SYLOGIST LTD.

Condensed Consolidated Financial Statements

For the three and six months ended March 31, 2019 and 2018

Management’s Comments on Unaudited Interim Condensed Consolidated Financial Statements

The accompanying unaudited interim condensed consolidated financial statements of Sylogist Ltd. for the three and six month periods ended March 31, 2019, have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed or audited by the Company’s external auditors.

Signed *“Jim Wilson”*

James D. Wilson, President and CEO

Signed *“Xavier Shorter”*

Xavier Shorter, V.P. Finance and CFO

Sylogist Ltd.
Condensed Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

(Unaudited)

	Notes		**March 31, 2019**		September 30, 2018 [1]
Assets					
Current assets					
Cash and cash equivalents	6	**$**	**32,636**	$	31,356
Trade and other receivables	7		**3,682**		3,317
Prepaid expenses	8		**1,723**		1,831
Inventories			**422**		56
			38,463		36,560
Non-current assets					
Property and equipment	9		**103**		129
Intangible assets	10		**15,935**		17,342
Goodwill	11		**7,227**		7,227
			23,265		24,698
Total assets		**$**	**61,728**	$	61,258
Liabilities and Shareholders' Equity					
Current liabilities					
Trade and other payables	13	**$**	**3,095**	$	2,983
Deferred revenue	14		**13,117**		11,161
Deposits and retainers	14		**273**		420
Other current liabilities [2]			**10**		43
			16,495		14,607
Non-current liabilities					
Deferred tax	12(a)		**2,665**		3,183
			2,665		3,183
Total liabilities			**19,160**		17,790
Shareholders' equity					
Issued capital	15(b)		**56,608**		56,981
Contributed surplus	15(c)		**8,944**		8,930
Foreign currency translation reserve			**684**		111
Deficit			**(23,668)**		(22,554)
			42,568		43,468
Total liabilities and shareholders' equity		**$**	**61,728**	$	61,258

[1] The Company adopted IFRS 15 and IFRS 9 as described in note 4(a). Under these adoptions, the comparative information is not restated.
[2] Other liabilities consist of lease inducements and onerous contract obligations.

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.
Approved on behalf of the Board:

"Taylor Gray" Director
"Jim Wilson" Director

Sylogist Ltd.
Condensed Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars, except share and per share amounts)

For the three and six months ended March 31, 2019 and 2018
(Unaudited)

	Notes	Three months ended March 31, 2019	Three months ended March 31, 2018	Six months ended March 31, 2019	Six months ended March 31, 2018 [1]
Revenue	16	**$ 9,502**	$ 9,316	**$ 18,904**	$ 18,125
Cost of sales		**2,536**	2,375	**4,802**	4,504
Gross profit		**6,966**	6,941	**14,102**	13,621
General and administrative		**1,168**	957	**2,232**	1,885
Executive bonuses		**854**	633	**1,482**	1,220
Professional fees		**129**	132	**223**	262
Acquisition-related costs		**-**	45	**-**	162
Sales and marketing		**274**	463	**837**	885
Product research		**486**	395	**872**	798
Depreciation of property and equipment	9	**31**	44	**67**	94
Amortization of intangible assets	10	**913**	801	**1,826**	1,616
Stock based compensation	15(c)	**(13)**	100	**45**	162
Foreign exchange (loss)/gain		**36**	(160)	**(25)**	(197)
Interest income[2]		**(146)**	(69)	**(280)**	(118)
Profit before income tax		**3,234**	3,600	**6,823**	6,852
Current income tax		**1,065**	726	**2,376**	1,139
Deferred income tax	12(a)	**(204)**	374	**(555)**	198
	12(b)	**861**	1,100	**1,821**	1,337
Profit for the period		**2,373**	2,500	**5,002**	5,515
Other comprehensive income/(loss)					
To be recycled through income:					
Exchange differences on translating foreign operations		**(332)**	165	**573**	147
Total comprehensive income for the period		**$ 2,041**	$ 2,665	**$ 5,575**	$ 5,662
Attributable to:					
Owners of the company		**$ 2,041**	$ 2,665	**$ 5,575**	$ 5,662
Basic earnings per share		**$ 0.11**	$ 0.11	**$ 0.23**	$ 0.25
Diluted earnings per share		**$ 0.11**	$ 0.11	**$ 0.22**	$ 0.25
Basic weighted average number of shares outstanding	15(h)	**22,019,789**	22,357,387	**22,076,451**	22,399,929
Diluted weighted average number of shares outstanding	15(h)	**22,559,693**	22,516,930	**22,678,370**	22,505,270

(1) The Company adopted IFRS 15 and IFRS 9 as described in note 4(a). Under these adoptions, the comparative information is not restated.

(2) Interest Income for periods ended March 31, 2019 and March 31, 2018 is net of immaterial interest expense amounts.

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Sylogist Ltd.
Condensed Consolidated Statements of Changes in Shareholders' Equity
(In thousands of Canadian dollars)

For the six months ended March 31, 2019 and 2018
(Unaudited)

	Notes	Share Capital	Contributed Surplus	Foreign Currency Translation Reserve	Deficit	Total Equity [(1)]
As at September 30, 2017		$ 57,391	$ 8,679	$ (161)	$ (25,291)	$ 40,618
Profit for the period		-	-	-	5,515	5,515
Foreign currency translation adjustment		-	-	147	-	147
Total comprehensive income for the period		-	-	147	5,515	5,662
Payment of dividends	15(d)	-	-	-	(4,703)	(4,703)
Share buy-back and cancellation		(331)	-	-	(967)	(1,298)
Stock based compensation		-	162	-	-	162
Balance as at March 31, 2018		$ 57,060	$ 8,841	$ (14)	$ (25,446)	$ 40,441
As at September 30, 2018		$ 56,981	$ 8,930	$ 111	$ (22,554)	$ 43,468
Profit for the period		-	-	-	5,002	5,002
Foreign currency translation adjustment		-	-	573	-	573
Total comprehensive income for the period		-	-	573	5,002	5,575
Payment of dividends	15(d)	-	-	-	(4,198)	(4,198)
Exercise of options	15(f)	119	(31)	-	-	88
Adjustment on initial application of IFRS 15	4(a)	-	-	-	48	48
Share buy-back and cancellation	15(e)	(492)	-	-	(1,966)	(2,458)
Stock based compensation		-	45	-	-	45
Balance as at March 31, 2019		$ 56,608	$ 8,944	$ 684	$ (23,668)	$ 42,568

(1) The Company adopted IFRS 15 and IFRS 9 as described in note 4(a). Under these adoptions, the comparative information is not restated.

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Sylogist Ltd.
Condensed Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

For the three and six months ended March 31, 2019 and 2018
(Unaudited)

	Notes	Three months ended March 31, 2019	Three months ended March 31, 2018	Six months ended March 31, 2019	Six months ended March 31, 2018 [(1)]
Operating Activities					
Profit before income taxes		**$ 3,234**	$ 3,600	**$ 6,823**	$ 6,852
Items not affecting cash					
Depreciation of property and equipment	9	**34**	57	**72**	120
Amortization of intangible assets	10	**913**	814	**1,841**	1,634
Stock based compensation	15(c)	**(13)**	100	**45**	162
Cash taxes paid		**(2,070)**	(53)	**(2,091)**	(62)
Cash from operating activities before non-cash change in working capital		**2,098**	4,518	**6,690**	8,706
Changes in non-cash operating assets and liabilities					
Trade and other receivables	7	**31**	(740)	**(592)**	542
Inventory		**(236)**	163	**(367)**	(23)
Prepaid expenses and deposits	8	**(131)**	(815)	**110**	(607)
Trade and other payable	13	**223**	(184)	**(22)**	(71)
Deferred revenue, deposits and retainers	14	**2,432**	2,862	**1,809**	605
Cash generated from operations		**4,417**	5,804	**7,628**	9,152
Investing Activities					
Purchase of property and equipment	9	**(19)**	(9)	**(49)**	(13)
Acquisition of intangible assets	10	**(144)**	(260)	**(286)**	(304)
Interest received		**137**	48	**261**	89
Cash paid on the acquisition of K12 Enterprise & Sunpac Systems	5	**-**	(340)	**-**	(1,728)
Cash utilized in investing activities		**(26)**	(561)	**(74)**	(1,956)
Financing Activities					
Proceeds from share issuance, less issue costs	15(b)	**88**	-	**88**	-
Repurchase of common shares	15(e)	**-**	(1,199)	**(2,458)**	(1,298)
Payment of dividends	15(d)	**(2,092)**	(1,785)	**(4,198)**	(4,703)
Cash utilized in financing activities		**(2,004)**	(2,984)	**(6,568)**	(6,001)
Increase in cash and cash equivalents		**2,387**	2,259	**986**	1,195
Effect of currency translation adjustment on cash and cash equivalents		**(196)**	138	**294**	147
Cash and cash equivalents, beginning of the period		**30,445**	27,698	**31,356**	28,753
Cash and cash equivalents, end of the period		**$ 32,636**	$ 30,095	**$ 32,636**	$ 30,095

[(1)] The Company adopted IFRS 15 and IFRS 9 as described in note 4(a). Under these adoptions, the comparative information is not restated.

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

1. Nature of operations

Sylogist Ltd. (the "Company" or "Sylogist") (TSX-V: SYZ) is a software company that provides comprehensive, mission-critical enterprise resource planning ("ERP") solutions, including fund accounting, grant management and payroll to public service organizations. Sylogist's public service customers include Local Governments, Non-Profit Organizations ("NPO"), Non-Governmental Organizations ("NGO"), Education Boards and Districts and Defense and Safety Contractors.

The Company was incorporated under the *Business Corporations Act* (Alberta) on March 1, 1993 and wholly owns, directly or indirectly, the following subsidiary corporations: Sylogist USA, Inc., Serenic Software (US) Corporation, Serenic Software (UK) Limited, and Serenic Software Inc.

Sylogist is headquartered in Calgary, Alberta, Canada with regional offices in Edmonton, Alberta, Newmarket, Ontario, Canada, Atlanta, Georgia, and Lakewood, Colorado in the United States of America and Oxford, Oxfordshire in the United Kingdom. The Company's registered office is located at Suite 1900, 520-3rd SW; Calgary, Alberta, Canada; T2P 0R3.

These unaudited interim condensed consolidated financial statements were approved and authorised for issuance by the Board of Directors on May 14, 2019.

2. Condensed consolidated financial statements

(a) Business combinations

Acquisitions have been accounted for using the acquisition method required by IFRS 3 Business Combinations. Goodwill arising on acquisition is measured as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, if any, less the net recognized amount of the estimated fair value of identifiable assets acquired and liabilities assumed (subject to certain exemptions to fair value measurement principles such as deferred tax assets or liabilities), all measured as of the acquisition date. When the consideration transferred is less than the estimated fair value of assets acquired and liabilities assumed, a bargain purchase gain is recognized immediately in the consolidated statements of income. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred.

The Company uses its best estimates and assumptions to accurately value assets and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill, upon conclusion of the measurement period or final determination of the values.

(b) Statement of presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board. In addition, the unaudited interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in Note 3, "Summary of significant accounting policies" of the Company's consolidated financial statements for the year ended September 30, 2018 except for policy changes in accounting for revenues associated with the Company's adoption of IFRS 15 – Revenue from Contracts with Customers and changes in accounting for financial instruments IFRS 9 – Financial Instruments (see Note 3 "Changes in significant accounting policies" in the Notes to these unaudited interim condensed consolidated financial statements). All other accounting policies were consistently applied to all periods. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended September 30, 2018.

(c) Basis of measurement

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, which is based on the fair value of the consideration at the time of the transaction, except for certain financial instruments which are accounted for at fair value.

(d) Functional and presentation currency

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of Sylogist. The functional currency of Serenic Software (US) Corporation and Serenic Software, Inc. has been determined to be the United States' dollar, and the functional currency of Serenic Software (UK) Limited has been determined to be the British Pound.

(e) Use of estimates, judgments and assumptions

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the unaudited interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these unaudited interim condensed consolidated financial statements are as follows:

Property, equipment and intangible assets – estimates are used in determining useful economic lives and residual values of property and equipment for the purpose of calculating depreciation and judgment is applied in determining the appropriateness of the depreciation/amortization method used.

Acquired intangible assets – The Company uses the income approach to value acquired technology and customer relationship intangible assets. The income approach is a valuation technique that calculates the estimated fair value of an intangible asset based on the estimated future cash flows that the asset can be expected to generate over its remaining useful life. The Company utilizes the discounted cash flow method which is a form of the income approach that begins with a forecast of the annual cash flows that a market participant would expect the subject intangible asset to generate over a discrete projection period. The forecasted cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows, again, from a market participant perspective. The present value of the forecasted cash flows is then added to the present value of the residual value of the intangible asset (if any) at the end of the discrete projection period to arrive at a conclusion with respect to the estimated fair value of the subject intangible assets. These estimates required for the discounted cash flow method are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature, these estimates are subject to a significant degree of judgement as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Tangible and intangible assets - are reviewed annually with respect to their useful lives, or more frequently if events or changes in circumstances indicate that the assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses and cash flows at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgement as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Stock based compensation – assumptions and estimates are used in determining the inputs used in the Black-Scholes option pricing model, including assumptions regarding volatility, dividend yield, risk-free interest rates, forfeiture estimates and expected option lives.

Deferred income taxes – assumptions and estimates are made regarding the amount, utilization and timing of realization and/or settlement of the temporary differences between the accounting carrying value of the Company's assets and liabilities versus the tax basis of those assets and liabilities, and the tax rates at which the differences will be recovered or settled in the future. The Company has recorded the full deferred tax asset related to Sylogist's subsidiary Serenic Software Inc. net operating losses subject to an expiry date based on a consideration of all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. The Company's deferred tax assets are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement and depend on considerable risks and uncertainties.

Investment tax credits – The amounts recorded as investment tax credits ("ITCs"), are included in deferred taxes, and the utilization thereof are subject to an expiry date and are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement uncertainty and the effect on the interim condensed consolidated financial statements of changes of estimates in future periods could be significant. A deferred tax asset is recognized for unused tax losses in each tax jurisdiction to the extent it is probable that the future taxable profits will be available against which they can be utilized.

Research and development – assumptions are made in respect to the eligibility of certain research and development projects in the calculation of scientific research and experimental development ("SR&ED") investment tax credits, which are netted against the research and development costs in the consolidated statement of comprehensive income. SR&ED claims are subject to audits by relevant taxation authorities and the actual amount may change depending on the outcome of such audits.

3. Changes in significant accounting policies

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

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

Effective October 1, 2018, the Company adopted IFRS 15. The impact of the transaction is shown in note 4(a) below. The Company's accounting policy under IFRS 15 is as follows:

Revenue is recognized upon transfer of control of promised products or services to customers in amount that reflects the consideration the Company expects to receive in exchange for the products or services. The Company's contracts often include multiple products and services, which are generally capable of being distinct and accounted for as a separate performance obligation.

(b) IFRS 9: Financial Instruments ("IFRS 9"):

Effective October 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The impact of the transaction is shown in note 4(a) below.

This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classification which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple method in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

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

4. New accounting standards and interpretations adopted and not yet adopted

(a) New accounting standards and interpretations adopted and included in the Company's unaudited interim condensed consolidated financial statements are listed below.

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

IFRS 15 – Revenue from Contracts with Customers

The Company has adopted IFRS 15 "Revenue from Contracts with Customers" with an initial adoption date of October 1, 2018 as the standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. Accordingly, with the adoption of the new accounting standard, the Company has made an adjustment to retained earnings on October 1, 2018.

The adoption of this standard has not impacted the Company's current revenue recognition policy for license sales, maintenance and support contracts, 3rd party hardware and software sales or professional services.

In addition, the adoption of IFRS 15 does impact the recognition of customer acquisition costs. Prior to adopting IFRS 15, customer acquisition costs including commissions paid to employees and third-party referral fees were expensed upon commencement of the related contract revenue. Under IFRS 15, these costs are capitalized and amortized over the expected life of the customer, which the Company has determined to be 10 years.

The following tables summarizes the impact of adopting IFRS 15 on the Company's unaudited interim condensed consolidated financial statements for the six months ended March 31, 2019. There was no impact on the Company's statements of cash flows for the six months ended March 31, 2019.

	Impact of adopting IFRS 15 at October 1, 2018
Previously expensed contract acquisition costs – Prepaid Expenses	$73
Related income tax impact	(25)
Impact at October 1, 2018 – Retained Earnings	$48

The total impact net of related income tax recorded in retained earnings on October 1, 2018 was an increase of $48.

IFRS 9 – Financial Instruments

The Company has adopted IFRS 9 "Financial Instruments" with an initial adoption date of October 1, 2018 as the standard has a mandatory effective date for annual periods beginning on or after January 1, 2018. IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

The following table notes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at October 1, 2018:

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

Financial assets	Under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost

Impairment of financial assets IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at fair value through other comprehensive income "FVOCI", but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

There is no change to the initial measurement of the Company's financial assets and the Company has elected to measure loss allowances for trade and other receivables and contract assets at an amount equal to lifetime ECLs. The Company considers some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty. The ECLs were calculated based on the expected credit loss for each client with an accounts receivable balance of greater than 30 days past due. When determining the ECLs, the Company considers the client's financial position, service and payment history and economic conditions.

The adoption of IFRS 9 has not had an impact on the Company's accounting policies related to financial liabilities.

The Company has determined that the application of IFRS 9 at October 1, 2018 does not result in any additional impairment allowances and there will be no impact on the Company's financial position.

(b) The standards and interpretations that are issued but not yet effective for the six months ended March 31, 2019 and have not been applied in preparing the Company's unaudited interim condensed consolidated financial statements are listed below.

IFRS 16 – Leases

In January 2016, the IASB issued the IFRS 16 standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 effectively removes the classification of leases as either finance or operating and treats all leases as finance leases for lessees with exemptions for short-term leases where the lease term is twelve months or less and for leases of low value items. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted, but only if the entity is also applying IFRS 15. The Company is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either: a) apply IFRS 16 with full retrospective effect; or b) recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening equity at the date of initial application.

The Company will be adopting IFRS 16 on October 1, 2019 and is currently evaluating the impact of adopting this standard; however, the Company expects the adoption of this standard to increase assets and liabilities as it will be required to record a right-of-use asset and a corresponding lease liability in the Company's financial statements. The Company continues to assess the financial impact of adopting this standard which will be completed and disclosed in the financial statements for the annual period beginning October 1, 2019.

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

5. Business acquisition

On October 19, 2017, Sylogist's subsidiary Serenic Software Inc., completed the acquisition of the operating assets and assumption of certain liabilities of K12 Enterprise and Sunpac Systems for cash consideration of $1,700.

The K12 Enterprise's software, K12E, is a software-as-a-service (SaaS) solution, offered on a subscription basis and is based on Sylogist's Navigator ERP solution. Navigator ERP extends the functional capabilities of Microsoft Dynamics, to address the public sector and not-for-profit market places worldwide. K12E is a certified solution, with customers in 7 U.S. states and in Canada. K12E is installed in North Carolina local educational authorities, along with other school boards in the states of New York, Texas, Virginia, Ohio, Pennsylvania and Maryland. In addition, the K12E intellectual property ("IP") nearly doubles the Company's Navigator IP portfolio. This IP will enhance Sylogist's Navigator ERP suite and NaviPayroll products, making the acquired IP a valuable upgrade to the Company's over 1,000 current customers. Sunpac Systems, a legacy solution provider, is a supplier of large, local education authority solutions in North Carolina.

This transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired, and the liabilities assumed were recorded at fair value. The allocation of the purchase consideration to estimated fair values of net assets acquired is as follows:

October 19, 2017		**Fair value of net assets acquired**
Intangible assets	$	8,164
Total assets		8,164
Deferred tax liabilities		1,584
Deferred revenue		2,184
Total liabilities		3,767
Net assets acquired	**$**	**4,397**

The acquisition of this business resulted in a gain on acquisition of $2,697 as a consequence of buying the business from a seller intending to leave the IP space. The gain on bargain purchase was separately presented in the consolidated statement of comprehensive income for the year ended September 30, 2018.

6. Cash and cash equivalents

Cash and cash equivalents as of March 31, 2019:

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

		March 31, 2019
Cash	$	16,158
Cash equivalents		16,478
Total	$	32,636

Cash equivalents are comprised of banker's acceptance with interest rates of 2.11% - 2.65% (March 31, 2018 of 1.75% - 1.81%), and maturities of up to 62 days (March 31, 2018 – 61 days).

7. Trade and other receivables

		March 31, 2019
Trade receivables, gross	$	3,685
Allowance for doubtful accounts		(36)
Trade receivables		3,649
Other receivables[(1)]		33
Trade and other receivables	$	3,682

(1) Other receivables consist primarily of unbilled revenue.

Due to their short-term nature, the net carrying value of trade receivables approximates fair value (Note 20b).

8. Prepaid expenses

Prepaid expenses include prepayments for software royalties and operating leases paid to third parties that will be expensed in future periods.

		March 31, 2019
Prepaid software royalties	$	1,180
Other prepaid expenses and deposits		543
	$	1,723

9. Property and equipment

	March 31, 2019					
		Cost		Accumulated Amortization		Net Book Value
Computer hardware	$	909	$	848	$	61
Furniture and equipment		297		277		20
Leasehold improvements		536		514		22
	$	1,742	$	1,639	$	103

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

During the six months ended March 31, 2019, the Company purchased $49 of equipment (March 31, 2018 - $13) and $5 (March 31, 2018 - $26) of depreciation costs were categorized as a cost of goods sold.

10. Intangible assets

	March 31, 2019		
	Cost	Accumulated Amortization	Net Book Value
Software licenses and rights	$ 3,310	$ 3,301	$ 9
Customer lists	18,747	8,721	10,026
Software codes	12,890	6,990	5,900
	$ 34,947	$ 19,012	$ 15,935

During the six months ended March 31, 2019, $16 (March 31, 2018 - $18) of amortization costs were categorized as a cost of goods sold. In the first six months of fiscal 2019, the Company capitalized $275 (March 31, 2018 - $310) of development costs that have been reduced by $40 (March 31, 2018 - $49) of ITCs related to capitalized projects.

11. Goodwill

The carrying amount of goodwill can be analyzed as follows:

	March 31, 2019
Gross carrying amount from:	
Acquisition of Bellamy	$ 1,934
Acquisition of Weave	771
Acquisition of Serenic	4,522
	$ 7,227

12. Income tax

(a) Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The Company recognized deferred income tax assets on tax losses carried forward and other temporary differences to the extent that the realization of the related tax benefits through reversal of deferred tax liabilities, future taxable profit and tax planning strategies is probable. The components of the Company's deferred income tax assets and liabilities are as follows:

	As at September 30, 2018	Recognized in earnings	Other	As at March 31, 2019
Property, equipment and intangibles	$ (3,348)	$ 332	$ (4)	$ (3,020)
Scientific research and development pools	(250)	250	(11)	(11)
Non-capital losses	400	(37)	-	363
Share issuance and other	15	10	(22)	3
	$ (3,183)	$ 555	$ (37)	$ (2,665)

The Company offsets the deferred tax assets and deferred tax liabilities to the extent that they relate to the same taxing authorities and there is a legally enforceable right to do so.

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

(b) The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to profit before income taxes. The major components of these differences are explained as follows:

	Three months ended March 31,		**Six months ended March 31,**	
	2019	2018	**2019**	2018
Profit before income taxes	**$ 3,234**	$ 3,600	**$ 6,823**	$ 6,852
Corporate income tax rate	**27.0%**	27.0%	**27.0%**	27.0%
Computed expected tax provision	**873**	972	**1,842**	1,850
Increase (decrease) in income taxes resulting from:				
- Rate difference on foreign operations	**(4)**	78	**(30)**	126
- Stock option compensation expense	**(7)**	23	**4**	24
- Rate adjustment [(1)]	**-**	-	**-**	(698)
- Other	**(1)**	27	**5**	35
Income tax expense	**$ 861**	$ 1,100	**$ 1,821**	$ 1,337

(1) The rate reduction relates to a decrease in the United States federal statutory tax rate from 35% to 21% based on the United States' Tax Cuts and Jobs Act enacted December 22, 2017.

(c) The following is a summary of the Canadian tax pools available at the end of March 2019, subject to confirmation by the income tax authorities:

	March 31, 2019
Capital cost allowance	**$ 3,643**

In fiscal 2018, the Company utilized all its investment tax credits.

(d) The two US subsidiaries, Serenic Software (US) Corporation and Serenic Software Inc., have net operating losses of $883 USD ($1,178 CAD) and $587 USD ($783 CAD), respectively, which are available to reduce taxable income in future periods subject to specific annual loss limitations with the maximum annual loss claim being approximately $65 USD ($87 CAD) and $291 USD ($388 CAD), respectively. The net operating losses carried forward expire at various dates up to 2034. The Company has recognized the Serenic Software Inc. and net operating losses and $455 USD ($607 CAD) of the Serenic Software (US) Corporation net operating losses in the financial statements as the Company determined that these assets will more likely than not be realized. The Company considered all available positive and negative evidence, including the reversal of all existing temporary differences, projected future taxable income, tax-planning strategies, and the subsidiary's current year results.

(e) The UK operations have trading losses of approximately £3,332 ($5,803 CAD), which could reduce taxable income in future periods. The future tax benefit of the trading losses being carried forward has not been recognized in these interim condensed consolidated financial statements. The trading losses carried forward do not expire but are subject to specific loss limitations.

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

13. Trade and other payables

Trade and other payables can be summarized as follows:

		March 31, 2019
Trade payables	$	819
Short-term employee payable		687
Professional fees accrual		230
Supplier costs accrual		30
Corporate taxes payable		1,279
Other taxes payable		43
Miscellaneous		7
	$	3,095

14. Deferred revenue, deposits and retainers

Deferred revenue, deposits and retainers can be summarized as follows:

		Deferred Revenue		Deposits and Retainers
Balance at October 1, 2018	$	11,161	$	420
New Contracts		14,829		137
Applied or Amortized		(12,873)		(284)
Balance, end of the period	**$**	**13,117**	**$**	**273**

15. Share capital

(a) Authorized: Unlimited number of common shares

(b) Issued

	March 31, 2019		
	Number		$
Common shares			
Balance at October 1, 2018	22,205,594	$	56,981
Repurchase of common shares[(1)]	(191,900)		(492)
Issued on exercise of options	9,700		119
Balance, end of the period	22,023,394	$	56,608
Total share capital		$	56,608

(1) Pursuant to Normal Course Issuer Bids, during the six months ended March 31, 2019, the

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

Company repurchased 191,900 (March 31, 2018 – 129,500) of its common shares at an average price of $12.81 (March 31, 2018 - $10.02) per share for a total cost of $2,458 (March 31, 2018 - $1,298), of which $1,966 (March 31, 2018 - $967) was applied against deficit for the period ended March 31, 2019 and $492 (March 31, 2018 - $331) against share capital.

(c) Contributed surplus

Contributed Surplus

		March 31, 2019
Balance at October 1, 2018	$	8,930
Transfer to common share capital on exercise of options		(31)
Stock based compensation		45
Balance, end of the period	$	8,944

(d) Dividends

During the six months ended March 31, 2019, the Company paid regular dividends to shareholders totaling $4,198 at an average dividend amount of $0.19. In the same period in fiscal 2018, the Company paid dividends to shareholders totaling $4,703. This amount includes regular dividends paid totaling $3,581 at an average dividend amount of $0.16 per share and a special dividend totaling $1,122 at an average dividend amount of $0.05 per share.

(e) Normal course issuer bid

On May 21, 2018, the Company commenced a further Normal Course Issuer Bid ("NCIB") to acquire up to 2,025,432 of its common shares over the ensuing 12-month period. Under the current NCIB, during the six-month period ended March 31, 2019, the Company repurchased 191,900 common shares at an average price of $12.81 for a total cost of $2,458. All purchases of its common shares are for cancellation. The current NCIB terminates on the earlier of May 20, 2019, or when permitted purchases are completed.

(f) Stock options

The Company has a stock option plan under which directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive stock options. The aggregate number of common shares to be issued, upon exercise of all options granted under the plan, shall not exceed 10% of the issued common shares of the Company, at the time the options were granted. Options granted under the plan generally have a term of five years, but may not exceed five years, and vest at such times as determined by the directors at the date of grant, which has generally been over three years. The exercise price of each option is determined by the directors at the market price at the date of grant. A summary of the status of the Company's stock option plan as at March 31, 2019, and changes during the period then ended, are as follows:

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

	March 31, 2019	
	Number of Options	**Weighted Average Exercise Price**
Outstanding at October 1, 2018	**2,053,350**	**$ 9.24**
Granted	**15,000**	**12.75**
Exercised	**(9,700)**	**9.19**
Forfeited	**(33,334)**	**10.10**
Outstanding, end of the period	**2,025,316**	**$ 9.26**
Options exercisable, end of the period	**1,880,314**	**$ 9.24**

During the six months ended March 31, 2019, 15,000 stock options were granted (March 31, 2018 – 110,000), 9,700 stock options were exercised (March 31, 2018 – Nil), 33,334 stock options were forfeited (March 31, 2018 – Nil) and no options expired (March 31, 2018 – 16,667).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

	2019
Risk-free interest rate	**1.95%**
Expected life (years)	**5**
Expected volatility	**33%**
Annualized dividend per share	**$0.38**
Forfeiture rate	**10%**

(g) The following table summarizes information about stock options outstanding and exercisable as at March 31, 2019:

Exercise Prices	**Number of Options Outstanding**	**Weighted-Average Remaining Period Until Exercisable**	**Number of Options Exercisable**	**Weighted-Average Remaining Contractual Life Post Vesting**
$ 9.19	1,643,350	-	1,643,350	0.3 years
9.19	65,300	-	65,300	1.2 years
9.48	15,000	-	15,000	0.3 years
10.10	110,000	0.5 years	86,665	2.5 years
8.25	100,000	1.1 years	33,333	3.1 years
10.08	60,000	1.8 years	20,000	3.7 years
10.10	16,666	1.8 years	16,666	3.8 years
12.75	15,000	2.8 years	-	-
	2,025,316	1.1 years	1,880,314	0.5 years

(h) The earnings per share have been calculated based on the weighted-average number of common shares outstanding during the three and six month periods ended March 31, 2019, of 22,019,789 and 22,076,451 (March 31, 2018 - 22,357,387 and 22,399,929). During the same period, the diluted weighted average number of shares outstanding was 22,559,693 and 22,678,370 (March 31, 2018 - 22,516,930 and 22,505,270). For the three and six month periods ended March 31, 2019, 539,905 and 601,919 options were included in the computation of diluted earnings per share (March 31, 2018 – 159,543 and 105,341).

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

16. Segmented information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the President and Chief Executive Officer. Based on management's judgment, the Company has one operating and reportable segment, the Public Sector. Segment profit is measured as net profit (loss) before the consideration of income taxes. The Company does not identify or allocate working capital by reportable segment and there are no inter-segment revenues.

Geographical revenues and assets

The Public Sector segment is managed on a worldwide basis, but operates in three principal geographical areas, Canada, USA, and UK.

Substantially all of the property and equipment were located in Canada and the intangible assets and goodwill, except customer relationships and technology (which relate to US operations), pertained solely to the Canadian operations. Geographic revenues are allocated by the geographic location of the Company's product installation, delivery or service provision.

Three month period ended March 31, 2019	**Corporate**	**Canada**	**USA**	**UK and Other**	**Total**
Revenue	**$ -**	**$ 2,324**	**$ 7,107**	**$ 71**	**$ 9,502**
Non-current assets	**7,227**	**10,397**	**5,641**	**-**	**23,265**

Three month period ended March 31, 2018	Corporate	Canada	USA	UK and Other	Total
Revenue	$ -	$ 2,494	$ 6,646	$ 176	$ 9,316
Non-current assets	7,227	9,664	6,029	-	22,920

Six month period ended March 31, 2019	**Corporate**	**Canada**	**USA**	**UK and Other**	**Total**
Revenue	**$ -**	**$ 4,657**	**$ 14,107**	**$ 140**	**$ 18,904**
Non-current assets	**7,227**	**10,397**	**5,641**	**-**	**23,265**

Six month period ended March 31, 2018	Corporate	Canada	USA	UK and Other	Total
Revenue	$ -	$ 5,226	$ 12,553	$ 346	$ 18,125
Non-current assets	7,227	9,664	6,029	-	22,920

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

17. Commitments and contingencies

(a) Commitments

Operating lease and service commitments

The Company has entered into various leases for its operating premises and service commitments. Future minimum annual payments under these commitments are as follows:

Contractual Obligations	Total	Fiscal 2019-2020	Fiscal 2021-2022
Premise/Services	**$ 1,138**	$ 739	$ 399

(b) Contingencies

Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations.

(c) Indemnifications

Under the terms of certain agreements and the Company's by-laws, the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service.

18. Related party transactions

During the six-month period ended March 31, 2019, the Company paid director's fees of $60 (March 31, 2018 - $43). The three non-executive directors are each entitled to an annual fee of $40.

Directors and executive officers, along with certain employees, also participate in the Company's stock option plan (Note 15f).

Compensation of key management personnel, defined as: the Board of Directors, the Chief Executive Officer, the Executive Vice President, the Chief Financial Officer, the Vice President, Business Development and Investor Relations and the Vice President, Operations was as follows:

	March 31, 2019
Salaries and benefits-key management	**$ 747**
Salaries and benefits- key management family member	**20**
Executive bonus	**1,482**
Stock based compensation	**72**
Directors' fees	**60**
	$ 2,381

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

19. Capital risk management

The Company's objective, when managing capital, is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. Managed capital consists of the Company's current working capital (current assets less current liabilities). The Company sets the amount of managed capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year-over-year sustainable, profitable growth. The Company is not subject to any externally imposed capital requirements.

20. Financial instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, foreign currency, liquidity, and fair value risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. These risks are outlined more fully below.

Financial instrument:	Category:
Cash and cash equivalents	Amortized costs
Trade and other receivable	Amortized costs
Trade and other payables	Other financial liabilities

(a) Foreign currency rate risk management

A portion of the Company's sales are made to customers in the United States and Europe. Accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company does not have any exposure to highly inflationary foreign currencies. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and trade accounts receivable to offset foreign currency payables.

As at March 31, 2019, the increase or decrease in profit before tax for each 1% change in the value of the Canadian dollar against the US dollar amounts to approximately $32 (September 30, 2018 - $25). For the same period, the increase or decrease in net income before taxes for each 1% change in the value of the Canadian dollar against the GBP amounts to approximately $3 (September 30, 2018 - $4).

(b) Credit risk

The Company is exposed to normal credit risk. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. As at March 31, 2019, the majority of the Company's cash and cash equivalents are held at one Canadian Chartered Bank. The Company has a concentration of credit risk. The concentration of credit risk is mitigated by having concentrations with credit worthy clients and broadening the Company's customer base. The allowance for doubtful accounts of $36 (September 30, 2018 - $33) represents approximately

(In thousands of Canadian dollars, except per share amounts and as otherwise indicated)

1% of the trade accounts receivable as of March 31, 2019 (September 30, 2018 – 1%). As at March 31, 2019, three customers accounted for 57% (September 30, 2018 – three customers accounted for 60%) of the Company's total trade accounts receivable. Revenue from one customer represented approximately $2,672 or 14% of consolidated revenue earned during the first six months of fiscal 2019 (September 30, 2018 – 10.6%).

Aging of trade accounts receivable

		March 31, 2019
1-30 days	$	1,799
31-90 days		1,640
91 + days		246
Total trade receivables		3,685
Allowance for doubtful accounts		(36)
Other receivables[1]		33
Total accounts receivable	$	3,682

(1) Other receivables consist primarily of unbilled revenue.

Allowance for doubtful accounts continuity schedule

		March 31, 2019
Balance at October 1, 2018	$	(33)
Allowance recognized-net		(3)
Balance, end of the period	$	(36)

(c) Liquidity risk

Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Trade and other payables:

		March 31, 2019
Trade payables	$	819
Corporate taxes payable		1,279
Accrued and other payable		997
Total trade and other payables	$	3,095

Sylogist expects that cash flow from operations generated in fiscal 2019, together with cash and cash equivalents on hand, will be more than sufficient to fund its requirements for investments in working capital, maintenance, capital expenditures, and product development. As these variables change, liquidity risk may necessitate the need for the Company to conduct equity issues or obtain project or working capital financing.

(d) Interest rate risk

The Company's cash and cash equivalents are subject to interest rate price risk, as the value will fluctuate due to changes in market rates. As at March 31, 2019, the increase or decrease in profit before tax for each 1% change in interest rates on the Company cash and cash equivalents, amounts to approximately $326 (September 30, 2018 - $314) per annum.

(e) Fair value of financial instruments

The Company has determined that the fair value of the financial instruments consisting of cash and cash equivalents, short-term investments, trade and other receivables and trade and other payables are not materially different from the carrying values of such instruments reported on the consolidated balance sheet due to their short-term nature.

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents have been classified as level 1.

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