progress is due to higher revenue which more than offset significant cash collections during the first nine months of fiscal 2020 and the foreign exchange impact on the translation of U.S dollar receivables due to closing rate for the U.S dollar decreasing from CA\$1.3391 as at April 30, 2019 to CA\$1.3236 as at January 31, 2020.

The Company's DSO (days sales outstanding)<sup>2</sup> were at 57 days at the end the third quarter of fiscal 2020 compared to 61 days at the end of fiscal 2019 and 77 days at the end of the third quarter of fiscal 2019.

Current liabilities on January 31, 2020 totaled \$36.0 million compared to \$31.0 million at the end of fiscal 2019.

Working capital decreased to \$5.3 million at the end of January 31, 2020 from \$7.5 million at the end of fiscal year 2019 primarily as a result of lower cash and cash equivalents, an increase in current lease obligation liabilities resulting from the implementation of IFRS 16 and the movement of OrderDynamics' acquisition indemnity holdback of \$1.5 million from other non-current liabilities to other current liabilities. See also Change in Accounting Policies.

Operating activities generated funds of \$2.9 million in the third quarter of fiscal 2020 in comparison to generating funds of \$0.5 million in the corresponding period of fiscal 2019.

Operating activities excluding changes in non-cash working capital items generated \$2.3 million in the third quarter of fiscal 2020 in comparison to using funds of \$1.3 million in the corresponding period of fiscal 2019.

Operating activities generated funds of \$3.9 million in the first nine months of fiscal 2020 in comparison to \$0.1 million in the same period of fiscal 2019. Operating activities excluding changes in non-cash working capital items generated \$5.9 million in the first nine months of fiscal 2020 in comparison to \$0.3 million in the same period in fiscal 2019.

Changes in non-cash working capital items generated funds of \$0.6 million in the third quarter of fiscal 2020 due to a decrease in other receivables of \$0.2 million, increases in accounts payable and accrued liabilities of \$1.7 million and deferred revenue of \$0.4 million offset by an increase in accounts receivable and work in progress of \$0.4 million and increases in tax credits and prepaid expenses of \$1.3 million. Non-cash working capital items used funds of \$2.1 million in the first nine months of fiscal 2020 primarily due to an increase in accounts receivable and work in progress of \$1.4 million and increases in tax credits, prepaid expenses and other receivables totaling \$3.5 million offset by an increase in accounts payable and accrued liabilities of \$2.1 million, an increase in deferred revenue of \$0.8 million and an increase in inventory of \$0.1 million. The increase in prepaid expenses was driven by an increase of \$1.0 million in contract acquisition costs deferred under IFRS 15.

Changes in non-cash working capital items generated funds of \$1.8 million in the third quarter of fiscal 2019 primarily due to an increase in accounts payable and accrued liabilities of \$2.0 million and increase in deferred revenues of \$1.0 million offset by an increase of accounts receivable and tax credits of \$1.1 million. Non-cash working capital items used funds of \$0.2 million in the first nine months of fiscal 2019 primarily due to increase in tax credits of \$2.2 million and \$0.7 million in work in progress partially offset by increase in accounts payables and accrued liabilities and deferred revenue of \$1.2 million each.

The Company believes that funds on hand at January 31, 2020 combined with cash flow from operations and its access to banking facilities will be sufficient to meet its covenants, its needs for working capital, R&D, capital expenditures, and dividends for at least the next twelve months.

Financing activities used funds of \$1.5 million in the third quarter of fiscal 2020 in comparison to generating funds of \$11.3 million in the corresponding period of fiscal 2019. Financing activities in the third quarter of fiscal 2020 included repayment of term debt, payment of interest on debt and lease obligations (see note 6 in the interim consolidated financial statements), payment of dividends and payment of lease obligations (see note 7 in the interim consolidated financial statements). The generated funds in the third quarter of fiscal 2019 is primarily due to proceeds from the Term Loan (see note 6 in the interim consolidated financial statements), partially offset by payment of dividends. Financing activities used funds of \$4.4 million in the first nine months of fiscal 2020 in comparison to generating funds of \$9.9 million in the same period in fiscal 2019. Financing activities in the first nine months of 2020 related primarily to payment of dividends and repayment of long-term debt (see note 6 in interim consolidated financial statements) as well as interest on long term debt and leases obligations (see note 7 in the interim consolidated financial statements). Financing activities in the first nine months of 2019 related primarily to proceeds from the Term Loan and payment of dividends.

<sup>2</sup> Refer to section at end of MD&A titled "Key Performance Indicators"

During the third quarter of fiscal 2020, investing activities used funds of \$1.6 million in comparison to \$12.1 million in the corresponding quarter of fiscal 2019. The Company paid \$1.1 million related to the Earnout for the acquisition of PCSYS in the third quarter of fiscal 2020. The Company used funds of \$0.3 million for the acquisition of property and equipment and invested in its proprietary software products with the capitalization of \$0.2 million reflected as deferred development costs. During the first nine months of fiscal 2020, investing activities used funds of \$2.4 million in comparison to \$12.2 million in the comparable period last year. The Company used funds of \$0.7 million for the acquisition of property and equipment and \$0.2 million for the acquisition of intangible assets in the first nine months of fiscal 2020 (first nine months fiscal 2019: \$0.3 million and \$0.1 million, respectively). In the first nine months of fiscal 2020, the Company invested in its proprietary software products with the capitalization of \$0.5 million reflected as deferred development costs (first nine months of fiscal 2019: \$0.1 million). During the first nine months of fiscal 2019, \$10.0 million of long term investments were reclassified to short term cash and these funds were partially used for the acquisition of OrderDynamics on November 14, 2018. Proceeds from the Term Loan noted above were held as restricted cash and subsequently used for the acquisition of PCYS in February 2019.

## Related Party Transactions

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans of \$658,000 (fiscal 2019 - \$538,000) to key management and other management employees to facilitate their purchase of Company shares during the nine months ended January 31, 2020. The outstanding loans as at January 31, 2020 amounted to \$602,000 (Apr 30, 2019 - \$241,000).

## Subsequent Events

As at February 27, 2020, the Company declared a dividend of \$0.06 per share, to be paid on April 9, 2020 to shareholders of record at the close of business on March 19, 2020.

## Current and Anticipated Impacts of Current Economic Conditions

Current overall economic conditions together with market uncertainty and volatility may have an adverse impact on the demand for the Company's products and services as industry may adjust quickly to exercise caution on capital spending. This uncertainty may impact the Company's revenue.

Total backlog<sup>2</sup> at January 31, 2020 was \$98.2 million. This includes Annual Recurring Revenue<sup>2</sup> of \$42.5 million, Professional Services backlog<sup>4</sup> of \$24.2 million and multi-year recurring revenue amounts and hardware. Based on the Annual Recurring Revenue and Professional Services backlog<sup>2</sup>, the Company's management believes that quarterly services revenue (Cloud, Maintenance and Subscription revenue plus Professional Services revenue) ranging between \$20.0 million and \$21.0 million per quarter can be sustained in the short term.

Strategically, the Company continues to focus its efforts on the most likely opportunities within its existing vertical markets and customer base. The Company also currently offers subscription-based licensing, hosting services, modular sales and implementations, and enhanced payment terms to promote revenue growth. We see continued market appetite for subscription based SAAS licensing. To the extent our bookings<sup>2</sup> continue to shift from perpetual license to SAAS, revenue and operating profit will be impacted in the medium term and this could be material.

The exchange rate of the U.S. dollar in comparison to the Canadian dollar continues to be an important factor affecting revenues and profitability as the Company generally derives approximately 55% to 65% of its business from U.S. customers while the majority of its cost base is in Canadian dollars.

The Company will continue to adjust its business model to ensure that costs are aligned to its revenue expectations and economic reality to the extent possible.

The Company believes that funds on hand together with anticipated cash flows from operations, and its accessibility to the operating line of credit will be sufficient to meet all its needs for a least the next twelve months. The Company can further manage its capital structure by adjusting its dividend policy.

## Outstanding Share Data

On February 27, 2020, the Company has 13,083,210 common shares. During the third quarter of fiscal 2020, the Company issued 834 shares as part of the Company's stock option plan.

## Change in Accounting Policies

Except as described below, the accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ending April 30, 2019. The change in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ended April 30, 2020.

International Financial Reporting Standard No. 16 - "Leases" ("IFRS 16"):

Effective May 1, 2019, the Company adopted IFRS 16 which specifies how to recognize, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize a right-of-use asset as well as a lease liability reflecting the present value of future lease payments. The impact of the transition is shown below. The Company's accounting policy under IFRS 16 is as follows:

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use is initially measured at cost, which comprises 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 right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 5 to 21 years for offices and 3 to 6 years for data centers, equipment and vehicles. In addition, the right-of-use asset is reduced by impairment losses resulting from impairment tests conducted in accordance with IAS 36, Impairment of Assets, if any.

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 lessee's incremental borrowing rate. Lease payments used for the calculations comprise mainly fixed payments and variable lease payments that depend on an index or a rate, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The lease liability is subsequently measured at amortized cost using the effective interest method and is remeasured to reflect changes in the lease payments.

The Company has elected to apply 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.

Impact of transition:

Effective May 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach with the effect of initially applying this standard recognized at the date of application. Under this method, the Company elected to measure right-of-use of asset as equal to lease liability, adjusted for amounts previously recorded for deferred lease inducements or prepaid rent as at the date of adoption. The cumulative effect of initially applying IFRS 16 at initial application was recognized in retained earnings as of May 1, 2019 and comparative information presented for 2019 has not been restated.

The implementation of IFRS 16 allows for certain practical expedients at the date of initial application. The Company has elected to use the following exemptions and practical expedients:

- (i) To grandfather the assessment of which transactions are leases on the date of initial application, the Company applied IFRS 16 only to contracts that were previously identified as leases under IAS 17;
- (ii) Use of the same discount rate for portfolio of leases with similar characteristics;
- (iii) Exemption, on a lease-by-lease basis, of recognizing a right-of-use asset and lease liability when the lease term is within 12 months of the date of initial application;
- (iv) Exemption, on a lease-by-lease basis, of recognizing a right-of-use asset and lease liability when the lease has an underlying asset that is of low value;
- (v) Exclude initial direct costs, at the date of initial application only, on a lease-by-lease basis from the measurement of the right-of-use asset;
- (vi) Use hindsight at the date of initial application only, on a lease-by-lease basis, to determine the lease term if the contract contains options to extend or terminate the lease;
- (vii) No reassessment on whether a contract is or contains a lease under IAS 17.

The Company used its incremental borrowing rate at May 1, 2019 to calculate the right-of-use assets and lease liabilities. The weighted-average rate applied is 3.77%.

The following tables summarize the impact of adopting IFRS 16 on the Company's condensed interim consolidated statements of financial position as at May 1, 2019, and its interim statements of income and comprehensive income for the three and nine-months periods ended January 31, 2020.

	Impact of adopting IFRS 16 at May 1, 2019
Right-of-use assets – Increase	\$ 8,418
Deferred tax asset – Increase	404
Lease obligations – current - Increase	(984)
Lease obligations – non-current - Increase	(9,226)
Deferred rent liability – Decrease	271
<b>Impact at May 1, 2019 - Retained earnings</b>	<b>\$ (1,117)</b>

	Impact of adopting IFRS 16 for three months ended January 31, 2020
Cost of revenue – Services - Decrease	\$ 38
Cost of revenue – Products - Decrease	5
Operating expenses – Sales and Marketing - Decrease	6
Operating expenses – General and Administration - Decrease	10
Operating expenses – Research and Development - Decrease	20
Interest expenses – Increase	(92)
Income tax expense – Decrease	4
<b>Impact at January 31, 2020 – Condensed Interim Statements of Income and Comprehensive income</b>	<b>\$ (9)</b>

	Impact of adopting IFRS 16 for nine months ended January 31, 2020
Cost of revenue – Services - Decrease	\$ 112
Cost of revenue – Products - Decrease	15
Operating expenses – Sales and Marketing - Decrease	20
Operating expenses – General and Administration - Decrease	31
Operating expenses – Research and Development - Decrease	60
Interest expenses – Increase	(280)
Income tax expense – Decrease	12
<b>Impact at January 31, 2020 – Condensed Interim Statements of Income and Comprehensive income</b>	<b>\$ (30)</b>

The following table reconciles the Company's operating lease obligations at April 30, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at May 1, 2019:

<b>Operating lease commitments at April 30, 2019</b>	<b>\$ 13,804</b>
Effect of discounting using the incremental borrowing rate at May 1, 2019	\$ (1,636)
Variable lease payments that do not depend on an index or rate	(4,493)
Recognition exemption for short-term leases	(484)
Recognition exemption for low value leases	(348)
Extension options reasonably certain to be exercised	3,367
<b>Lease obligations as at May 1, 2019</b>	<b>\$ 10,210</b>

## Critical Accounting Policies

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results. A summary of the Company's significant accounting policies, including the critical accounting policies discussed below, is set out in the notes to the accompanying financial statements and the financial statements for the year ended April 30, 2019.

### Use of estimates, assumptions and judgments

The preparation of the consolidated financial statements requires management to make estimates, assumptions, and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and the anticipated measures that management intends to take. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about areas requiring the use of judgment, management assumptions and estimates, and key sources of estimation uncertainty that the Company believes could have the most significant impact on reported amounts is noted below:

(i) Revenue recognition:

Revenue recognition is subject to critical judgment, particularly in bundled arrangements where judgment is required in identifying performance obligations and allocating revenue to each performance obligation, which may include licenses, professional services, maintenance services and subscription services, based on the relative stand-alone selling price of each performance obligation. As certain of these performance obligations have a term of more than one year, the identification and the allocation of the consideration received to the performance obligations impacts the amount and timing of revenue recognition.

(ii) Government assistance:

Management uses judgment in estimating amounts receivable for various refundable and non-refundable tax credits earned from the federal and provincial governments and in assessing the eligibility of research and development and other expenses which give rise to these credits.

(iii) Income taxes:

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and available tax planning strategies.

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

(iv) Impairment of assets:

Impairment assessments may require the Company to determine the recoverable amount of a cash generating unit ("CGU"), defined as the smallest identifiable group of assets that generates cash inflows independent of other assets. This determination requires significant estimates in a variety of areas including: expected sales, gross margins, selling costs, timing and size of cash flows, and discount and interest rates. The Company documents and supports all assumptions made in the above estimates and updates such assumptions to reflect the best information available to the Company if and when an impairment assessment requires the recoverable amount of a CGU to be determined.

(v) Allowance for expected credit losses:

The Company recognizes a loss allowance for expected credit losses on trade accounts receivable, using a probability weighted estimate of credit losses. In its assessment, management estimates the expected credit losses based on actual credit loss experience and informed credit assessment, taking into consideration credit loss insurance and the credit-worthiness of each customer, taking into account each customer's financial condition and payment history and forward-looking information. Furthermore, these estimates must be continuously evaluated and updated. If actual credit losses differ from estimates, future earnings would be affected.

(vi) Business combinations:

Business combinations are accounted for in accordance with the acquisition method. On the date that control is obtained, the identifiable assets, liabilities and contingent liabilities of the acquired company are measured at their fair value. Depending on the complexity of determining these valuations, the Company uses appropriate valuation techniques which are generally based on a forecast of the total expected future net discounted cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant.

## Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of January 31, 2020.

## Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its consolidated financial statements. The control framework that was designed by the Company's ICFR is in accordance with the framework criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) (COSO).

No changes to internal controls over financial reporting have come to management's attention during the nine months period ending on January 31, 2020 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting.

## Forward-Looking Information

This management's discussion and analysis contains "forward-looking information" within the meaning of applicable securities legislation. Although the forward-looking information is based on what the Company believes are reasonable assumptions, current expectations, and estimates, investors are cautioned from placing undue reliance on this information since actual results may vary from the forward-looking information. Forward-looking information may be identified by the use of forward-looking terminology such as "believe", "intend", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms, and the use of the conditional tense as well as similar expressions.

Such forward-looking information that is not historical fact, including statements based on management's belief and assumptions cannot be considered as guarantees of future performance. They are subject to a number of risks and uncertainties, including but not limited to future economic conditions, the markets that the Company serves, the actions of competitors, major new technological trends, and other factors, many of which are beyond the Company's control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. The Company undertakes no obligation to update publicly any forward-looking information whether as a result of new information, future events or otherwise other than as required by applicable legislation.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this management discussion and analysis. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) competitive environment; (ii) operating risks; (iii) the Company's management and employees; (iv) capital investment by the Company's customers; (v) customer project implementations; (vi) liquidity; (vii) current global financial conditions; (viii) implementation of the Company's commercial strategic plan; (ix) credit; (x) potential product liabilities and other lawsuits to which the Company may be subject; (xi) additional financing and dilution; (xii) market liquidity of the Company's common shares; (xiii) development of new products; (xiv) intellectual property and other proprietary rights; (xv) acquisition and expansion; (xvi) foreign currency; (xvii) interest rate; (xviii) technology and regulatory changes; (xix) internal information technology infrastructure and applications, (xx) and cyber security.

## Non-IFRS Performance Measure

The Company uses certain non-IFRS financial performance measures in its MD&A and other communications which is described in the following section. These non-IFRS measures do not have any standardized meaning prescribed by IFRS and is unlikely to be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of such metrics are meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses both IFRS and non-IFRS measures when planning, monitoring and evaluating the Company's performance.

### EBITDA and Adjusted EBITDA

EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before acquisition related costs, fair value adjustment on contingent consideration, stock-based compensation and restructuring costs. The Company believes that these measures are commonly used by investors and analysts to measure a company's performance, its ability to service debt and to meet other payment obligations, or as a common valuation measurement.

The EBITDA and Adjusted EBITDA calculations, for the three and nine-month periods ending January 31 of fiscal 2020 and 2019, derived from IFRS measures in the Company's condensed interim consolidated financial statements, is as follows:

	Three-months ended January 31, 2020	Three-months ended January 31, 2019	Nine-months ended January 31, 2020	Nine-months ended January 31, 2019
Profit for the period	\$ 834	\$ (1,429)	\$ 1,971	\$ (820)
Adjustments for:				
Depreciation of property and equipment and right-of-use assets	506	214	1,463	649
Amortization of deferred development costs	104	219	417	777
Amortization of other intangible assets	394	259	1,132	502
Interest expense	267	9	838	9
Interest income	(16)	(26)	(62)	(171)
Income taxes	282	(258)	1,160	-
<b>EBITDA</b>	<b>\$ 2,371</b>	<b>\$ (1,012)</b>	<b>\$ 6,919</b>	<b>\$ 946</b>
Adjustments for:				
Stock-based compensation	277	142	810	259
Restructuring costs	-	-	420	-
Fair value adjustment on contingent consideration earnout - PCSYS	-	-	171	-
Acquisition-related costs	-	772	-	887
<b>Adjusted EBITDA</b>	<b>\$ 2,648</b>	<b>\$ (98)</b>	<b>\$ 8,320</b>	<b>\$ 2,092</b>

## Key Performance Indicators

The Company uses certain key performance indicators in its MD&A and other communications which are described in the following section. These key performance indicators are unlikely to be comparable to similarly titled indicators reported by other companies. Readers are cautioned that the disclosure of these metrics are meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses both IFRS measures and key performance indicators when planning, monitoring and evaluating the Company's performance.

## Recurring Revenue

Recurring revenue (also referred to as Annual Recurring Revenue) is defined as the contractually committed purchase of SaaS, proprietary software maintenance, customer support, application hosting, database administration services and third-party maintenance services, over the next twelve months. The quantification assumes that the customer will renew the contractual commitment on a periodic basis as they come up for renewal. This portion of the Company's revenue is predictable and stable.

## Bookings

Broadly speaking, bookings refers to the total value of accepted contracts, including software licenses and other proprietary products and related support services, SaaS, third-party hardware and software and related support services, contracted work for services, and changes to such contracts recorded during a specified period. The Total Contract Value (TCV) is not typically limited to the first year, nor would it typically exclude certain transaction types. The Company believes that this metric is an indicator of the general state of the business performance. Bookings typically include all items with a revenue implication, such as new contracts, renewals, upgrades, downgrades, add-ons, early terminations and refunds. Bookings have historically been segmented into classifications, such as new account bookings or base account bookings, and performance in these bookings classes is frequently used in various sales and other compensation plans. Acknowledging the business shift to SaaS and in order to provide greater clarity around expected timing of future revenue, the Company has started to provide disaggregated information about bookings including software product bookings (perpetual license as well as SaaS Annual Recurring Revenue bookings) and professional services bookings. Accordingly, we expect to phase out the reporting of TCV bookings.

## Backlog

Generally, backlog refers to something unfulfilled. In a traditional software company, this term is used largely within finance. Historically for Tecsyst, backlog referred to the value of contracted orders that have not shipped and services that had not yet been delivered. Backlog could also refer to the value of contracted or committed revenue that is not yet recognizable due to acceptance criteria, delivery of professional services, or an accounting rule. The Company's quantification of backlog was not limited to the first year, nor would it typically exclude certain transaction types. In this context, backlog was really "revenue backlog" and was the total unrecognized future revenue from existing signed contracts. Historically, Backlog included recurring revenue as discussed earlier.

With the Company's shift to SaaS, we believe it has become more relevant to measure Backlog from two different perspectives: (a) Professional Services Backlog that includes the value of contracted orders for the delivery of professional services (including those contracted orders that may extend beyond one year) and (b) the natural backlog that is created by Annual Recurring Revenue (recurring revenue assuming the customer will renew the contractual commitment on a periodic basis as those commitments come up for renewal). We believe that this disaggregation provides greater visibility to stakeholders as the Company continues its transition to SaaS. As such, we expect to phase out the reporting of aggregated Backlog amounts.

## **Days Sales Outstanding (DSO)**

Days sales outstanding (DSO) is a measure of the average number of days that a company takes to collect revenue after a sale has been made. The Company's DSO is determined on a quarterly basis and can be calculated by dividing the amount of accounts receivable and work in progress at the end of a quarter by the total value of sales during the same quarter and multiplying the result by 90 days.

Condensed Interim Consolidated Financial Statements of  
(Unaudited)

## Tecsys Inc.

For the three and nine-month periods ended January 31, 2020 and 2019

**MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE-MONTH PERIODS ENDED JANUARY 31, 2020 and 2019**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's Management.

The Company's independent auditors, KPMG LLP, have not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

Dated this 27th day of February 2020.

# Tecsys Inc.

Condensed Interim Consolidated Financial Statements  
(Unaudited)

For the three and nine-month periods ended January 31, 2020 and 2019

## **Financial Statements**

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**Tecsys Inc.**  
**Condensed Interim Consolidated Statements of Financial Position**  
(Unaudited)  
As at January 31, 2020 and April 30, 2019  
(in thousands of Canadian dollars)

	Note	January 31, 2020	April 30, 2019 <sup>1</sup>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 11,948	\$ 14,913
Accounts receivable		16,460	14,986
Work in progress		670	811
Other receivables		626	392
Tax credits		5,775	3,493
Inventory		809	673
Prepaid expenses		5,031	3,223
<b>Total current assets</b>		<b>41,319</b>	<b>38,491</b>
<b>Non-current assets</b>			
Other long-term receivables		376	278
Tax credits		5,716	5,260
Property and equipment		2,713	2,714
Right-of-use assets	5	7,635	-
Deferred development costs		1,152	1,064
Other intangible assets		13,532	14,706
Goodwill		17,343	17,456
Deferred tax assets		5,862	5,476
<b>Total non-current assets</b>		<b>54,329</b>	<b>46,954</b>
<b>Total assets</b>		<b>\$ 95,648</b>	<b>\$ 85,445</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 14,321	\$ 11,633
Deferred revenue		15,023	14,252
Current portion of long-term debt	6	1,239	1,022
Lease obligations	7	850	-
Other current liabilities		4,569	4,111
<b>Total current liabilities</b>		<b>36,002</b>	<b>31,018</b>
<b>Non-current liabilities</b>			
Long-term debt	6	9,900	10,827
Other non-current liabilities		628	2,333
Lease obligations	7	8,618	-
Deferred tax liabilities		1,753	1,769
<b>Total non-current liabilities</b>		<b>20,899</b>	<b>14,929</b>
<b>Total liabilities</b>		<b>56,901</b>	<b>45,947</b>
<b>Equity</b>			
Share capital	4	19,158	19,144
Contributed surplus	4	10,750	9,943
Retained earnings		9,248	10,618
Accumulated other comprehensive income loss	11	(409)	(207)
<b>Total equity attributable to the owners of the Company</b>		<b>38,747</b>	<b>39,498</b>
<b>Total liabilities and equity</b>		<b>\$ 95,648</b>	<b>\$ 85,445</b>

See accompanying notes to the unaudited condensed interim consolidated financial statements

<sup>1</sup> The Company has initially applied IFRS 16 as at May 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3

**Tecsys Inc.**  
**Condensed Interim Consolidated Statements of Income and Comprehensive Income**  
(Unaudited)  
Three and nine-month periods ended January 31, 2020 and 2019  
(in thousand of Canadian dollars, except per share data)

Note	Three months Ended January 31, 2020	Three months Ended January 31, 2019 <sup>1</sup>	Nine months Ended January 31, 2020	Nine months Ended January 31, 2019 <sup>1</sup>
<b>Revenue:</b>				
Proprietary products	\$ 1,520	\$ 1,556	\$ 3,690	\$ 5,342
Third-party products	4,397	1,316	11,641	4,128
Cloud, maintenance and subscription	10,575	8,095	30,420	21,922
Professional services	9,882	7,338	29,793	20,336
Reimbursable expenses	473	487	1,561	1,530
<b>Total revenue</b>	<b>26,847</b>	<b>18,792</b>	<b>77,105</b>	<b>53,258</b>
<b>Cost of revenue:</b>				
Products	3,530	1,015	9,287	3,659
Services	8 10,010	7,852	28,835	21,537
Reimbursable expenses	473	487	1,561	1,530
<b>Total cost of revenue</b>	<b>14,013</b>	<b>9,354</b>	<b>39,683</b>	<b>26,726</b>
<b>Gross profit</b>	<b>12,834</b>	<b>9,438</b>	<b>37,422</b>	<b>26,532</b>
<b>Operating expenses:</b>				
Sales and marketing	5,451	4,612	14,766	12,146
General and administration	2,363	3,007	7,184	6,518
Research and development, net of tax credit	3,625	3,506	10,938	8,829
Restructuring costs	9 -	-	420	-
<b>Total operating expenses</b>	<b>11,439</b>	<b>11,125</b>	<b>33,308</b>	<b>27,493</b>
<b>Profit (loss) from operations</b>	<b>1,395</b>	<b>(1,687)</b>	<b>4,114</b>	<b>(961)</b>
<b>Net finance costs (income)</b>	10 279	-	983	(141)
<b>Profit (loss) before income taxes</b>	<b>1,116</b>	<b>(1,687)</b>	<b>3,131</b>	<b>(820)</b>
Income tax expense (benefit)	282	(258)	1,160	-
<b>Profit (loss) attributable to the owners of the Company</b>	<b>\$ 834</b>	<b>\$ (1,429)</b>	<b>\$ 1,971</b>	<b>\$ (820)</b>
Other comprehensive (loss) income:				
Effective portion of changes in fair value on designated revenue hedges	11 (49)	122	69	128
Exchange differences on translation of foreign operations	33	-	(271)	-
<b>Comprehensive income (loss) attributable to the owners of the Company</b>	<b>\$ 818</b>	<b>\$ (1,307)</b>	<b>\$ 1,769</b>	<b>\$ (692)</b>
<b>Basic and diluted earnings (loss) per common share</b>	4 \$ 0.06	\$ (0.11)	\$ 0.15	\$ (0.06)

See accompanying notes to the unaudited condensed interim consolidated financial statements

<sup>1</sup> The Company has initially applied IFRS 16 as at May 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3

**Tecsys Inc.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
(Unaudited)  
Three and nine-month periods ended January 31, 2020 and 2019  
(in thousand of Canadian dollars)

	Note	Three months Ended January 31, 2020	Three months Ended January 31, 2019 <sup>1</sup>	Nine months Ended January 31, 2020	Nine months Ended January 31, 2019 <sup>1</sup>
<b>Cash flow from (used in) operating activities:</b>					
Profit for the period		\$ 834	\$ (1,429)	\$ 1,971	\$ (820)
Adjustments for:					
Depreciation of property and equipment and right-of-use assets		506	214	1,463	649
Amortization of deferred development costs		104	219	417	777
Amortization of other intangible assets		394	259	1,132	502
Net finance costs (income)	10	279	-	983	(141)
Unrealized foreign exchange and other		(12)	(261)	(597)	(232)
Non-refundable tax credits		(297)	(201)	(1,043)	(676)
Stock-based compensation	4	277	142	810	259
Income taxes		249	(265)	805	-
Net cash from (used in) operating activities excluding changes in non-cash working capital items related to operations		2,334	(1,322)	5,941	318
Accounts receivable		(214)	(379)	(1,524)	75
Work in progress		(196)	(392)	134	(675)
Other receivables		157	77	(304)	155
Tax credits		(656)	(755)	(1,694)	(2,172)
Inventory		26	111	(137)	378
Prepaid expenses		(606)	45	(1,460)	(384)
Accounts payable and accrued liabilities		1,683	2,047	2,116	1,229
Deferred revenue		404	1,076	788	1,215
Changes in non-cash working capital items related to operations		598	1,830	(2,081)	(179)
<b>Net cash from operating activities</b>		<b>2,932</b>	<b>508</b>	<b>3,860</b>	<b>139</b>
<b>Cash flow (used in) financing activities:</b>					
Repayment of long-term debt		(238)	(12)	(710)	(35)
Payment of dividends	4	(785)	(720)	(2,224)	(2,028)
Proceeds from long-term debt		-	12,000	-	12,000
Payment of lease obligations	7	(246)	-	(731)	-
Interest paid		(226)	-	(715)	-
<b>Net cash (used in) from financing activities</b>		<b>(1,495)</b>	<b>11,268</b>	<b>(4,380)</b>	<b>9,937</b>
<b>Cash flows (used in) investing activities:</b>					
Interest received	10	17	27	63	172
Long-term investments		-	10,000	-	10,000
Business acquisition	14	(1,146)	(9,880)	(1,146)	(9,880)
Increase in restricted cash		-	(12,000)	-	(12,000)
Acquisition of property and equipment		(344)	(166)	(703)	(269)
Acquisition of other intangible assets		(19)	(27)	(154)	(92)
Deferred development costs		(150)	(22)	(505)	(87)
<b>Net cash used in investing activities</b>		<b>(1,642)</b>	<b>(12,068)</b>	<b>(2,445)</b>	<b>(12,156)</b>
<b>Net decrease in cash and cash equivalents during the period</b>		<b>(205)</b>	<b>(292)</b>	<b>(2,965)</b>	<b>(2,080)</b>
Cash and cash equivalents – beginning of period		12,153	11,708	14,913	13,496
<b>Cash and cash equivalents – end of period</b>		<b>\$ 11,948</b>	<b>\$ 11,416</b>	<b>\$ 11,948</b>	<b>\$ 11,416</b>

<sup>1</sup> The Company has initially applied IFRS 16 as at May 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3

**Tecsys Inc.**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
(Unaudited)  
Nine-month periods ended January 31, 2020 and 2019  
(in thousand of Canadian dollars, except per share data)

	Note	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
		Number	Amount				
<b>Balance, April 30, 2019</b>		13,082,376	\$ 19,144	\$ 9,943	\$ (207)	\$ 10,618	\$ 39,498
Adjustment on initial application of IFRS 16	3	-	-	-	-	(1,117)	(1,117)
<b>Adjusted balance, May 1, 2019</b>		13,082,376	19,144	9,943	(207)	9,501	38,381
Profit for the period		-	-	-	-	1,971	1,971
Other comprehensive income for the period:							
Effective portion of changes in fair value on designated revenue hedges	11	-	-	-	69	-	69
Exchange difference on translation of foreign operations		-	-	-	(271)	-	(271)
Stock-based compensation	4	-	-	810	-	-	810
<b>Total comprehensive income (loss) for the period</b>		-	-	810	(202)	1,971	2,579
Dividends to equity owners	4	-	-	-	-	(2,224)	(2,224)
Share options exercised	4	834	14	(3)	-	-	11
<b>Total transaction with owners of the Company</b>		834	14	(3)	-	(2,224)	(2,213)
<b>Balance, January 31, 2020</b>		13,083,210	\$ 19,158	\$ 10,750	\$ (409)	\$ 9,248	\$ 38,747
<b>Balance, April 30, 2018 <sup>1</sup></b>		13,082,376	\$ 19,144	\$ 9,577	\$ (113)	\$ 14,527	\$ 43,135
Adjustment on initial application of IFRS 15		-	-	-	-	(421)	(421)
<b>Adjusted balance, May 1, 2018</b>		13,082,376	19,144	9,577	(113)	14,106	42,714
Profit for the period		-	-	-	-	(820)	(820)
Other comprehensive income for the period:							
Effective portion of changes in fair value on designated revenue hedges	11	-	-	-	128	-	128
Stock-based compensation		-	-	259	-	-	259
<b>Total comprehensive income (loss) for the period</b>		-	-	259	128	(820)	(433)
Dividends to equity owners		-	-	-	-	(2,028)	(2,028)
<b>Total transaction with owners of the Company</b>		-	-	-	-	(2,028)	(2,028)
<b>Balance, January 31, 2019 <sup>1</sup></b>		13,082,376	\$ 19,144	\$ 9,836	\$ 15	\$ 11,258	\$ 40,253

<sup>1</sup> The Company has initially applied IFRS 16 as at May 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

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## 1. Description of business:

Tecsys Inc. (the “Company”) was incorporated under the Canada Business Corporations Act in 1983. The Company’s principal business activity is the development, marketing and sale of enterprise-wide supply chain management software for distribution, warehousing, transportation logistics, point-of-use and order management. The Company also provides related consulting, education and support services. The Company is headquartered at 1, Place Alexis Nihon, Montréal, Canada, and derives substantially all its revenue from customers located in the United States, Canada and Europe. The Company’s customers consist primarily of healthcare systems, services parts, third-party logistics, retail and general wholesale high volume distribution industries. The condensed interim consolidated financial statements comprise the Company and its wholly-owned subsidiaries. The Company is a publicly listed entity and its shares are traded on the Toronto Stock Exchange under the symbol TCS.

## 2. Statement of compliance:

These condensed interim consolidated financial statements and the notes thereto have been prepared in accordance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). They do not include all the information required in the full annual financial statements. Certain information and footnote disclosures normally included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Company’s interim financial information. As such, they should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended April 30, 2019.

The condensed interim consolidated financial statements were approved by the Board of Directors on February 27, 2020.

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual consolidated financial statements as at April 30, 2019, except for the changes in significant accounting policies mentioned below.

As at May 1, 2019, International Financial Reporting Standard No. 16 – “Leases” (“IFRS 16”) have been applied. Changes to significant accounting policies are described in Note 3.

New standards and interpretations not yet adopted:

A number of new standards and amendments to standards and interpretations are not yet effective for the three-month and nine-month periods ended January 31, 2020 and have not been applied in preparing these consolidated interim financial statements. Management does not

# Tecsys Inc.

## Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

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expect that any of the new standards and amendments to existing standards issued but not yet effective would have a material impact on the Corporation's consolidated financial statements.

### 3. Changes in significant accounting policies:

Except as described below, the accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ending April 30, 2019.

The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ending April 30, 2020.

#### International Financial Reporting Standard No. 16 – "Leases" ("IFRS 16")

Effective May 1, 2019, the Company adopted IFRS 16 which specifies how to recognize, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize a right-of-use asset as well as a lease liability reflecting the present value of future lease payments. The impact of the transition is shown below. The Company's accounting policy under IFRS 16 is as follows:

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use is initially measured at cost, which comprises 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 right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 5 to 21 years for offices and 3 to 6 years for data centers, equipment and vehicles.

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 lessee's incremental borrowing rate. Lease payments used for the calculations comprise mainly fixed payments and variable lease payments that depend on an index or a rate, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The lease liability is subsequently

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

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measured at amortized cost using the effective interest method and is remeasured to reflect changes in the lease payments.

The Company has elected to apply 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.

Impact of transition:

Effective May 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach with the effect of initially applying this standard recognized at the date of application. Under this method, the Company elected to measure right-of-use of asset as equal to lease liability, adjusted for amounts previously recorded for deferred lease inducements or prepaid rent as at the date of adoption. The cumulative effect of initially applying IFRS 16 at initial application was recognized in retained earnings as of May 1, 2019 and comparative information presented for 2019 has not been restated.

The implementation of IFRS 16 allows for certain practical expedients at the date of initial application. The Company has elected to use the following exemptions and practical expedients:

- (i) To grandfather the assessment of which transactions are leases on the date of initial application, the Company applied IFRS 16 only to contracts that were previously identified as leases under IAS 17.
- (ii) Use of the same discount rate for portfolio of leases with similar characteristics;
- (iii) Exemption, on a lease-by-lease basis, of recognizing a right-of-use asset and lease liability when the lease term is within 12 months of the date of initial application.
- (iv) Exemption, on a lease-by-lease basis, of recognizing a right-of-use asset and lease liability when the lease has an underlying asset that is of low value;
- (v) Exclude initial direct costs, at the date of initial application only, on a lease-by-lease basis from the measurement of the right-of-use asset;
- (vi) Use hindsight at the date of initial application only, on a lease-by-lease basis, to determine the lease term if the contract contains options to extend or terminate the lease;
- (vii) No reassessment on whether a contract is or contains a lease under IAS 17;

The Company used its incremental borrowing rate at May 1, 2019 to calculate the right-of-use assets and lease liabilities. The weighted-average rate applied is 3.77%.

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

The following tables summarize the impact of adopting IFRS 16 on the Company's condensed interim consolidated statements of financial position as at May 1, 2019, and its interim statements of income and comprehensive income for the three and nine-months periods ended January 31, 2020.

	Impact of adopting IFRS 16 at May 1, 2019
Right-of-use assets - Increase	\$ 8,418
Deferred tax asset - Increase	404
Lease obligations – current - Increase	(984)
Lease obligations – non-current - Increase	(9,226)
Deferred rent liability - Decrease	271
<b>Impact at May 1, 2019 - Retained earnings</b>	<b>\$ (1,117)</b>

  

	Impact of adopting IFRS 16 for three months ended January 31, 2020
Cost of revenue – Services - Decrease	\$ 38
Cost of revenue – Products - Decrease	5
Operating expenses – Sales and Marketing - Decrease	6
Operating expenses – General and Administration - Decrease	10
Operating expenses – Research and Development - Decrease	20
Interest expenses – Increase	(92)
Income tax expense – Decrease	4
<b>Impact at January 31, 2020 – Condensed Interim Statements of Income and Comprehensive income</b>	<b>\$ (9)</b>

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

	Impact of adopting IFRS 16 for nine months ended January 31, 2020
Cost of revenue – Services - Decrease	\$ 112
Cost of revenue – Products - Decrease	15
Operating expenses – Sales and Marketing - Decrease	20
Operating expenses – General and Administration - Decrease	31
Operating expenses – Research and Development - Decrease	60
Interest expenses – Increase	(280)
Income tax expense – Decrease	12
Impact at January 31, 2020 – Condensed Interim Statements of Income and Comprehensive income	\$ (30)

The following table reconciles the Company's operating lease obligations at April 30, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at May 1, 2019:

<b>Operating lease commitments at April 30, 2019</b>	<b>\$ 13,804</b>
Effect of discounting using the incremental borrowing rate at May 1, 2019	\$ (1,636)
Variable lease payments that do not depend on an index or rate	(4,493)
Recognition exemption for short-term leases	(484)
Recognition exemption for low value leases	(348)
Extension options reasonably certain to be exercised	3,367
Lease obligations as at May 1, 2019	\$ 10,210

# Tecsys Inc.

## Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

### 4. Share capital and Stock option plan:

(a) Dividend policy:

On July 3, 2019, the Company declared a dividend of \$0.055 per share, paid on August 2, 2019 to shareholders of record on July 19, 2019.

On September 5, 2019, the Company declared a dividend of \$0.055 per share, paid on October 4, 2019 to shareholders of record at the close of business on September 20, 2019.

On December 5, 2019, the Company declared a dividend of \$0.06 per share, paid on January 10, 2020 to shareholders of record at the close of business on December 19, 2019.

(b) Earnings per share:

Basic earnings per share:

The calculation of basic and diluted earnings per share is based on the profit (loss) attributable to common shareholders and the weighted average number of common shares outstanding calculated as follows:

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019	Nine Months Ended January 31, 2020	Nine Months Ended January 31, 2019
Profit attributable to common shareholders	\$ 834	\$ (1,429)	\$ 1,971	\$ (820)
Weighted average number of common shares outstanding (basic)	13,083,002	13,082,376	13,082,585	13,082,376
Weighted average number of common shares outstanding (diluted)	13,175,300	13,082,376	13,088,130	13,082,376
Basic earnings per common share	\$ 0.06	\$ (0.11)	\$ 0.15	\$ (0.06)
Diluted earnings per common share	\$ 0.06	\$ (0.11)	\$ 0.15	\$ (0.06)

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

Diluted earnings per share:

The calculation of diluted earnings per share is based on the profit attributable to common shareholders and the weighted average number of common shares outstanding after adjustment for the effects of all dilutive common shares. For the three and nine-month periods ended January 31, 2020, 82,556 and 442,159 options, respectively were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive (188,700 for the comparative periods of last fiscal year).

(c) Stock option plan:

On September 6, 2018, the Company approved a common share stock option plan for its employees and directors. Under the terms of the plan, the Company may grant options up to 10% of its issued and outstanding shares. The stock option plan is administered by the Board of Directors who may determine, in accordance with the terms of the plan, the terms relating to each option, including the extent to which each option is exercisable during the term of the options.

The exercise price is determined based on the weighted average trading price of the Company's common shares for the 5 days prior to the date the Board of Directors grants the option.

The movement in outstanding stock options for the nine months period to January 31, 2020 is as follows:

	Number of options	Weighted average Exercise price	Weighted average Fair value
Outstanding at April 30, 2019	188,700	17.23	4.42
Granted on July 3, 2019	466,609	14.29	3.28
Exercised	(834)	-	-
Forfeited	(15,196)	-	-
Outstanding at January 31, 2020	639,279	15.16	3.62

The issued options vest quarterly on a straight-line basis (6.25% per quarter) over the vesting period of 4 years and must be exercised within 5 years from the date of the grant.

The fair value of options granted on July 3, 2019 was determined using the Black-Scholes option pricing model with the following assumptions:

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

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	July 3, 2019
Weighted average expected option life (years)	5
Weighted average expected stock price volatility	28.63%
Weighted average dividend yield	1.57%
Weighted average risk-free interest rate	1.41%

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For the three and nine-month periods ended January 31, 2020, the Company recognized stock-based compensation expense of \$0.3 million and \$0.8 million respectively (\$0.1 million and \$0.3 million for the comparative periods of fiscal 2019).

As at January 31, 2020, the remaining contractual life in years of the granted options on September 6, 2018 is 3.59 years with 58,969 options currently exercisable.

As at January 31, 2019, the remaining contractual life in years of the granted options on July 3, 2019 is 4.42 years with 56,427 options currently exercisable.

## 5. Right-of-use assets:

The following table presents the right-of-use assets:

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	Offices	Data Centers	Vehicles and equipment	Total
Balance, May 1, 2019 (note 3)	\$ 7,845	\$ 389	\$ 184	\$ 8,418
Depreciation	(352)	(252)	(167)	(771)
Effect of foreign currency exchange differences	(3)	(7)	(2)	(12)
Balance, January 31, 2020	\$ 7,490	\$ 130	\$ 15	\$ 7,635

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## 6. Banking Facilities and Long-term debt:

On January 30, 2019, the Company entered into a Credit Agreement. The Credit Agreement includes a Term Facility of up to \$12,000,000 and a Revolving Facility of \$5,000,000. The Term Facility was used for the purchase of PCSYS and for general corporate purposes. The Revolving Facility is for general corporate purposes. On January 30, 2019, the Company borrowed

# Tecsys Inc.

## Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

\$12,000,000 under the Term Facility (the Term Loan). The Revolving Facility remains undrawn as of January 31, 2020.

Canadian Dollar borrowings under the Credit Agreement are made in the form of Prime Rate Loans (bearing interest at prime plus 0.75%-1.75% per annum) or Banker's Acceptances (bearing interest at base plus 1.75% - 2.75% per annum). The Company may repay outstanding amounts under the Credit Agreement at any time.

Security under the credit agreement consists of a first-ranking movable hypothec on the Company's corporeal and incorporeal, present and future movable property.

The Term Loan is payable in quarterly installments of 1.875% of the amount borrowed, starting April 30, 2019 through January 31, 2020; then 2.5% of the amount borrowed becomes payable quarterly thereafter until January 2024, with the balance payable on that same date.

	January 31, 2020	April 30, 2019
Term Loan, secured by a hypothec on movable properties	\$ 11,100	\$ 11,775
Government funded debt, with no interest or security, payable over various installments, maturing in November 2020	39	74
	\$ 11,139	\$ 11,849
Current portion	(1,239)	(1,022)
Long-term debt	\$ 9,900	\$ 10,827

### 7. Lease obligations

The Company's leases are for office space, data centers, vehicles and equipment. Most of these leases do not contain renewal options. The range of renewal options for those that have such options are between 5 to 10 years. The Company has included renewal options in the measurement of lease obligations when it is reasonably certain to exercise the renewal option.

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

The following table presents lease obligations for the Company as at January 31, 2020:

	<b>2020</b>
Current	\$ 850
Non-current	8,618
Total lease obligations	\$ 9,468

The following table presents the contractual undiscounted cash flows for lease obligations as at January 31, 2020:

Less than one year	\$ 1,099
One to five years	4,974
More than five years	5,568
Total undiscounted lease obligations	\$ 11,641

Interest expense on lease obligations for the three and nine-months period ended January 31, 2020 was \$92,000 and \$281,000 respectively. The expense relating to variable lease payments not included in the measurement of lease obligations for the three and nine-months periods ended January 31, 2020 was \$291,000 and \$827,000, respectively. This consists of variable lease payments for operating costs, property taxes and insurance. Expenses relating to short-term leases for the three and nine-months periods ended January 31, 2020 were \$245,000 and \$781,000 respectively. Expenses relating to leases of low value assets for the three and nine-months periods ended January 31, 2020 were \$49,000 and \$149,000 respectively. Total cash outflow for leases for the three and nine-months periods ended January 31, 2020 was \$336,000 and \$1.0 million respectively, including \$246,000 and \$731,000 of principal payments on lease obligations, respectively.

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

## 8. Cost of revenue:

Services cost is broken down as follows:

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019	Nine Months Ended January 31, 2020	Nine Months Ended January 31, 2019
Gross expenses	\$ 10,273	\$ 8,208	\$ 29,569	\$ 22,913
Amortization of intangible assets	156	106	468	106
E-business tax credits	(419)	(462)	(1,202)	(1,482)
	<u>\$10,010</u>	<u>\$ 7,852</u>	<u>\$ 28,835</u>	<u>\$ 21,537</u>

## 9. Restructuring costs:

For the three and nine-month periods ended January 31, 2020, the Company recognized restructuring costs of nil and \$0.4 million, respectively (nil for both comparative periods of fiscal 2019). These costs are related to acquisition integration, primarily for severance.

## 10. Net finance costs (income):

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019	Nine Months Ended January 31, 2020	Nine Months Ended January 31, 2019
Foreign exchange loss	29	17	209	21
Interest (income) expense on bank deposits and other	158	(17)	494	(171)
Interest expense – IFRS 16	92	-	280	-
Net finance costs (income) recognized in profit or loss	<u>\$ 279</u>	<u>\$ -</u>	<u>\$ 983</u>	<u>\$ (141)</u>

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

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## 11. Derivative instruments and risk management:

The Company is exposed to currency risk as a certain portion of the Company's revenues and expenses are incurred in U.S. dollars resulting in U.S. dollar denominated accounts receivable and accounts payable and accrued liabilities. In addition, certain of the Company's cash and cash equivalents are denominated in U.S. dollars. These balances are therefore subject to gains or losses due to fluctuations in that currency. The Company may enter into foreign exchange contracts in order to (a) offset the impact of the fluctuation of the U.S. dollar on its U.S. net monetary assets and (b) hedge highly probable future revenue denominated in U.S. dollars. The Company uses derivative financial instruments only for risk management purposes, not for generating trading profits. As such, any change in cash flows associated with derivative instruments is expected to be offset by changes in cash flows related to the net monetary position in the foreign currency and the recognition of highly probable future U.S. denominated revenue and related accounts receivable.

### Non-hedge designated derivative instruments

On January 31, 2020, the Company held four outstanding foreign exchange contracts with various maturities to April 30, 2020 to sell US\$ 3,850,000 into Canadian dollars at a rate of CA\$1.319 to yield CA\$5,080,000. On January 31, 2020, the Company had recorded an unrealized exchange loss of \$20,000, included in accounts payable and accrued liabilities and an unrealized gain of \$5,000, representing the change in fair value of these outstanding contracts since inception and their initial measurement.

On January 31, 2019, the Company held outstanding foreign exchange contracts with various maturities to April 30, 2019 to sell US\$ 1,900,000 into Canadian dollars at a rate of CA\$1.3518 to yield CA\$2,568,000. On January 31, 2019, the Company had recorded an unrealized exchange gain of \$74,000 included in other receivables representing the change in fair value of these contracts since inception.

### Revenue hedge designated derivative instruments

On January 31, 2020, the Company held nine outstanding foreign exchange contracts with various maturities to September 30, 2020 to sell US\$12,000,000 into Canadian dollars at rates averaging CA\$1.31533 to yield CA\$15,784,000. Of the outstanding US\$12,000,000 hedge designated foreign exchange contracts, US\$8,000,000 pertains to highly probable future revenue denominated in U.S. dollars expected over the next six-month period while US\$4,000,000 relates to realized U.S. dollar denominated revenue. On January 31, 2020, the Company had recorded an overall unrealized loss of \$117,000 included in accounts payable and accrued liabilities and an unrealized gain of \$18,000 representing the change in fair value of these outstanding contracts since inception.

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

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On January 31, 2019, the Company held outstanding foreign exchange contracts with various maturities to September 30, 2019 to sell US\$10,600,000 into Canadian dollars at rates averaging CA\$1.3034 to yield CA\$13,816,000. Of the outstanding US\$10,600,000 hedge designated foreign exchange contracts, US\$6,000,000 pertains to highly probable future revenue denominated in U.S. dollars expected over the next eight months while US\$4,600,000 relates to realized U.S. dollar denominated revenue. On January 31, 2019, the Company had recorded an overall unrealized loss of \$69,000 representing the change in fair value of these outstanding contracts since inception. A fair value loss of \$113,000 of certain derivatives was recorded in accounts payable and accrued liabilities and a fair value gain of \$44,000 included in other receivables in the consolidated statement of financial position

# Tecsys Inc.

## Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019  
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

The following table represents the movement in accumulated other comprehensive income (loss) from derivatives designated as hedges.

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019	Nine Months Ended January 31, 2020	Nine Months Ended January 31, 2019
Accumulated other comprehensive (loss) at the beginning of the fiscal period	\$ (9)	\$ (107)	\$ (127)	\$ (113)
Net (loss) gain on derivatives designated as cash flow hedges	(67)	(29)	79	(432)
Amounts reclassified from accumulated other comprehensive income (loss) to net earnings, and included in:				
Revenue decrease	21	137	63	455
Exchange loss (gain) in net finance costs	(3)	14	(73)	105
Effective portion of changes in fair value on designated revenue hedges	\$ (49)	\$ 122	\$ 69	\$ 128
Accumulated other comprehensive loss from cash flow hedges	\$ (58)	\$ 15	\$ (58)	\$ 15

As at January 31, 2020, all of the net loss presented in accumulated other comprehensive loss from cash flow hedges is expected to be classified to net profit within the next five months.

The fair value of derivative financial instruments is based on forward rates considering the market price, rate of interest and volatility and takes into account the credit risk of the financial instrument. The fair value hierarchy related to the outstanding foreign exchange contracts is categorized as level 2.

# Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
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## 12. Related party transactions:

Key management includes the Board of Directors (executive and non-executive) and members of the Executive Committee that report directly to the President and Chief Executive Officer of the Company.

As at January 31, 2020, key management and their spouses control 29.4% (January 31, 2019 – 31.1%) of the issued common shares of the Company.

The compensation paid or payable to key management for employee services is as follows:

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019	Nine Months Ended January 31, 2020	Nine Months Ended January 31, 2019
Salaries	\$ 1,499	\$ 1,069	\$ 3,895	\$ 2,844
Other short-term benefits	55	52	166	149
Payments to defined contribution plans	42	30	115	66
	\$ 1,596	\$ 1,151	\$ 4,176	\$ 3,059

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans of \$658,000 (fiscal 2019 - \$538,000) to key management and other management employees to facilitate their purchase of Company shares during the nine months ended January 31, 2020. The outstanding loans as at January 31, 2020 amounted to \$602,000 (Apr 30, 2019 - \$241,000).

## 13. Operating segments:

Management has organized the Company under one reportable segment: the development and marketing of enterprise-wide distribution software and related services. Substantially all the Company's property and equipment, goodwill and other intangible assets are located in Canada and Denmark. At January 31, 2020, property and equipment, goodwill and intangible assets attributable to Denmark total \$14.0 million (April 30, 2019 - \$14.8 million). The Company's subsidiaries in the U.S. and the U.K. comprise sales and service operations offering implementation and maintenance services only.

# Tecsys Inc.

## Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and nine-month periods ended January 31, 2020 and 2019

(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

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Following is a summary of revenue by geographic location in which the Company's customers are located:

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019	Nine Months Ended January 31, 2020	Nine Months Ended January 31, 2019
Canada	\$ 6,828	\$ 6,651	\$ 18,767	\$ 19,296
United States	14,834	11,835	42,521	33,300
Europe	4,929	306	14,727	662
Other	256	-	1,090	-
	<u>\$ 26,847</u>	<u>\$ 18,792</u>	<u>\$ 77,105</u>	<u>\$ 53,258</u>

#### 14. Business acquisition:

During the third quarter of fiscal 2020, the Company paid \$1.1 million of earnout contingent consideration payable related to the acquisition of PCSYS. The payment was based on achieving certain revenue and earnings before income taxes, depreciation and amortization targets through September 30, 2019. The earnout period ended on September 30, 2019 and is the only earnout period associated with the acquisition. For a description of business acquisitions in fiscal 2019, please refer to the audited financial statements for the year ended April 30, 2019.

#### 15. Subsequent events:

On February 27, 2020, the Company declared a dividend of \$0.06 per share, to be paid on April 9, 2020 to shareholders of record at the close of business on March 19, 2020.



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