TECSYS®

1st QUARTER
FISCAL 2019 **REPORT**

Transforming Supply Chains for Value Creation

TECSYS Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations dated September 6, 2018

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, 2018. The Company's first quarter of fiscal year 2019 ended on July 31, 2018. 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's functional currency is the Canadian dollar as it is the currency that represents the primary economic environment in which the Company operates.

Overview

TECSYS provides transformative supply chain solutions that equip its customers to succeed in a rapidly-changing omni-channel world. TECSYS' solutions are built on a true enterprise supply chain platform, and include warehouse management, distribution management, transportation management, supply management at point-of-use as well as complete 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, they can adapt and scale to various business needs or size, and they can expand and collaborate with customers, suppliers and partners as one borderless enterprise. From demand planning to demand fulfillment, TECSYS puts power into the hands of both front line workers and back office planners, and unshackles business leaders so they can see and manage their supply chains like never before.

TECSYS is the market leader in supply chain solutions for health systems and hospitals. Over 600 mid-size and Fortune 1000 customers trust their supply chains to TECSYS in the healthcare, service parts, third-party logistics, and general wholesale high-volume distribution industries.

Quarterly Selected Financial Data

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

	2019			2018			2017	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total Revenue	**16,282**	**18,908**	**17,227**	**18,072**	**16,511**	**18,447**	**17,385**	**16,518**
Profit	**13**	**1,802**	**722**	**1,356**	**69**	**4,776**	**888**	**206**
Comprehensive Income (Loss)	**63**	**1,493**	**1,057**	**701**	**864**	**4,378**	**1,261**	**70**
EBITDA[1]	**536**	**2,307**	**1,312**	**2,184**	**687**	**6,674**	**1,941**	**935**
Basic and Diluted Earnings per Common Share	**NIL**	**0.13**	**0.06**	**0.10**	**0.01**	**0.39**	**0.07**	**0.02**

In the fourth quarter of fiscal 2018, the Company recorded $133,000 of Canadian federal non-refundable research and development tax credit and 0.9 million of deferred tax recovery.

In the fourth quarter of fiscal 2017, the Company recorded $4.7 million of Canadian federal non-refundable research and development tax credits representing primarily tax credits earned in prior years for which the criteria for recognition was met in fiscal 2017.

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

Results of Operations

Three months ended July 31, 2018 compared to three months ended July 31, 2017

Revenue

Total revenue for the first quarter ended July 31, 2018 amounted to $16.3 million, $0.2 million or 1% lower, compared to $16.5 million for the same period of fiscal 2018. The U.S. dollar averaged CA$ 1.3046 in the first quarter of fiscal 2019 in comparison to CA$ 1.3203 in the first quarter of fiscal 2018. Approximately 64% of the Company's revenues were generated in the United States during the first quarter of fiscal 2019 compared to 72% in the corresponding period of fiscal year 2018. Revenue in U.S dollar were recognized at CA$ 1.2791 Canadian during the first quarter of fiscal 2019 compared to CA$ 1.3159 Canadian for the corresponding quarter of fiscal 2018. The impact of the stronger Canadian dollar and the unfavorable variance on the Company's partial hedging of U.S. revenue gave rise to an unfavorable variance of $0.3 million in the first quarter of fiscal year 2019 against the same period of fiscal 2018. The stronger Canadian dollars did not have a significant impact on cost of sales and operating expenses in comparison to the first quarter of fiscal 2019.

Overall total contract value bookings[2] amounted to $10.6 million in the first quarter of fiscal 2019 in comparison to $9.9 million for the same period of the previous fiscal year. During the first quarter of fiscal 2019, the Company signed three new accounts with a total contract value of $1.9 million compared to two new accounts with a total contract value of $2.6 million in the first quarter of fiscal 2018.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology products, were $1.3 million in the first quarter of fiscal 2019 in comparison to $1.2 million for the same period of the previous fiscal year. The increase is mainly due to IFRS 15 adjustment in the first quarter of 2019 for $151,000.

Third party products revenue were flat at $1.5 million in the first quarter of fiscal 2019 and fiscal 2018. There was an increase in radio-frequency equipment revenue which was offset by lower third-party software license.

Cloud, maintenance and subscription revenue amounted to $7.0 million, lower by $0.1 million or 1%, in the first quarter of fiscal 2019 compared to $7.1 million for the same period in the previous fiscal year. The decrease in this revenue stream that is mostly recurring in nature is primarily attributable to the stronger Canadian dollar.

Professional services revenue were flat at $6.1 million in the first quarter of fiscal 2019 and fiscal 2018. There was a decrease in consulting and implementation services revenue offset by an increase in customization services revenue.

As a percentage of total revenue, products accounted for 17% and services, which comprises cloud, maintenance and subscription revenue as well as professional services revenue, accounted for 80% in both the first quarter of fiscal 2019 and fiscal year 2018.

Cost of Revenue

Total cost of revenue amounted to $8.7 million, lower by $0.1 million or 1%, in the first quarter of fiscal 2019 in comparison to $8.8 million for the same period in fiscal 2018. The decrease is attributable to lower products costs of $85,000 and lower reimbursable expenses of $64,000 partially offset by higher services costs of $88,000.

The cost of products decreased by $0.1 million or 6% to $1.3 million in comparison to the same period last year and is largely related to the decrease in third-party software license partially offset by the increase in radio frequency equipment revenue.

The cost of services amounted to $7.0 million, higher by $0.1 million or 1% in the first quarter of fiscal 2019 in comparison to $6.9 million for the same period last year. The increase is primarily attributable to higher employee salaries and benefits partially offset by a decrease in consulting expenses. The cost of services includes tax credits of $497,000 for the first quarter of fiscal 2019 compared to $508,000 for the same period in the previous fiscal year.

Gross Profit

Gross profit amounted to $7.6 million, lower by $0.2 million or 2%, in the first quarter of fiscal 2019 in comparison to $7.8 million for the same period last year. This is mainly attributable to lower services margin of $0.3 million partially offset by higher products margin of $0.1 million. Total gross profit percentage in the first quarter of fiscal 2019 was flat at 47% in the first quarter of fiscal 2019 and 2018.

The products margin increased to $1.5 million, $0.1 million higher than the same period last year and is largely attributable to the revenue mix.

Services gross profit during the first quarter of fiscal 2019 amounted to $6.1 million, lower by $0.3 million in comparison to the same period of fiscal 2018. The services gross profit decreased primarily due to the decreased revenues arising from cloud, maintenance and subscription services and professional services. Services gross profit was 47% of services revenue in the first quarter of fiscal 2019 in comparison to 48% for the comparable period last year.

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

Operating Expenses

Total operating expenses for the first quarter of fiscal 2019 remained relatively flat at $7.7 million compared to the same three-month period last year. The Company expects to leverage its current sales, marketing, general and administrative as well as its R&D organization to support revenue growth. The most notable differences between the first quarter of fiscal 2019 in comparison with the same period in fiscal 2018 are as follows.

- Sales and marketing expenses amounted to $3.4 million, $0.2 million lower in comparison to the same period of fiscal 2018. Employee related costs were lower in the first quarter of fiscal 2019 as a result of a decreased in the average sales and marketing headcounts in comparison to the same period last year, which was partially offset by higher marketing program expenses.

- General and administrative expenses remained relatively flat at $1.6 million compared to the same quarter last year. Higher consulting and legal expenses were offset by lower US franchise tax and recruiting expenses.

- Net R&D expenses amounted to $2.7 million, $0.2 million higher in comparison to the same period of fiscal 2018. Gross R&D expenses increased by $0.3 million comprised primarily of higher employee costs due to an increase in average R&D headcounts compared to the same period last year and higher consulting fees. The Company also recorded $375,000 of refundable and non-refundable R&D and e-business tax credits in the first quarter of fiscal 2019 in comparison to $349,000 for the same period in fiscal 2018. Also, the Company amortized deferred development costs and other intangible assets of $319,000 in the first quarter of fiscal 2019 in comparison to $343,000 for the same quarter a year earlier.

Loss from Operations

The Company recorded a loss from operations of $98,000 in the first quarter of fiscal 2019 in comparison to a profit of $65,000 for the comparable quarter of the previous year primarily as a result of lower service gross profit partially offset by an increase in products gross profit.

Net Finance Income

In the first quarter of fiscal 2019, the Company recorded net finance income of $92,000 in comparison to net finance income of $34,000 for the comparable quarter last year. The increase in net finance income is primarily attributable to a higher interest income on the Company's short-term investments in comparison to the same period of the previous fiscal year.

Income Taxes

In the first quarter of fiscal 2019, the Company recorded an income tax recovery of $19,000 relating mainly to various corporate taxes refunds during the quarter in comparison to an income tax expense of $30,000 for the comparable period last year.

As at April 30, 2018, the Company had recognized net deferred tax assets of $3.5 million and has an unrecognized net deferred tax asset of $4.5 million covering various jurisdictions and approximately $5.6 million of Canadian federal nonrefundable SRED tax credits which may be used only to reduce future Canadian federal income taxes otherwise payable. As such, the Company does not anticipate any significant cash disbursements related to Canadian income taxes given its availability of Canadian federal non-refundable tax credits and deferred tax assets. Refer to note 15 of the annual consolidated financial statements for further detail.

Profit

The Company recorded a profit of $13,000 or $NIL per share in the first quarter of fiscal 2019 in comparison to a profit of $69,000 or $0.01 per share in the first quarter of fiscal 2018.

Liquidity and Capital Resources

On July 31, 2018, current assets totaled $36.7 million compared to $35.0 million at the end of fiscal 2018. Cash and cash equivalents increased to $14.4 million compared to $13.5 million as at April 30, 2018. Accounts receivable and work in progress totaled $13.8 million on July 31, 2018 compared to $14.6 million as at April 30, 2018. The decrease in accounts receivable and work in progress is due to significant cash collections during the first quarter of fiscal 2019 and lower sales in the first quarter of 2019 compared to the fourth quarter of 2018 which was partially offset by the favorable foreign exchange impact on the translation of U.S. dollar receivables due to the closing rate for the U.S. dollar increasing from CA$1.2839 as at April 30, 2018 to CA$1.3011 as at July 31, 2018.

The Company's DSO (days sales outstanding)[3] stood at 77 days at the end the first quarter of fiscal 2019 compared to 69 days at the end of fiscal 2018 and 68 days at the end of the first quarter of fiscal 2018.

Current liabilities on July 31, 2018 totaled $22.4 million compared to $19.9 million at the end of fiscal 2018. The movement in the current liabilities is largely characterized by the increase of deferred revenue. Working capital decreased to $14.3 million at the end of July 31, 2018 in comparison to $15.0 million at the end of fiscal year 2018.

Operating activities generate funds of $0.9 million in the first quarter of fiscal 2019 in comparison to using funds of $0.5 million in the corresponding quarter of fiscal 2018. Operating activities excluding changes in non-cash working capital items generates $0.5 million in the first quarter of fiscal 2019 in comparison to using $0.4 million in the same period in fiscal 2018 mainly due to higher unrealized foreign exchange gains.

Non-cash working capital items generated funds of $0.5 million in the first quarter of fiscal 2019 primarily due to an increase in deferred revenue of $1.7 million and inventory of $0.2 partially offset by a decrease of $1.4 million in accounts receivable due to lower sales and significant cash collections during the first quarter of fiscal 2019 and a decrease of 0.9 million in accounts payable and accrued liabilities due to the payment of incentives for fiscal 2018 performance.

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

Non-cash working capital items used funds of $0.1 million in the first quarter of fiscal 2018 primarily due to decreases in accounts payable and accrued liabilities of $1.2 million and deferred revenue of $0.2 million and increases in tax credits of $0.7 million and other receivables of $0,4 million offset by decreases in accounts receivable of $2.5 million.

The Company believes that funds on hand at July 31, 2018 combined with cash flow from operations will be sufficient to meet its needs for working capital, R&D, capital expenditures, debt repayment, and dividends for at least the next twelve months.

Financing activities used funds of $12,000 in the first quarter of fiscal 2019 for repayment of long-term debt in comparison to generating funds of $10.4 million in the same period in fiscal 2018.

On June 27, 2017, the Company completed an offering of 1,100,050 common shares of the Company at the offering price of $15.00 per common share for aggregate gross proceeds of $16,500,750 (the "Offering"). The Offering includes a treasury offering of 767,050 shares by the Company, including 100,050 common shares purchased by the underwriters pursuant to the exercise of their over-allotment option on June 27, 2017, for gross proceeds of $11,505,070 and a secondary offering of 333,000 shares by (i) David Brereton, Executive Chairman of the Company; (ii) Dabre Inc., David Brereton's holding company; and (iii) Kathryn Ensign-Brereton, David Brereton's spouse for aggregate gross proceeds of $4,995,000. The Offering was completed on a bought deal basis and was underwritten by a syndicate of underwriters led by Cormark Securities Inc. on its own behalf and on behalf of two other underwriters.

The common shares were offered by way of a short form prospectus filed in all provinces in Canada.

During the first quarter of fiscal 2019, investing activities used funds of $28,000 in comparison to $166,000 in the comparable period last year. The Company used funds of $54,000 and $130,000 for the acquisition of property and equipment, and intangible assets in the first quarter of fiscal 2019 and fiscal 2018 respectively. In the first quarter of fiscal 2019, the Company invested in its proprietary software products with the capitalization of $55,000 reflected as deferred development costs and $72,000 in the first quarter of fiscal 2018. The Company received interest of $81,000 and $36,000 in the first quarter of fiscal 2019 and fiscal 2018, respectively.

Related Party Transactions

Under the provisions of the current share purchase plan for key management and other management employees, the Company extended interest-free loans of $538,000 to key management and other management employees to facilitate their purchase of Company shares. The outstanding loans as at July 31, 2018 amounted to $457,000.

Subsequent Event

On September 6, 2018, the Company declared a dividend of $0.05 per share, to be paid on October 5, 2018 to shareholders of record at the close of business on September 21, 2018.

Current and Anticipated Impacts of Current Economic Conditions

The current overall economic condition, together with the market uncertainty and volatility that exists today, 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. Furthermore, the regulatory changes in the United States health care system from which the Company derives a significant amount of its revenue is going through a period of uncertainty. This uncertainty may impact the Company's revenue.

Fiscal 2018 was a very robust period with bookings amounting to $48.1 million, and this continued the trend from fiscal year 2017 where bookings totaled $42.6 million, with a substantial amount of the bookings being in the healthcare sector. The magnitude of the growth trend will depend on the strength and sustainability of the economic growth and the demand for supply chain management software.

Given the current backlog[4] of $47.8 million, comprised primarily of services, the Company's management believes that the services revenue ranging between $12.5 million and $13.5 million per quarter can be sustained in the short term if no significant new agreements are completed.

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.

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 60% to 75% 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 the economic reality.

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

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

Outstanding Share Data

On September 6, 2018, the Company has 13,082,376 common shares as there has been no activity since the end of the Company's first quarter.

Change in Accounting Policies

Except as described below, the accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ending April 30, 2018.The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ended April 30, 2019.

IFRS 15 : Revenue from Contracts with Customers ("IFRS 15"):

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Company has determined that the impact of adopting IFRS 15 relates to accounting for its: a) license arrangements that require the customer to renew its annual support agreement in order to maintain its right to continue to use the software; b) capitalization of contract acquisition costs. Under current revenue recognition policies, the license revenue mentioned in a) above is deferred and recognized ratably over a twelve-month period. Under IFRS 15, revenue under the same arrangement is recognized ratably over the estimated lifetime of the software, which is seven years. Under the Company's current accounting policies, contract acquisition costs, including incremental commissions paid to employees, are expensed upon commencement of the related contract revenue. Under IFRS 15, the Company will capitalize contract acquisition costs related to contracts having a term of at least 12 months or for contracts which have license fees described above. These capitalized contract costs will be expensed over the terms of the contract or the estimated lifetime of the software.

Impact of transition

Effective May 1, 2018, the Company adopted IFRS 15 using the cumulative effect transition method, with the effect of adopting this standard recognized on May 1, 2018, the date of the initial application. Accordingly, the information presented for fiscal year ended April 30, 2018 has not been restated. It remains as previously reported under IAS 18, IAS 11 and related interpretations.

The following tables summarizes the impact of adopting IFRS 15 on the Company's condensed consolidated interim statements of financial position as at July 31, 2018 and its interim statements of income and comprehensive income for the three months ended July 31, 2018. There was no impact on the Company's interim statements of cash flows for the three months ended July 31, 2018.

	Impact of adopting IFRS 15 at May 1, 2018
Software license - Deferred revenue	$ (981)
Previously expensed contract acquisition costs - Prepaid expenses	406
Related income tax impact - Deferred tax assets	154
Impact at May 1, 2018 - Retained earnings	$ (421)

	Impact of adopting IFRS 15 for three months ended July 31, 2018
Revenue – Proprietary products - Increase	$ 151
Operating expenses – Sales and marketing - Increase	(39)
Related income tax impact - Deferred tax assets	-
Impact at July 31, 2018 – Condensed Interim Statements of Income and Comprehensive income	$ 112

IFRS 9, *Financial Instruments* ("IFRS 9"):

Effective May 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flows characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

Trade and other receivables that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of the Company's financial assets. Impairment of financial assets is based on an expected credit loss ("ECL") model under IFRS 9, rather than the incurred loss model under IAS 39. ECL's are a probability- weighted estimate of credit losses. The Company calculated ECL's based on consideration of customer-specific factors and actual credit loss experience over the past two years. Based on our analysis, historical default rates generally represent a reasonable approximation for future expected defaults. As a percentage of revenue, the Company's actual credit loss experience has not been material. There is no impact of transition to IFRS 9 on the Company's statement of financial position at May 1, 2018.

New accounting standards and interpretations issued but not yet adopted

IFRS 16, Leases ("IFRS 16"):

In January 2016, the IASB issued IFRS 16, which specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, Leases. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019, with earlier application permitted only if IFRS 15 has also been applied. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements. The Company expects that the initial adoption of IFRS 16 will result in operating lease liabilities (primarily for the rental of premises), being recognized in the consolidated statement of financial position, with a corresponding right-of-use asset being recognized. The Company also expects a decrease of its operating lease cost, offset by a corresponding increase of its financial expense and depreciation and amortization resulting from the changes in the recognition, measurement and presentation requirements.

Critical Accounting Policies

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results. A summary of the Company's significant accounting policies, including the critical accounting policies discussed below, is set out in the notes to the accompanying financial statements and the financial statements for the year ended April 30, 2018.

Use of estimates, assumptions and judgments

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

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

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

(i) Revenue recognition:

Revenue recognition is subject to critical judgment, particularly in multiple-element arrangements where judgment is required in allocating revenue to each component, including licenses, professional services and maintenance services, based on the relative fair value of each component. As certain of these components have a term of more than one year, the identification of each deliverable and the allocation of the consideration received to the components impacts the timing of revenue recognition.

(ii) Government assistance:

Management uses judgment in estimating amounts receivable for various tax credits and in assessing the eligibility of research and development and other expenses which give rise to these credits.

(iii) Income taxes:

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

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

(iv) Impairment of assets:

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

(v) Allowance for doubtful accounts:

The Company makes an assessment of whether accounts receivable are collectable, which considers credit loss insurance and the credit-worthiness of each customer, taking into account each customer's financial condition and payment history in order to estimate an appropriate allowance for doubtful accounts. Furthermore, these estimates must be continuously evaluated and updated. The Company is not able to predict changes in the financial condition of its customers, and if circumstances related to its customers' financial conditions deteriorate, the estimates of the recoverability of trade accounts receivable could be materially affected and the Company may be required to record additional allowances. Alternatively, if the Company provides more allowances than needed, a reversal of a portion of such allowances in future periods may be required based on actual collection experience.

(vi) Business combinations:

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

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of July 31, 2018.

Internal Control over Financial Reporting

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

No changes to internal controls over financial reporting have come to management's attention during the three-month period ending on July 31, 2018 that have materially affected, or are reasonably likely to materially affect internal controls over financial reporting.

Forward-Looking Information

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

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

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

Non-IFRS Performance Measure

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

EBITDA

EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization. The Company believes that this measure is commonly used by investors and analysts to measure a company's performance, its ability to service debt and to meet other payment obligations, or as a common valuation measurement.

The EBITDA calculation for the first three months of fiscal 2019 and 2018, derived from IFRS measures in the Company's condensed interim consolidated financial statements, is as follows:

	Three-months ended July 31, 2018	Three-months ended July 31, 2017
Profit for the period	$ 13	$ 69
Adjustments for:		
Depreciation of property and equipment	223	203
Depreciation of deferred development costs	278	302
Depreciation of other intangible assets	122	118
Interest expense	-	1
Interest income	(81)	(36)
Income taxes	(19)	30
EBITDA	$ 536	$ 687

Key Performance Indicators

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

Bookings (Total Contract Value)

Broadly speaking, bookings refers to the total value of accepted contracts, including software licenses and other proprietary products and related support services, third-party hardware and software and related support services, contracted work or services, and changes to such contracts recorded during a specified period. The Total Contract Value (TCV) is not typically limited to the first year, nor would it typically exclude certain transaction types. The Company believes that this metric is a primary indicator of the general state of the business performance. Bookings typically include all items with a revenue implication, such as new contracts, renewals, upgrades, downgrades, add-ons, early terminations and refunds. Bookings are typically segmented into classifications, such as new account bookings or base account bookings, and performance in these bookings classes is frequently used in various sales and other compensation plans.

Backlog

Generally, backlog refers to something unfulfilled. In a traditional software company, this term is used largely within finance. Backlog refers to the value of contracted orders that have not shipped and services not yet delivered. Backlog could refer to the value of contracted or committed revenue that is not yet recognizable due to acceptance criteria, delivery of professional services, or some accounting rule. The quantification of backlog is not limited to the first year, nor would it typically exclude certain transaction types. In this context, backlog is really "revenue backlog" and is the total unrecognized future revenue from existing signed contracts.

Days Sales Outstanding (DSO)

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

Condensed Interim Consolidated Financial Statements of
(Unaudited)

TECSYS INC.

For the three-month periods ended July 31, 2018 and 2017

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED JULY 31, 2018 and 2017

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 6th day of September 2018.

TECSYS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three-month periods ended July 31, 2018 and 2017

Financial Statements

TECSYS Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)
As at July 31, 2018 and April 30, 2018
(in thousands of Canadian dollars)

	Note	July 31, 2018	April 30, 2018
Assets			
Current assets			
Cash and cash equivalents		$ 14,382	$ 13,496
Accounts receivable		12,570	13,939
Work in progress		1,274	617
Other receivables		718	535
Tax credits		4,225	3,391
Inventory		922	1,145
Prepaid expenses		2,646	1,829
Total current assets		36,737	34,952
Non-current assets			
Long-term investments	6	10,007	10,007
Other long-term receivables		215	215
Tax credits		4,910	4,840
Property and equipment		2,905	3,091
Deferred development costs		1,627	1,850
Other intangible assets		1,237	1,342
Goodwill		3,596	3,596
Deferred tax assets		3,679	3,524
Total non-current assets		28,176	28,465
Total assets		$ 64,913	$ 63,417
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 8,972	$ 9,087
Current portion of long-term debt		47	47
Deferred revenue		13,412	10,774
Total current liabilities		22,431	19,908
Non-current liabilities			
Long-term debt		62	74
Other non-current liabilities		297	300
Total non-current liabilities		359	374
Total liabilities		22,790	20,282
Equity			
Share capital	5	19,144	19,144
Contributed surplus		9,577	9,577
Retained earnings		13,465	14,527
Accumulated other comprehensive loss	9	(63)	(113)
Total equity attributable to the owners of the Company		42,123	43,135
Total liabilities and equity		$ 64,913	$ 63,417
Subsequent event	12		

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

TECSYS Inc.
Condensed Interim Consolidated Statements of Income and Comprehensive Income
(Unaudited)
Three month periods ended July 31, 2018 and 2017
(in thousands of Canadian dollars, except per share data)

	Note	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017
Revenue:			
Proprietary products		$ 1,325	$ 1,248
Third-party products		1,456	1,522
Cloud, maintenance and subscription		6,991	7,090
Professional services		6,067	6,144
Reimbursable expenses		443	507
Total revenue		16,282	16,511
Cost of revenue:			
Products		1,275	1,360
Services	7	6,980	6,892
Reimbursable expenses		443	507
Total cost of revenue		8,698	8,759
Gross profit		7,584	7,752
Operating expenses:			
Sales and marketing		3,434	3,633
General and administration		1,580	1,576
Research and development, net of tax credits		2,668	2,478
Total operating expenses		7,682	7,687
(Loss) Profit from operations		(98)	65
Net finance income	8	(92)	(34)
(Loss) profit before income taxes		(6)	99
Income taxes (recovery) expense		(19)	30
Profit attributable to the owners of the Company		$ 13	$ 69
Other comprehensive income:			
Effective portion of changes in fair value on designated revenue hedges	9	50	795
Comprehensive income attributable to the owners of the Company		$ 63	$ 864
Basic and diluted earnings per common share	5	$ NIL	$ 0.01

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

TECSYS Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Three-month periods ended July 31, 2018 and 2017
(in thousands of Canadian dollars)

	Note	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017
Cash flows from (used in) operating activities:			
Profit for the period		$ 13	$ 69
Adjustments for:			
Depreciation of property and equipment		223	203
Depreciation of deferred development costs		278	302
Depreciation of other intangible assets		122	118
Net finance income	8	(92)	(34)
Unrealized foreign exchange and other		142	(823)
Non-refundable tax credits		(227)	(189)
Operating activities excluding changes in non-cash working capital items related to operations		459	(354)
Accounts receivable		1,369	2,480
Work in progress		(657)	(83)
Other receivables		(184)	(354)
Tax credits		(677)	(688)
Inventory		223	(119)
Prepaid expenses		(411)	77
Accounts payable and accrued liabilities		(853)	(1,223)
Deferred revenue		1,657	(234)
Changes in non-cash working capital items related to operations		467	(144)
Net cash from (used in) from operating activities		926	(498)
Cash flows (used in) from financing activities:			
Repayment of long-term debt		(12)	(19)
Issuance of common shares	5	-	10,454
Interest paid	8	-	(1)
Net cash (used in) from financing activities		(12)	10,434
Cash flows from (used in) investing activities:			
Interest received	8	81	36
Acquisitions of property and equipment		(37)	(88)
Acquisitions of other intangible assets		(17)	(42)
Deferred development costs		(55)	(72)
Net cash used in investing activities		(28)	(166)
Net increase in cash and cash equivalents during the period		886	9,770
Cash and cash equivalents - beginning of period		13,496	13,476
Cash and cash equivalents - end of period		$ 14,382	$ 23,246

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

TECSYS Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
Three-month periods ended July 31, 2018 and 2017
(in thousands of Canadian dollars, except number of shares)

	Note	Share capital Number	Share capital Amount	Contributed surplus	Accumulated other comprehensive (loss) income	Retained earnings	Total
Balance, April 30, 2018		13,082,376	$ 19,144	$ 9,577	$ (113)	$ 14,527	$ 43,135
Adjustment on initial application of IFRS 15	3	-	-	-	-	(421)	(421)
Adjusted balance, May 1, 2018		13,082,376	19,144	9,577	(113)	14,106	42,714
Profit for the period		-	-	-	-	13	13
Other comprehensive income for the period:							
Effective portion of changes in fair value on designated revenue hedges	9	-	-	-	50	-	50
Total comprehensive income for the period		-	-	-	50	13	63
Dividends to equity owners	5	-	-	-	-	(654)	(654)
Total transactions with owners of the Company		-	-	-	-	(654)	(654)
Balance, July 31, 2018		13,082,376	$ 19,144	$ 9,577	$ (63)	$ 13,465	$ 42,123
Balance, April 30, 2017		12,315,326	$ 8,349	$ 9,577	$ (279)	$ 13,064	$ 30,711
Profit for the period		-	-	-	-	69	69
Other comprehensive income for the period:							
Effective portion of changes in fair value on designated revenue hedges	9	-	-	-	795	-	795
Total comprehensive income for the period		-	-	-	795	69	864
Common shares issued under bought deal financing	4	767,050	10,454	-	-	-	10,454
Dividends to equity owners		-	-	-	-	(589)	(589)
Total transactions with owners of the Company		767,050	10,454	-	-	(589)	9,865
Balance, July 31, 2017		13,082,376	$ 18,803	$ 9,577	$ 516	$ 12,544	$ 41,440

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 and point-of-use. 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 and Canada. The Company's customers consist primarily of healthcare systems and high-volume distributors of discrete goods. The consolidated financial statements comprise the Company and its wholly-owned subsidiaries. The Company is a publicly listed entity and its shares are traded on the Toronto Stock Exchange under the symbol TCS.

2. Statement of compliance:

These condensed interim consolidated financial statements and the notes thereto have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). They do not include all of 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, 2018.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 6, 2018.

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, 2018, except for the changes in significant accounting policies mentioned below.

3. Changes in significant accounting policies:

Except as described below, the accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ending April 30, 2018.

The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ended April 30, 2019.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

(a) IFRS 15 : Revenue from Contracts with Customers (''IFRS 15''):

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Company has determined that the impact of adopting IFRS 15 relates to accounting for its: a) license arrangements that require the customer to renew its annual support agreement in order to maintain its right to continue to use the software; b) capitalization of contract acquisition costs. Under current revenue recognition policies, the license revenue mentioned in a) above is deferred and recognized ratably over a twelve-month period. Under IFRS 15, revenue under the same arrangement is recognized ratably over the estimated lifetime of the software, which is seven years. Under the Company's current accounting policies, contract acquisition costs, including incremental commissions paid to employees, are expensed upon commencement of the related contract revenue. Under IFRS 15, the Company will capitalize contract acquisition cost related to contracts having a term of at least 12 months or for contracts which have license fees described above. These capitalized contract costs will be expensed over the terms of the contract or the estimated lifetime of the software.

(i) Impact of transition

Effective May 1, 2018, the Company adopted IFRS 15 using the cumulative effect transition method, with the effect of adopting this standard recognized on May 1, 2018, the date of the initial application. Accordingly, the information presented for fiscal year ended April 30, 2018 has not been restated. It remains as previously reported under IAS 18, IAS 11 and related interpretations.

The following tables summarizes the impact of adopting IFRS 15 on the Company's condensed consolidated interim statements of financial position as at July 31, 2018 and its interim statements of income and comprehensive income for the three months ended July 31, 2018. There was no impact on the Company's interim statements of cash flows for the three months ended July 31, 2018.

	Impact of adopting IFRS 15 at May 1, 2018
Software license - Deferred revenue	$ (981)
Previously expensed contract acquisition costs - Prepaid expenses	406
Related income tax impact - Deferred tax assets	154
Impact at May 1, 2018 - Retained earnings	$ (421)

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

	Impact of adopting IFRS 15 for three months ended July 31, 2018
Revenue – Proprietary products - Increase	$ 151
Operating expenses – Sales and marketing - Increase	(39)
Related income tax impact - Deferred tax assets	-
Impact at July 31, 2018 – Condensed Interim Statements of Income and Comprehensive income	$ 112

(b) IFRS 9, *Financial Instruments* (“IFRS 9”):

Effective May 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flows characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

Trade and other receivables that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of the Company’s financial assets. Impairment of financial assets is based on an expected credit loss (‘’ECL’’) model under IFRS 9, rather than the incurred loss model under IAS 39. ECL’s are a probability- weighted estimate of credit losses. The Company calculated ECL’s based on consideration of customer-specific factors and actual credit loss experience over the past two years. Based on our analysis, historical default rates generally represent a reasonable approximation for future expected defaults. As a percentage of revenue, the Company’s actual credit loss experience has not been material.

There is no impact of transition to IFRS 9 on the Company’s statement of financial position at May 1, 2018.

4. New accounting standards and interpretations issued but not yet adopted:

IFRS 16, Leases ("IFRS 16"):

In January 2016, the IASB issued IFRS 16, which specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, Leases. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019, with earlier application permitted only if IFRS 15 has also been applied. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements. The Company expects that the initial adoption of IFRS 16 will result in operating lease liabilities (primarily for the rental of premises), being recognized in the consolidated statement of financial position, with a corresponding right-of-use asset being recognized. The Company also expects a decrease of its operating lease cost, offset by a corresponding increase of its financial expense and depreciation and amortization resulting from the changes in the recognition, measurement and presentation requirements.

5. Share capital:

(a) Bought deal shares issuance:

On June 27, 2017, the Company completed an offering of 1,100,050 common shares of the Company at the offering price of $15.00 per common share for aggregate gross proceeds of $16,500,750 (the "Offering"). The Offering includes a treasury offering of 767,050 shares by the Company, including 100,050 common shares purchased by the underwriters pursuant to the exercise of their over-allotment option on June 27, 2017, for gross proceeds of $11,505,750 and a secondary offering of 333,000 shares by (i) David Brereton, Executive Chairman of the Company; (ii) Dabre Inc., David Brereton's holding company; and (iii) Kathryn Ensign-Brereton, David Brereton's spouse for aggregate gross proceeds of $4,995,000. The Offering was completed on a bought deal basis and was underwritten by a syndicate of underwriters led by Cormark Securities Inc. on its own behalf and on behalf of two other underwriters.

The common shares were offered by way of a short form prospectus filed in all provinces in Canada.

Transaction costs directly associated with this issuance of treasury shares of approximately $1,016,280 ($708,085 net of taxes) have been recognized as a reduction of the proceeds, resulting in net total proceeds of approximately $10,489,470.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

(b) Dividends:

On July 5, 2018, the Company declared a dividend of $0.05 per share, paid on August 3, 2018 to shareholders of record on July 20, 2018.

(c) Earnings per share:

Basic 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 calculated as follows:

	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017
Profit attributable to common shareholders	$ 13	$ 69
Issued common shares at the beginning of the year	13,082,376	12,315,326
Effect of bought deal shares issuance	-	291,812
Weighted average number of common shares outstanding (basic)	13,082,376	12,607,138
Basic earnings per common share	$ Nil	$ 0.01

Diluted earnings per share:

The calculation of diluted earnings per share is based on the profit attributable to common shareholders and the weighted average number of common shares outstanding after adjustment for the effects of all dilutive common shares. There is no impact of dilutive share options and therefore diluted earnings per share equals basic earning per share for the quarters ended July 31, 2018 and 2017.

6. Long-term investments:

On October 17, 2017, the company invested $10,007,000 in a 3-year redeemable guaranteed investment certificate ("GIC") that matures on October 17, 2020. The GIC bears interest at a rate of 1.9% and interest payments are made to the Company on an annual basis. If the GIC is redeemed prior to maturity, the Company will receive interest based on interest rates ranging from 1.35% to 1.70%.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

7. Cost of revenue:

Services cost is broken down as follows:

	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017
Gross expenses	$ 7,477	$ 7,400
E-business tax credits	(497)	(508)
	$ 6,980	$ 6,892

8. Net finance income:

	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017
Interest expense on financial liabilities measured at amortized cost	$ -	$ 1
Foreign exchange (gain) loss	(11)	1
Interest income on bank deposits and other	(81)	(36)
Net finance income recognized in profit or loss	$ (92)	$ (34)

9. 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 offset the impact of the fluctuation of the U.S. dollar regarding the revaluation of its U.S. net monetary assets and to 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, 2018, the Company held outstanding foreign exchange contracts with various maturities to December 31, 2018 to sell US$4,200,000 into Canadian dollars at a rate of CA$1.2984 to yield CA$5,453,000. On July 31, 2018, the Company had recorded an unrealized exchange loss of $3,000 included in other receivables representing the change in fair value of these contracts since inception and their initial measurement.

On July 31, 2017, the Company held outstanding foreign exchange contracts with various maturities to December 29, 2017 to sell US$2,700,000 into Canadian dollars at a rate of CA$1.2957 to yield CA$3,498,000. On July 31, 2017, the Company had recorded an unrealized exchange gain of $136,000 included in other receivables representing the change in fair value of these contracts since inception and their initial measurement.

Revenue hedge designated derivative instruments

On July 31, 2018, the Company held outstanding foreign exchange contracts with various maturities to March 29, 2019 to sell US$10,000,000 into Canadian dollars at rates averaging CA$1.2712 to yield CA$12,712,000. Of the outstanding US$10,000,000 hedge designated foreign exchange contracts, US$6,000,000 pertains to highly probable future revenue denominated in U.S. dollars expected over the next five-months while US$4,000,000 relates to realized U.S. dollar denominated revenue. On July 31, 2018, the Company had recorded an unrealized exchange gain of $11,000 in other receivables and a fair value loss of $275,000 in accounts payable and accrued liabilities representing the change in fair value of these outstanding contracts since inception and their initial measurement.

On July 31, 2017, the Company held outstanding foreign exchange contracts with various maturities to April 30, 2018 to sell US$12,000,000 into Canadian dollars at rates averaging CA$1.3091 to yield CA$15,710,000. Of the outstanding US$12,000,000 hedge designated foreign exchange contracts, US$8,000,000 pertains to highly probable future revenue denominated in U.S. dollars expected over the next six months while US$4,000,000 relates to realized U.S. dollar denominated revenue. On July 31, 2017, the Company had recorded an unrealized exchange gain of $775,000 in other receivables and a fair value loss of $5,000 in accounts payable and accrued liabilities representing the change in fair value of these outstanding contracts since inception and their initial measurement.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

The following table represents the movement in accumulated other comprehensive income (loss) since the designation of hedging derivative instruments.

	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017
Accumulated other comprehensive loss as at the beginning of the fiscal period	$ (113)	$ (279)
Net (loss) gain on derivatives designated as cash flow hedges	(230)	1,187
Amounts reclassified from accumulated other comprehensive income (loss) to net earnings, and included in:		
Revenue decrease (increase)	216	(92)
Exchange loss (gain) in net finance costs	64	(300)
Accumulated other comprehensive (loss) income	$ (63)	$ 516

As at July 31, 2018, all of the net income presented in accumulated other comprehensive income is expected to be classified to net profit within the next five months.

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

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

10. Related party transactions:

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

As at July 31, 2018, key management and their spouses control 31.1% (July 31, 2017 – 33.7%) of the issued common shares of the Company.

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

	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017
Salaries	$ 776	$ 636
Other short-term benefits	57	50
Payments to defined contribution plans	19	16
	$ 852	$ 702

Under the provisions of the share purchase plan for key management and other management employees, the Company extended interest-free loans of $538,000 (fiscal 2018 - $538,000) to key management and other management employees to facilitate their purchase of Company shares during the three months ended July 31, 2018. The outstanding loans as at July 31, 2018 amounted to $457,000 (July 31, 2017 - $488,000).

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

11. Operating segments:

Management has organized the Company under one reportable segment: the development and marketing of enterprise-wide distribution software and related services. Substantially all of the Company's property and equipment, goodwill and other intangible assets are located in Canada. 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, 2018	Three Months Ended July 31, 2017
Canada	$ 5,847	$ 4,300
United States	10,355	11,811
Other	80	400
	$ 16,282	$ 16,511

12. Subsequent event:

On September 6, 2018, the Company declared a dividend of $0.05 per share, to be paid on October 5, 2018 to shareholders of record at the close of business on September 21, 2018.

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