

TECSYS®

2nd 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 November 29, 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 second quarter of fiscal year 2019 ended on October 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 any 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			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenue	18,184	16,282	18,908	17,227	18,072	16,511	18,447	17,385
Profit	596	13	1,802	722	1,356	69	4,776	888
Comprehensive Income (Loss)	552	63	1,493	1,057	701	864	4,378	1,261
EBITDA¹	1,422	536	2,307	1,312	2,184	687	6,674	1,941
Basic and Diluted Earnings per Common Share	0.05	NIL	0.13	0.06	0.10	0.01	0.39	0.07

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 EBITDA in that period.

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 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. This had a positive impact on Profit, Comprehensive Income and EBITDA in that period.

Results of Operations

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

Revenue

Total revenue for the second quarter ended October 31, 2018 increased to \$18.2 million, \$0.1 million or 1% higher, compared to \$18.1 million for the same period of fiscal 2018. The U.S. dollar averaged CA\$1.3032 in the second quarter of fiscal 2019 in comparison to CA\$1.2496 in the second quarter of fiscal 2018. Approximately 61% of the Company's revenues were generated in the U.S. dollar during the second quarter of fiscal 2019. Revenue in U.S dollars were recognized at CA\$ 1.2926 during the second

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

quarter of fiscal 2019 compared to CA\$ 1.2931 for the corresponding quarter of fiscal 2018. The stronger U.S. dollar in fiscal 2019 offset by the favorable variance of the Company's partial hedging of U.S. revenue in fiscal 2018 gave rise to no variance in comparison to the same period last year. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately \$0.1 million.

Overall total contract value bookings² amounted to \$16.2 million in the second quarter of fiscal 2019, an increase of 41% in comparison to \$11.5 million for the same period last year. During the second quarter of fiscal 2019, the Company signed six new accounts with a total contract value of \$1.3 million compared to three new accounts with a total contract value of \$2.5 million in the second quarter of fiscal 2018.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology products was \$2.5 million in the second quarter of fiscal 2019, \$816,000 or 50% higher in comparison to \$1.6 million for the same period last year. The increase is mainly due to higher proprietary software revenue.

Third party products revenue was \$1.4 million in the second quarter of fiscal 2019, consistent with the same period last year. There was an increase in radio-frequency equipment revenue and third-party software license revenue offset by a decrease in storage equipment revenue.

Cloud, maintenance and subscription revenue was \$6.8 million for the second quarter of fiscal 2019 an increase of \$0.4 million or 6%, compared to \$6.4 million for the same period in the previous fiscal year. The increase is primarily attributable to higher maintenance revenue derived from maintenance on new license sales and price increases and higher hosting revenues partially offset by attrition.

Professional services revenue was \$6.9 million in the second quarter of fiscal 2019, a decrease of \$1.0 million, or 12% compared to the same period in the previous fiscal year. The Company recognized in the second quarter of fiscal 2018 an amount of \$1.0 million of deferred professional services revenue due to the termination of a contract and its associated future obligations.

As a percentage of total revenue, products accounted for 21% and services, for 76% in the second quarter of fiscal 2019 compare to 17% and 79%, respectively, for the same period of fiscal 2018.

Cost of Revenue

Total cost of revenue was \$8.7 million in the second quarter of fiscal 2019, up slightly from \$8.6 million for the same period in fiscal 2018. The slight increase is attributable to higher services costs offset by lower reimbursable expenses.

The cost of products stayed relatively flat at \$1.4 million in comparison to the same period last year. This is due to the increase in third-party software license revenue and radio frequency equipment revenue discussed earlier offset by lower third-party products costs.

The cost of services was \$6.7 million in the second quarter of fiscal 2019, up slightly from \$6.6 million for the same period last year. The increase is primarily attributable to higher third-party maintenance costs and employee salaries and benefits offset by a decrease in consulting and travel expenses. The cost of services includes tax credits of \$0.5 million for the second quarter of fiscal 2019 compared to \$0.5 million for the same period in the previous fiscal year.

Gross Profit

Gross profit increased to \$9.5 million, up \$0.1 million or 1%, in the second quarter of fiscal 2019 in comparison to \$9.4 million for the same period last year. This is mainly attributable to higher products margin of \$0.7 million partially offset by lower services margin of \$0.6 million. Total gross profit percentage in the second quarter of fiscal 2019 was 52% compared to 52% in the same period of fiscal 2018.

The products gross profit increased to \$2.4 million from \$1.7 million, up 42% compared to the same period last year. This increase is largely attributable to the higher mix of proprietary products in the current period compared to the prior period.

Services gross profit during the second quarter of fiscal 2019 decreased to \$7.1 million, lower by \$0.6 million in comparison to the same period of fiscal 2018. The decrease is mainly attributable to the recognition, in the second quarter of fiscal 2018, of \$1.0 million of deferred professional services revenue due to the termination of a contract and its associated future obligations. This was partially offset by the increased revenues arising from professional services and from cloud, maintenance and subscription services. Services gross margin was 51% in the second quarter of fiscal 2019 compared to 54% for the same period last year.

Operating Expenses

Total operating expenses for the second quarter of fiscal 2019 increased to \$8.7 million, higher by \$0.8 million or 11%, compared to \$7.8 million for the same period last year. The Company expects to leverage its current sales, marketing and general and administrative as well as its R&D organization to support revenue growth. The most notable differences between the second quarter of fiscal 2019 in comparison with the same period in fiscal 2018 are as follows.

- Sales and marketing expenses increased to \$4.1 million, \$0.2 million higher than the comparable quarter last year. There was an increase in marketing program costs, recruitment fees and commissions partially offset by lower employee costs and severance in comparison to the same period last year.
- General and administrative expenses increased to \$1.9 million, \$0.3 million higher than the comparable quarter last year. The increase is mainly due to incurred costs associated with the acquisition of OrderDynamics Corporation (ODC) of \$0.1 million, stock based compensation expenses of \$0.1 million and other legal and professional fees.
- Net R&D expenses increased to \$2.7 million, \$0.3 million higher than the comparable quarter last year. Gross R&D expenses increased by \$0.4 million comprised primarily of higher employee costs, recruitment fees and consulting

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

expenses. The Company also recorded \$0.5 million of refundable and non-refundable R&D and e-business tax credits in the second quarter of fiscal 2019 in comparison to \$0.3 million for the same period in fiscal 2018. The Company recorded amortization of deferred development costs and other intangible assets of \$0.3 million in the second quarter of fiscal 2019 compared to \$0.3 million for the same quarter in the prior year.

Profit from Operations

The Company recorded profit from operations of \$0.8 million in the second quarter of fiscal 2019 compared to \$1.6 million for the comparable quarter of the previous year. Not considering the effect of the \$1.0 million one-time recognition of deferred professional services in the second quarter of fiscal 2018 noted above, profit in the current quarter would be \$0.2 or approximately 38% higher in comparison to fiscal 2018 second quarter. This increase is mainly due to higher proprietary software products revenues and higher cloud, maintenance and subscription revenues partially offset by higher operating expenses.

Net Finance Costs

In the second quarter of fiscal 2019, the Company recorded net finance income of \$49,000 in comparison to net finance costs of \$33,000 for the comparable quarter last year. The increase in net finance income is primarily attributable to higher interest income on the Company's investments and lower exchange loss in comparison to the same period of the previous fiscal year.

Income Taxes

In the second quarter of fiscal 2019 and 2018, the Company recorded income tax expense of \$0.3 million. The effective tax rate increased from 16.7% to 31.7% in fiscal 2019, due to previously unrecognized tax benefits that the Company recognized in fiscal 2018.

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 \$0.6 million or \$0.05 per share in the second quarter of fiscal 2019 in comparison to a profit of \$1.4 million or \$0.10 per share in the second quarter of fiscal 2018. See also note above regarding Profit from Operations.

Results of Operations

Six months ended October 31, 2018 compared to six months ended October 31, 2017

Revenue

Total revenue for the six months ended October 31, 2018 was \$34.5 million, \$0.1 million or 0.3% lower than the same period of fiscal 2018. The U.S. dollar averaged CA\$1.3039 in the first half of fiscal 2019 in comparison to CA\$1.2849 in the first half of fiscal 2018. Approximately 62% of the Company's revenues were generated in the U.S. dollar during the first half of fiscal 2019. The stronger U.S. dollar partially offset by the unfavorable variance of the Company's partial hedging of U.S. revenue gave rise to an unfavorable variance in comparison to the same period last year by approximately \$0.3 million. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately \$0.1 million.

Overall total contract value bookings amounted to \$26.9 million in the first half of fiscal 2019, an increase of 26% compared to \$21.3 million for the same period last year. During the first half of fiscal 2019, the Company signed nine new accounts with a total contract value of \$3.2 million compared to five new accounts with a total contract value of \$5.1 million in the first half of fiscal 2018.

Proprietary products revenue was \$3.8 million for the first half of fiscal 2019, an increase of 31% in comparison to \$2.9 million for the same period last year. The increase is mainly due to higher proprietary software revenue.

Third party products revenue was \$2.8 million for the first half of fiscal 2019, a decrease of \$0.2 million or 5% compared to \$3.0 million in the first half of fiscal 2018. There was a decrease in third-party software license revenue and storage equipment revenue partially offset by an increase in radio-frequency equipment revenue.

Cloud, maintenance and subscription revenue was \$13.8 million for the first half of 2019, an increase of \$0.3 million compared to \$13.5 million for the same period in the previous fiscal year. The increase is primarily attributable to higher maintenance revenue derived from maintenance on new license sales offset by attrition.

Professional services revenue was \$13.0 million for the first half of fiscal 2019, a decrease of \$1.0 million or 7%, compared to \$14.0 million for the same period in the previous fiscal year. The decrease is mainly attributable to the recognition, in the second quarter of fiscal 2018, of \$1.0 million of deferred professional services revenue due to the termination of a contract and its associated future obligations.

As a percentage of total revenue, products accounted for 19% and services for 78% in the first half of fiscal 2019 and 17% and 80%, respectively, in the first half of fiscal 2018.

Cost of Revenue

Total cost of revenue were flat at \$17.4 million in the first half of fiscal 2019 compared to the same period in fiscal 2018.

The cost of products decreased by \$0.1 million or 3% to \$2.6 million in comparison to the same period last year.

The cost of services was \$13.7 million, an increase of \$0.2 million or 1% in the first half of fiscal 2019 in comparison to \$13.5 million for the same period last year. The cost of services includes tax credits of \$1.0 million in both the first half of fiscal 2019 and 2018.

Gross Profit

Gross profit was \$17.1 million, a decrease of \$0.1 million or 1%, in the first half of fiscal 2019 in comparison to \$17.2 million for the same period last year. This is mainly attributable to lower services gross profit of \$0.9 million partially offset by higher products gross profit of \$0.8 million. Total gross margin in the first half of fiscal 2019 was consistent with the same period last year at 50%.

The products margin increased to \$4.0 million, \$0.8 million higher than the same period last year. This increase is primarily attributable to higher proprietary software revenue.

Services gross profit during the first half of fiscal 2019 decreased by \$0.9 million to \$13.1 million in comparison to \$14.1 million in the same period of fiscal 2018. The decrease is mainly attributable to the recognition, in the second quarter of fiscal 2018, of \$1.0 million of deferred professional services revenue due to the termination of a contract and its associated future obligations. Services gross margin was 49% in the first half of fiscal 2019 in comparison to 51% for the comparable period last year.

Operating Expenses

Total operating expenses for the first half of fiscal 2019 were \$16.4 million, an increase of \$0.8 million or 5%, compared to \$15.5 million for the same period last year. The most notable differences between the first half of fiscal 2019 and the same period in fiscal 2018 are as follows.

- General and administrative expenses were \$3.5 million, an increase of \$0.3 million primarily resulting from costs associated with the acquisition of ODC, shared-based compensation expenses and other legal and professional fees.
- Net R&D expenses were \$5.3 million in the first half of fiscal 2019, an increase of \$0.5 million. Gross R&D expenses increased by \$0.7 million primarily due to higher salaries and benefits and consulting fees. The Company also recorded \$0.8 million of R&D refundable and non-refundable tax credits and e-business tax credits in the first half of fiscal 2019 in comparison to \$0.7 million for the same period in fiscal 2018. In addition, the Company recorded amortization of deferred development costs and other intangible assets of \$0.6 million in the first half of fiscal 2019 compared to \$0.7 million for the same period a year earlier.

Profit from Operations

The Company recorded profit from operations of \$0.7 million in the first half of fiscal 2019 compared to \$1.7 million for the comparable period of the previous year. As explained above, the Company recognized in the second quarter of fiscal 2018 an amount of \$1.0 million of deferred professional services revenue due to the termination of a contract and its associated future obligations. Not considering that impact, profit would have been flat for the first half of fiscal 2019 compared to the prior period resulting from improved gross profit offset by increase in operating expenses.

Net Finance Costs

In the first half of fiscal 2019 and 2018, the Company recorded net finance income of \$0.1 million. Net finance income is primarily attributable to interest income on the Company's investments and foreign exchange gains and losses.

Income Taxes

The Company recorded income tax expense of \$0.3 million in the first half of fiscal 2019 and 2018. The effective tax rate increased from 17.5% to 29.8% in fiscal 2019 due to previously unrecognized tax benefits that the Company recognized in fiscal 2018.

Profit

The Company recorded a profit of \$0.6 million or \$0.05 per share in the first half of fiscal 2019 compared to a profit of \$1.4 million or \$0.11 per share in the first half of fiscal 2018. See also note above regarding Profit from Operations.

Liquidity and Capital Resources

On October 31, 2018, current assets totaled \$45.0 million, \$10 million higher compared to the end of fiscal 2018 due primarily to the reclass of the long-term investment to short-term investment. Cash and cash equivalents decreased to \$11.7 million compared to \$13.5 million as at April 30, 2018. The decrease is mainly due to changes in non-cash working capital and the payment of dividends. Accounts receivable and work in progress totaled \$14.4 million on October 31, 2018 compared to \$14.6 million as at April 30, 2018. The slight decrease in accounts receivable and work in progress is due to significant cash collections during the first half of fiscal 2019 which more than offset 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\$1.3157 as at October 31, 2018.

The Company's DSO (days sales outstanding)³ stood at 71 days at the end the second quarter of fiscal 2019 compared to 69 days at the end of fiscal 2018 and 59 days at the end of the second quarter of fiscal 2018.

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

Current liabilities on October 31, 2018 totaled \$20.2 million compared to \$19.9 million at the end of fiscal 2018. The movement in the current liabilities is largely characterized by the increase in deferred revenue of \$1.2 million which was offset by lower accounts payable and accrued liabilities due to the payment of incentives for fiscal 2018.

Working capital increased to \$24.8 million at the end of October 31, 2018 in comparison to \$15.0 million at the end of fiscal year 2018 primarily as a result of the reclass of long-term investment noted above.

Operating activities used funds of \$0.4 million in the first half of fiscal 2019 in comparison to generating funds of \$0.1 million in the corresponding period of fiscal 2018. Operating activities excluding changes in non-cash working capital items generated \$1.6 million in the first half of fiscal 2019 in comparison to \$1.9 million in the same period in fiscal 2018.

Non-cash working capital items used funds of \$2.0 million in the first half of fiscal 2019 primarily due to decreases in accounts payable and accrued liabilities of \$0.8 million and increases in tax credits of \$1.4 million partially offset by decreases in accounts receivable of \$0.5 million.

Non-cash working capital items used funds of \$1.8 million in the first half of fiscal 2018 primarily due to decreases in deferred revenue of \$2.8 million and decreases in accounts payable and accrued liabilities of \$0.5 million and increases in tax credits of \$1.3 million partially offset by decreases in accounts receivable of \$2.9 million.

The Company believes that funds on hand at October 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 \$1.3 million in the first half of fiscal 2019 in comparison to generating funds of \$9.2 million in the same period in fiscal 2018. On June 27, 2018, 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 \$16.5 million (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, 2018, for gross proceeds of \$11.5 million 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 \$5.0 million. 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 \$1.1 million have been recognized as a reduction of the proceeds resulting in net total proceeds of approximately \$10.5 million.

The Company paid dividends of \$1.3 million and \$1.2 million during the first half of fiscal 2019 and fiscal 2018, respectively, as it increased its quarterly dividend to \$0.05 per share in fiscal 2019 compared to \$0.045 per share in fiscal 2018.

During the first half of fiscal 2019, investing activities used funds of \$0.1 million in comparison to \$10.4 million in the comparable period last year. \$10.0 million of the cash generated by the bought deal discussed above was invested in a long-term redeemable GIC for a period of three years. This was reclassified to short-term investment at October 31, 2018. The Company used funds of \$0.2 million and \$0.4 million for the acquisition of property and equipment, and intangible assets in the first half of fiscal 2019 and fiscal 2018 respectively. In the first half of fiscal 2019, the Company invested in its proprietary software products with the capitalization of \$0.1 million reflected as deferred development costs (first half of fiscal 2018: \$0.1 million). The Company received interest of \$0.1 million in each of the first half of fiscal 2019 and fiscal 2018.

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 \$0.3 million to key management and other management employees to facilitate their purchase of Company shares during the first half of fiscal 2019. The outstanding loans as at October 31, 2018 amounted to \$0.4 million.

Subsequent Events

(i) Acquisitions:

On November 14, 2018, the Company purchased 100% of the shares and assumed outstanding debt of OrderDynamics Corporation (ODC) for an aggregate purchase price of \$13,375,000, subject to adjustment based on final closing statement and working capital. The Company funded the purchase price with existing cash.

(ii) Dividends:

On November 29, 2018, the Company Board of Directors approved a 10% increase of the quarterly dividend from \$0.05 per share to \$0.055 per share. To this effect, the Company declared a dividend of \$0.055 per share, to be paid on January 11, 2019 to shareholders of record at the close of business on December 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 environment in the United States health care system from which the Company derives a significant amount of its revenue is subject to change. Change in this regulatory environment 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 backlog⁴ of \$51.7 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 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.

Outstanding Share Data

On November 29, 2018, the Company has 13,082,376 common shares as there has been no activity since the end of the Company's second 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; and b) capitalization of contract acquisition costs. Under current revenue recognition policies, the license revenue mentioned in a) above was 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. Contract acquisition costs, including incremental commissions paid to employees, were previously expensed upon commencement of the related contract revenue. Under IFRS 15, the Company capitalizes 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. 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 May 1, 2018 and its interim statements of income and comprehensive income for the three and six months period ended October 31, 2018. There was no impact on the Company's interim statements of cash flows for these periods.

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

	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 October 31, 2018	Impact of adopting IFRS 15 for six months ended October 31, 2018
Revenue – Proprietary products - increase	\$ 26	\$ 177
Operating expenses – Sales and marketing – Increase	(39)	(78)
Related income tax – Deferred tax assets	4	(27)
Impact at October 31, 2018 – Condensed Interim Statements of Income and Comprehensive income	\$ (9)	\$ 72

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:

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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 October 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 and six months period ending on October 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. These non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable similarly titled measures 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 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 three and six-months periods ending October 31 of fiscal 2019 and 2018, derived from IFRS measures in the Company's condensed interim consolidated financial statements, is as follows:

	Three-months ended October 31, 2018	Three-months ended October 31, 2017	Six-months ended October 31, 2018	Six-months ended October 31, 2017
Profit for the period	\$ 596	\$ 1,356	\$ 609	\$ 1,425
Adjustments for:				
Depreciation of property and equipment	212	202	435	405
Depreciation of deferred development costs	280	297	558	599
Depreciation of other intangible assets	121	117	243	235
Interest expense	-	-	-	1
Interest income	(64)	(60)	(145)	(96)
Income taxes	277	272	258	302
EBITDA	\$ 1,422	\$ 2,184	\$ 1,958	\$ 2,871

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

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 and six-month periods ended October 31, 2018 and 2017

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX-MONTH PERIODS ENDED OCTOBER 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 29th day of November 2018.

TECSYS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

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

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TECSYS Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
As at October 31, 2018 and April 30, 2018
(in thousand of Canadian dollars)

	Note	October 31, 2018	April 30, 2018
Asset			
Current asset			
Cash and cash equivalent		\$ 11,708	\$ 13,496
Short-term investment	6	10,007	-
Accounts receivable		13,485	13,939
Work in progress		900	617
Other receivables		430	535
Tax credit		4,964	3,391
Inventory		878	1,145
Prepaid expenses		2,664	1,829
Total current Asset		45,036	34,952
Non-current assets			
Long-term investments	6	-	10,007
Other long-term receivables		208	215
Tax credits		4,978	4,840
Property and equipment		2,759	3,091
Deferred development costs		1,357	1,850
Other intangible assets		1,164	1,342
Goodwill		3,596	3,596
Deferred tax assets		3,595	3,524
Total non-current assets		17,657	28,465
Total assets		\$ 62,693	\$ 63,417
Liabilities			
Current liabilities			
Accounts payables and accrued liabilities		\$ 8,269	\$ 9,087
Current portion of long-term debt		47	47
Deferred revenue		11,894	10,774
Total current liabilities		20,210	19,908
Non-current liabilities			
Long-term debt		51	74
Other non-current liabilities		294	300
Total non-current liabilities		345	374
Total liabilities		20,555	20,282
Equity			
Share capital	5	19,144	19,144
Contributed surplus		9,694	9,577
Retained earnings		13,407	14,527
Accumulated other comprehensive loss	10	(107)	(113)
Total equity attributable to the owners of the Company		42,138	43,135
Total liabilities and equity		\$ 62,693	\$ 63,417
Subsequent event	13		

See accompanying notes to the unaudited condensed interim consolidated financial statements

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

	Note	Three months Ended October 31, 2018	Three months Ended October 31, 2017	Six months Ended October 31, 2018	Six months Ended October 31, 2017
Revenue:					
Proprietary products		\$ 2,461	\$ 1,645	\$ 3,786	\$ 2,893
Third-party products		1,356	1,447	2,812	2,969
Cloud, maintenance and subscription		6,836	6,446	13,827	13,536
Professional services		6,931	7,884	12,998	14,028
Reimbursable expenses		600	650	1,043	1,157
Total revenue		18,184	18,072	34,466	34,583
Cost of revenue:					
Products		1,369	1,372	2,644	2,732
Services	8	6,705	6,612	13,685	13,504
Reimbursable expenses		600	650	1,043	1,157
Total cost of revenue		8,674	8,634	17,372	17,393
Gross profit		9,510	9,438	17,094	17,190
Operating expenses:					
Sales and marketing		4,100	3,851	7,534	7,484
General and administration		1,931	1,611	3,511	3,187
Research and development, net of tax credit		2,655	2,381	5,323	4,859
Total operating expenses		8,686	7,843	16,368	15,530
Profit from operations		824	1,595	726	1,660
Net finance (income) costs	9	(49)	(33)	(141)	(67)
Profit before income taxes		873	1,628	867	1,727
Income tax		277	272	258	302
Profit attributable to the owners of the Company		\$ 596	\$ 1,356	\$ 609	\$ 1,425
Other comprehensive (loss) income:					
Effective portion of changes in fair value on designated revenue hedges	10	(44)	(655)	6	140
Comprehensive income attributable to the owners of the Company		\$ 552	\$ 701	\$ 615	\$ 1,565
Basic and diluted earnings per common share	5	\$ 0.05	\$ 0.10	\$ 0.05	\$ 0.11

See accompanying notes to the unaudited condensed interim consolidated financial statements

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

Note	Three months Ended October 31, 2018	Three months Ended October 31, 2017	Six months Ended October 31, 2018	Six months Ended October 31, 2017
Cash flow from (used in) operating activities:				
Profit for the period	\$ 596	\$ 1,356	\$ 609	\$ 1,425
Adjustments for:				
Depreciation of property and equipment	212	202	435	405
Depreciation of deferred development costs	280	297	558	599
Depreciation of other intangible assets	121	117	243	235
Net finance (income)	9 (49)	(33)	(141)	(67)
Unrealized foreign exchange and other	(113)	266	29	(556)
Non-refundable tax credit	(248)	(179)	(475)	(368)
Stock-based compensation	117	-	117	-
Income taxes	265	210	265	210
Operating activities excluding changes in non-cash working capital items related to operations	1,181	2,236	1,640	1,883
Accounts receivable	(915)	391	454	2,871
Work in progress	374	170	(283)	87
Other receivables	262	27	78	(327)
Tax credits	(740)	(641)	(1,417)	(1,329)
Inventory	44	158	267	39
Prepaid expenses	(18)	164	(429)	240
Accounts payable and accrued liabilities	35	702	(818)	(522)
Deferred revenue	(1,518)	(2,601)	139	(2,835)
Changes in non-cash working capital items related to operations	(2,476)	(1,630)	(2,009)	(1,776)
Net cash (used in) from operating activities	(1,295)	606	(369)	107
Cash flow (used in) financing activities:				
Repayment of long-term debt	(11)	(18)	(23)	(37)
Issuance of common shares	5 -	(1)	-	10,454
Payment of dividends	5 (1,308)	(1,178)	(1,308)	(1,178)
Interest paid	-	-	-	(1)
Net cash (used in) financing activities	(1,319)	(1,197)	(1,331)	9,238
Cash flows (used in) investing activities:				
Long-term investments	-	(10,007)	-	(10,007)
Interest received	9 64	60	145	96
Acquisition of property and equipment	(66)	(165)	(103)	(253)
Acquisition of other intangible assets	(48)	(85)	(65)	(127)
Deferred development costs	(10)	-	(65)	(72)
Net cash (used in) investing activities	(60)	(10,197)	(88)	(10,363)
Net (decrease) increase in cash and cash equivalents during the period	(2,674)	(10,788)	(1,788)	(1,018)
Cash and cash equivalent – beginning of period	14,382	23,246	13,496	13,476
Cash and cash equivalent – end of period	\$ 11,708	\$ 12,458	\$ 11,708	\$ 12,458

See accompanying notes to the unaudited condensed interim consolidated financial statements

TECSYS Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
Six-month periods ended October 31, 2018 and 2017
(in thousand of Canadian dollars, except per share data)

	Note	Share capital Number	Share capital Amount	Contributed surplus	Accumulated other comprehensive (loss) income	Retained earning	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		-	-	-	-	609	609
Other comprehensive income for the period:							
Effective portion of changes in fair value on designated revenue hedges	9	-	-	-	6	-	6
Total comprehensive income for the period		-	-	-	6	609	615
Dividend to equity owners		-	-	-	-	(1,308)	(1,308)
Stock-based compensation	7	-	-	117	-	-	117
Total transaction with owners of the Company		-	-	117	-	(1,308)	(1,191)
Balance, October 31, 2018		13,082,376	\$ 19,144	\$ 9,694	\$ (107)	\$ 13,407	\$ 42,138
Balance, April 30, 2017		12,315,326	\$ 8,349	\$ 9,577	\$ (279)	\$ 13,064	\$ 30,711
Profit for the period		-	-	-	-	1,425	1,425
Effective portion of changes in fair value on designated revenue hedges		-	-	-	140	-	140
Total comprehensive income for the period		-	-	-	140	1,425	1,565
Common shares issued under bought deal financing		767,050	10,454	-	-	-	10,454
Dividend to equity owners		-	-	-	-	(1,178)	(1,178)
Total transaction with owners of the Company		767,050	10,454	-	-	(1,178)	9,276
Balance, October 31, 2017		13,082,376	\$ 18,803	\$ 9,577	\$ (139)	\$ 13,311	\$ 41,552

See accompanying notes to the unaudited condensed interim consolidated financial statements

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

Three and six-month periods ended October 31, 2018 and 2017
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

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 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 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 November 29, 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.

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

Three and six-month periods ended October 31, 2018 and 2017
(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; and b) capitalization of contract acquisition costs. Under previous revenue recognition policies, the license revenue mentioned in a) above was 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. Contract acquisition costs, including incremental commissions paid to employees, were previously expensed upon commencement of the related contract revenue. Under IFRS 15, the Company capitalizes 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 life of the software.

Impact of transition

Effective May 1, 2018, the Company adopted IFRS 15 using the cumulative effect transition method. 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 May 1, 2018 and its interim statements of income and comprehensive income for the three and six month periods ended October 31, 2018. There was no impact on the Company's interim statements of cash flows for these periods.

	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)
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TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

Three and six-month periods ended October 31, 2018 and 2017
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

	Impact of adopting IFRS 15 for three months ended October 31, 2018	Impact of adopting IFRS 15 for six months ended October 31, 2018
Revenue – Proprietary products - increase	\$ 26	\$ 177
Operating expenses – Sales and marketing – Increase	(39)	(78)
Related income tax – Deferred tax assets	4	(27)
Impact at October 31, 2018 – Condensed Interim Statements of Income and Comprehensive income	\$ (9)	\$ 72

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.

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

Three and six-month periods ended October 31, 2018 and 2017
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

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 included 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.

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six-month periods ended October 31, 2018 and 2017
(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 shareholder of record on July 20, 2018.

On September 6, 2018, the Company declared a dividend of \$0.05 per share, paid on October 5, 2018 to shareholders of record on September 21, 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 October 31, 2018	Three Months Ended October 31, 2017	Six Months Ended October 31, 2018	Six Months Ended October 31, 2017
Profit attributable to common shareholders	\$ 596	\$ 1,356	\$609	\$ 1,425
Weighted average number of common shares outstanding (basic and diluted)	13,082,376	13,082,376	13,082,376	12,844,757
Basic and diluted earnings per common share	\$ 0.05	\$ 0.10	\$ 0.05	\$ 0.11

For the three and six months ended October 31, 2018, 188,700 options was excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive (three and six months ended October 31, 2017 – Nil).

6. Short-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 but at least 31 days after the initial investment date, the Company will receive interest based on interest rates ranging from 1.35% to 1.70%. On November 9, 2018, the Company redeemed \$5,000,000 of the GIC for working capital purposes considering the acquisition of OrderDynamics Corporation. See also note 13 – Subsequent events.

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7. Stock option plan

On July 5, 2018, the Company approved a common share stock option plan for its employees and directors. The Company may grant options up to 10% of its issued and outstanding shares. The stock option plan is administered by the Board of Directors who may determine, in accordance with the terms of the plan, the terms relating to each option, including the extent to which each option is exercisable during the term of the options.

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

On September 6, 2018, the Company granted stock options as follows:

	Number of options	Weighted average Exercise price	Weighted average Fair value
Outstanding at April 30, 2018	-	-	-
Granted	188,700	17.23	4.42
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at October 31, 2018	188,700	17.23	4.42
Exercisable at October 31, 2018	-	-	-

The issued options vest on a 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 September 6, 2018 was determined using the Black-Scholes option pricing model with the following assumptions:

	September 6, 2018
Weighted average expected option life (years)	5
Weighted average expected stock price volatility	28.87%
Weighted average dividend yield	1.16%
Weighted average risk-free interest rate	2.16%

For the three and six months period ended October 31, 2018, the Company recognized stock-based compensation expense of \$0.1 million (nil for the same periods of 2017). As at October 31, 2018, the remaining contractual life in years of the granted 188,700 options is 4.85 years with no options currently exercisable.

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8. Cost of revenue:

Services cost is broken down as follows:

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Six Months Ended October 31, 2018	Six Months Ended October 31, 2017
Gross expenses	\$ 7,228	\$ 7,093	\$ 14,705	\$ 14,493
E-business tax credits	(523)	(481)	(1,020)	(989)
	\$6,705	\$ 6,612	\$ 13,685	\$ 13,504

9. Net finance (income) costs:

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Six Months Ended October 31, 2018	Six Months Ended October 31, 2017
Interest expense on financial liabilities measured at amortized cost	\$ -	\$ -	\$ -	\$ 1
Foreign exchange loss	15	27	4	28
Interest income on bank deposits	(64)	(60)	(145)	(96)
Net finance (income) costs recognized in profit or loss	\$ (49)	\$ (33)	\$ (141)	\$ (67)

10. 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

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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 October 31, 2018, the Company held outstanding foreign exchange contracts with various maturities to December 31, 2018 to sell US\$ 2,100,000 into Canadian dollars at a rate of CA\$1.3009 to yield CA\$2,732,000. On October 31, 2018, the Company had recorded an unrealized exchange loss of \$30,000 included in accounts payable and accrued liabilities representing the change in fair value of these contracts since inception.

On October 31, 2017, the Company held outstanding foreign exchange contracts with various maturities to December 29, 2017 to sell US\$2,550,000 into Canadian dollars at a rate of CA\$1.2464 to yield CA\$3,178,000. On October 31, 2017, the Company had recorded an unrealized exchange loss of \$110,000 included in accounts payable and accrued liabilities representing the change in fair value of these contracts since inception.

Revenue hedge designated derivative instruments

On October 31, 2018, the Company held outstanding foreign exchange contracts with various maturities to sell US\$12,300,000 into Canadian dollars at rates averaging CA\$1.2611 to yield CA\$15,512,000. Of the outstanding US\$12,300,000 hedge designated foreign exchange contracts, US\$8,000,000 pertains to highly probable future revenue denominated in U.S. dollars expected over the next five months while US\$4,300,000 relates to realized U.S. dollar denominated revenue. On October 31, 2018, the Company had recorded an overall unrealized loss of \$265,000 representing the change in fair value of these outstanding contracts since inception. This loss was recorded in accounts payable and accrued liabilities in the consolidated statement of financial position.

On October 31, 2017, the Company held outstanding foreign exchange contracts with various maturities to June 29, 2018 to sell US\$10,000,000 into Canadian dollars at rates averaging CA\$1.2949 to yield CA\$12,950,000. 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 October 31, 2017, the Company had recorded an overall unrealized gain of \$66,000 representing the change in fair value of these outstanding contracts since inception. A fair value gain of \$257,000 of certain derivatives was recorded in other receivables and a fair value loss of \$191,000 on other derivatives was recorded in accounts payable and accrued liabilities in the consolidated statement of financial position.

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

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Six Months Ended October 31, 2018	Six Months Ended October 31, 2017
Accumulated other comprehensive income (loss) at the beginning of the fiscal period	\$ (63)	\$ 516	\$ (113)	\$ (279)
Net (loss) gain on derivatives designated as cash flow hedges	(173)	(444)	(403)	743
Amounts reclassified from accumulated other comprehensive income (loss) to net earnings, and included in:				
Revenue (increase) decrease	103	(290)	318	(382)
Exchange loss (gain) in net finance costs	26	79	91	(221)
Accumulated other comprehensive loss	\$ (107)	\$ (139)	\$ (107)	\$ (139)

As at October 31, 2018, all of the net loss presented in accumulated other comprehensive loss 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.

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11. 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 October 31, 2018, key management and their spouses control 31.1% (October 31, 2017 – 31.9%) 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 October 31, 2018	Three Months Ended October 31, 2017	Six Months Ended October 31, 2018	Six Months Ended October 31, 2017
Salaries	\$ 999	\$ 976	\$ 1,775	\$ 1,612
Other short-term benefits	40	42	97	92
Payments to defined contribution plans	17	13	36	29
	\$ 1,053	\$ 1,031	\$ 1,908	\$ 1,733

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans of \$252,000 (fiscal 2018 - \$538,000) to key management and other management employees to facilitate their purchase of Company shares during the six months ended October 31, 2018. The outstanding loans as at October 31, 2018 amounted to \$412,000 (April 30, 2018 - \$305,000).

12. 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.

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

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Six Months Ended October 31, 2018	Six Months Ended October 31, 2017
Canada	\$ 6,798	\$ 5,580	\$ 12,645	\$ 9,880
United States	11,110	11,931	21,465	23,742
Other	276	561	356	961
	<u>\$ 18,184</u>	<u>\$ 18,072</u>	<u>\$ 34,466</u>	<u>\$ 34,583</u>

13. Subsequent events:

(a) Acquisition:

On November 14, 2018, the Company purchased 100% of the shares and assumed outstanding debt of OrderDynamics for an aggregate purchase price of \$13,375,000, subject to adjustment based on final closing statement and working capital. The Company funded the purchase price with existing cash.

(b) Dividends:

On November 29, 2018, the Company's Board of Directors approved a 10% increase of the quarterly dividend from \$0.05 per share to \$0.055 per share. To this effect, the Company declared a dividend of \$0.055 per share, to be paid on January 11, 2019 to shareholders of record at the close of business on December 21, 2018.

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