1st Quarter
Fiscal 2022 Report

Strength in Numbers

Management's Discussion and Analysis of Financial Condition and Results of Operations dated September 9, 2021

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, 2021. The Company's first quarter of fiscal year 2022 ended on July 31, 2021. 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).

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" in the Company's annual consolidated financial statements for the year ended April 30, 2021.

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 rates; (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.

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 continue to work remotely and support 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 materially 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 a 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, 2021, 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.

Non-IFRS Performance Measures

The Company uses certain non-IFRS financial performance measures in its MD&A and other communications which is described and reconciled in the "Reconciliation of non-IFRS Performance Measures" section of this MD&A. The non-IFRS measures do not have any standardized meaning prescribed by IFRS and may not 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.

Overview

Tecsys is a global provider of SaaS supply chain solutions that equip the borderless enterprise for growth. Spanning multiple complex, regulated and high-volume distribution industries, Tecsys delivers dynamic and powerful solutions for warehouse management, distribution and transportation management, supply management at point of use, retail order management, as well as financial management and analytics solutions.

Customers running on Tecsys' 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 operate sustainable and scalable logistics so they may focus on the future of their products, services and people, not on their operational challenges.

Customers around the world trust their supply chains to Tecsys in the healthcare, service parts, third-party logistics, retail and general wholesale high- volume distribution industries. Tecsys is the market leader in North America for supply chain solutions for health systems and hospitals.

The Company has five principal sources of revenue:

- software as a service (SaaS) subscriptions which represent the right to access our software platform in a hosted and managed environment for a period of time; these subscriptions are typically sold in three to five year term agreements with auto-renewal provisions;
- maintenance and support services sold with perpetual licenses and hardware maintenance services; these services are typically sold in annual agreements with auto-renewal provisions;
- professional services, including implementation, consulting and training services provided to customers as well as reimbursable expenses;
- licenses; and
- hardware.

Starting in 2019, the Company shifted its business model and began selling its solutions primarily on a SaaS subscription basis. As such, Tecsys expects SaaS revenue to continue to grow over time. Revenue from maintenance and support services relate in a large part to our prior business model of selling perpetual licenses with attached maintenance and support fees. The Company expects maintenance and support services revenue to generally decline over time as new customers acquire SaaS subscriptions and existing customers eventually migrate to SaaS.

In the three months ended July 31, 2021, the Company generated $33.2 million in total revenue. The revenue mix for the three months ended July 31, 2021 was: SaaS 17%; maintenance and support 25%; professional services 40%; license 1%; and hardware 17%. The revenue mix for the three months ended July 31, 2020 was: SaaS 14%; maintenance and support 30%; professional services 40%; license 2%; and hardware 14%.

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 do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled indicators reported by other companies and cannot be reconciled to a directly comparable IFRS measure. 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 (ARR)) is defined as the contractually committed purchase of SaaS, proprietary software maintenance, and customer support 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. Acknowledging the business shift to SaaS and in order to provide greater clarity around expected timing of future revenue, in fiscal 2020 the Company began reporting bookings on a disaggregated basis. This includes SaaS ARR bookings (the average annual value of committed SaaS recurring revenue at the time of contract signing), professional services bookings and perpetual license bookings. The Company believes that these metrics are primary indicators of business performance. The Company no longer reports combined total contract value bookings.

Backlog

Backlog in general refers to the value of contracted revenue that is not yet recognized. Our backlog reporting focuses on (a) Annual Recurring Revenue and (b) Professional Services Backlog.

The Company also focuses 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. This is also known as Remaining Performance Obligation (RPO) and, unlike ARR which has a one-year time horizon, it includes multiple years of contracted SaaS subscriptions.

Results of Operations for the First Quarter of Fiscal 2022

The following table presents a summary of the results of operations:

	Three months ended July 31,	
(in thousands of CAD, except earnings per share)	**2021**	**2020**
Revenue	$ 33,232	$ 28,091
Cost of revenue	18,803	14,601
Gross profit	14,429	13,490
Operating expenses	13,341	11,522
Profit from operations	1,088	1,968
Net finance costs (income)	115	(2)
Profit before income taxes	$ 973	$ 1,970
Income taxes	729	735
Profit	$ 244	$ 1,235
Adjusted EBITDA[1]	$ 2,456	$ 3,509
Basic earnings per share	$ 0.02	$ 0.09
Diluted earnings per share	$ 0.02	$ 0.08
Total ARR[2]	$ 53,656	$ 49,293

Reconciliation of non-IFRS Performance Measures

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

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 stock-based compensation. 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.

[1] Refer to section below “Reconciliation of non-IFRS Performance Measures” for definition.

[2] Refer to section “Key Performance Indicators” for definition.

The EBITDA and Adjusted EBITDA calculation for the three months ended July 31, 2021 and July 31, 2020 derived from IFRS measures in the Company's Consolidated financial statements, is as follows:

	Three months ended July 31,	
(in thousands of CAD)	**2021**	**2020**
Profit for the period	$ 244	$ 1,235
Adjustments for:		
Depreciation of property and equipment and right-of-use assets	543	533
Amortization of deferred development costs	54	103
Amortization of other intangible assets	411	408
Interest expense	161	276
Interest income	(40)	(50)
Income taxes	729	735
EBITDA	$ 2,102	$ 3,240
Adjustment for:		
Stock based compensation	354	269
Adjusted EBITDA	$ 2,456	$ 3,509

Revenue

The Company has changed the presentation of revenue in the Condensed Interim Consolidated Statements of Income and Comprehensive (loss) income for the three-month period ended July 31, 2021. As a result of the change, comparative figures have been reclassified to conform with the basis of presentation used in the current year. Refer to Note 15 - Comparative information of the Condensed Interim Consolidated Financial Statements.

Total revenue for the three months ended July 31, 2021 increased to $33.2 million, $5.1 million or 18% higher compared to the same period of fiscal 2021. Revenue is broken down as follows:

	Three months ended July 31,		Variance
(in thousands of CAD)	**2021**	**2020**	**%**
SaaS	$ 5,653	$ 3,844	47%
Maintenance and support	8,326	8,409	(1%)
Professional services	13,126	11,212	17%
License	351	717	(51%)
Hardware	5,776	3,909	48%
	$ 33,232	$ 28,091	18%

Approximately 67% of the Company's revenues were generated in U.S. dollars during the first quarter of fiscal 2022 compared to 66% in the same period of fiscal 2021. The U.S. dollar averaged CA$1.2291 in the first quarter of fiscal 2022 in comparison to CA$1.3669 in the same period of fiscal 2021. The decline in the value of the U.S. dollar more than offset the Company's partial hedging of U.S. revenue giving rise to a net unfavorable foreign currency related revenue variance of $2.3 million in comparison to the first quarter of fiscal 2021. On a constant currency basis (using fiscal 2022 currency rates), first quarter fiscal 2022 revenue grew by approximately 25% compared to the first quarter of fiscal 2021. The unfavorable foreign currency movement impacted all revenue lines.

Total ARR[3] on July 31, 2021 was $53.7 million, up 9% compared to $49.3 million on July 31, 2020. A significant amount of ARR is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR. On a constant currency basis, ARR increased 15% during the twelve months ended July 31, 2021. ARR was up 2% sequentially compared to the fourth quarter of fiscal 2021 and up 1% on a constant currency basis.

SaaS revenue

The Company generates revenue from proprietary software under a Software as a Service (SaaS) model. SaaS subscriptions represent the right to access our software platform in a hosted and managed environment for a period of time. The Company enters into SaaS subscription agreements that are typically multi-year performance obligations with original contract terms of three to five years.

SaaS revenue in the first quarter of fiscal 2022 was $5.7 million, up 47% or $1.8 million compared to the first quarter of fiscal 2021 and up $0.2 million sequentially compared to the fourth quarter of fiscal 2021. The increase is due to new SaaS revenue from bookings in recent quarters and was negatively impacted by foreign exchange as a significant portion of the Company's SaaS fees are denominated in U.S. dollars. On a constant currency basis, first quarter fiscal 2022 SaaS revenue grew by approximately 57% compared to the first quarter of fiscal 2021.

In the first quarter of fiscal 2022, SaaS subscription bookings (measured on an ARR basis)[4] were $1.1 million, down 54% compared to $2.4 million in the first quarter of fiscal 2021. This follows a robust $3.5 million in Q4 fiscal 2021. The Company has historically seen some lumpiness in quarterly deal closings, and the Company expects this to continue.

On July 31, 2021, SaaS backlog[5] was $65.0 million, up 14% from $57.0 million at the same time last year. A significant amount of SaaS backlog is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will impact reported SaaS backlog. On a constant currency basis, SaaS backlog increased 21% during the twelve months ended July 31, 2021. SaaS backlog was down 1% sequentially compared to the fourth quarter of fiscal 2021 and down 2% on a constant currency basis.

Maintenance and support revenue

Maintenance and support revenue derives largely from the Company's legacy perpetual license installed base. The Company enters into maintenance and support contracts that typically have an original term of one year and are subject to annual renewal. Maintenance and support revenue for the three months ended July 31, 2021 was $8.3 million down $0.1 million compared to the same period in fiscal 2021. The decrease was the result of the negative impact of foreign exchange as a significant portion of the Company's maintenance and support revenue is denominated in U.S. dollars. On a constant currency basis, first quarter fiscal 2022 maintenance and support revenue grew by approximately 5% compared to the first quarter of fiscal 2021.

Professional services revenue

Professional services revenue includes fees for implementation consulting and training services provided to customers, as well as reimbursable expenses. Professional services revenue for the three months ended July 31, 2021 was $13.1 million, up 17% compared to $11.2 million during the same period in fiscal 2021. Again, negative foreign exchange impact reduced reported professional services revenue growth as a significant portion of the Company's professional services revenue is denominated in U.S. dollars. On a constant currency basis, first quarter fiscal 2022 professional services revenue grew by approximately 25% compared to the first quarter of fiscal 2021. Professional services bookings in the first three months of fiscal 2022 were $14.5 million, up 3% compared to $14.1 million in the first three months of fiscal 2021. Professional services bookings are in part linked to SaaS subscription bookings and license bookings and are subject to timing.

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[3] Refer to section "Key Performance Indicators" for definition.

[4] Refer to section "Key Performance Indicators" for definition.

License revenue

License revenue is defined as internally developed products including proprietary software as well as third-party software. In the three months ended July 31, 2021, license revenue amounted to $0.4 million, down $0.4 million compared to the same period in fiscal 2021. Perpetual license bookings in the three months ended July 31, 2021 were $0.3 million, compared to $0.5 million during the same period in fiscal 2021.

Hardware revenue

Hardware revenue includes third-party hardware products and proprietary technology products. Hardware revenue for the three months ended July 31, 2021 was $5.8 million, an increase of $1.9 million compared to the same period in fiscal 2021.

Cost of Revenue and Gross Profit

	Three months ended July 31,				Variance
(in thousands of CAD)		2021		2020	%
Cost of revenue:					
SaaS, maintenance, support and professional services	$	14,358	$	11,359	26%
License and hardware		4,445		3,242	37%
Total cost of revenue		18,803		14,601	29%
Gross profit & gross profit margin:					
SaaS, maintenance, support and professional services gross profit	$	12,747	$	12,106	5%
Gross profit margin		47%		52%	
License and hardware gross profit	$	1,682	$	1,384	22%
Gross profit margin		27%		30%	
Total gross profit	$	14,429	$	13,490	7%
Total gross profit margin		43%		48%	

Total cost of revenue for the three months ended July 31, 2021 increased to $18.8 million, an increase of $4.2 million compared to the same period of fiscal 2021. The increase is mainly due to higher SaaS, Maintenance, Support and Professional Services costs and higher License and Hardware costs.

In the three months ended July 31, 2021, the cost of SaaS, Maintenance, Support and Professional Services increased to $14.4 million, up $3.0 million compared to the same period last year. Cost of SaaS, Maintenance, Support and Professional Services increased primarily as a result of direct costs associated with higher revenue, including higher employee costs and higher public cloud infrastructure costs. The cost of SaaS, Maintenance, Support and Professional Services includes the positive impact of tax credits totaling $0.6 million for the first quarter of fiscal 2022 compared to $0.5 million for the first quarter of fiscal 2021.

The cost of License and Hardware increased to $4.4 million in the first quarter of fiscal 2022, up $1.2 million in comparison to the same period in fiscal 2021. The increase was driven by increased costs related to the sale of third-party hardware products.

Gross profit increased to $14.4 million, up $0.9 million in the first quarter of fiscal 2022 compared to the same period of fiscal 2021. This is mainly attributable to higher SaaS, Maintenance, Support and Professional Services margin of $0.6 million and higher License and Hardware margin of $0.3 million.

As a percentage of revenue, total gross margin was 43% for the first quarter of fiscal 2022 compared to 48% in the first quarter of fiscal 2021. The overall margin decline was the result of unfavorable foreign exchange, investment to support growth and change in revenue mix.

Operating Expenses

	Three months ended July 31,		Variance
(in thousands of CAD)	**2021**	**2020**	**%**
Sales and marketing expenses	$ 5,682	$ 4,997	14%
As a percentage of Revenue	17%	18%	
General and administration expenses	2,859	2,426	18%
As a percentage of Revenue	9%	9%	
Research and development expenses, net of tax credits	4,800	4,099	17%
As a percentage of Revenue	14%	15%	
Total operating expenses	**13,341**	**11,522**	**16%**
As a percentage of revenue	**40%**	**41%**	

Total operating expenses for the first quarter of fiscal 2022 increased to $13.3 million, an increase of $1.8 million compared to the same period in fiscal 2021. The weaker U.S. dollar during the first quarter of fiscal 2022 gave rise to a favorable impact of $0.9 million when compared to the same period last year.

Sales and marketing expenses

During the first quarter of fiscal 2022, sales and marketing expenses amounted to $5.7 million, $0.7 million higher than the comparable quarter last year. The increase is mainly attributed to higher personnel costs, commissions and travel costs.

General and administrative expenses

General and administrative expenses for the three months ended July 31, 2021 were $2.9 million, an increase of $0.4 million compared to the same period in fiscal 2021. The Company incurred higher non-recurring professional fees and higher employee related costs compared to the same period in fiscal 2021.

Net R&D expenses

Net R&D expenses for three months ended July 31, 2021 were $4.8 million, up $0.7 million from the same period last year. The increase was primarily the result of higher personnel costs and consulting costs, partially offset by an increase in the amount of deferred development costs. For the three months ended July 31, 2021 the Company recorded R&D tax credits and e-business tax credits of $0.6 million, compared to $0.5 million for the same period in fiscal 2021. The Company amortized deferred development costs and other intangible assets of $0.1 million during the first quarter of fiscal 2022 and 2021. Additionally, during the three months ended July 31, 2021 the Company deferred $0.5 million of development costs compared to $0.1 million in the same period of last year.

Net Finance Costs and Income Taxes

	Three months ended July 31,		Variance
(in thousands of CAD)	2021	2020	%
Net finance costs (income)	$ 115	$ (2)	5,850%
Income taxes	$ 729	$ 735	(1)%
Income taxes as a percentage of profit before income taxes	75%	37%	

Net finance costs for the three months ended July 31, 2021 were $0.1 million, in comparison to a non-significant amount for the same period last year. Net finance costs consisted primarily of interest expense on long-term debt and lease obligations partially offset by foreign exchange gains and interest income.

Income tax expense for the first quarter of fiscal 2022 and fiscal 2021 was $0.7 million. As a percentage of profit before taxes, the effective tax rate was 75% for the three months ended July 31, 2021, compared to 37% for the same period in fiscal 2021. The higher effective tax rate in the three months ended July 31, 2021 results from pre-tax losses incurred at a subsidiary for which the Company does not have offsetting deferred tax assets.

Profit

	Three months ended July 31,		Variance
(in thousands of CAD)	2021	2020	%
Profit	$ 244	$ 1,235	(80)%
Adjusted EBITDA	$ 2,456	$ 3,509	(30)%
Basic earnings per share	$ 0.02	$ 0.09	
Diluted earnings per share	$ 0.02	$ 0.08	

The Company realized a profit of $0.2 million in the three months ended July 31, 2021, compared to a profit of $1.2 million for the same period in fiscal 2021. Basic and fully diluted earnings per share in the first quarter of fiscal 2021 were $0.02, compared to $0.09 per share and $0.08 per share (basic and fully diluted, respectively) for the same period in fiscal 2021.

Adjusted EBITDA during the three months ended July 31, 2021 was $2.5 million, compared to $3.5 million for the same period in fiscal 2021. The decrease in profit and Adjusted EBITDA compared to the first quarter of fiscal 2021 was primarily due to an unfavorable foreign exchange impact of approximately $1.4 million as well as higher expenses.

Quarterly Selected Financial Data

The following table summarized selected results for the eight most recent completed quarters to July 31, 2021:

	FY 2022	FY 2021				FY 2020		
(in thousands of CAD, except earnings per share)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	33,232	32,374	31,942	30,694	28,091	27,750	26,847	26,008
Profit	244	2,020	1,847	2,086	1,235	375	834	1,404
Comprehensive (loss) income	(147)	1,088	1,527	1,486	2,897	1,200	818	1,439
Adjusted EBITDA	2,456	3,917	3,964	4,830	3,509	1,951	2,648	3,677
Basic earnings per common share	0.02	0.14	0.13	0.14	0.09	0.03	0.06	0.11
Diluted earnings per common share	0.02	0.14	0.12	0.14	0.08	0.03	0.06	0.11

Total quarterly revenue has consistently trended upward during the past eight quarters, primarily due to an increase in revenue from SaaS and professional services driven by increased bookings and following the Company's transition to SaaS during the end of fiscal 2019. Improvements in Profit and Adjusted EBITDA is generally attributed to revenue growth and operating leverage in recent quarters. The sequential decrease in profit and Adjusted EBITDA in the first quarter of fiscal 2022 is primarily due to the impact of the weakening U.S. dollar on operating margins as well as generally higher cost of revenue and operating expenses.

Liquidity and Capital Resources

On July 31, 2021, current assets totaled $72.6 million compared to $75.8 million at the end of fiscal 2021. Cash and cash equivalents and short-term investments decreased to $39.5 million compared to $45.9 million at the end of fiscal 2021. The decrease is primarily due to changes in non-cash working capital items related to operations and in particular reduction in accounts payable and accrued liabilities and increase in accounts receivable. during the first quarter of fiscal 2022.

Accounts receivable and work in progress totaled $20.1 million on July 31, 2021, an increase of $3.1 million compared to $17.0 million as at April 30, 2021. The increase is mainly attributed to higher revenue and timing of cash collections. The Company's Days Sales Outstanding (DSO) stood at 54 days at the end of July 31, 2021 compared to 47 at the end of fiscal 2021 and 60 days at the end of July 31, 2020. DSO is a measure of the average number of days that a company takes to collect revenue after a sale has been. The Company's DSO is determined on a quarterly basis and can be calculated by dividing the total 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.

Current liabilities on July 31, 2021 totaled $41.8 million compared to $44.0 million at the end of fiscal 2021. The decrease is mainly due to a decrease in accounts payable and accrued liabilities and included the payment of bonuses related fiscal 2021 during the first quarter of fiscal 2022.

Working capital decreased to $30.8 million as at July 31, 2021 in comparison to $31.8 million at the end of fiscal year 2021.

Cash from Operating Activities

Operating activities used $5.0 million of cash in the first quarter of fiscal 2022 in comparison to using $0.3 million in the first quarter of fiscal 2021. Operating activities excluding changes in non-cash working capital items related to operations generated $3.3 million in the first quarter of fiscal 2022 compared to $2.7 million in the first quarter of fiscal 2021.

Non-cash working capital items used funds of $8.3 million for the first quarter of fiscal 2022 primarily due to increases of accounts receivable, work in progress, prepaids and tax credits of $4.4 million and decrease in accounts payable and accrued liabilities of $3.9 million.

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.

The Company believes that funds on hand at July 31, 2021 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, as well as to invest in long-term growth.

Financing Activities

Cash flows used in financing activities amounted to $0.7 million for the first quarter of fiscal 2022 and fiscal 2021. Financing activities in the first quarter of fiscal 2022 related primarily to the repayment of long-term debt and lease obligations as well as interest on long-term debt and lease obligations.

Investing Activities

During the first quarter of fiscal 2022 investing activities used funds of $0.7 million compared to $10.6 million in the first quarter of fiscal 2021. During the first quarter of fiscal 2021, the Company invested $10.0 million in a guaranteed investment certificate (GIC). The GIC has a 31-day withdrawal notice requirement and the interest is automatically reinvested monthly.

During the first quarter of fiscal 2022, the Company used funds of $0.2 million for the acquisition of property and equipment and intangible assets compared to $0.6 million in the first quarter of fiscal 2021.

In the first quarter of fiscal 2022, the Company invested in its proprietary software products with the capitalization of $0.5 million reflected as deferred development costs compared to $0.1 million in the first quarter of fiscal 2021.

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 $0.3 million during the first three months of fiscal 2022 ($0.5 million for the same period of fiscal 2021) to facilitate their purchase of the Company's common shares. As of July 31, 2021, loans outstanding amounted to $0.5 million (April 30, 2021 -$0.4 million).

Subsequent Events

On August 6, 2021 the Company paid a dividend of $0.065 per share totaling $0.9 million. On September 9, 2021, the Company's Board of Directors declared a quarterly dividend of $0.065 per share to be paid on October 8, 2021 to shareholders of record on September 24, 2021

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 ARR of $53.7 million and Professional services backlog of $35.1 million, the Company's management believes that quarterly services revenue (including SaaS, maintenance and support and professional services revenue) ranging between $26.5 million and $27.5 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, and considering that license revenue is typically recognized up front while SaaS revenue is recognized over the contract period, 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 its operating needs. The Company can further manage its capital structure by adjusting its dividend policy.

Outstanding Share Data

As at September 9, 2021, the Company has 14,505,095 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, 2021.

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, 2021.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the condensed interim 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, 2021.

New standards and interpretations not yet adopted:

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the period ended July 31, 2021 and have not been applied in preparing these condensed interim consolidated financial statements. The following amendment is currently being assessed by the Company:

IAS 12, Income Taxes:

In May 2021, the IASB issued Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12) that clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change is an exemption from the initial recognition exemption, so that it does not apply to transactions that give rise to both deductible and taxable temporary differences on initial recognition. This will result in the recognition of equal deferred tax assets and liabilities. The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2023, therefore the effective date for the Company is May 1, 2023. Earlier application is permitted. The Company is currently assessing the impact of the amendments.

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, 2021.

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") 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, 2021 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting.

Condensed Interim Consolidated Financial Statements
(Unaudited)

TECSYS INC.

For the three-month periods ended July 31, 2021 and 2020

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED JULY 31, 2021 and 2020

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 9th day of September 2021.

Tecsys Inc.

Condensed Interim Consolidated Statements of Financial Position

As at July 31, 2021 and April 30, 2021
(Unaudited)
(in thousands of Canadian dollars)

	Note	July 31, 2021	April 30, 2021
Assets			
Current assets			
Cash and cash equivalents		$ 19,342	$ 25,752
Short-term investments	3	20,121	20,100
Accounts receivable		19,335	16,840
Work in progress		731	182
Other receivables		589	2,034
Tax credits		6,501	5,359
Inventory		640	628
Prepaid expenses		5,362	4,897
Total current assets		72,621	75,792
Non-current assets			
Other long-term receivables		240	303
Tax credits		4,037	3,904
Property and equipment		2,597	2,682
Right-of-use assets	4	7,018	7,245
Contract acquisition costs	5	2,550	2,678
Deferred development costs		1,520	1,088
Other intangible assets		11,811	12,194
Goodwill		17,431	17,417
Deferred tax assets		6,007	6,006
Total non-current assets		53,211	53,517
Total assets		$ 125,832	$ 129,309
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 17,272	$ 19,417
Deferred revenue		21,987	22,044
Current portion of long-term debt	6	1,204	1,216
Other current liabilities		500	500
Lease obligations	7	827	848
Total current liabilities		41,790	44,025
Non-current liabilities			
Long-term debt	6	8,100	8,400
Deferred tax liabilities		1,502	1,499
Lease obligations	7	8,086	8,295
Total non-current liabilities		17,688	18,194
Total liabilities		59,478	62,219
Equity			
Share capital	8	42,700	42,700
Contributed surplus		12,099	11,745
Retained earnings		11,720	12,419
Accumulated other comprehensive (loss) income	12	(165)	226
Total equity attributable to the owners of the Company		66,354	67,090
Total liabilities and equity		$ 125,832	$ 129,309

See accompanying notes to the unaudited condensed interim consolidated financial statements

Tecsys Inc.

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

Three-month periods ended July 31, 2021 and 2020

(Unaudited)

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

	Note	July 31, 2021	July 31, 2020
Revenue:			
SaaS	15	$ 5,653	$ 3,844
Maintenance and support	15	8,326	8,409
Professional services	15	13,126	11,212
License	15	351	717
Hardware	15	5,776	3,909
Total revenue		33,232	28,091
Cost of revenue	10, 15	18,803	14,601
Gross profit		14,429	13,490
Operating expenses:			
Sales and marketing		5,682	4,997
General and administration		2,859	2,426
Research and development, net of tax credits		4,800	4,099
Total operating expenses		13,341	11,522
Profit from operations		1,088	1,968
Net finance costs (income)	11	115	(2)
Profit before income taxes		973	1,970
Income tax expense		729	735
Net profit, attributable to the owners of the Company		$ 244	$ 1,235
Other comprehensive (loss) income:			
Effective portion of changes in fair value on designated revenue hedges	12	(358)	1,109
Exchange differences on translation of foreign operations	12	(33)	553
Comprehensive (loss) income, attributable to the owners of the Company		$ (147)	$ 2,897
Basic earnings per common share	8	$ 0.02	$ 0.09
Diluted earnings per common share	8	$ 0.02	$ 0.08

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, 2021 and 2020
(Unaudited)
(in thousands of Canadian dollars)

	Note	July 31, 2021	July 31, 2020
Cash flows from operating activities:			
Net profit		$ 244	$ 1,235
Adjustments for:			
Depreciation of property and equipment and right-of-use-assets		543	533
Amortization of deferred development costs		54	103
Amortization of other intangible assets		411	408
Net finance costs (income)	11	115	(2)
Unrealized foreign exchange and other		1,261	(239)
Non-refundable tax credits		(366)	(309)
Stock-based compensation	8	354	269
Income taxes		693	724
Net cash from operating activities excluding changes in non-cash working capital items related to operations		3,309	2,722
Accounts receivable		(2,492)	1,075
Work in progress		(547)	(307)
Other receivables		(34)	(216)
Tax credits		(910)	(755)
Inventory		(12)	41
Prepaid expenses		(465)	(789)
Contract acquisition costs		128	(195)
Accounts payable and accrued liabilities		(3,933)	(3,810)
Deferred revenue		(59)	1,969
Changes in non-cash working capital items related to operations		(8,324)	(2,987)
Net cash used in operating activities		(5,015)	(265)
Cash flows from financing activities:			
Repayment of long-term debt		(312)	(300)
Payment of lease obligations	7	(231)	(253)
Interest paid		(161)	(168)
Net cash used in financing activities		(704)	(721)
Cash flows from investing activities:			
Purchase of short-term investments		-	(10,000)
Interest received	11	40	50
Acquisitions of property and equipment		(230)	(49)
Acquisitions of other intangible assets		(15)	(505)
Deferred development costs		(486)	(106)
Net cash used in investing activities		(691)	(10,610)
Net decrease in cash and cash equivalents during the period		(6,410)	(11,596)
Cash and cash equivalents - beginning of period		25,752	27,528
Cash and cash equivalents - end of period		$ 19,342	$ 15,932

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, 2021 and 2020
(Unaudited)
(in thousands of Canadian dollars, except number of shares)

	Note	Share capital Number		Share capital Amount		Contributed surplus		Accumulated other comprehensive income (loss)		Retained earnings		Total
Balance, April 30, 2021		14,505,095		42,700		11,745		226		12,419		67,090
Net profit		-		-		-		-		244		244
Other comprehensive loss for the period:												
Effective portion of changes in fair value on designated revenue hedges	12	-		-		-		(358)		-		(358)
Exchange difference on translation of foreign operations		-		-		-		(33)		-		(33)
Total comprehensive (loss) income for the period		-		-		-		(391)		244		(147)
Stock-based Compensation	8	-		-		354		-		-		354
Dividends to equity owners	8	-		-		-		-		(943)		(943)
Total transactions with owners of the Company		-		-		354		-		(943)		(589)
Balance, July 31, 2021		**14,505,095**	**$**	**42,700**	**$**	**12,099**	**$**	**(165)**	**$**	**11,720**	**$**	**66,354**
Balance, April 30, 2020		14,416,543	$	40,901	$	10,964	$	416	$	8,838	$	61,119
Net profit		-		-		-				1,235		1,235
Other comprehensive income for the period:												
Effective portion of changes in fair value on designated revenue hedges		-		-		-		1,109		-		1,109
Exchange difference on translation of foreign operations		-		-		-		553		-		553
Total comprehensive income for the period		-		-		-		1,662		1,235		2,897
Stock-based Compensation		-		-		269		-		-		269
Dividends to equity owners		-		-		-		-		(865)		(865)
Total transactions with owners of the Company		-		-		269		-		(865)		(596)
Balance, July 31, 2020		14,416,543	$	40,901	$	11,233	$	2,078	$	9,208	$	63,420

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 sells its software primarily on a subscription basis as Software as a Service and also on a perpetual license basis with recurring support. 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, 2021.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 9, 2021.

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, 2021.

The Company has changed the presentation of revenue in the Condensed Interim Consolidated Statements of Income and Comprehensive (loss) Income for the three-month period ended July 31, 2021. As a result of the change, comparative figures have been reclassified to conform with the basis of presentation used in the current year. Refer to Note 15 - Comparative information.

(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.

New standards and interpretations not yet adopted:

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the period ended July 31, 2021 and have not been applied in preparing these condensed interim consolidated financial statements. The following amendment is currently being assessed by the Company:

IAS 12, Income Taxes:

In May 2021, the IASB issued Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12) that clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change is an exemption from the initial recognition exemption, so that it does not apply to transactions that give rise to both deductible and taxable temporary differences on initial recognition. This will result in the recognition of equal deferred tax assets and liabilities.

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

2. Basis of preparation (continued):

New standards and interpretations not yet adopted (continued):

The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2023, therefore the effective date for the Company is May 1, 2023. Earlier application is permitted. The Company is currently assessing the impact of the amendment.

3. Short-term investments:

	July 31, 2021	April 30, 2021
Beginning balance	$ 20,100	$ 10,000
Additions	-	10,000
Interest on short-term investments	21	100
Ending balance	$ 20,121	$ 20,100

On May 1, 2020, the Company invested $10,000 in a GIC. The GIC has a 31-day withdrawal notice requirement and the interest is automatically reinvested monthly.

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, 2021	$ 7,058	$ 30	$ 157	$ 7,245
Depreciation	(188)	(17)	(22)	(227)
Balance, July 31, 2021	$ 6,870	$ 13	$ 135	$ 7,018

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

5. Contract acquisition costs:

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

	July 31, 2021	April 30, 2021
Balance, beginning of the period	$ 4,202	$ 3,087
Additions	237	2,441
Amortization	(388)	(1,326)
Balance, end of the period	$ 4,051	$ 4,202
Presented as:		
Current portion	$ 1,501	$ 1,524
Non-current		
Contract acquisition costs	$ 2,550	$ 2,678

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, 2021, the Company had outstanding $9,300 under the Term Facility (the ''Term Loan'') (April 30, 2021 - $9,600). The Revolving Facility was undrawn as of July 31, 2021 and April 30, 2021.

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 current Credit Agreement 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 2.50 : 1.0. On July 31, 2021, the Company was in compliance with all its financial covenants.

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

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

6. Banking facilities and long-term debt (continued):

	July 31, 2021	April 30, 2021
Term loan, secured by hypothec on movable properties	$ 9,300	$ 9,600
Government funded debt, with no interest or security, payable over various instalments	4	16
	$ 9,304	$ 9,616
Current portion	(1,204)	(1,216)
Long-term debt	$ 8,100	$ 8,400

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:

	July 31, 2021	April 30, 2021
Current	$ 827	$ 848
Non-current	8,086	8,295
Total lease obligations	$ 8,913	$ 9,143

The following table presents the contractual undiscounted cash flows for lease obligations as at July 31, 2021:

Less than one year	$ 1,049
One to five years	5,538
More than five years	4,048
Total undiscounted lease obligations	$ 10,635

Interest expense on lease obligations for the three months ended July 31, 2021 was $84 ($93 for the same period of fiscal 2021). Total cash outflow was $315 for the three months ended July 31, 2021 ($346 for the same period of fiscal 2021), including $231 of principal payments on lease obligations ($253 for the same period of fiscal 2021). The expense relating to variable lease payments not included in the measurement of lease obligations was $269 for the three months ended July 31, 2021 ($272 for the same period of fiscal 2021). 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, 2021 was $31 ($131 for the same period of fiscal 2021). Expenses relating to leases of low value assets was $36 for the three months ended July 31, 2021 ($53 for the same period of fiscal 2021). There were no additions on lease obligations during the three months ended July 31, 2021 and July 31, 2020.

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

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 June 29, 2021, the Company declared a dividend of $0.065 per share, paid on August 6, 2021 to shareholders of record on July 16, 2021.

(b) Earnings per share:

The calculation of basic earnings per share is based on the profit 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, 2021	Three months ended July 31, 2020
Profit attributable to common shareholders	$ 244	$ 1,235
Weighted average number of common shares outstanding (basic)	14,505,095	14,416,543
Dilutive impact of assumed exercise of stock options	392,121	222,969
Weighted average number of common shares outstanding (diluted)	14,897,216	14,639,512
Basic earnings per common share	$ 0.02	$ 0.09
Diluted earnings per common share	$ 0.02	$ 0.08

As at July 31, 2021, 172,950 options were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive (161,060 for the comparative period of fiscal 2021).

(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.

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

8. Share capital and Stock option plan (continued):

(b) Stock option plan (continued):

The movement in outstanding stock options for the three months ended July 31, 2021 is as follows:

	Number of options	Weighted average exercise price
Outstanding at April 30, 2021	709,086	$ 18.02
Granted	166,472	40.34
Outstanding at July 31, 2021	875,558	$ 22.27

The following table outlines the outstanding stock options of the Company as at July 31, 2021:

	Fair value per option	Remaining contractual life in years	Number of options currently exercisable	Exercise price	Outstanding options
Granted on September 6, 2018	$ 4.42	2.10	69,731	$ 17.23	128,700
Granted on July 3, 2019	3.28	2.92	192,124	14.29	404,247
Granted on February 28, 2020	4.78	3.58	2,344	18.95	7,500
Granted on July 8, 2020	6.95	3.94	40,031	26.75	160,125
Granted on December 2, 2020	10.74	4.34	814	36.77	6,514
Granted on February 24, 2021	18.79	4.57	125	60.62	2,000
Granted on June 29, 2021	12.66	4.91	-	40.34	166,472

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.

The fair value of options granted on June 29, 2021 were determined using the Black-Scholes option pricing model with the following assumptions:

	June 29, 2021
Exercise share price	$ 40.34
Expected option life (years)	5
Weighted average expected stock price volatility	36.61%
Weighted average dividend yield	0.62%
Weighted average risk-free interest rate	0.97%

For the three months ended July 31, 2021, the Company recognized stock-based compensation expense of $354 ($269 for the same period of fiscal 2021). 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.

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

9. Remaining performance obligation

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

The following table presents revenue expected to be recognized in the future related to SaaS and maintenance and support 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, 2021:

	Remainder of fiscal 2022	Fiscal 2023	Fiscal 2024 and thereafter	Total
SaaS	$ 16,711	$ 20,078	$ 28,208	$ 64,997
Maintenance and support	1,189	699	457	2,345
Total	$ 17,900	$ 20,777	$ 28,665	$ 67,342

10. Cost of revenue:

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020
SaaS, maintenance, support and professional services:		
Gross expenses	$ 14,727	$ 11,725
Amortization of intangible assets	156	157
Reimbursable expenses	123	20
E-business tax credits	(648)	(543)
	14,358	11,359
License and hardware	4,445	3,242
Cost of revenue	$ 18,803	$ 14,601

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

11. Finance costs (income):

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020
Interest expense on bank loans and other	$ 77	$ 183
Interest accretion expense – lease obligations	84	93
Foreign exchange gain	(6)	(228)
Interest income on bank deposits	(40)	(50)
Net finance costs (income)	$ 115	$ (2)

12. 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 July 31, 2021, the Company held four outstanding foreign exchange contracts with various maturities to October 2021 to sell US$5,800 into Canadian dollars at rates averaging CA$1.2361 to yield CA$7,169. As of July 31, 2021, the Company recorded an unrealized exchange loss of $69 included in accounts payable and accrued liabilities representing the change in fair value of these outstanding contracts since inception.

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.

Revenue hedge designated derivative instruments

On July 31, 2021, the Company held sixteen outstanding foreign exchange contracts with various maturities to July 2022 to sell US$29,000 at rates averaging CA$1.2532 to yield CA$36,342. Of the outstanding US$29,000 hedge designated foreign exchange contracts, US$23,000 pertain to highly probable future revenue denominated in U.S. dollars expected over the nine-month period through April 2022 while US$6,000 is related to realized U.S. dollar denominated revenue. On July 31, 2021, the Company had recorded an unrealized exchange gain of $145 included in other receivables representing the change in fair value of these outstanding contracts since inception.

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.

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

12. Derivative instruments and risk management (continued):

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

	Three months ended July 31, 2021	Three months ended July 31, 2020
Accumulated other comprehensive income (loss) on cash flow hedges as at the beginning of period	$ 492	$ 569
Changes in fair value on derivatives designated as cash flow hedges	(307)	1,329
Amounts reclassified from accumulated other comprehensive income to net earnings, and included in:		
Revenue	(110)	(18)
Net finance costs	59	(202)
Accumulated other comprehensive gain from cash flow hedges	$ 134	$ 1,678
Accumulated other comprehensive loss - translation adjustment from foreign operations at the end of period	(299)	400
Total accumulated other comprehensive loss as at the end of period	$ (165)	$ 2,078

13. 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, 2021, key management and their spouses control 22.5% (April 30, 2021 – 22.5%) 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, 2021 and 2020 is as follows:

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020
Salaries	$ 1,059	$ 1,232
Other short-term benefits	82	104
Payment to defined contribution plans	36	48
	$ 1,177	$ 1,384

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 $300 ($500 for the same period of fiscal 2021) to facilitate their purchase of the Company’s common shares during the three months ended July 31, 2021. As of July 31, 2021, loans outstanding amounted to $532 (April 30, 2021 - $401) and are included in other receivables in the Consolidated Statements of Financial Position.

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

14. 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, 2021, substantially all of the Company's property and equipment, goodwill and other intangible assets are located in Canada and Denmark. For Denmark, the property and equipment (including right-of-use assets), goodwill and other intangible assets (including deferred development costs) as at July 31, 2021 were $755, $6,648 and $6,691 respectively (April 30, 2021 – $824, $6,635 and $6,823). For Canada, the amounts were $8,860, $10,783 and $6,640 respectively (April 30, 2021 - $9,103, $10,782 and $6,459). As at July 31, 2021, total assets attributable to Denmark were $18,217 (April 30, 2021 - $19,188). 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, 2021	Three Months Ended July 31, 2020
Canada	$ 6,956	$ 4,765
United States	22,136	18,505
Europe	3,836	4,555
Other	304	266
	$ 33,232	$ 28,091

15. Comparative information:

Certain comparative figures have been reclassified to conform with the basis of presentation used in the current year. The change in the presentation of revenue reflects the Company's shift from perpetual license to SaaS and the growing importance of SaaS revenue to overall revenue. The change also reflects a disaggregation based on license and hardware revenues instead of proprietary and third-party revenues. Management believes that this new presentation will highlight revenue streams that are driving performance and will therefore provide a better understanding of the results of the business.

Following is a description of the reclassified items and amounts included in the condensed interim consolidated statements of income and comprehensive income for the three-months ended July 31, 2020:

(a) The Company's previous presentation of cloud, maintenance and subscription revenue included SaaS and maintenance and support revenue. The Company has reclassified SaaS revenue onto a separate line. The reclassification was for a total of $3,844.

Maintenance and support revenue now includes maintenance and support services, sold with perpetual licenses and hardware maintenance services.

(b) Reimbursable expense revenue and costs were previously presented as separate lines under revenue and costs of revenue, respectively. The company has now reclassified reimbursable expense revenue within professional services revenue and the related costs are included in costs of revenue. The reclassification was for a total of $20. See also note 10.

(c) The Company's previous presentation of proprietary products revenue included both license and proprietary hardware products revenue. The Company has now reclassified proprietary hardware products within hardware revenue for a total of $73.

License revenue now includes proprietary software license and third-party software license revenue.

(d) The Company's previous presentation of third-party products revenue included both third-party hardware products and third-party software license revenue. The Company has now reclassified third-party software license

15. Comparative information (continued):

revenue within license revenue for a total of $146.

Hardware revenue now includes third-party products and proprietary hardware products.

(e) The Company previously has been presenting product costs and services costs separately. The Company now presents product and services costs combined under cost of revenue. See also note 10.

16. Subsequent event:

On August 6, 2021 the Company paid a dividend of $0.065 per share totaling $943. On September 9, 2021, the Company's Board of Directors declared a quarterly dividend of $0.065 per share to be paid on October 8, 2021 to shareholders of record on September 24, 2021.

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