



A Symbol of **Leadership**

2nd Quarter Fiscal 2020 Report



Management's Discussion and Analysis of Financial Condition and Results of Operations dated December 4, 2019

The following discussion and analysis should be read in conjunction with the Condensed Interim Consolidated Financial Statements of Tecslys 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 second quarter of fiscal year 2020 ended on October 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

Tecslys is a global provider of supply chain solutions that equip organizations with industry-leading services and tools to achieve operational success. Tecslys' solutions are designed to create clarity out of the complex supply chain challenges facing organizations today. Tecslys 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 Tecslys' 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 Tecslys 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, Tecslys 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.

Tecslys 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 Tecslys 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, Tecslys 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, Tecslys 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 acquisitions.

Quarterly Selected Financial Data

(Quarterly data are unaudited)

In thousands of Canadian dollars, except per share data

	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenue	26 008	24 250	23 191	18 792	18 184	16 282	18 908	17 227
Profit (Loss)	1 404	(267)	79	(1 429)	596	13	1 802	722
Comprehensive Income (Loss)	1 439	(488)	(143)	(1 307)	552	63	1 493	1 057
Adjusted EBITDA¹	3 677	1 995	684	(98)	1 654	536	2 307	1 312
Basic and Diluted Earnings per Common Share	0.11	(0.02)	0.01	(0.11)	0.05	NIL	0.13	0.06

In the second quarter of fiscal 2020, the Company recorded \$0.3 million of stock-based compensation expense and a \$0.2 million cost for the fair value of contingent consideration to be paid for PCSYS. This change in the fair value of the contingent consideration resulted from strong financial performance of PCSYS that increased contingent consideration expected to be paid to the sellers (Earnout). The Earnout period ended on September 30, 2019 and is the only Earnout period associated with the acquisition. The above amounts had a negative impact on Profit and no impact on Adjusted EBITDA¹ as these items are excluded from Adjusted EBITDA¹. Adjusted EBITDA¹ was positively impacted by a quarterly sequential improvement from OrderDynamics, which achieved slightly positive Adjusted EBITDA¹ in the second quarter of fiscal 2020. Adjusted EBITDA¹ was also 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 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 EBITDA¹ as these items are excluded from Adjusted EBITDA¹. Adjusted EBITDA¹ 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.

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

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 EBITDA¹. The total of the above items had a \$1.7 million negative impact on Profit and a \$0.9 million negative impact on Adjusted EBITDA¹ 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 bookings². During the fourth quarter of fiscal 2019, approximately 60% of our software product bookings² were SaaS compared to 4% in the fourth quarter of fiscal 2018. This had a material impact on Profit and Adjusted EBITDA¹ in the fourth quarter as these bookings² result in revenue recognition over the coming years (typically five-year contracts recognized rateably) as opposed to up front revenue recognition for perpetual license bookings².

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 EBITDA¹. 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 EBITDA¹. 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 EBITDA¹ 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.

Results of Operations

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

Revenue

Total revenue for the second quarter ended October 31, 2019 increased to \$26.0 million, \$7.8 million or 43% higher, compared to \$18.2 million for the same period of fiscal 2019. The OrderDynamics and PCSYS acquisitions contributed \$6.9 million in revenue while organic revenue was up \$1.0 million or 5%. The U.S. dollar averaged CA\$1.3238 in the second quarter of fiscal 2020 in comparison to CA\$1.3032 in the second quarter of fiscal 2019. Approximately 55% (2019 – 61%) of the Company's revenues were generated in U.S. dollars during the second quarter of fiscal 2020. In comparison to the second quarter of fiscal 2019, the stronger U.S. dollar gave rise to a favorable revenue variance of \$0.3 million. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately \$0.1 million in the second quarter of fiscal 2020 as compared to the second quarter of fiscal 2019.

Overall total contract bookings² amounted to \$27.9 million in the second quarter of fiscal 2020, an increase of 72% in comparison to \$16.2 million for the same period last year. The increase was primarily the result of OrderDynamics and PCSYS bookings² in the second quarter of fiscal 2020 along with a 17% increase in organic bookings² compared to the same quarter last year. During the second quarter of fiscal 2020, the Company signed 10 new accounts with a total contract value of \$15.6 million compared to 6 new accounts with a total contract value of \$1.3 million in the second quarter of fiscal 2019.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology products decreased to \$1.7 million in the second quarter of fiscal 2020, \$0.7 million or 30% lower in comparison to \$2.5 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 bookings². In the second quarter of fiscal 2020, SaaS subscription bookings² (measured on an Annual Recurring Revenue basis²) were \$2.4 million compared to \$0.1 million in the second quarter of fiscal 2019. Perpetual license bookings² in the second quarter of fiscal 2020 were \$1.4 million compared to \$2.1 million in the second quarter of fiscal 2019.

Third party products revenue increased to \$3.6 million, up \$2.2 million or 165% in the second quarter of fiscal 2020 in comparison to \$1.4 million for the same period last year. The increase was the result of the acquisition of PCSYS, which contributed \$2.4 million offset by a slight decline in the organic business.

Cloud, maintenance and subscription revenue increased to \$10.1 million, up \$3.2 million or 47%, in the second quarter of fiscal 2020 in comparison to \$6.8 million for the same period last year. The increase is the result of \$2.3 million of contribution from the acquisitions of OrderDynamics and PCSYS as well as \$0.9 million or 13% growth in our organic business, driven primarily by SaaS. Total Annual Recurring Revenue² at October 31, 2019 is \$40.5 million compared to \$27.6 million at October 31, 2018 and up \$2.2 million from \$38.3 million at July 31, 2019. A significant amount of Annual Recurring Revenue (ARR)² is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR². During the second quarter of fiscal 2020, exchange movements had an immaterial impact on ARR.

Professional services revenue increased to \$10.2 million, up \$3.2 million or 47%, in the second quarter of fiscal 2020 in comparison to \$6.9 million for the same period last year. The organic business contributed \$1.5 million of the increase (up 22% from the same period last year). The increase in professional services revenue from the organic business results from the accumulation of professional services backlog over the previous quarters. Acquisitions of OrderDynamics and PCSYS contributed \$1.7 million of the overall professional services increase. Professional Services Bookings² in the quarter were \$9.7 million compared to \$11.7 million in the second quarter of fiscal 2019 and \$7.4 million in the first quarter of fiscal 2020. The significant bookings² in the second quarter of fiscal 2019 included a \$3.5 million multi-year order to roll out a hospital network.

Cost of Revenue

Total cost of revenue increased to \$13.0 million, up \$4.3 million or 49%, in the second 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 \$3.0 million and higher product costs of \$1.4 million.

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

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

The cost of products increased to \$2.8 million, up \$1.4 million or 104%, in the second quarter of fiscal 2020 in comparison to \$1.4 million for the same period last year. The increase is mainly due to the acquisition of PCSYS, which had an impact of \$1.9 million related to the sale of hardware, partially offset by a decrease in cost of products from the organic business of \$0.4 million.

The cost of services increased to \$9.7 million, up \$3.0 million or 45%, in the second quarter of fiscal 2020 in comparison to \$6.7 million for the same period last year. The increase is primarily the result of the acquisitions of OrderDynamics and PCSYS, which contributed \$2.0 million including \$0.2 million of intangible amortization. Organic cost of services increased primarily as a result of direct costs associated with higher revenue. The cost of services includes tax credits of \$0.3 million for the second quarter of fiscal 2020 in comparison to \$0.5 million in the second quarter of fiscal 2019.

Gross Profit

Gross profit increased to \$13.1 million, up \$3.5 million or 37%, in the second quarter of fiscal 2020 in comparison to \$9.5 million for the same period last year. This is mainly attributable to higher service margin of \$3.5 million. Total gross profit percentage in the second quarter of fiscal 2020 was 50% compared to 52% in the same period of fiscal 2019.

Services gross profit during the second quarter of fiscal 2020 increased by \$3.5 million to \$10.5 million in comparison to \$7.1 million for the same period last year. Services gross profit was 52% in the second quarter of fiscal 2020 in comparison to 51% for the same period last year.

The products margin increased by \$0.1 million in the second quarter of fiscal 2020 compared to the same period last year. This was the result of PCSYS products margin which was partially offset by lower license revenue from the organic business and was directly impacted by the shift to SaaS bookings² noted above.

Operating Expenses

Total operating expenses for the second quarter of fiscal 2020 increased to \$10.8 million, higher by \$2.2 million or 25%, compared to \$8.7 million for the same period last year. The acquisitions of OrderDynamics and PCSYS contributed \$2.1 million of the increase. The most notable differences between the second quarter of fiscal 2020 in comparison with the same period in fiscal 2019 are as follows:

- Sales and marketing expenses increased to \$4.8 million, \$0.7 million higher than the comparable quarter last year. The acquisitions of OrderDynamics and PCSYS contributed to \$0.7 million of the increase while the organic business has remained flat primarily due to lower marketing program expenses offset by higher personnel costs including commissions.
- General and administrative expenses increased to \$2.4 million, \$0.5 million higher than the comparable quarter last year. The acquisitions of OrderDynamics and PCSYS contributed \$0.3 million, which includes a \$0.2 million fair value adjustment on the contingent consideration (Earnout) expected to be paid for the acquisition of PCSYS. As mentioned previously, the Earnout period ended on September 30, 2019 and is the only Earnout period associated with the acquisition. Stock-based compensation costs accounted for \$0.2 million of the overall increase in general and administrative expenses in the quarter compared to the same period last year.
- Net R&D expenses increased to \$3.6 million, \$1.0 million higher than the comparable quarter last year. The acquisitions of OrderDynamics and PCSYS contributed for \$1.1 million of the increase, offset by slightly lower expenses from the organic business. The Company recorded \$0.5 million of refundable and non-refundable R&D and e-business tax credits in the second quarter of fiscal 2020 compared to \$0.5 million for the same quarter in the prior year. The Company amortized deferred development costs and other intangible assets of \$0.2 million in the second 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 the second quarter of fiscal 2020 compared to \$nil in the same period of last year.

Profit (loss) from Operations

The Company recorded a profit from operations of \$2.2 million in the second quarter of fiscal 2020 in comparison to \$0.8 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 stock-based compensation, fair value adjustment on the contingent consideration Earnout of PCSYS, increased operating expenses and the decrease in license revenue mentioned previously. The Company is seeing increased software as a service (SaaS) bookings². 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 second quarter of fiscal 2020, the Company recorded \$0.3 million in net finance costs in comparison to net finance income of \$49,000 for the comparable quarter last year. These costs in the current period relate primarily to \$0.3 million from 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 second quarter of fiscal 2020, the Company recorded income tax expense of \$0.5 million in comparison to an income tax expense of \$0.3 million in the second quarter of fiscal 2019.

Profit (loss)

The Company recorded a profit of \$1.4 million or \$0.11 per share in the second quarter of fiscal 2020 in comparison to a profit of \$0.6 million or \$0.05 per share in the second quarter of fiscal 2019.

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

Results of Operations

Six months ended October 31, 2019 compared to six months ended October 31, 2018

Revenue

Total revenue for the six months ended October 31, 2019 increased to \$50.3 million, \$15.8 million or 46% higher, compared to \$34.5 million for the same period of fiscal 2019. The OrderDynamics and PCSYS acquisitions contributed \$12.5 million in revenue while organic revenue was up \$3.3 million or 10%. The U.S. dollar averaged CA\$1.3260 in the first half of fiscal 2020 in comparison to CA\$1.3039 in the first half of fiscal 2019. Approximately 55% (2019 – 62%) of the Company's revenues were generated in U.S. dollars during the first half of fiscal 2020. In comparison to the first half 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 half of fiscal 2019 gave rise to a favorable revenue variance of \$0.8 million. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately \$0.2 million in the first half of fiscal 2020 as compared to the first half of fiscal 2019.

Overall total contract bookings² amounted to \$41.9 million in the first half of fiscal 2020, an increase of 56% in comparison to \$26.9 million for the same period last year. The increase was primarily the result of OrderDynamics and PCSYS bookings² in the first half of fiscal 2020 with organic bookings² contributing 7% of the increase. During the first half of fiscal 2020, the Company signed 18 new accounts with a total contract value of \$19.0 million compared to 9 new accounts with a total contract value of \$3.2 million in the first half of fiscal 2019.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology products, decreased to \$2.2 million in the first half of fiscal 2020, \$1.6 million or 43% lower in comparison to \$3.8 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 bookings². In the first half of fiscal 2020, SaaS subscriptions bookings² (measured on an Annual Recurring Revenue basis²) were \$2.7 million compared to \$0.1 million in the first half of fiscal 2019. Perpetual license bookings² in the first half of fiscal 2020 were \$1.8 million compared to \$3.1 million in the first half of fiscal 2019.

Third party products revenue increased to \$7.2 million, up \$4.4 million or 158% in the first half of fiscal 2020 in comparison to \$2.8 million for the same period last year. The increase was the result of the acquisition of PCSYS, which contributed \$4.5 million and was slightly offset by a decrease in the organic business.

Cloud, maintenance and subscription revenue increased to \$19.8 million, up \$6.0 million or 44%, in the first half of fiscal 2020 in comparison to \$13.8 million for the same period last year. The increase is the result of \$4.5 million of contribution from the acquisitions of OrderDynamics and PCSYS as well as \$1.5 million or 11% growth in our organic business, driven primarily by SaaS. Total Annual Recurring Revenue at October² 31, 2019 is \$40.5 million compared to \$27.6 million at October 31, 2018. A significant amount of Annual Recurring Revenue (ARR)² is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR². During the first half of fiscal 2020, exchange movements had a \$0.5 million negative impact on ARR.

Professional services revenue increased to \$19.9 million, up \$6.9 million or 53%, in the first half of fiscal 2020 in comparison to \$13.0 million for the same period last year. The organic business contributed \$4.0 million of the increase (up 30% from the same period last year). The significant increase in professional services revenue from the organic business results from the accumulation of professional services backlog over the previous quarters. Acquisitions of OrderDynamics and PCSYS contributed \$3.0 million of the overall professional services increase. Professional Services Bookings² in the first half of fiscal 2020 were \$17.1 million compared to \$17.5 million in the first half of fiscal 2019.

Cost of Revenue

Total cost of revenue increased to \$25.7 million, up \$8.3 million or 48%, in the first half of fiscal 2020, in comparison to \$17.4 million for the same period in fiscal 2019. The increase is primarily attributable to higher services costs of \$5.1 million and higher product costs of \$3.1 million.

The cost of products increased to \$5.8 million, up \$3.1 million or 118%, in the first half of fiscal 2020 in comparison to \$2.6 million for the same period last year. The increase is mainly due to the acquisition of PCSYS, which had an impact of \$3.5 million related to the sale of hardware, partially offset by lower cost of products from the organic business of \$0.4 million.

The cost of services increased to \$18.8 million, up \$5.1 million or 38%, in the first half of fiscal 2020 in comparison to \$13.7 million for the same period last year. The increase is primarily the result of the acquisitions of OrderDynamics and PCSYS, which contributed \$3.9 million including \$0.4 million of intangible amortization. Organic cost of services increased primarily as a result of direct costs associated with higher revenue. The cost of services includes tax credits of \$0.8 million for the first half of fiscal 2020 compared to \$1.0 million for the same period last year.

Gross Profit

Gross profit increased to \$24.6 million, up \$7.5 million or 44%, in the first half of fiscal 2020 in comparison to \$17.1 million for the same period last year. This is mainly attributable to higher service margin of \$7.8 million offset by lower products margin of \$0.3 million. Total gross profit percentage in the first half of fiscal 2020 was 49% compared to 50% in the same period of fiscal 2019.

Services gross profit during the first half of fiscal 2020 increased by \$7.8 million to \$20.9 million in comparison to \$13.1 million for the same period last year. Services gross profit was 53% in the first half of fiscal 2020 in comparison to 49% for the same period last year.

The products margin decreased by \$0.3 million in the first half of fiscal 2020 compared to the same period last year primarily as a result of lower proprietary product revenue of \$1.6 million partially offset by higher third-party product contribution from PCSYS. The lower proprietary product revenue was primarily the result of lower license revenue and was directly impacted by the shift to SaaS bookings² noted above.

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

Operating Expenses

Total operating expenses for the first half of fiscal 2020 increased to \$21.9 million, higher by \$5.5 million or 34%, compared to \$16.4 million for the same period last year. The acquisitions of OrderDynamics and PCSYS contributed \$4.8 million of the increase. The most notable differences between the first half of fiscal 2020 in comparison with the same period in fiscal 2019 are as follows:

- Sales and marketing expenses increased to \$9.3 million, \$1.8 million higher than the comparable first half of last year. The acquisitions of OrderDynamics and PCSYS contributed to \$1.6 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 \$4.8 million, \$1.3 million higher than the comparable first half of last year. The acquisitions of OrderDynamics and PCSYS contributed \$0.6 million of the increase, which includes a \$0.2 million fair value adjustment on the contingent consideration (Earnout) expected to be paid for the acquisition of PCSYS. As mentioned previously, the Earnout period ended on September 30, 2019 and is the only Earnout period associated with the acquisition. Stock-based compensation costs accounted for \$0.5 million of the increase with the remaining increase related primarily to increases in personnel costs.
- Net R&D expenses increased to \$7.3 million, \$2.0 million higher than the comparable first half of last year. The acquisitions of OrderDynamics and PCSYS contributed \$2.2 million of the increase while the organic business was down slightly. The Company recorded \$1.0 million of refundable and non-refundable R&D and e-business tax credits in the first half of fiscal 2020 and \$0.8 million in the first half of fiscal 2019. The Company amortized deferred development costs and other intangible assets of \$0.3 million in the first half of fiscal 2020 compared to \$0.6 million for the same period in the prior year. Additionally, the Company deferred \$0.4 million of development costs in the first half of 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 first half 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 \$2.7 million in the first half of fiscal 2020 in comparison to a profit from operations of \$0.7 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, fair value adjustment of contingent consideration Earnout of PCSYS, stock-based compensation, increased operating expenses and the decrease in license revenue mentioned previously. The Company is seeing increased software as a service (SaaS) bookings². 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 half of fiscal 2020, the Company recorded \$0.7 million in net finance costs in comparison to net finance income of \$0.1 million for the comparable first half of last year. These costs in the current period relate primarily to foreign exchange loss of \$0.2 million and \$0.6 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 half of fiscal 2020, the Company recorded income tax expense of \$0.9 million in comparison to an income tax expense of \$0.3 million in the first half of fiscal 2019. In the first half 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 an effective tax rate in the current period of 44% compared to an effective tax rate of 30% in the same period last year.

Profit (loss)

The Company recorded a profit of \$1.1 million or \$0.09 per share in the first half of fiscal 2020 in comparison to a profit of \$0.6 million or \$0.05 per share in the first half of fiscal 2019.

Liquidity and Capital Resources

On October 31, 2019, current assets totaled \$39.7 million, \$1.2 million higher compared to the end of fiscal 2019. Cash and cash equivalents decreased to \$12.2 million compared to \$14.9 million as at April 30, 2019. Accounts receivable and work in progress totaled \$16.7 million on October 31, 2019 compared to \$15.8 million as at April 30, 2019. The increase in accounts receivable and work in progress is due to higher revenue which more than offset significant cash collections during the first half of fiscal 2020 and the unfavorable foreign exchange impact on the translation of U.S dollar receivables due to closing rate for the U.S dollar decreasing from CA\$1.3391 as at April 30, 2019 to CA\$1.3164 as at October 31, 2019.

The Company's DSO (days sales outstanding)² were at 58 days at the end the second quarter of fiscal 2020 compared to 61 days at the end of fiscal 2019 and 71 days at the end of the second quarter of fiscal 2019.

Current liabilities on October 31, 2019 totaled \$33.2 million compared to \$31.0 million at the end of fiscal 2019.

Working capital decreased to \$6.5 million at the end of October 31, 2019 from \$7.5 million at the end of fiscal year 2019 primarily as a result of 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 generated funds of \$1.4 million in the second quarter of fiscal 2020 in comparison to using funds of \$1.3 million in the corresponding period of fiscal 2019.

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

Operating activities excluding changes in non-cash working capital items generated \$2.4 million in the second quarter of fiscal 2020 in comparison to \$1.2 million in the corresponding period of fiscal 2019. Operating activities generated funds of \$0.9 million in the first half of fiscal 2020 in comparison to used funds of \$0.4 million in the corresponding period of fiscal 2019. Operating activities excluding changes in non-cash working capital items generated \$3.6 million in the first half of fiscal 2020 in comparison to \$1.6 million in the same period in fiscal 2019.

Non-cash working capital items used funds of \$0.9 million in the second quarter of fiscal 2020 due to an increase in accounts receivable of \$3.1 million and increases in tax credits and prepaid expenses of \$0.8 million offset by increases in accounts payable and accrued liabilities of \$1.8 million and deferred revenue of \$0.8 million. Non-cash working capital items used funds of \$2.7 million in the first half fiscal 2020 primarily due to an increase in accounts receivable of \$1.3 million and increases in tax credits, prepaid expenses and other receivables totaling \$2.4 million offset by a decrease in work in progress of \$0.3 million and an increase in deferred revenue of \$0.4 million.

Non-cash working capital items used funds of \$2.5 million in the second quarter of fiscal 2019 were primarily due to a decrease in deferred revenue of \$1.5 million and increase in accounts receivable by \$0.9 million. Non-cash working capital items used funds of \$2.0 million in the first half of fiscal 2019 primarily due to a decrease in accounts payable and accrued liabilities of \$0.8 million and an increase in tax credits and other receivables of \$1.4 million offset by a decrease in accounts receivable of \$0.4 million.

The Company believes that funds on hand at October 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 \$2.2 million in the second quarter of fiscal 2020 in comparison to using funds of \$1.3 million in the corresponding period of fiscal 2019. Financing activities used funds of \$2.9 million in the first half of fiscal 2020 in comparison to \$1.3 million in the same period in fiscal 2019. Financing activities in 2020 related primarily to payment of dividends and repayment of long-term debt (see note 6 in interim consolidated financial statements) as well as interest on long term debt and leases obligations (see note 7 in the interim consolidated financial statements).

During the second quarter of fiscal 2020, investing activities used funds of \$0.5 million in comparison to \$0.1 million in the corresponding quarter of fiscal 2019. The Company used funds of \$0.2 million for the acquisition of property and equipment and \$0.1 million for the acquisition of intangible assets in the second quarter of fiscal 2020. The Company invested in its proprietary software products with the capitalization of \$0.2 million reflected as deferred development costs in comparison to nil in the second quarter of fiscal 2019. During the first half of fiscal 2020, investing activities used funds of \$0.8 million in comparison to \$0.1 million in the comparable period last year. The Company used funds of \$0.4 million for the acquisition of property and equipment and \$0.1 million for the acquisition of intangible assets in the first half of fiscal 2020 (first half fiscal 2019: \$0.1 million and \$0.1 million, respectively). In the first half of fiscal 2020, the Company invested in its proprietary software products with the capitalization of \$0.4 million reflected as deferred development costs (first half 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 first half of the year ended October 31, 2019 (2019 - \$538,000) to key management and other management employees to facilitate their purchase of Company shares. The outstanding loans as at October 31, 2019 amounted to \$705,000 (April 30, 2019 - \$241,000).

Subsequent Events

On December 5, 2019, the Company's Board of Directors approved an increase of the quarterly dividend from \$0.055 per share to \$0.06 per share. The Company declared a dividend of \$0.06 per share, to be paid on January 10, 2020 to shareholders of record at the close of business on December 19, 2019.

Current and Anticipated Impacts of Current Economic Conditions

Current overall economic conditions together with market uncertainty and volatility may have an adverse impact on the demand for the Company's products and services as industry may adjust quickly to exercise caution on capital spending. This uncertainty may impact the Company's revenue.

Total backlog² at October 31, 2019 was \$87.0 million. This includes Annual Recurring Revenue² of \$40.5 million, Professional Services backlog⁴ of \$22.1 million and multi-year recurring revenue amounts and hardware. Based on the Annual Recurring Revenue and Professional Services backlog², the Company's management believes that services revenue ranging between \$19.0 million and \$20.0 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 bookings² continue to shift from perpetual license to SAAS, revenue and operating profit will be impacted in the medium term and this could be material.

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

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

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 December 5, 2019, the Company has 13,082,376 common shares and there has been no change 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, 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. Under this method, the Company elected to measure right-of-use of asset as equal to lease liability, adjusted for amounts previously recorded for deferred lease inducements or prepaid rent as at the date of adoption. 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 summarize 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 and six-months periods ended October 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 October 31, 2019
Cost of revenue – Services - Decrease	\$ 38
Cost of revenue – Products - Decrease	5
Operating expenses – Sales and Marketing - Decrease	6
Operating expenses – General and Administration - Decrease	10
Operating expenses – Research and Development - Decrease	20
Interest expenses – Increase	(93)
Income tax expense – Decrease	4
Impact at October 31, 2019 – Condensed Interim Statements of Income and Comprehensive income	\$ (10)

	Impact of adopting IFRS 16 for six months ended October 31, 2019
Cost of revenue – Services - Decrease	\$ 74
Cost of revenue – Products - Decrease	10
Operating expenses – Sales and Marketing - Decrease	14
Operating expenses – General and Administration - Decrease	21
Operating expenses – Research and Development - Decrease	40
Interest expenses – Increase	(188)
Income tax expense – Decrease	8
Impact at October 31, 2019 – Condensed Interim Statements of Income and Comprehensive income	\$ (21)

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 October 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 six months period ending on October 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 certain non-IFRS financial performance measures 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 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, fair value adjustment on contingent consideration, 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 and six-month periods ending October 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 October 31, 2019	Three-months ended October 31, 2018	Six-months ended October 31, 2019	Six-months ended October 31, 2018
Profit for the period	\$ 1,404	\$ 596	\$ 1,137	\$ 609
Adjustments for:				
Depreciation of property and equipment and right-of-use assets	480	212	957	435
Amortization of deferred development costs	151	280	313	558
Amortization of other intangible assets	325	121	738	243
Interest expense	290	-	571	-
Interest income	(18)	(64)	(46)	(145)
Income taxes	529	277	878	258
EBITDA	\$ 3,161	\$ 1,422	\$ 4,548	\$ 1,958
Adjustments for:				
Stock-based compensation	345	117	533	117
Restructuring costs	-	-	420	-
Fair value adjustment on contingent consideration earnout - PCSYS	171	-	171	-
Acquisition-related costs	-	115	-	115
Adjusted EBITDA	\$ 3,677	\$ 1,654	\$ 5,672	\$ 2,190

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 an 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 Tecsyst, 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 an 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 and six-month periods ended October 31, 2019 and 2018

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX-MONTH PERIODS ENDED OCTOBER 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 December 2019.

Tecsys Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and six-month periods ended October 31, 2019 and 2018

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

	Note	October 31, 2019	April 30, 2019 ¹
Assets			
Current assets			
Cash and cash equivalents	\$	12,153	\$ 14,913
Accounts receivable		16,243	14,986
Work in progress		474	811
Other receivables		706	392
Tax credits		4,970	3,493
Inventory		835	673
Prepaid expenses		4,313	3,223
Total current assets		39,694	38,491
Non-current assets			
Other long-term receivables		453	278
Tax credits		5,568	5,260
Property and equipment		2,623	2,714
Right-of-use assets	5	7,892	-
Deferred development costs		1,106	1,064
Other intangible assets		13,908	14,706
Goodwill		17,344	17,456
Deferred tax assets		5,878	5,476
Total non-current assets		54,772	46,954
Total assets	\$	94,466	\$ 85,445
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	\$	12,263	\$ 11,633
Deferred revenue		14,619	14,252
Current portion of long-term debt	6	1,172	1,022
Lease obligations	7	925	-
Other current liabilities		4,223	4,111
Total current liabilities		33,202	31,018
Non-current liabilities			
Long-term debt	6	10,204	10,827
Other non-current liabilities		2,093	2,333
Lease obligations	7	8,788	-
Deferred tax liabilities		1,753	1,769
Total non-current liabilities		22,838	14,929
Total liabilities		56,040	45,947
Equity			
Share capital	4	19,144	19,144
Contributed surplus	4	10,476	9,943
Retained earnings		9,199	10,618
Accumulated other comprehensive income loss	11	(393)	(207)
Total equity attributable to the owners of the Company		38,426	39,498
Total liabilities and equity	\$	94,466	\$ 85,445

See accompanying notes to the unaudited condensed interim consolidated financial statements

¹ The Company has initially applied IFRS 16 as at May 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3

Tecsys Inc.
Condensed Interim Consolidated Statements of Income and Comprehensive Income
(Unaudited)
Three and six-month periods ended October 31, 2019 and 2018
(in thousand of Canadian dollars, except per share data)

	Note	Three months Ended October 31, 2019	Three months Ended October 31, 2018 ¹	Six months Ended October 31, 2019	Six months Ended October 31, 2018 ¹
Revenue:					
Proprietary products		\$ 1,726	\$ 2,461	\$ 2,170	\$ 3,786
Third-party products		3,592	1,356	7,244	2,812
Cloud, maintenance and subscription		10,063	6,836	19,845	13,827
Professional services		10,169	6,931	19,911	12,998
Reimbursable expenses		458	600	1,088	1,043
Total revenue		26,008	18,184	50,258	34,466
Cost of revenue:					
Products		2,795	1,369	5,757	2,644
Services	8	9,700	6,705	18,825	13,685
Reimbursable expenses		458	600	1,088	1,043
Total cost of revenue		12,953	8,674	25,670	17,372
Gross profit		13,055	9,510	24,588	17,094
Operating expenses:					
Sales and marketing		4,807	4,100	9,315	7,534
General and administration		2,437	1,931	4,821	3,511
Research and development, net of tax credit		3,595	2,655	7,313	5,323
Restructuring costs	9	-	-	420	-
Total operating expenses		10,839	8,686	21,869	16,368
Profit from operations		2,216	824	2,719	726
Net finance costs (income)	10	283	(49)	704	(141)
Profit before income taxes		1,933	873	2,015	867
Income tax expense		529	277	878	258
Profit attributable to the owners of the Company		\$ 1,404	\$ 596	\$ 1,137	\$ 609
Other comprehensive (loss) income:					
Effective portion of changes in fair value on designated revenue hedges	11	(18)	(44)	118	6
Exchange differences on translation of foreign operations	11	53	-	(304)	-
Comprehensive income attributable to the owners of the Company		\$ 1,439	\$ 552	\$ 951	\$ 615
Basic and diluted earnings per common share	4	\$ 0.11	\$ 0.05	\$ 0.09	\$ 0.05

See accompanying notes to the unaudited condensed interim consolidated financial statements

¹ The Company has initially applied IFRS 16 as at May 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3

Tecsys Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Three and six-month periods ended October 31, 2019 and 2018
(in thousand of Canadian dollars)

Note	Three months Ended October 31, 2019	Three months Ended October 31, 2018 ¹	Six months Ended October 31, 2019	Six months Ended October 31, 2018 ¹
Cash flow from (used in) operating activities:				
Profit for the period	\$ 1,404	\$ 596	\$ 1,137	\$ 609
Adjustments for:				
Depreciation of property and equipment and right-of-use assets	480	212	957	435
Amortization of deferred development costs	151	280	313	558
Amortization of other intangible assets	325	121	738	243
Net finance costs (income)	10 283	(49)	704	(141)
Unrealized foreign exchange and other	(333)	(113)	(585)	29
Non-refundable tax credits	(510)	(248)	(746)	(475)
Stock-based compensation	4 345	117	533	117
Income taxes	207	265	556	265
Net cash from operating activities excluding changes in non-cash working capital items related to operations	2,352	1,181	3,607	1,640
Accounts receivable	(3,066)	(915)	(1,310)	454
Work in progress	191	374	330	(283)
Other receivables	253	262	(461)	78
Tax credits	(347)	(740)	(1,038)	(1,417)
Inventory	(177)	44	(163)	267
Prepaid expenses	(421)	(18)	(854)	(429)
Accounts payable and accrued liabilities	1,815	35	433	(818)
Deferred revenue	847	(1,518)	384	139
Changes in non-cash working capital items related to operations	(905)	(2,476)	(2,679)	(2,009)
Net cash from (used in) operating activities	1,447	(1,295)	928	(369)
Cash flow (used in) financing activities:				
Repayment of long-term debt	(236)	(11)	(472)	(23)
Payment of dividends	4 (1,439)	(1,308)	(1,439)	(1,308)
Payment of lease obligations	7 (243)	-	(485)	-
Interest paid	(248)	-	(489)	-
Net cash used in financing activities	(2,166)	(1,319)	(2,885)	(1,331)
Cash flows (used in) investing activities:				
Interest received	10 17	64	46	145
Acquisition of property and equipment	(232)	(66)	(359)	(103)
Acquisition of other intangible assets	(72)	(48)	(135)	(65)
Deferred development costs	(189)	(10)	(355)	(65)
Net cash used in investing activities	(476)	(60)	(803)	(88)
Net decrease in cash and cash equivalents during the period	(1,195)	(2,674)	(2,760)	(1,788)
Cash and cash equivalents – beginning of period	13,348	14,382	14,913	13,496
Cash and cash equivalents – end of period	\$ 12,153	\$ 11,708	\$ 12,153	\$ 11,708

See accompanying notes to the unaudited condensed interim consolidated financial statements

¹ The Company has initially applied IFRS 16 as at May 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3

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

	Note	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
		Number	Amount				
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
Profit for the period		-	-	-	-	1,137	1,137
Other comprehensive income for the period:							
Effective portion of changes in fair value on designated revenue hedges	11	-	-	-	118	-	118
Exchange difference on translation of foreign operations		-	-	-	(304)	-	(304)
Stock-based compensation	4	-	-	533	-	-	533
Total comprehensive income (loss) for the period		-	-	533	(186)	1,137	1,484
Dividends to equity owners	4	-	-	-	-	(1,439)	(1,439)
Total transaction with owners of the Company		-	-	-	-	(1,439)	(1,439)
Balance, October 31, 2019		13,082,376	\$ 19,144	\$ 10,476	\$ (393)	\$ 9,199	\$ 38,426
Balance, April 30, 2018 ¹		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		-	-	-	-	609	609
Other comprehensive income for the period:							
Effective portion of changes in fair value on designated revenue hedges	11	-	-	-	6	-	6
Stock-based compensation		-	-	117	-	-	117
Total comprehensive income (loss) for the period		-	-	117	6	609	732
Dividends to equity owners		-	-	-	-	(1,308)	(1,308)
Total transaction with owners of the Company		-	-	117	-	(1,308)	(1,308)
Balance, October 31, 2018 ¹		13,082,376	\$ 19,144	\$ 9,694	\$ (107)	\$ 13,407	\$ 42,138

¹ The Company has initially applied IFRS 16 as at May 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3

Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

Three and six-month periods ended October 31, 2019 and 2018
(in Canadian dollars, tabular amounts in thousands, except per share data and 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, 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 approved by the Board of Directors on December 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.

New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations are not yet effective for the three-month and six-month periods ended October 31, 2019 and have not been applied in preparing these consolidated interim financial statements. Management does not

Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six-month periods ended October 31, 2019 and 2018
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

expect that any of the new standards and amendments to existing standards issued but not yet effective would have a material impact on the Corporation's consolidated financial statements.

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

Tecsys Inc.

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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. Under this method, the Company elected to measure right-of-use of asset as equal to lease liability, adjusted for amounts previously recorded for deferred lease inducements or prepaid rent as at the date of adoption. 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;

Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six-month periods ended October 31, 2019 and 2018
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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 summarize 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 and six-months periods ended October 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 October 31, 2019
Cost of revenue – Services - Decrease	\$ 38
Cost of revenue – Products - Decrease	5
Operating expenses – Sales and Marketing - Decrease	6
Operating expenses – General and Administration - Decrease	10
Operating expenses – Research and Development - Decrease	20
Interest expenses – Increase	(93)
Income tax expense – Decrease	4
Impact at October 31, 2019 – Condensed Interim Statements of Income and Comprehensive income	\$ (10)

Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

Three and six-month periods ended October 31, 2019 and 2018
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

	Impact of adopting IFRS 16 for six months ended October 31, 2019
Cost of revenue – Services - Decrease	\$ 74
Cost of revenue – Products - Decrease	10
Operating expenses – Sales and Marketing - Decrease	14
Operating expenses – General and Administration - Decrease	21
Operating expenses – Research and Development - Decrease	40
Interest expenses – Increase	(188)
Income tax expense – Decrease	8
Impact at October 31, 2019 – Condensed Interim Statements of Income and Comprehensive income	\$ (21)

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

Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements
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Three and six-month periods ended October 31, 2019 and 2018
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

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.

On September 5, 2019, the Company declared a dividend of \$0.055 per share, paid on October 4, 2019 to shareholders of record at the close of business on September 20, 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 October 31, 2019	Three Months Ended October 31, 2018	Six Months Ended October 31, 2019	Six Months Ended October 31, 2018
Profit attributable to common shareholders	\$ 1,404	\$ 596	\$ 1,137	\$ 609
Weighted average number of common shares outstanding (basic and diluted)	13,082,376	13,082,376	13,082,376	13,082,376
Basic and diluted earnings per common share	\$ 0.11	\$ 0.05	\$ 0.09	\$ 0.05

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 October 31, 2019 (188,700 for the same period of 2019) 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 and six-month periods ended October 31, 2019 and 2018.

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Three and six-month periods ended October 31, 2019 and 2018
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(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 six months period to October 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	14.29	3.28
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at October 31, 2019	655,309	15.14	3.61

The issued options vest quarterly on a 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:

	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%

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six-month periods ended October 31, 2019 and 2018
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

For the three and six-month periods ended October 31, 2019, the Company recognized stock-based compensation expense of \$0.3 million and \$0.5 million respectively (\$0.1 million for both comparative periods of fiscal 2019).

As at October 31, 2019, the remaining contractual life in years of the granted 188,700 options on September 6, 2018 is 3.85 years with 47,175 options currently exercisable.

As at October 31, 2019, the remaining contractual life in years of the granted 466,609 options on July 3, 2019 is 4.67 years with 29,163 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	(235)	(168)	(111)	(514)
Effect of foreign currency exchange differences	(3)	(7)	(2)	(12)
Balance, October 31, 2019	\$ 7,607	\$ 214	\$ 71	\$ 7,892

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 October 31, 2019.

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.

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six-month periods ended October 31, 2019 and 2018
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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.

	October 31, 2019	April 30, 2019
Term Loan, secured by a hypothec on movable properties	\$ 11,325	\$ 11,775
Government funded debt, with no interest or security, payable over various installments, maturing in November 2020	51	74
	\$ 11,376	\$ 11,849
Current portion	(1,172)	(1,022)
Long-term debt	\$ 10,204	\$ 10,827

7. Lease obligations

The Company's leases are for office space, data centers, vehicles and equipment. Most of these leases do not contain renewal options. The range of renewal options for those that have such options are between 5 to 10 years. The Company has included renewal options in the measurement of lease obligations when it is reasonably certain to exercise the renewal option.

The following table presents lease obligations for the Company as at October 31, 2019:

	2019
Current	\$ 925
Non-current	8,788
Total lease obligations	\$ 9,713

Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

Three and six-month periods ended October 31, 2019 and 2018
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The following table presents the contractual undiscounted cash flows for lease obligations as at October 31, 2019:

Less than one year	\$ 1,185
One to five years	4,977
More than five years	5,816
Total undiscounted lease obligations	\$ 11,978

Interest expense on lease obligations for the three and six-months period ended October 31, 2019 was \$94,000 and \$189,000 respectively. The expense relating to variable lease payments not included in the measurement of lease obligations for the three and six-months periods ended October 31, 2019 was \$262,000 and \$536,000, respectively. This consists of variable lease payments for operating costs, property taxes and insurance. Expenses relating to short-term leases for the three and six-months periods ended October 31, 2019 were \$338,000 and \$979,000, respectively. Expenses relating to leases of low value assets for the three and six-months periods ended October 31, 2019 were \$48,000 and \$100,000 respectively. Total cash outflow for leases for the three and six-months periods ended October 31, 2019 was \$336,000 and \$673,000 respectively, including \$243,000 and \$485,000 of principal payments on lease obligations respectively.

8. Cost of revenue:

Services cost is broken down as follows:

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Six Months Ended October 31, 2019	Six Months Ended October 31, 2018
Gross expenses	\$ 9,826	\$ 7,228	\$ 19,297	\$ 14,705
Amortization of intangible assets	156	-	312	-
E-business tax credits	(282)	(523)	(784)	(1,020)
	\$9,700	\$ 6,705	\$ 18,825	\$ 13,685

Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six-month periods ended October 31, 2019 and 2018
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

9. Restructuring costs:

For the three and six-month periods ended October 31, 2019, the Company recognized restructuring costs of nil and \$0.4 million respectively (nil for both comparative periods of fiscal 2019). These costs are related to acquisition integration, primarily for severance.

10. Net finance costs (income):

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Six Months Ended October 31, 2019	Six Months Ended October 31, 2018
Foreign exchange loss	12	15	180	4
Interest (income) expense on loans payable, bank deposits and other	178	(64)	336	(145)
Interest expense – IFRS 16	93	-	188	-
Net finance costs (income) recognized in profit or loss	\$ 283	\$ (49)	\$704	\$ (141)

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.

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Three and six-month periods ended October 31, 2019 and 2018
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

Non-hedge designated derivative instruments

On October 31, 2019, the Company held four outstanding foreign exchange contracts with various maturities to January 30, 2020 to sell US\$3,050,000 into Canadian dollars at a rate of CA\$1.319 to yield CA\$4,023,000. On October 31, 2019, the Company had recorded an unrealized exchange loss of \$1,000, included in accounts payable and accrued liabilities and an unrealized gain of \$8,000, representing the change in fair value of these outstanding contracts since inception and their initial measurement.

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.

Revenue hedge designated derivative instruments

On October 31, 2019, the Company held nine outstanding foreign exchange contracts with various maturities to July 31, 2020 to sell US\$12,000,000 into Canadian dollars at rates averaging CA\$1.31760 to yield CA\$15,811,200. 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 October 31, 2019, the Company had recorded an overall unrealized loss of \$54,000 included in accounts payable and accrued liabilities and an unrealized gain of \$63,000 representing the change in fair value of these outstanding contracts since inception.

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.

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

Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Three and six-month periods ended October 31, 2019 and 2018
(in Canadian dollars, tabular amounts in thousands, except per share data and otherwise noted)

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Six Months Ended October 31, 2019	Six Months Ended October 31, 2018
Accumulated other comprehensive income (loss) at the beginning of the fiscal period	\$ 9	\$ (63)	\$ (127)	\$ (113)
Net (loss) gain on derivatives designated as cash flow hedges	(22)	(173)	146	(403)
Amounts reclassified from accumulated other comprehensive income (loss) to net earnings, and included in:				
Revenue decrease	3	103	42	318
Exchange loss (gain) in net finance costs	1	26	(70)	91
Effective portion of changes in fair value on designated revenue hedges	\$ (18)	\$ (44)	\$ 118	\$ 6
Accumulated other comprehensive loss from cash flow hedges	\$ (9)	\$ (107)	\$ (9)	\$ (107)

As at October 31, 2019, all of the net loss presented in accumulated other comprehensive loss from cash flow hedges 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.

Tecsys Inc.

Notes to the Condensed Interim Consolidated Financial Statements
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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 October 31, 2019, key management and their spouses control 30% (October 31, 2018 – 31.1%) 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, 2019	Three Months Ended October 31, 2018	Six Months Ended October 31, 2019	Six Months Ended October 31, 2018
Salaries	\$ 1,330	\$ 999	\$ 2,396	\$ 1,775
Other short-term benefits	45	40	111	97
Payments to defined contribution plans	30	17	73	36
	\$ 1,405	\$ 1,056	\$ 2,580	\$ 1,908

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans of \$658,000 (fiscal 2019 - \$538,000) to key management and other management employees to facilitate their purchase of Company shares during the six months ended October 31, 2019. The outstanding loans as at October 31, 2019 amounted to \$705,000 (April 30, 2019 - \$241,000).

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Notes to the Condensed Interim Consolidated Financial Statements
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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 October 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.

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

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Six Months Ended October 31, 2019	Six Months Ended October 31, 2018
Canada	\$ 5,836	\$ 6,798	\$ 11,939	\$ 12,645
United States	14,204	11,110	27,687	21,465
Europe	5,363	276	9,798	356
Other	605	-	834	-
	<u>\$ 26,008</u>	<u>\$ 18,184</u>	<u>\$ 50,258</u>	<u>\$ 34,466</u>

14. Subsequent events:

On December 4, 2019, the Company's Board of Directors approved an increase of the quarterly dividend from \$0.055 per share to \$0.06 per share. The Company declared a dividend of \$0.06 per share, to be paid on January 10, 2020 to shareholders of record at the close of business on December 19, 2019.



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