Propelling to New Heights

1st Quarter Fiscal 2021 Report

Management's Discussion and Analysis of Financial Condition and Results of Operations dated September 10, 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, 2020. The Company's first quarter of fiscal year 2021 ended on July 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 Tecsys A/S (formerly known as 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 2020 annual report for a full description of these business acquisitions.

Quarterly Selected Financial Data

	FY 2021	FY 2020				FY 2019		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total Revenue	28 091	27 750	26 847	26 008	24 250	23 191	18 792	18 184
Profit (Loss)	1 235	375	834	1 404	(267)	79	(1 429)	596
Comprehensive Income (Loss)	2 897	1 200	818	1 439	(488)	(143)	(1 307)	552
Adjusted EBITDA[1]	3 509	1 951	2 648	3 677	1 995	684	(98)	1 654
Basic Earnings (Loss) per Common Share	0.09	0.03	0.06	0.11	(0.02)	0.01	(0.11)	0.05
Diluted Earnings (Loss) per Common Share	0.08	0.03	0.06	0.11	(0.02)	0.01	(0.11)	0.05

In the first quarter of fiscal 2021, Profit and Adjusted EBITDA[1] were positively impacted by $0.8 million resulting from lower operating expenses compared to the fourth quarter of fiscal 2020, mainly due to lower travel costs associated with COVID-19

[1] Refer to section at end of MD&A titled "Non-IFRS Performance Measures"

and lower personnel costs (mainly bonus and commissions). Profit and Adjusted EBITDA[1] was also positively impacted by $0.6 million resulting from higher profit margin mainly due higher revenue, lower travel costs and lower bonus costs compared to the fourth quarter of fiscal 2020. See further discussion under Results of Operations for the First Quarter. Profit and Adjusted EBITDA[1] was also positively impacted by $0.1 million due to foreign exchange gains and losses compared to the fourth quarter of fiscal 2020. Profit was negatively impacted by $0.7 million due to income tax expense recognized in the first quarter of fiscal 2021 compared to the fourth quarter of fiscal 2020.

In the fourth quarter of fiscal 2020, Adjusted EBITDA[2] was positively impacted by $0.4 million resulting from the implementation of International Financial Reporting Standard No. 16 – "Leases". See further discussion under New Accounting Standards adopted during the year in the consolidated financial statements year-ended April 30, 2020.

In the third quarter of fiscal 2020, Adjusted EBITDA[2] was positively impacted by $0.3 million resulting from the implementation of International Financial Reporting Standard No. 16 - "Leases". See further discussion under New Accounting Standards adopted during the year in the consolidated financial statements year-ended April 30, 2020.

In the second quarter of fiscal 2020, the Company recorded a $0.2 million cost for the fair value of contingent consideration to be paid for Tecsys A/S. This change in the fair value of the contingent consideration resulted from strong financial performance of Tecsys A/S 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 amount had a negative impact on Profit and no impact on Adjusted EBITDA[2] as this item is excluded from Adjusted EBITDA[2]. Adjusted EBITDA[2] was positively impacted by a quarterly sequential improvement from OrderDynamics, which achieved slightly positive Adjusted EBITDA[2] in the second quarter of fiscal 2020. Adjusted EBITDA[2] was also positively impacted by $0.3 million resulting from the implementation of International Financial Reporting Standard No. 16 - "Leases". See further discussion under New Accounting Standards adopted during the year in the consolidated financial statements year-ended April 30, 2020.

In the first quarter of fiscal 2020, the Company recorded $0.4 million of restructuring costs related to acquisition integration (primarily severance). This had a negative impact on Profit and no impact on Adjusted EBITDA[2] as this item is excluded from Adjusted EBITDA[2]. Adjusted EBITDA[2] was positively impacted by $0.3 million resulting from the implementation of International Financial Reporting Standard No. 16 - "Leases". See further discussion under New Accounting Standards adopted during the year in the consolidated financial statements year-ended April 30, 2020.

In the fourth quarter of fiscal 2019, the Company recorded $0.5 million of costs related to the acquisitions of OrderDynamics and Tecsys A/S 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[2]. 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[2] 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. During the fourth quarter of fiscal 2019, approximately 60% of our software product bookings were SaaS compared to 4% in the fourth quarter of fiscal 2018. This had a material impact on Profit and Adjusted EBITDA[2] in the fourth quarter as these bookings result in revenue recognition over the coming years (typically five-year contracts recognized ratably) as opposed to up front revenue recognition for perpetual license bookings.

In the third quarter of fiscal 2019, the Company recorded $0.8 million of costs related to the acquisitions of OrderDynamics and Tecsys A/S 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[2]. 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[2]. 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[2] in the third quarter of fiscal 2019.

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[2] Refer to section at end of MD&A titled "Non-IFRS Performance Measures"

Results of Operations for the First Quarter

Three months ended July 31, 2020 compared to three months ended July 31, 2019

Revenue

Total revenue for the first quarter ended July 31, 2020 increased to $28.1 million, $3.8 million or 16% higher, compared to $24.3 million for the same period of fiscal 2020. Approximately 66% (2020 – 56%) of the Company's revenues were generated in U.S. dollars during the first quarter of fiscal 2021. The U.S. dollar averaged CA$1.3669 in the first quarter of fiscal 2021 in comparison to CA$1.3281 in the first quarter of fiscal 2020. In comparison to the first quarter of fiscal 2020, the stronger U.S. dollar combined with by the Company's partial hedging of U.S revenue gave rise to a favorable revenue variance of $0.5 million. Lower travel in the first quarter of fiscal 2021 due to COVID-19 gave rise to an unfavorable reimbursable expense revenue variance of $0.6 million compared to the same period of fiscal 2020.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology products, amounted to $0.6 million in the first quarter of fiscal 2021, up $0.2 million or 45% compared to the same period last year. Perpetual license bookings[3] in the first quarter of fiscal 2021 were $0.5 million compared to $0.4 million in the first quarter of fiscal 2020.

Third party products revenue increased to $4.0 million, up $0.3 million or 9% in the first quarter of fiscal 2021 in comparison to $3.7 million for the same period last year.

Cloud, maintenance and subscription revenue increased to $12.3 million, up $2.5 million or 25%, in the first quarter of fiscal 2021 in comparison to $9.8 million for the same period last year. The increase is primarily driven by SaaS. SaaS Revenue in Q1 2021 was $3.8 million, up 121% over $1.7 million in Q1 2020.

In the first quarter of fiscal 2021, SaaS subscription bookings[3] (measured on an Annual Recurring Revenue[3] basis) were $2.4 million, up 524% compared to $0.4 million in the first quarter of fiscal 2020. At July 31, 2020, contracted SaaS backlog[3] was $57.0 million, up 10% sequentially from $52.0 million at April 30, 2020. Total Annual Recurring Revenue[3] at July 31, 2020 is $49.3 million, up 29% compared to $38.3 million at July 31, 2019. A significant amount of Annual Recurring Revenue[3] (ARR) is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR. During the first quarter of fiscal 2021, exchange movements had a $0.7 million negative impact on ARR.

Professional services revenue increased to $11.2 million, up $1.5 million or 15%, in the first quarter of fiscal 2021 in comparison to $9.7 million for the same period last year. Professional Services Bookings3 in the first quarter of fiscal 2021 were $14.1 million, up 90% compared to $7.4 million in the first quarter of fiscal 2020.

Cost of Revenue

Total cost of revenue increased to $14.6 million, up $1.9 million or 15%, in the first quarter of fiscal 2021, in comparison to $12.7 million for the same period in fiscal 2020. The increase is primarily attributable to higher services costs of $2.2 million and higher product costs of $0.3 million, partially offset by lower reimbursable expenses of $0.6 million.

The cost of products increased to $3.2 million, up $0.3 million or 9%, in the first quarter of fiscal 2021 in comparison to $3.0 million for the same period last year. The increase was the result of higher costs associated with higher hardware revenue.

The cost of services increased to $11.3 million, up $2.2 million or 24%, in the first quarter of fiscal 2021 in comparison to $9.1 million for the same period last year. Cost of services increased primarily as a result of direct costs associated with higher revenue as well as investment to support growth. The cost of services includes tax credits of $0.5 million for both the first quarter of fiscal 2021 and 2020.

Gross Profit

Gross profit increased to $13.5 million, up $2.0 million or 17%, in the first quarter of fiscal 2021 in comparison to $11.5 million for the same period last year. This is mainly attributable to higher service margin of $1.7 million and higher product margin of $0.3 million. Total gross profit percentage was 48% for both the first quarter of fiscal 2021 and 2020.

Services gross profit during the first quarter of fiscal 2021 increased by $1.7 million to $12.1 million in comparison to $10.4 million for the same period last year. Services gross profit was 52% in the first quarter of fiscal 2021 in comparison to 53% for the same period last year and includes investment in hiring to support growth.

The products margin increased by $0.3 million in the first quarter of fiscal 2021 compared to the same period last year. Product gross profit was 30% in the first quarter of fiscal 2021 compared to 28% for the same period last year. The increase in gross product was impacted by a slightly higher mix of license revenue in the first quarter of fiscal 2021.

Operating Expenses

Total operating expenses for the first quarter of fiscal 2021 increased to $11.5 million, higher by $0.5 million or 4%, compared to $11.0 million for the same period last year. The stronger U.S dollar gave rise to an unfavorable variance of $0.1 million on operating expenses during the first quarter of fiscal 2021 compared to the first quarter of fiscal 2020.

The most notable differences between the first quarter of fiscal 2021 in comparison with the same period in fiscal 2020 are as follows:

- Sales and marketing expenses amounted to $5.0 million, $0.5 million higher than the comparable quarter last year. The increase is attributed to higher personnel costs, partially offset by lower marketing program costs and lower travel costs due to the COVID-19 pandemic.
- General and administrative expenses were $2.4 million, relatively flat compared to the same quarter last year. The Company incurred higher personnel costs, which was offset by lower travel costs due to COVID-19. Costs associated with Allowance for Expected Credit Losses contributed $0.1 million of additional general and administrative expenses in the quarter compared to the same period last year.
- Net R&D expenses amounted to $4.1 million in first quarter of fiscal 2021, up $0.4 million from the same quarter last year. The increase was primarily the result of higher personnel costs, partially offset by lower travel costs. The Company recorded $0.5 million of R&D tax credits and e-business tax credits in the first quarter of fiscal 2021 in comparison to $0.4 million for the same period in fiscal 2020. The Company amortized deferred development costs and other intangible assets of $0.1 million in the first quarter of fiscal 2021 in comparison to $0.2 million for the same period in the prior fiscal year. Additionally, the Company deferred $0.1 million of development costs in the first quarter of fiscal 2021 compared to $0.2 million in the same period of last year.
- Restructuring costs were $nil, compared to $0.4 million in the comparable quarter of last year. These costs were related to acquisition integration costs, primarily for severance.

Profit (loss) from Operations

The Company recorded profit from operations of $2.0 million representing 7% of revenue in the first quarter of fiscal 2021 in comparison to a profit from operations of $0.5 million representing 2% of revenue for the same period in fiscal 2020. Contributing to the increase in profit is higher professional services and cloud, maintenance and subscription margin as well as product margin, lower restructuring costs, favorable impact from foreign exchange and lower travel costs due to the COVID-19 pandemic.

Net Finance Costs

In the first quarter of fiscal 2021, the Company recorded immaterial net finance income in comparison to $0.4 million in net finance costs for the comparable quarter last year. For the first quarter of fiscal 2021, the foreign exchange gain and interest income were offset by the interest expense on long-term debt and interest expense resulting from IFRS 16.

Income Taxes

In the first quarter of fiscal 2021, the Company recorded an income tax expense of $0.7 million in comparison to an income tax expense of $0.3 million in the first quarter of fiscal 2020. The increase in income tax expense as compared to the same period in fiscal 2020 is due primarily to higher profitability in the first quarter of fiscal 2021.

Profit (Loss)

The Company realized a profit of $1.2 million or $0.09 basic earnings per share ($0.08 diluted earnings per share) in the first quarter of fiscal 2021 compared to a loss of $0.3 million or $(0.02) basic and fully diluted loss per share for the same period in fiscal 2020.

Liquidity and Capital Resources

On July 31, 2020, current assets totaled $67.7 million compared to $67.0 million at the end of fiscal 2020. Cash and cash equivalents decreased to $15.9 million compared to $27.5 million at the end of fiscal 2020. The decrease in cash and cash equivalents is primarily due to the Company investing $10.0 million in a guaranteed investment certificate (''GIC'') during the first quarter of fiscal 2021, which is presented as short-term investments on the consolidated balance sheet. Also contributing to the reduction in cash was the decrease in accounts payable and accrued liabilities.

On April 28, 2020, the Company completed an offering of 1,333,333 common shares resulting in net total proceeds of $21,718,842 (See note 16 of the April 30, 2020 Annual Consolidated Financial Statements for more details). As of April 30, 2020, the Company invested $10.0 million of the net proceeds in a 30-days renewable simple-interest GIC, which is presented as short-term investments on the consolidated balance sheet.

Accounts receivable and work in progress totaled $18.6 million on July 31, 2020 compared to $19.3 million as at April 30, 2020. The decrease in accounts receivable and work in progress is due to significant cash collections during the first quarter of fiscal 2021 and to the foreign exchange impact on the translation of U.S dollar receivables due to the closing rate for the U.S dollar decreasing from CA$1.3877 as at April 30, 2020 to CA$1.3414 as at July 31, 2020.

The Company's DSO[3] (days sales outstanding) stood at 60 days at the end of July 31, 2020 compared to 63 at the end of fiscal 2020 and an unusually low 51 days at the end of the first quarter of fiscal 2020.

Current liabilities on July 31, 2020 increased to $42.4 million compared to $42.9 million at the end of fiscal 2020 mainly due to an increase in deferred revenue and other current liabilities, partially offset by a decrease in accounts payable and accrued liabilities.

Working capital increased to $25.3 million at the end of July 31, 2020 in comparison to $24.1 million at the end of fiscal year 2020.

Cash from Operations

Operating activities used $0.3 million of cash in the first quarter of fiscal 2021 in comparison to using $0.5 million in the first quarter of fiscal 2020. Operating activities excluding changes in non-cash working capital items related to operations generated $2.7 million in the first quarter of fiscal 2021 compared to $1.3 million in the first quarter of fiscal 2020. The increase is primarily due to higher profitability compared to the first quarter of fiscal 2020.

Non-cash working capital items used funds of $3.0 million in the first quarter of fiscal 2021 primarily due to decreases of accounts payable and accrued liabilities of $3.8 million and increases prepaid expenses and contract acquisition costs of $1.0 million, tax credits of $0.8 million and work in progress and other receivables of $0.5 million partially offset by a decrease in accounts receivable of $1.1 million and an increase in deferred revenue of $2.0 million.

Non-cash working capital items used funds of $1.8 million in the first quarter of fiscal 2020 primarily due to decreases in accounts payable and accrued liabilities of $1.4 million, deferred revenue of $0.5 million, prepaid and contract acquisition costs of $0.4 million, other receivables of and tax credits of $0.7 million each, partially offset by decreases in accounts receivable and work in progress of $1.9 million.

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

Financing Activities

Cash flows used in financing activities amounted to $0.7 million for the first quarter of fiscal 2021 in comparison to $0.7 million for the first quarter of fiscal 2020.

Financing activities in the first quarter of fiscal 2021 related primarily to repayment of long-term debt and lease obligations as well as interest on long term debt and leases obligations.

Investing Activities

During the first quarter of fiscal 2021, investing activities used funds of $10.6 million in comparison to $0.3 million for the first quarter of fiscal 2020. As indicated above, during the first quarter of fiscal 2021, the Company invested $10.0 million in a GIC. The GIC has an interest rate equivalent to the Bank of Canada Overnight Target Rate plus 0.60% and the interest is automatically reinvested monthly. The GIC has a 31-day withdrawal notice requirement and is renewed each month.

[3] Refer to section at end of MD&A titled "Key Performance Indicators"

During the first quarter of fiscal 2021, the Company used funds of $0.6 million for the acquisition of property and equipment and intangible assets compared to $0.2 million in the first quarter of fiscal 2020. In the first quarter of fiscal 2021, the Company invested in its proprietary software products with the capitalization of $0.1 million reflected as deferred development costs compared to $0.2 million in the first quarter of fiscal 2020.

Related Party Transactions

Under the provisions of the executive share purchase plan for key management and other management employees, the Company provided interest-free loans to key management and other management employees of $0.5 million during the first quarter of fiscal 2021 ($0.7 million for the same period of fiscal 2020) to facilitate their purchase of the Company's common shares. As of July 31, 2020, loans outstanding amounted to $0.8 million (April 30, 2020 -$0.5 million).

Subsequent Events

On August 7, 2020 the Company paid a dividend of $0.06 per share totaling $0.9 million. On September 10, 2020, the Company's Board of Directors declared a quarterly dividend of $0.06 per share to be paid on October 9, 2020 to shareholders of record on September 25, 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.

Based on Annual Recurring Revenue[5] of $49.3 million and Professional Services backlog[5] of $38.1 million, the Company's management believes that quarterly services revenue (Cloud, Maintenance and Subscription revenue plus Professional Services revenue) ranging between $22.5 million and $23.5 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 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 60% to 70% 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.

COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization, which is causing significant financial market and social dislocation. The Company continues to operate during the current pandemic. The Company is well-equipped to uphold comprehensive support and services for its end-to-end supply chain execution software through its multi-tiered customer care and support teams. Employees are now working remotely and supporting Tecsys' customers and partners. Work that was historically done both on site and remotely through telephone and video conferencing, including progressing sales cycles and project implementations, is now supported remotely by its employees. To date, Tecsys' ability to continue to progress sales cycles, sign new orders and execute project implementations has not been affected adversely by the pivot to remote work. Tecsys' end market customer exposure is diverse encompassing a wide range of industries including healthcare, complex distribution and, to a lesser extent, retail. While Tecsys anticipates that some client projects may be postponed or delayed during the pandemic, other client projects are starting up. Based on current activity and considering the Company's significant project backlog, Tecsys believes that this pandemic is not having any material adverse impact on its operating results. Moreover, Tecsys is not currently experiencing or anticipating any material credit losses as a result of the pandemic. Finally, Tecsys does not currently foresee any material adverse impact on the carrying amounts of its intangible assets, including customer relationships and technology, or on the carrying amount of goodwill, as a result of the pandemic.

The Company will continue to monitor developments of the pandemic and continuously assess the pandemic's potential further impact on Tecsys' operations and business. The situation is dynamic, and the ultimate duration and magnitude of the impact of the pandemic on the economy and the financial effect on Tecsys' operations and business are not known at this time. In developing estimates for the three months ended July 31, 2020, management determined that COVID-19 has minimal impact on key assumptions. However, because of the uncertainty that exists, it is not possible to reliably estimate the impact that these developments will have on the Company's financial results, conditions and cash flow.

Outstanding Share Data

As at September 10, 2020, the Company has 14,416,543 common shares outstanding.

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 consolidated financial statements and the financial statements for the year ended April 30, 2020.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions, and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and recognized amounts of revenue and expenses. Actual results may differ from these estimates.

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 may 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 estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

There have been no significant changes in the key sources of estimation uncertainty and judgements made in relation to the accounting policies applied to those disclosed in the Company's annual consolidated financial statements for the year ended April 30, 2020.

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 July 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 three months period ending on July 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. Important risk factors that may affect these expectations include, but are not limited to, the factors described under the section "Risks and Uncertainties".

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) cyber security and (xxi) expected impact of COVID-19 on the Company's future operations and performance.

Non-IFRS Performance Measures

The Company uses certain non-IFRS financial performance measures in its MD&A and other communications which is described in the following section. The non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these metrics is 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

The terms and definitions of the non-GAAP measure used in this MD&A and a reconciliation of the non-GAAP measure to the most directly comparable GAAP measure are provided below. These non-GAAP measures do not have any standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Accordingly, they should not be considered in isolation.

EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before 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 calculation for three months ended July 31, 2020 and July 31, 2019 derived from IFRS measures in the Company's Consolidated financial statements, is as follows:

	Three months ended July 31, 2020	Three months ended July 31, 2019
Profit (loss) for the period	$ 1,235	$ (267)
Adjustments for:		
Depreciation of property and equipment and right-of-use assets	533	477
Amortization of deferred development costs	103	162
Amortization of other intangible assets	408	413
Interest expense	276	282
Interest income	(50)	(29)
Income taxes	735	349
EBITDA	$ 3,240	$ 1,387
Adjustments for:		
Stock based compensation	269	188
Restructuring costs	-	420
Adjusted EBITDA	$ 3,509	$ 1,995

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 value of accepted contracts. The Company's quantification of bookings is focused on SaaS ARR bookings (the average annual value of committed SaaS recurring revenue at the time of contract signing), perpetual license bookings and Professional Services bookings. The Company believes that these metrics are primary indicators of business performance.

Backlog

Generally, backlog refers to something unfulfilled. In a traditional software company, this term is used largely within finance. 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. With the Company's shift to SaaS, our backlog reporting has focused on (a) the natural backlog that is created by Annual Recurring Revenue (annual recurring revenue assuming the customer will renew the contractual commitment on a periodic basis as those commitments come up for renewal) and (b) Professional Services Backlog. The Company has also begun to focus on contracted SaaS backlog as a key performance indicator. The Company enters into SaaS subscription agreements that are typically multi-year performance obligations with original contract terms of three to five years. Contracted SaaS backlog represents revenue that we expect to recognize in the future related to firm performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

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.

Additional Information about Tecsys

Additional information about the Company, including copies of the continuous disclosure materials such as annual information form and the management proxy circular are available through the SEDAR website at https://www.sedar.com.

Condensed Interim Consolidated Financial Statements
(Unaudited)

TECSYS INC.

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

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED JULY 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 10th day of September 2020.

Tecsys Inc.

Condensed Interim Consolidated Statements of Financial Position

As at July 31, 2020 and April 30, 2020

(Unaudited)

(in thousands of Canadian dollars)

	Note	July 31, 2020	April 30, 2020
Assets			
Current assets			
Cash and cash equivalents		$ 15,932	$ 27,528
Short-term investments	3	20,020	10,000
Accounts receivable		17,451	18,434
Work in progress		1,154	837
Other receivables		2,840	1,633
Tax credits		5,111	4,162
Inventory		599	634
Prepaid expenses		4,574	3,778
Total current assets		67,681	67,006
Non-current assets			
Other long-term receivables		356	350
Tax credits		4,739	4,624
Property and equipment		2,602	2,823
Right-of-use assets	4	8,022	8,234
Contract acquisition costs	5	2,519	2,324
Deferred development costs		1,106	1,103
Other intangible assets		13,852	13,401
Goodwill		17,861	17,540
Deferred tax assets		7,025	7,028
Total non-current assets		58,082	57,427
Total assets		$ 125,763	$ 124,433
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 17,241	$ 19,933
Deferred revenue		18,165	16,163
Current portion of long-term debt	6	1,231	1,231
Other current liabilities		4,809	4,670
Lease obligations	7	920	922
Total current liabilities		42,366	42,919
Non-current liabilities			
Long-term debt	6	9,300	9,600
Deferred tax liabilities		1,716	1,638
Lease obligations	7	8,961	9,157
Total non-current liabilities		19,977	20,395
Total liabilities		62,343	63,314
Equity			
Share capital	8	40,901	40,901
Contributed surplus		11,233	10,964
Retained earnings		9,208	8,838
Accumulated other comprehensive income	13	2,078	416
Total equity attributable to the owners of the Company		63,420	61,119
Total liabilities and equity		$ 125,763	$ 124,433

See accompanying notes to the unaudited condensed interim consolidated financial statements

Tecsys Inc.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Three-month periods ended July 31, 2020 and 2019

(Unaudited)

(in thousands of Canadian dollars, except per share data)

	Note	July 31, 2020	July 31, 2019
Revenue:			
Proprietary products		$ 644	$ 444
Third-party products		3,982	3,652
Cloud, maintenance and subscription	9	12,253	9,782
Professional services		11,192	9,742
Reimbursable expenses		20	630
Total revenue		28,091	24,250
Cost of revenue:			
Products		3,242	2,962
Services	10	11,339	9,125
Reimbursable expenses		20	630
Total cost of revenue		14,601	12,717
Gross profit		13,490	11,533
Operating expenses:			
Sales and marketing		4,997	4,508
General and administration		2,426	2,384
Research and development, net of tax credits		4,099	3,718
Restructuring costs	11	-	420
Total operating expenses		11,522	11,030
Profit from operations		1,968	503
Net finance (income) costs	12	(2)	421
Profit before income taxes		1,970	82
Income tax expense		735	349
Profit (loss) attributable to the owners of the Company		$ 1,235	$ (267)
Other comprehensive income (loss):			
Effective portion of changes in fair value on designated revenue hedges	13	1,109	136
Exchange differences on translation of foreign operations	13	553	(357)
Comprehensive income (loss) attributable to the owners of the Company		$ 2,897	$ (488)
Basic earnings (loss) per common share	8	$ 0.09	$ (0.02)
Diluted earnings (loss) per common share	8	$ 0.08	$ (0.02)

See accompanying notes to the unaudited condensed interim consolidated financial statements

Tecsys Inc.

Condensed Interim Consolidated Statements of Cash Flows

Three-month periods ended July 31, 2020 and 2019
(Unaudited)
(in thousands of Canadian dollars)

	Note	July 31, 2020	July 31, 2019
Cash flows from operating activities:			
Profit (loss) for the period		$ 1,235	$ (267)
Adjustments for:			
Depreciation of property and equipment and right-of-use-assets		533	477
Amortization of deferred development costs		103	162
Amortization of other intangible assets		408	413
Net finance (income) costs	12	(2)	421
Unrealized foreign exchange and other		(239)	(252)
Non-refundable tax credits		(309)	(236)
Stock-based compensation	8	269	188
Income taxes		724	349
Net cash from operating activities excluding changes in non-cash working capital items related to operations		2,722	1,255
Accounts receivable		1,075	1,756
Work in progress		(307)	139
Other receivables		(216)	(714)
Tax credits		(755)	(691)
Inventory		41	14
Prepaid expenses		(789)	(184)
Contract acquisition costs		(195)	(249)
Accounts payable and accrued liabilities		(3,810)	(1,382)
Deferred revenue		1,969	(463)
Changes in non-cash working capital items related to operations		(2,987)	(1,774)
Net cash used in operating activities		(265)	(519)
Cash flows from financing activities:			
Repayment of long-term debt		(300)	(236)
Payment of lease obligations	7	(253)	(242)
Interest paid		(168)	(241)
Net cash used in financing activities		(721)	(719)
Cash flows from investing activities:			
Purchase of short-term investments		(10,000)	-
Interest received	12	50	29
Acquisitions of property and equipment		(49)	(127)
Acquisitions of other intangible assets		(505)	(63)
Deferred development costs		(106)	(166)
Net cash used in investing activities		(10,610)	(327)
Net decrease in cash and cash equivalents during the period		(11,596)	(1,565)
Cash and cash equivalents - beginning of period		27,528	14,913
Cash and cash equivalents - end of period		$ 15,932	$ 13,348

See accompanying notes to the unaudited condensed interim consolidated financial statements

Tecsys Inc.

Condensed Interim Consolidated Statements of Changes in Equity

Three-month periods ended July 31, 2020 and 2019
(Unaudited)
(in thousands of Canadian dollars, except number of shares)

		Share capital					
	Note	Number	Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance, April 30, 2020		14,416,543	40,901	10,964	416	8,838	61,119
Profit for the period		-	-	-	-	1,235	1,235
Other comprehensive income for the period:							
Effective portion of changes in fair value on designated revenue hedges	13	-	-	-	1,109	-	1,109
Exchange difference on translation of foreign operations		-	-	-	553	-	553
Stock-based Compensation	8	-	-	269	-	-	269
Total comprehensive income for the period		-	-	269	1,662	1,235	3,166
Dividends to equity owners	8	-	-	-	-	(865)	(865)
Total transactions with owners of the Company		-	-	-	-	(865)	(865)
Balance, July 31, 2020		**14,416,543**	**$ 40,901**	**$ 11,233**	**$ 2,078**	**$ 9,208**	**$ 63,420**
Balance, April 30, 2019		13,082,376	$ 19,144	$ 9,943	$ (207)	$ 9,501	$ 38,381
Loss for the period		-	-	-		(267)	(267)
Other comprehensive income (loss) for the period:							
Effective portion of changes in fair value on designated revenue hedges		-	-	-	136	-	136
Exchange difference on translation of foreign operations		-	-	-	(357)	-	(357)
Stock-based Compensation		-	-	188	-	-	188
Total comprehensive income (loss) for the period		-	-	188	(221)	(267)	(300)
Dividends to equity owners		-	-	-	-	(720)	(720)
Total transactions with owners of the Company		-	-	-	-	(720)	(720)
Balance, July 31, 2019		13,082,376	$ 19,144	$ 10,131	$ (428)	$ 8,514	$ 37,361

See accompanying notes to the unaudited condensed interim consolidated financial statements

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 of 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. Basis of preparation:

(a) Statement of compliance:

The Company's unaudited 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, 2020.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 10, 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, 2020.

(b) Functional and presentation currency:

The unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. All financial information presented in Canadian dollars has been rounded to the nearest thousand ($000) except when otherwise indicated.

3. Short-term investments:

On May 1, 2020, the Company invested $10,000 in a guaranteed investment certificate ("GIC"). The GIC has an interest rate equivalent to the Bank of Canada Overnight Target Rate plus 0.60% and the interest is automatically reinvested monthly. The GIC has a 31-day withdrawal notice requirement.

On April 28, 2020, the Company invested $10,000 in a 30-day simple-interest GIC. The GIC is renewable at maturity.

(in thousands of Canadian dollars, except per share data)

4. Right-of-use assets:

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

	Offices	Data centers	Vehicles and equipment	Total
Balance, April 30, 2020	$ 7,816	$ 165	$ 253	$ 8,234
Depreciation	(189)	(50)	(24)	(263)
Effect of foreign currency exchange differences	34	6	11	51
Balance, July 31, 2020	$ 7,661	$ 121	$ 240	$ 8,022

5. Contract acquisition costs:

The following table presents the contract acquisition costs of the Company:

	July 31, 2020	April 30, 2020
Balance, beginning of the period	$ 3,087	$ 833
Additions	519	2,723
Amortization	(198)	(469)
Balance, end of the period	$ 3,408	$ 3,087
Presented as:		
Current portion	$ 889	$ 763
Non-current		
Contract acquisition costs	$ 2,519	$ 2,324

The current portion of contract acquisition costs is included in Prepaid expenses in the Condensed interim Consolidated Statements of Financial Position.

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 and a Revolving Facility of $5,000. The Term Facility was used for the purchase of Tecsys A/S and for general corporate purposes. The Revolving Facility is for general corporate purposes. As at July 31, 2020, the Company had outstanding $10,500 under the Term Facility (the ''Term Loan'') (April 30, 2020 - $10,800). The Revolving Facility was undrawn as of July 31, 2020 and April 30, 2020.

(in thousands of Canadian dollars, except per share data)

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.

On November 13, 2019, the Company signed an amendment to the Credit Agreement with the effect of replacing the minimum level of Working Capital Ratio from 1.2 : 1.0 to 1.05 : 1.0 throughout fiscal year 2020 and for the first quarter of fiscal 2021. Thereafter, the minimum Working Capital Ratio reverts back to not less than 1.2 : 1.0. The Credit Agreement also requires the Company to maintain a Fixed Charge Coverage Ratio of not less than 1.20 : 1.0 and a Net Debt to Bank EBITDA ratio not greater than 3.50 : 1.0 until July 31, 2019, then decreasing to not greater than 3.00 : 1.0 until April 29, 2021, and finally down to 2.50 : 1.0 thereafter. At July 31, 2020, the Company was in compliance with all financial covenants.

The remaining term loan is payable in quarterly installments of $300 until January 2024, with the balance payable on that same date.

	July 31, 2020	**April 30, 2020**
Term loan, secured by hypothec on movable properties	$ 10,500	$ 10,800
Government funded debt, with no interest or security, payable over various instalments	31	31
	$ 10,531	$ 10,831
Current portion	(1,231)	(1,231)
Long-term debt	$ 9,300	$ 9,600

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.

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

	July 31, 2020	**April 30, 2020**
Current	$ 920	$ 922
Non-current	8,961	9,157
Total lease obligations	$ 9,881	$ 10,079

(in thousands of Canadian dollars, except per share data)

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

Less than one year	$ 1,164
One to five years	5,762
More than five years	5,031
Total undiscounted lease obligations	$ 11,957

Interest expense on lease obligations for the three months ended July 31, 2020 was $93 ($95 for the same period of fiscal 2020). Total cash outflow was $346 for the three months ended July 31, 2020 ($337 for the same period of fiscal 2020), including $253 of principal payments on lease obligations ($242 for the same period of fiscal 2020). The expense relating to variable lease payments not included in the measurement of lease obligations was $272 for the three months ended July 31, 2020 ($274 for the same period of fiscal 2020). This consists of variable lease payments for operating costs, property taxes and insurance. Expenses relating to short-term leases not included in the measurement of lease obligations for the three months ended July 31, 2020 was $131 ($641 for the same period of fiscal 2020). Expenses relating to leases of low value assets for the three months ended July 31, 2020 was $53 ($52 for the same period of fiscal 2020). There were no additions on lease obligations during the three months-ended July 31, 2020 (nil for the same period of fiscal 2020).

8. Share capital and Stock option plan:

(a) Dividend policy:

The Company maintains a quarterly dividend policy. The declaration and payment of dividends is at the discretion of the Board of Directors, which will consider earnings, capital requirements, financial conditions and other such factors as the Board of Directors, in its sole discretion, deems relevant.

On July 8, 2020, the Company declared a dividend of $0.06 per share, paid on August 7, 2020 to shareholders of record on July 24, 2020.

(b) Earnings per share:

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

	Three Months Ended July 31, 2020	**Three Months Ended July 31, 2019**
Profit (loss) attributable to common shareholders	$ 1,235	$ (267)
Weighted average number of common shares outstanding (basic)	14,416,543	13,082,376
Dilutive impact of assumed exercise of stock options	222,969	-
Weighted average number of common shares outstanding (diluted)	14,639,512	13,082,376
Basic earnings (loss) per common share	$ 0.09	$ (0.02)
Diluted earnings (loss) per common share	$ 0.08	$ (0.02)

(in thousands of Canadian dollars, except per share data)

As at July 31, 2020, 161,060 options were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive (655,309 for the comparative period of fiscal 2020).

(c) Stock option plan:

The Company has a stock option plan under which stock options may be granted to certain 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 generally 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 three months ended July 31, 2020 is as follows:

	Number of options	**Weighted average exercise price**
Outstanding at April 30, 2020	646,587	$ 15.16
Granted on July 8, 2020	161,060	26.75
Outstanding at July 31, 2020	807,647	$ 17.47

The following table outlines the outstanding stock options of the Company as at July 31, 2020:

	Fair value per option	**Remaining contractual life in years**	**Number of options currently exercisable**	**Exercise price**	**Outstanding options**
Granted on September 8, 2018	$ 4.42	3.10	82,556	$ 17.23	188,700
Granted on July 3, 2019	3.28	3.92	112,597	14.29	450,387
Granted on February 28, 2020	4.78	4.58	469	18.95	7,500
Granted on July 8, 2020	6.95	4.94	-	26.75	161,060

The issued options vest on quarterly 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 grant.

(in thousands of Canadian dollars, except per share data)

The fair value of options granted on July 8, 2020 were determined using the Black-Scholes option pricing model with the following assumptions:

	July 8, 2020
Weighted average share price	$ 26.75
Weighted average expected option life (years)	5
Weighted average expected stock price volatility	32.06%
Weighted average dividend yield	0.86%
Weighted average risk-free interest rate	0.37%

For the three months ended July 31, 2020, the Company recognized stock-based compensation expense of $269 ($188 for the same period of fiscal 2020). The contributed surplus accounts are used to record the accumulated compensation expense related to equity-settled share-based compensation transactions. Upon exercise of stock options, the corresponding amounts previously credited to contributed surplus are transferred to share capital.

9. Cloud, maintenance and subscription revenue:

The following table presents the cloud, maintenance and subscription revenue of the Company:

	Three Months Ended July 31, 2020	Three Months Ended July 31, 2019
SaaS	$ 3,844	$ 1,742
Cloud, maintenance and other	8,409	8,040
Total – Cloud, maintenance and subscription	$ 12,253	$ 9,782

The Company enters into SaaS subscription agreements and has historically entered into hosting agreements (classified under Cloud and other below) that are typically multi-year performance obligations with original contract terms of three to five years. The Company enters into maintenance contracts that typically have an original term of one year and are subject to annual renewal. These maintenance contracts are excluded from the table below.

The following table presents revenue expected to be recognized in the future related to SaaS and hosting performance obligations that are part of a contract with an original duration of greater than one year and that are unsatisfied (or partially satisfied) at July 31, 2020:

	Remainder of fiscal 2021	Fiscal 2022	Fiscal 2023 and thereafter	Total
SaaS	$ 11,654	$ 16,182	$ 29,193	$ 57,029
Cloud and other	1,218	741	379	2,338
Total	$ 12,872	$ 16,923	$ 29,572	$ 59,367

(in thousands of Canadian dollars, except per share data)

10. Cost of revenue:

Services cost is broken down as follows:

	Three Months Ended July 31, 2020	Three Months Ended July 31, 2019
Gross expenses	$ 11,707	$ 9,471
Amortization of intangible assets	175	156
E-business tax credits	(543)	(502)
	$ 11,339	$ 9,125

11. Restructuring costs:

For the three-months ended July 31, 2020, the Company recognized restructuring costs of $nil ($400 for the same period of fiscal 2020). The prior period costs were related to acquisition integration, primarily for severance.

12. Finance income and finance costs:

	Three Months Ended July 31, 2020	Three Months Ended July 31, 2019
Interest expense on bank loans and other	$ 183	$ 187
Interest accretion expense – lease obligations	93	95
Foreign exchange (gain) loss	(228)	168
Interest income on bank deposits	(50)	(29)
Net finance (income) costs recognized in profit	$ (2)	$ 421

13. 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.

(in thousands of Canadian dollars, except per share data)

Non-hedge designated derivative instruments

On July 31, 2020, the Company held four outstanding foreign exchange contracts with various maturities to November 2020 to sell US$3,550 into Canadian dollars at rates averaging CA$1.3728 to yield CA$4,873. As of July 31, 2020, the Company recorded an unrealized exchange gain of $120 included in other receivables representing the change in fair value of these outstanding contracts since inception.

On July 31, 2019, the Company held three outstanding foreign exchange contracts with various maturities to October 31, 2019 to sell US$ 2,450 into Canadian dollars at a rate of CA$1.3160 to yield CA$3,224. On July 31, 2019, the Company had recorded an unrealized exchange loss of $23, included in accounts payable and accrued liabilities and an unrealized exchange gain of $15 included in other receivables, representing the change in fair value of these outstanding contracts since inception.

Revenue hedge designated derivative instruments

On July 31, 2020, the Company held sixteen outstanding foreign exchange contracts with various maturities to July 2021 to sell US$23,800 at rates averaging CA$1.4153 to yield CA$33,685. Of the outstanding US$23,800 hedge designated foreign exchange contracts, US$17,500 pertain to highly probable future revenue denominated in U.S. dollars expected over the nine-month period through April 2021 while US$6,300 is related to realized U.S. dollar denominated revenue. On July 31, 2020, the Company had recorded an unrealized exchange loss of $98 included in accounts payable and accrued liabilities and an unrealized exchange gain of $1,912 representing the change in fair value of these outstanding contracts since inception.

On July 31, 2019, the Company held nine outstanding foreign exchange contracts with various maturities to January 31, 2020 to sell US$12,000 into Canadian dollars at rates averaging CA$1.31654 to yield CA$15,799. Of the outstanding US$12,000 hedge designated foreign exchange contracts, US$8,000 pertains to highly probable future revenue denominated in U.S. dollars expected over the next six-month period while US$4,000 relates to realized U.S. dollar denominated revenue. On July 31, 2019, the Company had recorded an overall unrealized loss of $82 included in accounts payable and accrued liabilities and an unrealized gain of $75 included in other receivables representing the change in fair value of these outstanding contracts since inception.

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

	Three Months Ended July 31, 2020	Three Months Ended July 31, 2019
Accumulated other comprehensive income (loss) on cash flow hedges as at the beginning of the fiscal year	$ 569	$ (127)
Net gain on derivatives designated as cash flow hedges	1,329	167
Amounts reclassified from accumulated other comprehensive income (loss) to net earnings, and included in:		
Revenue	(18)	39
Net finance costs	(202)	(70)
Accumulated other comprehensive income from cash flow hedges	$ 1,678	$ 9
Accumulated other comprehensive loss - translation adjustment from foreign operations	400	(437)
Accumulated other comprehensive income (loss)	$ 2,078	$ (428)

(in thousands of Canadian dollars, except per share data)

14. Related party transactions:

Key management includes 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 July 31, 2020, key management and their spouses control 25.55% (April 30, 2020 - 26.4%) of the issued common shares of the Company.

The compensation paid or payable to key management for employee services during the three-month periods ended July 31, 2020 and 2019 is as follows:

	Three Months Ended July 31, 2020	Three Months Ended July 31, 2019
Salaries	$ 1,232	$ 1,066
Other short-term benefits	104	66
Payment to defined contribution plans	48	43
	$ 1,384	$ 1,175

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans to key management and other management employees of $500 ($658 for the same period of fiscal 2020) to facilitate their purchase of the Company's common shares during the three months ended July 31, 2020. As of July 31, 2020, loans outstanding amounted to $793 (April 30, 2020 - $528) and are included in Other receivables in the Consolidated Statements of Financial Position.

15. Operating segment:

Management has organized the Company under one reportable segment: the development and marketing of enterprise- wide distribution software and related services. As at July 31, 2020, substantially all of the Company's property and equipment, goodwill and other intangible assets are located in Canada and Denmark. Total assets attributable to Denmark were $20,302 (April 30, 2020: $21,100). The Company's subsidiaries in the U.S. and the U.K. comprise sales and service operations offering implementation and maintenance services only.

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

	Three Months Ended July 31, 2020	Three Months Ended July 31, 2019
Canada	$ 4,765	$ 6,103
United States	18,505	13,483
Europe	4,555	4,435
Other	266	229
	$ 28,091	$ 24,250

16. Subsequent event

On August 7, 2020 the Company paid a dividend of $0.06 per share totaling $865. On September 10, 2020, the Company's Board of Directors declared a quarterly dividend of $0.06 per share to be paid on October 9, 2020 to shareholders of record on September 25, 2020.

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