tecsys

3rd Quarter Fiscal 2023 Report

Committed to a Connected World

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management Discussion and Analysis (MD&A) dated March 1, 2023, comments on our operations, financial performance and financial condition as at and for the three and nine-month periods ended January 31, 2023 and January 31, 2022 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of Tecsys Inc. ("Tecsys", the "Company") and Notes thereto, which are included in this document, and the annual report for the year ended April 30, 2022. The Company's third quarter of fiscal year 2023 ended on January 31, 2023.

The Company prepares its unaudited condensed interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements are prepared by and are the responsibility of the Company's Management.

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

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 1, 2023. Additional information about Tecsys Inc., including copies of the continuous disclosure materials such as the annual information form and the management proxy circular, can be obtained from SEDAR at www.sedar.com.

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 report for the year ended April 30, 2022.

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 and geopolitical 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.

Use of non-IFRS Performance Measures

The Company uses certain non-IFRS financial performance measures in its MD&A and other communications which are described in the "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 cloud-based supply chain solutions that equip the borderless enterprise for growth and competitive advantage. 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, order management and fulfillment, 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, automotive and service parts, third-party logistics, converging commerce, as well as industrial and general wholesale high-volume distribution markets. Tecsys is the market leader in North America for supply chain solutions for health systems and hospitals. Tecsys serves a number of marquee brands located in the U.S., Canada, Europe and Australia, and continues to expand its global footprint across its principal markets.

The Company has five principal sources of revenue:

- Software as a service (SaaS) subscription 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;
- Licenses;
- Hardware.

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 and nine months ended January 31, 2023, the Company generated $38.9 million and $111.2 million in total revenue, respectively. The revenue mix for the three months ended January 31, 2023, was: SaaS 25%; maintenance and support 21%; professional services 35%; license 3%; and hardware 16%. The revenue mix for the nine months ended January 31, 2023 was: SaaS 24%; maintenance and support 22%; professional services 37%; license 2%; and hardware 15%.

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 IFRS and Non-IFRS measures as well as 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, 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 unless the customer has cancelled. This portion of the Company's revenue is predictable and stable.

Bookings

Broadly speaking, bookings refer to the total value of accepted contracts. 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.

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, (b) Professional Services Backlog and (c) Remaining Performance Obligation (RPO). The Company enters into SaaS subscription agreements that are typically multi-year performance obligations with original contract terms of three to five years. SaaS RPO 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. Unlike ARR which has a one-year time horizon, SaaS RPO can include multiple years of contracted SaaS subscriptions.

Results of Operations

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

(in thousands of CAD, except earnings per share)	Three months ended January 31,		Nine months ended January 31,	
	2023	**2022**	**2023**	**2022**
Statement of Operations				
Revenue	$ 38,917	$ 35,411	$ 111,232	$ 102,912
Cost of revenue	21,909	20,178	62,787	57,732
Gross profit	17,008	15,233	48,445	45,180
Operating expenses	15,968	13,883	46,267	41,115
Profit from operations	1,040	1,350	2,178	4,065
Net finance (income) costs	(303)	(127)	(334)	116
Profit before income taxes	$ 1,343	$ 1,477	$ 2,512	$ 3,949
Income tax expense	455	537	869	2,057
Net Profit	$ 888	$ 940	$ 1,643	$ 1,892
Adjusted EBITDA[1]	$ 2,774	$ 2,738	$ 7,035	$ 8,400
Basic and diluted earnings per share	$ 0.06	$ 0.06	$ 0.11	$ 0.13
SaaS Remaining Performance Obligation (RPO)[2]			$ 128,313	$ 78,498
Total Annual Recurring Revenue (ARR)[2]			$ 75,361	$ 59,540

Non-IFRS Performance Measures

The terms and definitions of the non-IFRS measures used in this MD&A 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, gain on remeasurement of lease liability and recognition of tax credits generated in prior periods. The exclusion of interest expense, interest income and income taxes eliminates the impact on earnings derived from non-operational activities, and the exclusion of depreciation, amortization, share-based compensation, gain on remeasurement of lease liability and recognition of tax credits generated in prior periods eliminates the non-cash impact of these items.

The Company believes that these measures are useful measures of financial performance without the variation caused by the impacts of the items described above and that could potentially distort the analysis of trends in our operating performance. In addition, they 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. Excluding these items does not imply that they are necessarily non-recurring. Management believes these non-GAAP financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company's operating results, underlying performance and future prospects in a manner similar to management. Although EBITDA and Adjusted EBITDA are frequently used by securities analysts, lenders and others in their evaluation of companies, they have limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under IFRS.

[1] Refer to section below "Non-IFRS Performance Measures" for definition.

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

The reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS measure is provided below.

	Three months ended January 31,		Nine months ended January 31,	
(in thousands of CAD)	**2023**	**2022**	**2023**	**2022**
Profit for the period	$ 888	$ 940	$ 1,643	$ 1,892
Adjustments for:				
Depreciation of property and equipment and right-of-use assets	476	551	1,335	1,647
Amortization of deferred development costs	135	80	351	203
Amortization of other intangible assets	411	408	1,201	1,230
Interest expense	92	138	389	444
Interest income	(221)	(337)	(475)	(417)
Income taxes	455	537	869	2,057
EBITDA	$ 2,236	$ 2,317	$ 5,313	$ 7,056
Adjustments for:				
Stock based compensation	538	421	1,722	1,344
Adjusted EBITDA	$ 2,774	$ 2,738	$ 7,035	$ 8,400

Constant currency

Financial results at constant currency allow results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial results at constant currency are obtained by translating prior period results denominated in U.S. dollars and Danish kroner at the foreign exchange rates of the current period. Current period foreign exchange rates used in the constant currency translation include the impact of designated U.S. dollar revenue hedges.

Revenue

Total revenue for the three and nine months ended January 31, 2023, was $38.9 million and $111.2 million, respectively, an increase of $3.5 million or 10% and $8.3 million or 8%, respectively, compared to the same periods last year. Total revenue excluding hardware for the three and nine months ended January 31, 2023 increased by 12% and 11%, respectively, compared to the same periods last year (10% and 8%, respectively, on a constant currency basis). Revenue is broken down as follows:

	Three months ended January 31,			Nine months ended January 31,		
(in thousands of CAD)	**2023**	**2022**	**Change %**	**2023**	**2022**	**Change %**
SaaS	$ 9,544	$ 7,003	36%	$ 26,343	$ 19,221	37%
Maintenance and support	8,356	8,164	2%	24,722	24,690	0%
Professional services	13,569	12,942	5%	40,739	39,144	4%
License	1,073	915	17%	2,587	2,248	15%
Hardware	6,375	6,387	0%	16,841	17,609	-4%
Total Revenue	$ 38,917	$ 35,411	10%	$ 111,232	$ 102,912	8%
Total Revenue Excluding Hardware	$ 32,542	$ 29,024	12%	$ 94,391	$ 85,303	11%

Approximately 68% of the Company's revenues were generated in U.S. dollars during the third quarter of Fiscal 2023 (2022-64%). The U.S. dollar averaged CA$1.3489 in the third quarter of Fiscal 2023 in comparison to CA$1.2660 in the same period of Fiscal 2022. The increase in the value of the U.S dollar combined with the net impact of the Company's partial hedging of U.S. revenue gave rise to a net favorable foreign currency related revenue variance of $0.9 million in comparison to the third quarter of Fiscal 2022.

Approximately 67% of the Company's revenues were generated in U.S. dollars during the first nine months of Fiscal 2023 (2022-65%). The U.S. dollar averaged CA$1.3224 in the first nine months of Fiscal 2023 in comparison to CA$1.2507 in the same period of Fiscal 2022. The increase in the value of the U.S dollar combined with the net impact of the Company's partial hedging of U.S. revenue gave rise to a net favorable foreign currency related revenue variance of $2.9 million in comparison to the first nine months of Fiscal 2022.

On a constant currency basis, revenue for the three and nine months ended January 31, 2023 grew by approximately 8% and 6%, respectively, compared to the same periods last year.

Total ARR on January 31, 2023, was $75.4 million, up 27% compared to $59.5 million on January 31, 2022. 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 22% during the twelve months ended January 31, 2023. ARR was up 6% sequentially compared to the second quarter of Fiscal 2023 and up 7% on a constant currency basis.

SaaS revenue

The Company generates revenue from proprietary software under a 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 third quarter of Fiscal 2023 was $9.5 million, up 36% or $2.5 million compared to the third quarter of Fiscal 2022 and up $0.7 million sequentially compared to the second quarter of Fiscal 2023. The increases are due to new SaaS revenue from bookings in recent quarters and foreign exchange, net of cancellations impacting the quarter. Foreign exchange positively impacted reported SaaS revenue growth as a significant portion of the Company's SaaS revenue is denominated in U.S. dollars. On a constant currency basis, SaaS revenue in the third quarter of Fiscal 2023 grew by approximately 33% compared to the same period of Fiscal 2022. SaaS revenue for the first nine months of Fiscal 2023 was $26.3 million, up 37% (33% on a constant currency basis) or $7.1 million compared to the same period in Fiscal 2022.

In the third quarter of Fiscal 2023, SaaS subscription bookings (measured on an ARR basis) were $5.8 million, up 152% compared to $2.3 million in the third quarter of Fiscal 2022. In the first nine months of Fiscal 2023, SaaS bookings were $12.5 million, up 68% from $7.5 million in the same period last year. The Company has historically seen some lumpiness in quarterly deal closings, and the Company expects this to continue.

On January 31, 2023, SaaS RPO was $128.3 million, up 63% from $78.5 million at the same time last year. A significant amount of SaaS RPO is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will impact reported SaaS RPO. On a constant currency basis, SaaS RPO increased 58% during the twelve months ended January 31, 2023. SaaS RPO was up 17% sequentially compared to the second quarter of Fiscal 2023 and up 18% 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 and nine months ended January 31, 2023 was $8.4 million and $24.7 million, up 2% and flat, respectively, compared to the same periods of Fiscal 2022. On a constant currency basis, third quarter and nine months ended January 31, 2023 maintenance and support revenue was flat and declined 2%, respectively, compared to same periods of Fiscal 2022. Maintenance and support revenue generally follows the trend of License revenue, and we expect a decline in maintenance and support revenue over time as the business continues to shift to SaaS.

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 and nine months ended January 31, 2023 was $13.6 million and $40.7 million, respectively, up 5% and 4%, respectively compared to $12.9 million and $39.1 million, respectively, in the same periods last year. Foreign exchange positively impacted 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, third quarter and first nine months of Fiscal 2023 professional services revenue was up 2% and 1%, respectively, compared to the same periods of Fiscal 2022. In the third quarter of Fiscal 2023, Professional services bookings were $19.8 million, up 112% compared to $9.3 million in the same period of Fiscal 2022. In the first nine months of Fiscal 2023, Professional services bookings were $44.4 million, up 6% compared to $41.7 million in the same period of Fiscal 2022. Professional services bookings are in part linked to SaaS subscription bookings and license bookings and are subject to timing. We continue to see an uptick on work performed by implementation partners and expect this trend to continue and have a long-term effect of moderating professional services revenue growth.

License revenue

License revenue includes revenue from proprietary software as well as third-party software. In the three months ended January 31, 2023, license revenue amounted to $1.1 million, up 17% from $0.9 million in the same period last year. For the nine months ended January 31, 2023, license revenue was $2.6 million, up 15% from $2.2 million in the same period last year. Perpetual license bookings in the three months and nine months ended January 31, 2023 were $1.1 million and $2.3 million respectively, compared to $0.5 million and $1.9 million in the same periods last year. Solid license bookings in the quarter were the result of growth from existing customers as well as a new customer sale. We expect license revenue to generally decline over time because of the shift to SaaS.

Hardware revenue

Hardware revenue includes third-party hardware products and proprietary technology products. While hardware revenue can tend to be uneven, it is a key component of our market offering and thereby supports our recurring revenue business. Hardware revenue for the three months ended January 31, 2023, was $6.4 million, flat compared to the same period last year. For the nine months ended January 31, 2023, hardware revenue was $16.8 million, down 4% from $17.6 million in the same period last year.

Cost of Revenue and Gross Profit

(in thousands of CAD)	Three months ended January 31, 2023	2022	Change %	Nine months ended January 31, 2023	2022	Change %
Cost of revenue:						
SaaS, maintenance, support and professional services	$ 16,688	$ 14,923	12%	$ 49,344	$ 43,605	13%
License and hardware	5,221	5,255	-1%	13,443	14,127	-5%
Total cost of revenue	**21,909**	**20,178**	**9%**	**62,787**	**57,732**	**9%**
Gross profit & gross profit margin:						
SaaS, maintenance, support and professional services gross profit	$ 14,781	$ 13,186	12%	42,460	39,450	8%
Gross profit margin	47%	47%		46%	47%	
License and hardware gross profit	$ 2,227	$ 2,047	9%	5,985	$ 5,730	4%
Gross profit margin	30%	28%		31%	29%	
Total gross profit	**$ 17,008**	**$ 15,233**	**12%**	**$ 48,445**	**$ 45,180**	**7%**
Total gross profit margin	**44%**	**43%**		**44%**	**44%**	

Total cost of revenue for the third quarter and first nine months of Fiscal 2023, increased to $21.9 million and $62.8 million, respectively, or an increase of 9% compared to the same periods last year. The increase is mainly driven by higher SaaS, maintenance, support and professional services costs.

For the third quarter and first nine months of Fiscal 2023, the cost of SaaS, maintenance, support and professional services increased to $16.7 million and $49.3 million, respectively, up $1.8 million and $5.7 million, respectively, compared to the same periods last year. Cost of SaaS, maintenance, support and professional services increased compared to prior year periods as a result of direct costs associated with higher revenue, including higher employee costs and higher public cloud infrastructure costs. Sequentially from the second quarter of Fiscal 2023, cost of SaaS, maintenance, support and professional services was up 2%. For the third quarter and first nine months of Fiscal 2023, the cost of SaaS, maintenance, support and professional services includes tax credits of $0.9 million and $2.4 million, respectively, compared to $0.7 million and $2.0 million, respectively, for the same periods in Fiscal 2022.

The cost of license and hardware was $5.2 million in the third quarter of Fiscal 2023, a decrease of 1% compared to the same period in Fiscal 2022. The cost of license and hardware decreased to $13.4 million in the first nine months of Fiscal 2023, down $0.7 million or 5% compared to the same period last year, mainly driven by lower hardware revenue.

Gross profit was $17.0 million, up $1.8 million in the third quarter of Fiscal 2023 compared to the same period last year mainly driven by higher gross profit contribution from SaaS, maintenance, support and professional services. In the first nine months of Fiscal 2023 gross profit increased to $48.4 million, up $3.3 million compared to the same period in Fiscal 2022. This is mainly due to higher SaaS, maintenance, support and professional services gross profit contribution.

As a percentage of revenue, total gross profit margin for the three months ended January 31, 2023 was 44% compared to 43% for the same period last year. For the nine months ended January 31, 2023 and 2022, total gross profit margin was 44%.

Combined SaaS, maintenance, support and professional services gross profit margin for the three and nine months ended January 31, 2023 was 47% and 46%, respectively, both compared to 47% for the same periods last year. In the third quarter of Fiscal 2023 compared to the same period last year, a slight improvement on SaaS, maintenance and support margin was offset by a decline in professional services margin.

Operating Expenses

		Three months ended January 31,			Change		Nine months ended January 31,			Change
(in thousands of CAD)		**2023**		**2022**	**%**		**2023**		**2022**	**%**
Sales and marketing expenses	$	7,349	$	6,202	18%	$	20,302	$	17,906	13%
As a percentage of Total Revenue		19%		18%			18%		17%	
General and administration expenses		2,813		2,553	10%		8,619		8,213	5%
As a percentage of Total Revenue		7%		7%			8%		8%	
Research and development expenses, net of tax credits		5,806		5,128	13%		17,346		14,996	16%
As a percentage of Total Revenue		15%		14%			16%		15%	
Total operating expenses	**$**	**15,968**	**$**	**13,883**	**15%**	**$**	**46,267**	**$**	**41,115**	**13%**
As a percentage of Total Revenue		**41%**		**39%**			**42%**		**40%**	

Total operating expenses for the three and nine months ended January 31, 2023 were $16.0 million and $46.3 million, respectively, an increase of $2.1 million and $5.2 million, respectively, compared to the same periods last year. The impact of foreign exchange during the three and nine months ended January 31, 2023 had an unfavorable impact on expenses of $0.7 million and $1.7 million, respectively, when compared to the same periods last year.

Sales and marketing expenses

Sales and marketing expenses for the three and nine months ended January 31, 2023 amounted to $7.3 million and $20.3 million, respectively, an increase of $1.1 million and $2.4 million, respectively, when compared to the same periods of last year. The increase is mainly attributed to higher personnel costs, marketing program costs and travel, representing investments to take advantage of expected market opportunity.

General and administrative expenses

General and administrative expenses for the three and nine months ended January 31, 2023, were $2.8 million, and $8.6 million, respectively, an increase of $0.3 million and $0.4 million, respectively when compared to the same periods of last year. The increase is attributed to higher bad debt expense and stock-based compensation, partially offset by lower professional fees. The higher bad debt expense in the current quarter compared to the same period last year resulted from a recovery recognized in the prior year quarter.

Net R&D expenses

Net R&D expenses for the three and nine months ended January 31, 2023, were $5.8 million and $17.3 million, respectively, an increase of $0.7 million and $2.4 million, respectively, from the same periods last year. The increase was mainly attributable to higher personnel costs resulting from investment in the second half of last fiscal year and lower net deferred development costs, partially offset by higher tax credits.

For the three and nine months ended January 31, 2023, the Company deferred development costs of $0.1 million and $0.6 million, respectively, compared to $0.2 million and $0.9 million, respectively, in the same periods last year. The Company amortized deferred development costs and other intangible assets of $0.1 million in the third quarter of Fiscal 2023 and Fiscal 2022. Amortized development costs and other intangible assets during the nine months ended January 31, 2023 was $0.4 million in comparison to $0.2 million for the same period in the prior fiscal year.

The Company recorded R&D tax credits and e-business tax credits of $1.1 million for the third quarter of Fiscal 2023 compared to $0.6 million for the same period in Fiscal 2022. The third quarter of Fiscal 2023 benefited from the recognition of $0.4 million true-ups of R&D tax credits and e-business tax credits.

For the nine months ended January 31, 2023, the Company recorded R&D tax credits and e-business tax credits of $2.5 million compared to $1.8 million for the same period in Fiscal 2022.

Net Finance (Income) Costs and Income Tax Expense

	Three months ended January 31,		Change	Nine months ended January 31,		Change
(in thousands of CAD)	**2023**	**2022**	**%**	**2023**	**2022**	**%**
Net Finance (Income) Costs	$ (303)	$ (127)	139%	$ (334)	$ 116	-388%
Income Tax Expense	455	537	-15%	869	2,057	-58%
Income Tax Expense as a percentage of profit before income taxes	34%	36%		35%	52%	

Net finance income for the three months ended January 31, 2023 was $0.3 million, compared to $0.1 million in the same period last year. For the first nine months of Fiscal 2023, net finance income was $0.3 million, compared to net finance costs of $0.1 million in the same period last year. Interest income for the three and nine months ended January 31, 2022 included a $0.3 refund of interest related to the payment of an acquired tax liability. Refer to Note 11 of the Condensed Interim Consolidated Financial Statements. Net finance income and costs consist primarily of interest expense on long term debt and lease obligations as well as interest income and foreign exchange.

Income tax expense for the three and nine months ended January 31, 2023 were $0.5 million and $0.9 million, respectively, compared to $0.5 million and $2.1 million, respectively, for the same periods last year. The decrease in income tax expense in the nine-month period was due primarily to a lower consolidated effective tax rate resulting from the amalgamation of certain entities in the group as well as lower pre-tax income. The amalgamation was completed effective May 1, 2022.

Net Profit

(in thousands of CAD)	Three months ended January 31, 2023	2022	Change %	Nine months ended January 31, 2023	2022	Change %
Net Profit	$ 888	$ 940	-6%	$ 1,643	$ 1,892	-13%
Adjusted EBITDA	$ 2,774	$ 2,738	1%	$ 7,035	$ 8,400	-16%
Basic and diluted earnings per share	0.06	0.06		0.11	0.13	

Profit, Adjusted EBITDA and earnings per share were all negatively impacted by investment in delivery capacity, sales and marketing and research and development, primarily in the second half of last fiscal year. Approximately 67% of the Company's revenue in the first nine months of Fiscal 2023 is denominated in US dollars while a significant majority of the Company's costs are denominated in Canadian dollars. As such, foreign exchange movements can have a material impact on reported Profit, Adjusted EBITDA and earnings per share. During the third quarter and first nine months of fiscal 2023, favorable foreign exchange movements had a positive impact on Profit and Adjusted EBITDA of approximately $0.2 million and $1.2 million, respectively, compared to the same periods in Fiscal 2022.

Quarterly Selected Financial Data

The following table summarizes selected results for the eight most recently completed quarters to January 31, 2023:

(in thousands of CAD, except earnings per share)	FY 2023 Q3	Q2	Q1	FY 2022 Q4	Q3	Q2	Q1	FY 2021 Q4
Total revenue	$ 38,917	$ 38,111	$ 34,204	$ 34,288	$ 35,411	$ 34,269	$ 33,232	$ 32,374
Profit	888	715	40	2,586	940	708	244	2,020
Comprehensive income (loss)	3,998	(796)	(110)	2,159	317	489	(147)	1,088
Adjusted EBITDA[3]	2,774	2,777	1,484	1,730	2,738	3,206	2,456	3,917
Basic earnings per common share	0.06	0.05	0.00	0.18	0.06	0.05	0.02	0.14
Diluted earnings per common share	0.06	0.05	0.00	0.17	0.06	0.05	0.02	0.14

Total quarterly revenue excluding hardware has generally trended upward over the past eight quarters, primarily due to an increase in revenue from SaaS. During Fiscal 2022, the impact of foreign exchange, lower license revenue as well as additional investment in delivery capacity, sales and marketing and research and development moderated Profit and Adjusted EBITDA. Profit in the fourth quarter of Fiscal 2022 included the recognition of approximately $1.9 million net deferred tax assets, $0.6 million gain on remeasurement of lease liability and $0.6 million recognition of tax credits generated in prior periods.

[3] Refer to section below "Non-IFRS Performance Measures" for definition.

Liquidity and Capital Resources

On January 31, 2023, current assets totaled $74.2 million compared to $74.4 million at the end of Fiscal 2022. Cash and cash equivalents combined with short-term investments decreased $15.3 million to $27.9 million compared to $43.2 million at the end of Fiscal 2022. The decrease results primarily from repayment of long term debt, payment of dividends and cash used in operating activities.

Accounts receivable and work in progress totaled $26.0 million on January 31, 2023, an increase of $7.5 million compared to $18.5 million as of April 30, 2022. The increase is mainly attributed to higher revenue and timing of cash collections. The Company's Days Sales Outstanding (DSO) stood at 60 days at the end of January 31, 2023 compared to 49 days at April 30, 2022 and 58 days at January 31, 2022. DSO is a measure of the average number of days that a company takes to collect revenue after a sale. 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 January 31, 2023, totaled $49.5 million compared to $43.5 million at the end of Fiscal 2022. The increase is mainly due to an increase in deferred revenue and accounts payables partially offset by a reduction in current portion of long-term debt resulting from the repayment during the quarter ended January 31, 2023.

Cash from Operating Activities

Operating activities used $4.8 million of cash in the third quarter of Fiscal 2023 in comparison to $0.9 million generated in the third quarter of fiscal 2022. Operating activities used $2.7 million of cash in the first nine months of Fiscal 2023 in comparison to using $3.5 million of cash in the same period of Fiscal 2022.

Cash from operating activities excluding changes in non-cash working capital items decreased by $1.3 million to $1.2 million in the third quarter of Fiscal 2023 compared to the same period of Fiscal 2022. Changes in non-cash working capital items used $5.9 million in the third quarter of Fiscal 2023. This was the result of increased accounts receivable due to timing of billing and collections, increased tax credits (which typically have annual cash reimbursement in the fourth quarter), increased prepaids and decreased deferred revenue all partially offset by increased accounts payable and accrued liabilities.

For the first nine months of Fiscal 2023, cash from operating activities excluding changes in non-cash working capital items decreased by $3.1 million to $5.1 million compared to the same period of Fiscal 2022. Changes in non-cash working capital items used $7.8 million in the first nine months of Fiscal 2023 compared to $11.7 million in the same period last year.

Financing Activities

Cash used in financing activities was $4.1 million for the third quarter of Fiscal 2023 in comparison to $1.3 million for the same period in Fiscal 2022. In the third quarter of Fiscal 2023, the Company used $7.8 million of cash, including $5.0 million from short-term investments, to repay its long-term debt. The remaining cash outflow for financing activities in the quarter related primarily to payment of dividends.

Cash flows used in financing activities was $7.4 million for the first nine months of Fiscal 2023, driven primarily by payments on long term debt and dividends. In the first nine months of Fiscal 2022, cash flow used in financing activities was $3.6 million, driven primarily by payments of dividends and long-term debt partially offset by proceeds from the issuance of shares on the exercise of stock options.

Investing Activities

During the third quarter of Fiscal 2023, investing activities used funds of $0.3 million compared to $0.8 million in the same period in Fiscal 2022. The Company used funds of $0.3 million for the acquisition of property and equipment in the third quarter of Fiscal 2023 compared to $0.1 million in the same period in Fiscal 2022. In the third quarter of Fiscal 2022, the Company made a final payment of $0.5 million related to a prior business acquisition. In the third quarter of Fiscal 2023, the Company invested in its proprietary products with the capitalization of $0.1 million reflected as deferred development costs compared to $0.2 million for the same period in Fiscal 2022.

During the first nine months of Fiscal 2023 investing activities used funds of $0.7 million compared to $1.9 million for the same period in Fiscal 2022.

The Company believes that funds on hand at January 31, 2023 together with cash flows from operations, and its accessibility to the operating line of credit will be sufficient to meet its needs for working capital, R&D, capital expenditures and dividend policy, as well as to invest in long-term growth.

Related Party Transactions

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 $0.4 million during the nine months ended January 31, 2023 ($0.3 million for the same period last year) to facilitate their purchase of the Company's common shares. As of January 31, 2023, loans outstanding amounted to $0.3 million (April 30, 2022 - $0.2 million).

Subsequent Events

On March 1, 2023, the Company's Board of Directors declared a quarterly dividend of $0.075 per share to be paid on April 13, 2023 to shareholders of record on March 23, 2023.

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 the industry may adjust quickly to exercise caution on capital spending. This uncertainty may impact the Company's revenue.

Based on ARR of $75.4 million and Professional services backlog of $38.2 million, the Company's management believes that total services revenue (including SaaS, maintenance and support and professional services revenue) ranging between $32.5 million and $33.5 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.

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 65% 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.

Outstanding Share Data

As at January 31, 2023, the Company had 14,569,949 common shares outstanding.

Critical Accounting Policies and Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results.

The preparation of the unaudited 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, 2022.

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 January 31, 2023 and have not been applied in preparing these condensed interim consolidated financial statements. The following amendments are currently being assessed by the Company:

Standard	Issue date	Effective date for the Company	Impact
IAS 1, Presentation of Financial Statements	January 2020, July 2020 and February 2021	May 1, 2023	In assessment
IAS 8, Definition of Accounting Estimates	February 2021	May 1, 2023	In assessment
IAS 12, Income Taxes	May 2021	May 1, 2023	In assessment

Refer to the Company's annual consolidated financial statements for Fiscal 2022 for a discussion of new standards and interpretations not yet adopted.

Controls & Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of January 31, 2023.

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 unaudited condensed interim 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-month period ending on January 31, 2023, that have materially affected or are reasonably likely to materially affect internal controls over financial reporting.

Supplemental Information

Reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS measure

	FY 2023			FY 2022				FY 2021
(in thousands of CAD)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Profit for the period	$ 888	$ 715	$ 40	$ 2,586	$ 940	$ 708	$ 244	$ 2,020
Adjustments for:								
Depreciation of property and equipment and right-of-use assets	476	429	430	515	551	553	543	567
Amortization of deferred development costs	135	114	102	87	80	69	54	60
Amortization of other intangible assets	411	394	396	382	408	411	411	404
Interest expense	92	178	119	178	138	145	161	158
Interest income	(221)	(150)	(104)	(57)	(337)	(40)	(40)	(18)
Income taxes	455	389	25	(1,111)	537	791	729	516
EBITDA	2,236	2,069	1,008	2,580	2,317	2,637	2,102	3,707
Adjustments for:								
Stock based compensation	538	708	476	340	421	569	354	210
Gain on remeasurement of lease liability	-	-	-	(573)	-	-	-	-
Recognition of tax credits generated in prior periods	-	-	-	(617)	-	-	-	-
Adjusted EBITDA	$ 2,774	$ 2,777	$ 1,484	$ 1,730	$ 2,738	$ 3,206	$ 2,456	$ 3,917

Condensed Interim Consolidated Financial Statements

(Unaudited)

TECSYS INC.

For the three and nine-month periods ended January 31, 2023 and 2022

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE-MONTH PERIODS ENDED JANUARY 31, 2023 and 2022

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 1st day of March 2023.

Tecsys Inc.

Condensed Interim Consolidated Statements of Financial Position

As at January 31, 2023 and April 30, 2022 (Unaudited)
(In thousands of Canadian dollars)

	Note	January 31, 2023	April 30, 2022
Assets			
Current assets			
Cash and cash equivalents		$ 12,201	$ 23,004
Short-term investments	3	15,651	20,239
Accounts receivable		24,001	16,962
Work in progress		1,950	1,579
Other receivables		1,404	234
Tax credits		9,793	5,224
Inventory		1,309	806
Prepaid expenses		7,874	6,392
Total current assets		74,183	74,440
Non-current assets			
Other long-term receivables		182	192
Tax credits		4,233	3,782
Property and equipment		1,750	2,064
Right-of-use assets	4	4,295	4,547
Contract acquisition costs	5	3,895	3,177
Deferred development costs		2,116	1,870
Other intangible assets		9,549	10,301
Goodwill		17,304	16,863
Deferred tax assets		8,617	8,608
Total non-current assets		51,941	51,404
Total assets		$ 126,124	$ 125,844
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 19,566	$ 16,971
Deferred revenue		29,197	24,689
Current portion of long-term debt	6	-	1,200
Lease obligations	7	728	662
Total current liabilities		49,491	43,522
Non-current liabilities			
Long-term debt	6	-	7,200
Deferred tax liabilities		1,350	1,258
Lease obligations	7	4,805	5,181
Total non-current liabilities		6,155	13,639
Total liabilities		$ 55,646	$ 57,161
Equity			
Share capital	8	$ 44,112	$ 43,973
Contributed surplus		14,871	13,176
Retained earnings		11,480	12,968
Accumulated other comprehensive income (loss)	12	15	(1,434)
Total equity attributable to the owners of the Company		70,478	68,683
Total liabilities and equity		$ 126,124	$ 125,844

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Tecsys Inc.

Condensed Interim Consolidated Statements of Income and Comprehensive Income

For the three and nine-month periods ended January 31, 2023 and 2022

(Unaudited)

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

	Note	Three Months Ended January 31, 2023	Three Months Ended January 31, 2022	Nine Months Ended January 31, 2023	Nine Months Ended January 31, 2022
Revenue:					
SaaS		$ 9,544	$ 7,003	$ 26,343	$ 19,221
Maintenance and Support		8,356	8,164	24,722	24,690
Professional Services		13,569	12,942	40,739	39,144
License		1,073	915	2,587	2,248
Hardware		6,375	6,387	16,841	17,609
Total revenue		**38,917**	**35,411**	**111,232**	**102,912**
Cost of revenue	10	**21,909**	**20,178**	**62,787**	**57,732**
Gross profit		**17,008**	**15,233**	**48,445**	**45,180**
Operating expenses:					
Sales and marketing		7,349	6,202	20,302	17,906
General and administration		2,813	2,553	8,619	8,213
Research and development, net of tax credits		5,806	5,128	17,346	14,996
Total operating expenses		15,968	13,883	46,267	41,115
Profit from operations		**1,040**	**1,350**	**2,178**	**4,065**
Net finance (income) costs	11	(303)	(127)	(334)	116
Profit before income taxes		**1,343**	**1,477**	**2,512**	**3,949**
Income tax expense		455	537	869	2,057
Net profit		**$ 888**	**$ 940**	**$ 1,643**	**$ 1,892**
Other comprehensive income (loss):					
Effective portion of changes in fair value on designated revenue hedges	12	2,368	(516)	515	(641)
Exchange differences on translation of foreign operations	12	742	(107)	934	(592)
Comprehensive income		**$ 3,998**	**$ 317**	**$ 3,092**	**$ 659**
Basic and diluted earnings per common share	8	**$ 0.06**	**$ 0.06**	**$ 0.11**	**$ 0.13**

See accompanying notes to the unaudited condensed interim consolidated financial statements

Tecsys Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three and nine-month periods ended January 31, 2023 and 2022
(Unaudited)
(In thousands of Canadian dollars)

	Note	Three Months Ended January 31, 2023	Three Months Ended January 31, 2022	Nine Months Ended January 31, 2023	Nine Months Ended January 31, 2022
Cash flows from operating activities:					
Net profit		$ 888	$ 940	$ 1,643	$ 1,892
Adjustments for:					
Depreciation of property and equipment and right-of-use-assets		476	551	1,335	1,647
Amortization of deferred development costs		135	80	351	203
Amortization of other intangible assets		411	408	1,201	1,230
Interest expense (income) and foreign exchange (gain) loss	11	(303)	(127)	(334)	116
Unrealized foreign exchange and other		(273)	292	418	1,220
Non-refundable tax credits		(806)	(608)	(1,666)	(1,340)
Stock-based compensation	8	538	421	1,722	1,344
Income taxes		100	484	430	1,857
Net cash from operating activities excluding changes in non-cash working capital items related to operations		1,166	2,441	5,100	8,169
Accounts receivable		(2,480)	(1,920)	(6,870)	(4,635)
Work in progress		(288)	606	(359)	(1,216)
Other receivables		9	67	(221)	139
Tax credits		(1,224)	(809)	(3,353)	(2,630)
Inventory		(351)	(263)	(494)	(328)
Prepaid expenses		(1,291)	(924)	(1,473)	(1,832)
Contract acquisition costs		(388)	(12)	(718)	(110)
Accounts payable and accrued liabilities		1,283	2,269	1,202	(2,414)
Deferred revenue		(1,198)	(593)	4,455	1,348
Changes in non-cash working capital items related to operations		(5,928)	(1,579)	(7,831)	(11,678)
Net cash (used in) provided by operating activities		**(4,762)**	**862**	**(2,731)**	**(3,509)**
Cash flows from financing activities:					
Repayment of long-term debt	3, 6	(7,800)	(300)	(8,400)	(916)
Transfers from short-term investments	3, 6	5,000	-	5,000	-
Payment of lease obligations	7	(148)	(179)	(570)	(634)
Payment of dividends		(1,093)	(1,018)	(3,131)	(2,907)
Refund of acquired tax liability	11	-	299	-	299
Interest paid		(92)	(138)	(389)	(444)
Issuance of common shares on exercise of stock options		15	-	112	1,020
Net cash used in financing activities		**(4,118)**	**(1,336)**	**(7,378)**	**(3,582)**
Cash flows from investing activities:					
Interest received	11	221	38	475	118
Payments related to prior business acquisitions	15	-	(500)	-	(500)
Acquisitions of property and equipment		(279)	(85)	(510)	(619)
Acquisitions of other intangible assets		(62)	(7)	(62)	(29)
Deferred development costs		(130)	(229)	(597)	(910)
Net cash used in investing activities		**(250)**	**(783)**	**(694)**	**(1,940)**
Net decrease in cash and cash equivalents during the period		(9,130)	(1,257)	(10,803)	(9,031)
Cash and cash equivalents - beginning of period		21,331	17,978	23,004	25,752
Cash and cash equivalents - end of period		**$ 12,201**	**$ 16,721**	**$ 12,201**	**$ 16,721**

See accompanying notes to the unaudited condensed interim consolidated financial statements

Tecsys Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the nine-month periods ended January 31, 2023 and 2022

(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, May 1, 2022		**14,562,895**	**$ 43,973**	**$ 13,176**	**$ (1,434)**	**$ 12,968**	**$ 68,683**
Net profit		-	-	-	-	1,643	1,643
Other comprehensive income:							
Effective portion of changes in fair value on designated revenue hedges	12	-	-	-	515	-	515
Exchange difference on translation of foreign operations		-	-	-	934	-	934
Total comprehensive income		**-**	**-**	**-**	**1,449**	**1,643**	**3,092**
Stock-based Compensation	8	-	-	1,722	-	-	1,722
Dividends to equity owners	8	-	-	-	-	(3,131)	(3,131)
Share options exercised	8	7,054	139	(27)	-	-	112
Total transactions with owners of the Company		**7,054**	**139**	**1,695**	**-**	**(3,131)**	**(1,297)**
Balance, January 31, 2023		**14,569,949**	**$ 44,112**	**$ 14,871**	**$ 15**	**$ 11,480**	**$ 70,478**
Balance, May 1, 2021		**14,505,095**	**$ 42,700**	**$ 11,745**	**$ 226**	**$ 12,419**	**$ 67,090**
Net profit		-	-	-	-	1,892	1,892
Other comprehensive income:							
Effective portion of changes in fair value on designated revenue hedges		-	-	-	(641)	-	(641)
Exchange difference on translation of foreign operations		-	-	-	(592)	-	(592)
Total comprehensive (loss) income		**-**	**-**	**-**	**(1,233)**	**1,892**	**659**
Stock-based Compensation	8	-	-	1,344	-	-	1,344
Dividends to equity owners		-	-	-	-	(2,907)	(2,907)
Share options exercised	8	57,800	1,273	(253)	-	-	1,020
Total transactions with owners of the Company		**57,800**	**$ 1,273**	**$ 1,091**	**$ -**	**(2,907)**	**$ (543)**
Balance, January 31, 2022		**14,562,895**	**$ 43,973**	**$ 12,836**	**$ (1,007)**	**$ 11,404**	**$ 67,206**

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 most 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, 2022.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 1, 2023.

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, 2022.

(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.

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

2. Basis of preparation (continued):

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 January 31, 2023 and have not been applied in preparing these condensed interim consolidated financial statements. The following amendments are currently being assessed by the Company:

Standard	Issue date	Effective date for the Company	Impact
IAS 1, Presentation of Financial Statements	January 2020, July 2020 and February 2021	May 1, 2023	In assessment
IAS 8, Definition of Accounting Estimates	February 2021	May 1, 2023	In assessment
IAS 12, Income Taxes	May 2021	May 1, 2023	In assessment

Refer to the Company's annual consolidated financial statements for Fiscal 2022 for a discussion of new standards and interpretation not yet adopted.

3. Short-term investments:

	Nine-Months Ended January 31, 2023	Twelve Months Ended April 30, 2022
Balance, beginning of period	$ 20,239	$ 20,100
Withdrawals to repay long-term debt (note 6)	(5,000)	-
Interest on short-term investments	412	139
Balance, end of period	**$ 15,651**	**$ 20,239**

Short-term investment consists of Guaranteed Investment Certificate (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, 2022	$ 4,474	$ -	$ 73	$ 4,547
Depreciation	(425)	(47)	(39)	(511)
Additions	-	217	-	217
Effect of foreign currency exchange differences	29	12	1	42
Balance, January 31, 2023	**$ 4,078**	**$ 182**	**$ 35**	**$ 4,295**

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

5. Contract acquisition costs:

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

	Nine-Months Ended January 31, 2023	Twelve Months Ended April 30, 2022
Balance, beginning of the period	$ 4,891	$ 4,202
Additions	2,262	2,482
Amortization	(1,521)	(1,793)
Balance, end of period	**$ 5,632**	**$ 4,891**

Presented as:

	January 31, 2023	April 30, 2022
Current	$ 1,737	$ 1,714
Non-current	$ 3,895	$ 3,177

The current portion of contract acquisition costs is included in Prepaid expenses in the unaudited condensed interim consolidated statements of financial position. Amortization of contract acquisition costs is recorded in sales and marketing expense.

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. The Company may repay outstanding amounts under the Credit Agreement at any time. 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 Term Facility and Revolving facility is secured by a hypothec on movable properties.

The Company repaid the outstanding balance of the term facility on December 30, 2022. As a result, at January 31, 2023 the Company had no outstanding balance under the Term Facility (the ''Term Loan'') (April 30, 2022 - $8,400). The Revolving Facility was undrawn as of January 31, 2023 and April 30, 2022.

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

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:

	January 31, 2023	April 30, 2022
Current	$ 728	$ 662
Non-Current	4,805	5,181
	$ 5,533	**$ 5,843**

The following table presents the contractual undiscounted cash flows for lease obligations as at January 31, 2023:

Less than one year	$ 847
One to five years	4,125
More than five years	1,373
Total undiscounted lease obligations	**$ 6,345**

Interest expense on lease obligations for the three and nine months ended January 31, 2023 was $50 and $157 ($77 and $243 for the same periods of fiscal 2022). Total cash outflow was $198 and $727 for the three months and nine months ended January 31, 2023 ($256 and $887 for the same periods of fiscal 2022), including $148 and $570 of principal payments on lease obligations ($179 and $634 for the same periods of fiscal 2022). The expense relating to variable lease payments not included in the measurement of lease obligations was $140 and $679 for the three and nine months ended January 31, 2023 ($201 and $734 for the same periods of fiscal 2022). 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 and nine months ended January 31, 2023 was $4 and $11 ($19 and $79 for the same periods of fiscal 2022). Expenses relating to leases of low value assets was $56 and $165 for the three and nine months ended January 31, 2023 ($49 and $128 for the same periods of fiscal 2022). Additions on lease obligations during the three and nine months ended January 31, 2023 were $nil and $217 respectively ($nil for the same periods of fiscal 2022).

(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, 2022, the Company's Board of Directors declared a quarterly dividend of $0.07 per share, paid on August 5, 2022 to shareholders of record on July 15, 2022.

On September 8, 2022, the Company declared a dividend of $0.07 per share, paid on October 7, 2022 to shareholders of record on September 23, 2022.

On November 30, 2022, the Company declared a dividend of $ 0.075 per share, paid on January 9, 2023 to shareholders of record on December 15, 2022.

(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 January 31,		Nine Months Ended January 31,	
	2023	2022	2023	2022
Net profit, attributable to common shareholders	$ 888	$ 940	$ 1,643	$ 1,892
Weighted average number of common shares outstanding (basic)	14,568,894	14,562,895	14,566,777	14,527,169
Diluted impact of stock options	224,782	401,222	254,162	394,348
Weighted average number of common shares outstanding (diluted)	14,793,676	14,964,117	14,820,939	14,921,517
Basic and diluted earnings per common share	$ 0.06	$ 0.06	$ 0.11	$ 0.13

As at January 31, 2023, 378,293 options were excluded from the three and nine months weighted average number of diluted common shares as their effect would have been anti-dilutive (2,000 for the comparative periods of fiscal 2022).

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

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

(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 nine months ended January 31, 2023 is as follows:

	Number of options		Weighted average exercise price
Outstanding at April 30, 2022	806,666	$	22.64
Granted	214,846		34.81
Exercised	(7,054)		15.95
Forfeited	(12,604)		32.56
Outstanding at January 31, 2023	**1,001,854**	**$**	**25.17**

The following table outlines the outstanding stock options of the Company as at January 31, 2023:

		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	0.59	108,900	$	17.23	108,900
Granted on July 3, 2019		3.28	1.42	305,350		14.29	363,678
Granted on February 28, 2020		4.78	2.07	5,156		18.95	7,500
Granted on July 8, 2020		6.95	2.43	83,085		26.75	143,483
Granted on December 2, 2020		10.74	2.84	3,258		36.77	6,514
Granted on February 24, 2021		18.79	3.07	875		60.62	2,000
Granted on June 29, 2021		12.66	3.41	56,850		40.34	160,895
Granted on June 29, 2022		12.90	4.41	20,457		34.91	205,384
Granted on September 26, 2022		10.80	4.65	219		28.55	3,500

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)

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

The fair value of options granted on June 29, 2022 and September 26, 2022 were determined using the Black-Scholes option pricing model with the following assumptions:

	Fiscal 2023		Fiscal 2022
	June 29, 2022	September 26, 2022	June 29, 2021
Exercise share price	$ 34.91	$ 28.55	$ 40.34
Expected option life (years)	5	5	5
Weighted average expected stock price volatility	39.67%	41.53%	36.61%
Weighted average dividend yield	0.77%	0.96%	0.62%
Weighted average risk-free interest rate	3.26%	3.39%	0.97%

For the three and nine months ended January 31, 2023, the Company recognized stock-based compensation expense of $538 and $1,722 ($421 and $1,344 for the same periods of fiscal 2022). 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. 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 January 31, 2023:

	Remainder of fiscal 2023	Fiscal 2024	Fiscal 2025 and thereafter	Total
SaaS	$ 10,275	38,277	79,761	128,313
Maintenance and support	480	1,146	357	1,983
	$ 10,755	**39,423**	**80,118**	**130,296**

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

10. Cost of revenue:

	Three Months ended January 31, 2023	Three Months ended January 31, 2022	Nine Months ended January 31, 2023	Nine Months ended January 31, 2022
SaaS, maintenance, support, and professional services:				
Gross expenses	$ 16,786	$ 15,201	$ 49,930	$ 44,477
Amortization of intangible assets	178	202	523	605
Reimbursable expenses	577	235	1,269	521
E-business tax credits	(853)	(715)	(2,378)	(1,998)
	$ 16,688	$ 14,923	$ 49,344	$ 43,605
License and hardware	5,221	5,255	13,443	14,127
	$ 21,909	**$ 20,178**	**$ 62,787**	**$ 57,732**

11. Net finance (income) costs:

	Three Months ended January 31, 2023	Three Months ended January 31, 2022	Nine Months ended January 31, 2023	Nine Months ended January 31, 2022
Interest expense on bank loans and other	$ 42	$ 61	$ 232	$ 201
Interest accretion expense – lease obligations	50	77	157	243
Foreign exchange (gain) loss	(174)	72	(248)	89
Interest income	(221)	(337)	(475)	(417)
	$ (303)	**$ (127)**	**$ (334)**	**$ 116**

Interest income for January 31, 2022 includes a $299 refund of interest related to the settlement of the acquired tax liability (“CRA Liability”), which was part of the total consideration to acquire OrderDynamics Corporation.

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 January 31, 2023, the Company held four outstanding foreign exchange contracts with various maturities to May 2023, to sell US$4,950 into Canadian dollars at the exchange rate of CA$1.3419 to yield CA$6,643. As of January 31, 2023, the Company recorded an unrealized exchange gain of $57 included in other receivables and an unrealized loss of $3 included in the accounts payable and accrued liabilities, representing the change in fair value of these outstanding contracts since inception and their initial measurement.

On January 31, 2022, the Company held three outstanding foreign exchange contracts with various maturities to April 2022 to sell US$2,700 into Canadian dollars at rates averaging CA$1.2578 to yield CA$3,396. As of January 31, 2022, the Company recorded an unrealized exchange loss of $38 included in accounts payable and accrued liabilities and an unrealized gain of $2 included in other receivables, representing the change in fair value of these outstanding contracts since inception and their initial measurement.

Revenue hedge designated derivative instruments

On January 31, 2023, the Company held forty-six outstanding foreign exchange contracts with various maturities to July 2024 to sell US$70,000 at rates averaging CA$1.3227 to yield CA$92,590. Of the outstanding US$70,000 hedge designated foreign exchange contracts, US$58,000 pertain to highly probable future revenue denominated in U.S. dollars expected over the fifteen-month period through April 2024 while US$12,000 relates to realized U.S. dollar denominated revenue. On January 31, 2023, the Company had recorded an unrealized loss of $1,146 included in accounts payables and accrued liabilities and an unrealized gain of $877 included in other receivables representing the change in fair value of these outstanding contracts since inception and their initial measurement.

On January 31, 2022, the Company held twenty-two outstanding foreign exchange contracts with various maturities to December 2022 to sell US$35,250 at rates averaging CA$1.2644 to yield CA$44,571. Of the outstanding US$32,250 hedge designated foreign exchange contracts, US$24,000 pertained to highly probable future revenue denominated in U.S. dollars expected over the nine-month period through October 2022 while US$11,250 related to realized U.S. dollar denominated revenue. On January 31, 2022, the Company had recorded an unrealized exchange loss of $261 included in accounts payable and accrued liabilities representing the change in fair value of these outstanding contracts since inception and their initial measurement.

(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) since the designation of hedging derivative instruments.

	Three Months ended January 31,		Nine Months ended January 31,	
	2023	**2022**	**2023**	**2022**
Accumulated other comprehensive (loss) income on cash flow hedges as at the beginning of period	$ (2,054)	$ 367	$ (201)	$ 492
Net gain (loss) on derivatives designated as cash flow hedges	1,725	(838)	(1,620)	(781)
Amounts reclassified from accumulated other comprehensive income to net earnings, and included in:				
Revenue	824	104	1,779	(32)
Net finance costs	(181)	218	356	172
Accumulated other comprehensive gain (loss) from cash flow hedges	$ 314	$ (149)	$ 314	$ (149)
Accumulated other comprehensive loss-translation adjustment from foreign operations at the end of period	(299)	(858)	(299)	(858)
Total accumulated other comprehensive gain (loss) as at the end of period	**$ 15**	**$ (1,007)**	**$ 15**	**$ (1,007)**

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 January 31, 2023, key management and their spouses control 19.9% (April 30, 2022 – 21.6%) of the issued common shares of the Company.

The compensation paid or payable to key management for employee services during the three- and nine-month periods ended January 31, 2023 and 2022 is as follows:

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

13. Related party transactions (continued):

	Three Months ended January 31, 2023	Three Months ended January 31, 2022	Nine Months ended January 31, 2023	Nine Months ended January 31, 2022
Salaries	$ 1,336	$ 1,435	$ 3,692	$ 4,065
Other short-term benefits	51	90	165	258
Payment to defined contribution plans	36	29	93	100
	$ 1,423	**$ 1,554**	**$ 3,950**	**$ 4,423**

Under the provisions of the share purchase plan for key management and other management employees, during the three months ended January 31, 2023 and 2022 the Company did not provide interest-free loans to key management and other management employees. During the nine months ended January 31, 2023 the Company provided interest-free loans to key management and other management employees of $416 ($300 for the same period of fiscal 2022) to facilitate their purchase of the Company's common shares during the nine months ended January 31, 2023. As of January 31, 2023, loans outstanding amounted to $275 (April 30, 2022 - $241) and are included in other receivables and other long-term receivables in the unaudited condensed interim consolidated statements of financial position.

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 January 31, 2023, 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 January 31, 2023 were $636, $6,522 and $5,707, respectively (April 30, 2022 – $540, $6,081 and $5,720). For Canada, the amounts were $5,409, $10,782 and $5,958, respectively (April 30, 2022 - $6,071, $10,782 and $6,451). As at January 31, 2023, total assets attributable to Denmark were $16,885 (April 30, 2022 - $15,300). 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 January 31, 2023	Three Months ended January 31, 2022	Nine Months ended January 31, 2023	Nine Months ended January 31, 2022
Canada	$ 7,073	$ 7,138	$ 20,553	$ 21,748
United States	26,332	22,663	74,976	66,940
Europe	5,094	4,799	13,716	12,915
Other	418	811	1,987	1,309
	$ 38,917	$ 35,411	$ 111,232	$ 102,912

15. Payments related to prior business acquisition:

As at April 30, 2021, other current liabilities included $500 indemnification holdback associated with the acquisition of OrderDynamics Corporation. During the third quarter of fiscal 2022, the Company made the final payment of $500 to the vendors.

16. Subsequent event:

March 1, 2023, the Company's Board of Directors declared a quarterly dividend of $0.075 per share to be paid on April 13, 2023 to shareholders of record on March 23, 2023.

Tecsys Inc.
1 Place Alexis Nihon
Suite 800
Montreal, Quebec H3Z 3B8
Canada
Tel: (800) 922-8649
(514) 866-0001
Fax: (514) 866-1805

www.tecsys.com