A Symbol of **Leadership**

1st Quarter Fiscal 2020 Report

tecsys™

Management's Discussion and Analysis of Financial Condition and Results of Operations dated July 31, 2019

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

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

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

Overview

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

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

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

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

Quarterly Selected Financial Data

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

	2020	2019				2018		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total Revenue	**24,250**	**23,191**	**18,792**	**18,184**	**16,282**	**18,908**	**17,227**	**18,072**
(Loss) profit	**(267)**	**79**	**(1,429)**	**596**	**13**	**1,802**	**722**	**1,356**
Comprehensive Income (Loss)	**(488)**	**(143)**	**(1,307)**	**552**	**63**	**1,493**	**1,057**	**701**
Adjusted EBITDA[1]	**1,995**	**684**	**(98)**	**1,654**	**536**	**2,307**	**1,312**	**2,184**
Basic and Diluted Earnings per Common Share	**(0.02)**	**0.01**	**(0.11)**	**0.05**	**NIL**	**0.13**	**0.06**	**0.10**

In the first quarter of fiscal 2020, the Company recorded $0.4 million of restructuring costs related to acquisition integration (primarily severance) and $0.2 million stock-based compensation expense. This had a negative impact on Profit and no impact on Adjusted EBITDA as these items are excluded from Adjusted EBITDA. Adjusted EBITDA was positively impacted by $0.3 million resulting from the implementation of International Financial Reporting Standard No. 16 - "Leases". See further discussion under Change in Accounting Policies.

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

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

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

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

In the second quarter of fiscal 2018, the Company recognized in revenue an amount of $1.0 million from deferred professional services revenue due to the termination of a contract and its associated future obligations. This had a positive impact on Profit, Comprehensive Income and Adjusted EBITDA in that period.

Results of Operations

Three months ended July 31, 2019 compared to three months ended July 31, 2018

Revenue

Total revenue for the first quarter ended July 31, 2019 increased to $24.3 million, $8.0 million or 49% higher, compared to $16.3 million for the same period of fiscal 2019. The OrderDynamics and PCSYS acquisitions contributed $5.6 million in revenue while organic revenue was up $2.4 million or 15%. The U.S. dollar averaged CA$1.3281 in the first quarter of fiscal 2020 in comparison to CA$1.3046 in the first quarter of fiscal 2019. Approximately 56% (2019 – 64%) of the Company's revenues were generated in U.S. dollars during the first quarter of fiscal 2020. In comparison to the first quarter of fiscal 2019, the stronger U.S. dollars and the unfavorable variance of the Company's partial hedging of U.S. revenue in the first quarter of fiscal 2019 gave rise to a favorable revenue variance of $0.5 million. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately $0.1 million in the first quarter of fiscal 2020 as compared to the first quarter of fiscal 2019.

Overall total contract bookings[2] amounted to $14.0 million in the first quarter of fiscal 2020, an increase of 32% in comparison to $10.6 million for the same period last year. The increase was primarily the result of OrderDynamics and PCSYS bookings in the first quarter of fiscal 2020, with organic bookings relatively flat compared to the same quarter last year. During the first quarter of fiscal 2020, the Company signed eight new accounts with a total contract value of $3.4 million compared to three new account with a total contract value of $1.9 million in the first quarter of fiscal 2019.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology products decreased to $0.4 million in the first quarter of fiscal 2020, $0.9 million or 67% lower in comparison to $1.3 million for the same period last year. The decline was driven by lower organic perpetual license revenue which was influenced by a shift to SaaS subscription bookings. In the first quarter of fiscal 2020, SaaS subscriptions bookings (measured on an Annual Recurring Revenue basis[2]) were $0.4 million compared to NIL in the first quarter of fiscal 2019. Perpetual license bookings in the first quarter of fiscal 2020 were $0.4 million compared to $1.0 million in the first quarter of fiscal 2019.

Third party products revenue increased to $3.7 million, up $2.2 million or 151% in the first quarter of fiscal 2020 in comparison to $1.5 million for the same period last year. The increase was the result of the acquisition of PCSYS, which contributed $2.1 million and slight growth in the organic business.

Cloud, maintenance and subscription revenue increased to $9.8 million, up $2.8 million or 40%, in the first quarter of fiscal 2020 in comparison to $7.0 million for the same period last year. The increase is the result of $2.2 million of contribution from the acquisitions of OrderDynamics and PCSYS as well as $0.6 million (9%) growth in our organic business, driven primarily by SaaS. Total Annual Recurring Revenue at July 31, 2019 is $38.3 million compared to $26.8 million at July 31, 2018. A significant amount of Annual Recurring Revenue (ARR) is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR. During the first quarter of fiscal 2020, exchange movements had a $0.5 million negative impact on ARR.

Professional services revenue increased to $9.7 million, up $3.7 million or 61%, in the first quarter of fiscal 2020 in comparison to $6.1 million for the same period last year. The organic business contributed $2.5 million of the increase (up 41% from the same period last year). The significant increase in professional services revenue from the organic business continues the sequential trend from the fourth quarter of fiscal 2019 and results from the accumulation of professional services backlog over the previous quarters. Acquisitions of OrderDynamics and PCSYS contributed $1.2 million of the overall professional services increase. Professional Services Bookings in the quarter were $7.4 million compared to $5.8 million in the first quarter of fiscal 2019.

Cost of Revenue

Total cost of revenue increased to $12.7 million, up $4.0 million or 46%, in the first quarter of fiscal 2020, in comparison to $8.7 million for the same period in fiscal 2019. The increase is primarily attributable to higher services costs of $2.1 million and higher product costs of $1.7 million.

The cost of products increased to $3.0 million, up $1.7 million or 132%, in the first quarter of fiscal 2020 in comparison to $1.3 million for the same period last year. The increase is mainly due to the acquisition of PCSYS, which had an impact of $1.7 million related to the sale of hardware.

The cost of services increased to $9.1 million, up $2.1 million or 31%, in the first quarter of fiscal 2020 in comparison to $7.0 million for the same period last year. The increase is primarily the result of the acquisitions of OrderDynamics and PCSYS, which

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

contributed $1.9 million including $0.2 million of intangible amortization. The cost of services includes tax credits of $0.5 million for both the first quarter of fiscal 2020 and 2019.

Gross Profit

Gross profit increased to $11.5 million, up $3.9 million or 52%, in the first quarter of fiscal 2020 in comparison to $7.6 million for the same period last year. This is mainly attributable to higher service margin of $4.3 million offset by lower products margin of $0.4 million. Total gross profit percentage in the first quarter of fiscal 2020 was 48% compared to 47% in the same period of fiscal 2019.

Services gross profit during the first quarter of fiscal 2020 increased by $4.3 million to $10.4 million in comparison to $6.1 million for the same period last year. Services gross profit was 53% in the first quarter of fiscal 2020 in comparison to 47% for the same period last year.

The products margin decreased by $0.4 million in the first quarter of fiscal 2020 compared to the same period last year, as a result of lower proprietary product revenue of $0.9 million. This was the result of lower license revenue and was directly impacted by the shift to SaaS bookings noted above.

Operating Expenses

Total operating expenses for the first quarter of fiscal 2020 increased to $11.0 million, higher by $3.3 million or 44%, compared to $7.7 million for the same period last year. The acquisitions of OrderDynamics and PCSYS contributed $2.7 million of the increase. The most notable differences between the first quarter of fiscal 2020 in comparison with the same period in fiscal 2019 are as follows.

- Sales and marketing expenses increased to $4.5 million, $1.1 million higher than the comparable quarter last year. The acquisitions of OrderDynamics and PCSYS contributed to $0.9 million of the increase while the increase in the organic business is primarily due to higher personnel costs including commission partially offset by lower marketing program expenses.

- General and administrative expenses increased to $2.4 million, $0.8 million higher than the comparable quarter last year. The acquisitions of OrderDynamics and PCSYS contributed $0.3 million of the increase while stock-based compensation costs accounted for $0.2 million of the increase with the balance primarily increases in personnel costs and legal expenses.

- Net R&D expenses increased to $3.7 million, $1.1 million higher than the comparable quarter last year. The acquisitions of OrderDynamics and PCSYS contributed for $1.1 million of the increase. The Company recorded $0.4 million of refundable and non-refundable R&D and e-business tax credits in the first quarter of fiscal 2020 and 2019. The Company amortized deferred development costs and other intangible assets of $0.2 million in the first quarter of fiscal 2020 compared to $0.3 million for the same quarter in the prior year. Additionally, the Company deferred $0.2 million of development costs in fiscal 2020 compared to $0.1 million in the prior year period.

- Restructuring costs increased to $0.4 million, compared to NIL in the comparable quarter of last year. These costs are related to acquisition integration costs, primarily for severance.

Profit (loss) from Operations

The Company recorded a profit from operations of $0.5 million in the first quarter of fiscal 2020 in comparison to a loss from operations of $0.1 million for the same period in fiscal 2019. Contributing to the increase in profit is higher professional services and cloud, maintenance and subscription margin and profit from PCSYS partially offset by OrderDynamics operating loss, stock-based compensation, increased operating expenses and the decrease in license revenue mentioned previously. The Company is seeing increased software as a service (SaaS) bookings. This had an impact on operating profit in the current period and will continue to affect operating profit in the medium term.

Net Finance costs (income)

In the first quarter of fiscal 2020, the Company recorded $0.4 million in net finance costs in comparison to net finance income of $0.1 million for the comparable quarter last year. These costs in the current period relate primarily to foreign exchange loss of $0.2 million and $0.2 million related to interest expense on long-term debt and interest expense resulting from new accounting under IFRS 16. See also Change in Accounting Policies.

Income Taxes

In the first quarter of fiscal 2020, the Company recorded income tax expense of $0.3 million in comparison to an income tax benefit of $19,000 in the first quarter of fiscal 2019. In the first quarter of fiscal 2020, OrderDynamics incurred a pre-tax loss. The Company has not recorded deferred tax assets related to this loss as OrderDynamics has not yet demonstrated a history of taxable profit. The result is that income tax expense on a consolidated basis is higher than pre-tax income.

(Loss) Profit

The Company recorded a loss of $0.3 million or $0.02 per share in the first quarter of fiscal 2020 in comparison to a profit of $13,000 or $Nil per share in the first quarter of fiscal 2019.

Liquidity and Capital Resources

On July 31, 2019, current assets totaled $36.8 million, $1.7 million lower compared to the end of fiscal 2019. Cash and cash equivalents decreased to $13.3 million compared to $14.9 million as at April 30, 2019. Accounts receivable and work in progress totaled $13.9 million on July 31, 2019 compared to $15.8 million as at April 30, 2019. The decrease in accounts receivable and work in progress is due to significant cash collections during the first quarter of fiscal 2020.

The Company's DSO (days sales outstanding)[3] were at 51 days at the end the first quarter of fiscal 2020 compared to 61 days at the end of fiscal 2019 and 77 days at the end of the first quarter of fiscal 2019.

Current liabilities on July 31, 2019 totaled $31.1 million compared to $31.0 million at the end of fiscal 2019.

Working capital decreased to $5.7 million at the end of July 31, 2019 from $7.5 million at the end of fiscal year 2019 primarily as a result of the decrease in accounts receivable explained above and lower cash and cash equivalents as well as the increase in current lease obligation liabilities resulting from the implementation of IFRS 16. See also Change in Accounting Policies.

Operating activities used funds of $0.6 million in the first three months of fiscal 2020 in comparison to generating funds of $0.9 million in the corresponding period of fiscal 2019. Operating activities excluding changes in non-cash working capital items generated $1.7 million in the first three months of fiscal 2020 in comparison to $0.5 million in the same period in fiscal 2019.

Non-cash working capital items used funds of $1.8 million in the first three months of fiscal 2020 primarily due to a decrease in accounts payables and accrued liabilities of $1.4 million and an increase in other receivables and tax credits of $0.7 million each partially offset by a decrease in accounts receivable of $1.8 million.

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 decrease in accounts receivable of $1.4 million due to lower sales and significant cash collections during the first quarter of fiscal 2019 partially offset by a decrease of $0.9 million in accounts payable and accrued liabilities due to the payment of incentives for fiscal 2018 performance.

The Company believes that funds on hand at July 31, 2019 combined with cash flow from operations and its accessibility to banking facilities will be sufficient to meet its covenants, and its needs for working capital, R&D, capital expenditures, and dividends for at least the next twelve months.

Financing activities used funds of $0.7 million in the first three months of fiscal 2020 in comparison to $12,000 in the same period in fiscal 2019. Financing activities in 2020 related primarily to repayment of long-term debt and lease obligations (see note 7 in interim consolidated financial statements) as well as interest on long term debt and leases obligations.

During the first three months of fiscal 2020, investing activities used funds of $0.3 million in comparison to $28,000 in the comparable period last year. The Company used funds of $0.1 million for the acquisition of property and equipment and intangible assets each in the first three months of fiscal 2020 (first three months of fiscal 2019: $37,000 and $17,000, respectively). In the first three months of fiscal 2020, the Company invested in its proprietary software products with the capitalization of $0.2 million reflected as deferred development costs (first three months of fiscal 2019: $0.1 million).

Related Party Transactions

Under the provisions of the current share purchase plan for key management and other management employees, the Company provided interest-free loans of $658,000 during the three months ended July 31, 2019 (2019 - $538,000) to key management and other management employees to facilitate their purchase of Company shares. The outstanding loans as at July 31, 2019 amounted to $785,000 (April 30, 2019 - $241,000).

Subsequent Events

On August 2, 2019, the Company paid a dividend of $0.055 per share totalling $0.7 million. On September 5, 2019, the Company declared a dividend of $0.055 per share, to be paid on October 4, 2019, to shareholders of record at the close of business on September 20, 2019.

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. This uncertainty may impact the Company's revenue.

Total backlog[3] at July 31, 2019 was $76.4 million. This includes Annual Recurring Revenue[4] of $38.3 million and Professional Services backlog[4] of $22.2 million and multi-year recurring revenue amounts and hardware. Based on the Annual Recurring Revenue and Professional Services backlog, the Company's management believes that services revenue ranging between $18.5 million and $19.5 million per quarter can be sustained in the short term.

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

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

The exchange rate of the U.S. dollar in comparison to the Canadian dollar continues to be an important factor affecting revenues and profitability as the Company generally derives approximately 55% to 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.

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

Outstanding Share Data

On September 5, 2019, 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, 2019.The change in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ended April 30, 2020.

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

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

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 5 to 21 years for offices and 3 to 6 years for data centers, equipment and vehicles. In addition, the right-of-use asset is reduced by impairment losses resulting from impairment tests conducted in accordance with IAS 36, Impairment of Assets, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments used for the calculations comprise mainly fixed payments and variable lease payments that depend on an index or a rate, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The lease liability is subsequently measured at amortized cost using the effective interest method and is remeasured to reflect changes in the lease payments.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Impact of transition:

Effective May 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach with the effect of initially applying this standard recognized at the date of application. The cumulative effect of initially applying IFRS 16 at initial application was recognized in retained earnings as of May 1, 2019 and comparative information presented for 2019 has not been restated.

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

(i) To grandfather the assessment of which transactions are leases on the date of initial application, the Company applied IFRS 16 only to contracts that were previously identified as leases under IAS 17.

(ii) Use of the same discount rate for portfolio of leases with similar characteristics;

(iii) Exemption, on a lease-by-lease basis, of recognizing a right-of-use asset and lease liability when the lease term is within 12 months of the date of initial application.

(iv) Exemption, on a lease-by-lease basis, of recognizing a right-of-use asset and lease liability when the lease has an underlying asset that is of low value;

(v) Exclude initial direct costs, at the date of initial application only, on a lease-by-lease basis from the measurement of the right-of-use asset;

(vi) Use hindsight at the date of initial application only, on a lease-by-lease basis, to determine the lease term if the contract contains options to extend or terminate the lease;

(vii) No reassessment on whether a contract is or contains a lease under IAS 17;

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

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

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

	Impact of adopting IFRS 16 for three months ended July 31, 2019
Cost of revenue – Services - Decrease	$ 36
Cost of revenue – Products - Decrease	5
Operating expenses – Sales and Marketing - Decrease	8
Operating expenses – General and Administration - Decrease	11
Operating expenses – Research and Development - Decrease	20
Interest expenses - Increase	(95)
Income tax expense - Decrease	4
Impact at July 31, 2019 – Condensed Interim Statements of Income and Comprehensive income	$ (11)

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

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

Critical Accounting Policies

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

Use of estimates, assumptions and judgments

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

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

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

(i) Revenue recognition:

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

(ii) Government assistance:

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

(iii) Income taxes:

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

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

(iv) Impairment of assets:

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

(v) Allowance for expected credit losses:

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

(vi) Business combinations:

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

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of July 31, 2019. The PCSYS acquisition occurred in Q4 of fiscal 2019 and we have elected to scope this out of the certification.

Internal Control over Financial Reporting

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

No changes to internal controls over financial reporting have come to management's attention during the three months period ending on July 31, 2019 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting. The PCSYS acquisition occurred in Q4 of fiscal 2019 and we have elected to scope this out of the certification.

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

EBITDA and Adjusted EBITDA

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

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

	Three-months ended July 31, 2019	Three-months ended July 31, 2018
Profit for the period	$ (267)	$ 13
Adjustments for:		
Depreciation of property and equipment and right-of-use assets	477	223
Depreciation of deferred development costs	162	278
Depreciation of other intangible assets	413	122
Interest expense	282	-
Interest income	(29)	(81)
Income taxes	349	(19)
EBITDA	$ 1,387	$ 536
Adjustments for:		
Stock-based compensation	188	-
Restructuring costs	420	-
Adjusted EBITDA	$ 1,995	$ 536

Key Performance Indicators

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

Recurring Revenue

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

Bookings

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

Backlog

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

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

Days Sales Outstanding (DSO)

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

Condensed Interim Consolidated Financial Statements of
(Unaudited)

TECSYS INC.

For the three-months periods ended July 31, 2019 and 2018

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE-MONTHS PERIODS ENDED JULY 31, 2019 and 2018

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 5th day of September 2019.

TECSYS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three-months periods ended July 31, 2019 and 2018

Financial Statements

Condensed Interim Consolidated Statements of Financial Position 2

Condensed Interim Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income 3

Condensed Interim Consolidated Statements of Cash Flows 4

Condensed Interim Consolidated Statements of Changes in Equity 5

Notes to the Condensed Interim Consolidated Financial Statements 6

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

	Note		July 31, 2019		April 30, 2019
Assets					
Current assets					
Cash and cash equivalents		$	13,348	$	14,913
Accounts receivable			13,203		14,986
Work in progress			660		811
Other receivables			756		392
Tax credits			4,356		3,493
Inventory			659		673
Prepaid expenses			3,785		3,223
Total current assets			36,767		38,491
Non-current assets					
Other long-term receivables			505		278
Tax credits			5,326		5,260
Property and equipment			2,620		2,714
Right-of-use assets	5		8,146		-
Deferred development costs			1,068		1,064
Other intangible assets			14,127		14,706
Goodwill			17,314		17,456
Deferred tax assets			5,878		5,476
Total non-current assets			54,984		46,954
Total assets		$	91,751	$	85,445
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	11,167	$	11,633
Deferred revenue			13,772		14,252
Current portion of long-term debt	6		1,097		1,022
Lease obligations	7		968		-
Other current liabilities			4,073		4,111
Total current liabilities			31,077		31,018
Non-current liabilities					
Long-term debt	6		10,516		10,827
Other non-current liabilities			2,066		2,333
Lease obligations	7		8,986		-
Deferred tax liabilities			1,745		1,769
Total non-current liabilities			23,313		14,929
Total liabilities			54,390		45,947
Equity					
Share capital	4		19,144		19,144
Contributed surplus	4		10,131		9,943
Retained earnings			8,514		10,618
Accumulated other comprehensive income loss	11		(428)		(207)
Total equity attributable to the owners of the Company			37,361		39,498
Total liabilities and equity		$	91,751	$	85,445

See accompanying notes to the unaudited condensed interim consolidated financial statements

TECSYS Inc.
Condensed Interim Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income
(Unaudited)
Three-month periods ended July 31, 2019 and 2018
(in thousands of Canadian dollars, except per share data)

	Note		Three months Ended July 31, 2019		Three months Ended July 31, 2018
Revenue:					
Proprietary products		$	444	$	1,325
Third-party products			3,652		1,456
Cloud, maintenance and subscription			9,782		6,991
Professional services			9,742		6,067
Reimbursable expenses			630		443
Total revenue			24,250		16,282
Cost of revenue:					
Products			2,962		1,275
Services	8		9,125		6,980
Reimbursable expenses			630		443
Total cost of revenue			12,717		8,698
Gross profit			11,533		7,584
Operating expenses:					
Sales and marketing			4,508		3,434
General and administration			2,384		1,580
Research and development, net of tax credits			3,718		2,668
Restructuring costs	9		420		-
Total operating expenses			11,030		7,682
Profit (loss) from operations			503		(98)
Net finance costs (income)	10		421		(92)
Profit (loss) before income taxes			82		(6)
Income tax (benefit) expense			349		(19)
(Loss) profit attributable to the owners of the Company		$	(267)	$	13
Other comprehensive (loss) income:					
Effective portion of changes in fair value on designated revenue hedges	11		136		50
Exchange differences on translation of foreign operations	11		(357)		-
Comprehensive (loss) income attributable to the owners of the Company		$	(488)	$	63
Basic and diluted (loss) earnings per common share	4	$	(0.02)	$	NIL

See accompanying notes to the unaudited condensed interim consolidated financial statements

TECSYS Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Three-months periods ended July 31, 2019 and 2018
(in thousands of Canadian dollars)

	Note		Three months Ended July 31, 2019		Three months Ended July 31, 2018
Cash flows (used in) from operating activities:					
(Loss) profit for the period		$	(267)	$	13
Adjustments for:					
Depreciation of property and equipment and right-of-use assets			477		223
Amortization of deferred development costs			162		278
Amortization of other intangible assets			413		122
Net finance costs (income)	10		421		(92)
Unrealized foreign exchange and other			(252)		142
Non-refundable tax credits			(236)		(227)
Stock-based compensation	4		188		-
Income taxes			349		-
Net cash from operating activities excluding changes in non-cash working capital items related to operations			1,255		459
Accounts receivable			1,756		1,369
Work in progress			139		(657)
Other receivables			(714)		(184)
Tax credits			(691)		(677)
Inventory			14		223
Prepaid expenses			(433)		(411)
Accounts payable and accrued liabilities			(1,382)		(853)
Deferred revenue			(463)		1,657
Changes in non-cash working capital items related to operations			(1,774)		467
Net cash (used in) from operating activities			(519)		926
Cash flows (used in) financing activities:					
Repayment of long-term debt			(236)		(12)
Payment of lease obligations	7		(242)		-
Interest paid			(241)		-
Net cash (used in) financing activities			(719)		(12)
Cash flows (used in) investing activities:					
Interest received	10		29		81
Acquisitions of property and equipment			(127)		(37)
Acquisitions of other intangible assets			(63)		(17)
Deferred development costs			(166)		(55)
Net cash (used in) investing activities			(327)		(28)
Net (decrease) increase in cash and cash equivalents during the period			(1,565)		886
Cash and cash equivalents – beginning of period			14,913		13,496
Cash and cash equivalents – end of period		$	13,348	$	14,382

TECSYS Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
Three-month periods ended July 31, 2019 and 2018
(in thousand of Canadian dollars, except per share data)

	Note	Share capital Number	Share capital Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance, April 30, 2019		13,082,376	$ 19,144	$ 9,943	$ (207)	$ 10,618	$ 39,498
Adjustment on initial application of IFRS 16	3	-	-	-	-	(1,117)	(1,117)
Adjusted balance, May 1, 2019		13,082,376	19,144	9,943	(207)	9,501	38,381
Loss for the period		-	-	-	-	(267)	(267)
Other comprehensive income for the period:							
Effective portion of changes in fair value on designated revenue hedges	11	-	-	-	136	-	136
Exchange difference on translation of foreign operations	11	-	-	-	(357)	-	(357)
Stock-based compensation	4	-	-	188	-	-	188
Total comprehensive income (loss) for the period		-	-	188	(221)	(267)	(300)
Dividends to equity owners	4	-	-	-	-	(720)	(720)
Total transaction with owners of the Company		-	-	-	-	(720)	(720)
Balance, July 31, 2019		13,082,376	$ 19,144	$ 10,131	$ (428)	$ 8,514	$ 37,361
Balance, April 30, 2018		13,082,376	$ 19,144	$ 9,577	$ (113)	$ 14,527	$ 43,135
Adjustment on initial application of IFRS 15		-	-	-	-	(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	11	-	-	-	50	-	50
Total comprehensive income (loss) for the period		-	-		50	13	63
Dividends to equity owners						(654)	(654)
Total transaction with owners of the Company		-	-	-	-	(654)	(654)
Balance, July 31, 2018		13,082,376	$ 19,144	$ 9,577	$ (63)	$ 13,465	$ 42,123

1. Description of business:

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

2. Statement of compliance:

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

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 5, 2019.

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

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

3. Changes in significant accounting policies:

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

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

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

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

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 5 to 21 years for offices and 3 to 6 years for data centers, equipment and vehicles. In addition, the right-of-use asset is reduced by impairment losses resulting from impairment tests conducted in accordance with IAS 36, *Impairment of Assets*, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments used for the calculations comprise mainly fixed payments and variable lease payments that depend on an index or a rate, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The lease liability is subsequently measured at amortized cost using the effective interest method and is remeasured to reflect changes in the lease payments.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Impact of transition:

Effective May 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach with the effect of initially applying this standard recognized at the date of application. The cumulative effect of initially applying IFRS 16 at initial application was recognized in retained earnings as of May 1, 2019 and comparative information presented for 2019 has not been restated.

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

(i) To grandfather the assessment of which transactions are leases on the date of initial application, the Company applied IFRS 16 only to contracts that were previously identified as leases under IAS 17.

(ii) Use of the same discount rate for portfolio of leases with similar characteristics;

(iii) Exemption, on a lease-by-lease basis, of recognizing a right-of-use asset and lease liability when the lease term is within 12 months of the date of initial application.

(iv) Exemption, on a lease-by-lease basis, of recognizing a right-of-use asset and lease liability when the lease has an underlying asset that is of low value;

(v) Exclude initial direct costs, at the date of initial application only, on a lease-by-lease basis from the measurement of the right-of-use asset;

(vi) Use hindsight at the date of initial application only, on a lease-by-lease basis, to determine the lease term if the contract contains options to extend or terminate the lease;

(vii) No reassessment on whether a contract is or contains a lease under IAS 17;

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

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

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

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

	Impact of adopting IFRS 16 for three months ended July 31, 2019
Cost of revenue – Services - Decrease	$ 36
Cost of revenue – Products - Decrease	5
Operating expenses – Sales and Marketing - Decrease	8
Operating expenses – General and Administration - Decrease	11
Operating expenses – Research and Development - Decrease	20
Interest expenses – Increase	(95)
Income tax expense – Decrease	4
Impact at July 31, 2019 – Condensed Interim Statements of Income and Comprehensive income	$ (11)

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

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

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

4. Share capital and Stock option plan:

(a) Dividend policy:

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

(b) Earnings per share:

Basic earnings per share:

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

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018
(Loss) profit attributable to common shareholders	$ (267)	$ 13
Issued common shares at the beginning of the year	13,082,376	13,082,376
Weighted average number of common shares outstanding (basic)	13,082,376	13,082,376
Basic earnings per common share	$ (0.02)	$ Nil

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

Diluted earnings per share:

The calculation of diluted earnings per share is based on the profit attributable to common shareholders and the weighted average number of common shares outstanding after adjustment for the effects of all dilutive common shares. The 655,309 options as of July 31, 2019 (nil for the same periods of 2018) were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive. Therefore, diluted earnings per share equals basic earnings per share for the three-month periods ended July 31, 2019 and 2018.

(c) Stock option plan:

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

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

The movement in outstanding stock options for the three months period to July 31, 2019 is as follows:

	Number of options	Weighted average Exercise price	Weighted average Fair value
Outstanding at April 30, 2019	188,700	17.23	4.42
Granted on July 3, 2019	466,609	13.40	3.07
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at July 31, 2019	655,309	14.50	3.46

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 the grant.

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

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

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

For the three-months period ended July 31, 2019, the Company recognized stock-based compensation expense of $0.2 million (nil for the same period of fiscal 2019).

As at July 31, 2019, the remaining contractual life in years of the granted 188,700 options on September 6, 2018 is 4.10 years with 35,381 options currently exercisable.

As at July 31, 2019, the remaining contractual life in years of the granted 466,609 options on July 3, 2019 is 4.92 years with no options currently exercisable.

5. Right-of-use assets:

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

	Offices	Data Centers	Vehicles and equipment	Total
Balance, May 1, 2019 (note 3)	$ 7,845	$ 389	$ 184	$ 8,418
Depreciation	(188)	(56)	(14)	(258)
Effect of foreign currency exchange differences	(3)	(7)	(4)	(14)
Balance, July 31, 2019	$ 7,654	$ 326	$ 166	$ 8,146

6. Banking Facilities and Long-term debt:

On January 30, 2019, the Company entered into a Credit Agreement. The Credit Agreement includes a Term Facility of up to $12,000,000 and a Revolving Facility of $5,000,000. The Term Facility was used for the purchase of PCSYS and for general corporate purposes. The Revolving Facility is for general corporate purposes. On January 30, 2019, the Company borrowed $12,000,000 under the Term Facility (the Term Loan). The Revolving Facility remains undrawn as of July 31, 2019.

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

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

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

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

	July 31, 2019	April 30, 2019
Term Loan, secured by a hypothec on movable properties	$ 11,550	$ 11,775
Government funded debt, with no interest or security, payable over various installments, maturing in November 2020	63	74
	$ 11,613	$ 11,849
Current portion	(1,097)	(1,022)
Long-term debt	$ 10,516	$ 10,827

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

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 who have 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:

	2019
Current	$ 968
Non-current	8,986
Total lease obligations	$ 9,954

The following table presents the contractual undiscounted cash flows for lease obligations as at July 31, 2019:

Less than one year	$ 1,237
One to five years	5,017
More than five years	6,062
Total undiscounted lease obligations	$ 12,316

Interest expense on lease obligations for the three-months period ended July 31, 2019 was $95,000. The expense relating to variable lease payments not included in the measurement of lease obligations was $274,000. This consists of variable lease payments for operating costs, property taxes and insurance. Expenses relating to short-term leases were $641,000 and expenses relating to leases of low value assets were $52,000. Total cash outflow for leases was $337,000, including $242,000 of principal payments on lease obligations.

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

8. Cost of revenue:

Services cost is broken down as follows:

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018
Gross expenses	$ 9,471	$ 7,477
Amortization of intangible assets	156	-
E-business tax credits	(502)	(497)
	$ 9,125	$ 6,980

9. Restructuring costs:

For the three-month period ended July 31, 2019, the Company recognized restructuring costs of $0.4 million (nil for the same period of fiscal 2019). These costs are related to acquisition integration, primarily for severance.

10. Net finance costs (income):

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018
Foreign exchange loss (gain)	168	(11)
Interest expense (income) on bank deposits and other	158	(81)
Interest expense – IFRS 16	95	-
Net finance costs (income) recognized in profit or loss	$ 421	$ (92)

11. Derivative instruments and risk management:

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

Non-hedge designated derivative instruments

On July 31, 2019, the Company held three outstanding foreign exchange contracts with various maturities to October 31, 2019 to sell US$ 2,450,000 into Canadian dollars at a rate of CA$1.3160 to yield CA$3,224,000. On July 31, 2019, the Company had recorded an unrealized exchange loss of $23,000, included in accounts payable and accrued liabilities and an unrealized exchange gain of $15,000 included in other receivables, representing the change in fair value of these outstanding contracts since inception and their initial measurement.

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.

Revenue hedge designated derivative instruments

On July 31, 2019, the Company held nine outstanding foreign exchange contracts with various maturities to January 31, 2020 to sell US$12,000,000 into Canadian dollars at rates averaging CA$1.31654 to yield CA$15,798,500. Of the outstanding US$12,000,000 hedge designated foreign exchange contracts, US$8,000,000 pertains to highly probable future revenue denominated in U.S. dollars expected over the next six-month period while US$4,000,000 relates to realized U.S. dollar denominated revenue. On July 31, 2019, the Company had recorded an overall unrealized loss of $82,000 included in accounts payable and accrued liabilities and an unrealized gain of $75,000 included in other receivables representing the change in fair value of these outstanding contracts since inception.

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$12,612,000. 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 overall unrealized gain of $11,000 included 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 contracts since inception and their initial measurement.

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

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

	Three Months Ended July 31 2019	Three Months Ended July 31 2018
Accumulated other comprehensive (loss) as at the beginning of the fiscal year	$ (127)	$ (113)
Net gain (loss) on derivatives designated as cash flow hedges	167	(230)
Amounts reclassified from accumulated other comprehensive income to net earnings, and included in:		
Revenue	39	216
Net finance costs	(70)	64
Accumulated other comprehensive loss from cash flow hedges	$ 9	$ (63)
Cumulative translation adjustment from foreign operations as at the beginning of the fiscal year	(80)	-
Cumulative translation adjustment from foreign operations during the period	(357)	-
Cumulative translation adjustment from foreign operations at the end of period	$ (437)	$ (63)
Accumulated other comprehensive loss	$ (428)	$ (63)

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

12. Related party transactions:

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

As at July 31, 2019, key management and their spouses control 30% (July 31, 2018 – 31%) 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, 2019	Three Months Ended July 31, 2018
Salaries	$ 1,066	$ 776
Other short-term benefits	66	57
Payments to defined contribution plans	43	19
	$ 1,175	$ 852

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans of $658,000 during the three months ended July 31, 2019 (2019 - $538,000) to key management and other management employees to facilitate their purchase of Company shares. The outstanding loans as at July 31, 2019 amounted to $785,000 (April 30, 2019 - 241,000).

13. Operating segments:

Management has organized the Company under one reportable segment: the development and marketing of enterprise-wide distribution software and related services. Substantially all the Company's property and equipment, goodwill and other intangible assets are located in Canada and Denmark. At July 31, 2019, property and equipment, goodwill and intangible assets attributable to Denmark total $14.3 million (April 30, 2019 - $14.8 million). The Company's subsidiaries in the U.S. and the U.K. comprise sales and service operations offering implementation and maintenance services only.

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

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

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018
Canada	$ 6,103	$ 5,847
United States	13,483	10,355
Europe	4,435	77
Other	229	3
	$ 24,250	$ 16,282

14. Subsequent events:

On August 2, 2019, the Company paid a dividend of $0.055 per share totalling $0.7 million. On September 5, 2019, the Company declared a dividend of $0.055 per share, to be paid on October 4, 2019 to shareholders of record at the close of business on September 20, 2019.

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