SYLOGIST LTD.

Condensed Consolidated Financial Statements

For the three months ended December 31, 2020 and 2019

Management’s Comments on Unaudited Interim Condensed Consolidated Financial Statements

The accompanying unaudited interim condensed consolidated financial statements of Sylogist Ltd. for the three-month period ended December 31, 2020, 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: *“William C. Wood”*

William C. Wood, President and CEO

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

	Notes	December 31, 2020	September 30, 2020
Assets			
Current assets			
Cash and cash equivalents	4	**$ 40,754**	$ 42,797
Trade and other receivables	5	**2,546**	3,504
Prepaid expenses	6	**1,494**	1,581
Inventories		**250**	267
		45,044	48,149
Non-current assets			
Right of use assets and property and equipment		**456**	573
Intangible assets	7	**12,962**	14,061
Goodwill	8	**8,131**	8,173
		21,549	22,807
Total assets		**$ 66,593**	$ 70,956
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	10	**$ 1,918**	$ 2,413
Deferred revenue	11	**10,331**	13,693
Deposits and retainers	11	**207**	156
Lease obligations		**312**	380
		12,768	16,642
Non-current liabilities			
Deferred tax	9(a)	**2,295**	2,324
Lease obligations		**75**	118
Other non-current liabilities	13	**624**	-
		2,994	2,442
Total liabilities		**15,762**	19,084
Shareholders' equity			
Issued capital	12(b)	**81,691**	79,564
Contributed surplus	12(c)	**3,187**	3,280
Foreign currency translation reserve		**(777)**	722
Deficit		**(33,270)**	(31,694)
		50,831	51,872
Total liabilities and shareholders' equity		**$ 66,593**	$ 70,956

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

"Taylor Gray" Director
"Barry Foster" Director

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

For the three months ended December 31, 2020 and 2019

	Notes		2020		2019
Revenue	14	**$**	**9,497**	$	8,837
Cost of sales			**2,536**		2,041
Gross profit			**6,961**		6,796
General and administrative			**1,098**		893
Executive bonuses			**-**		102
One-time executive bonus buyout	16		**-**		12,000
Professional fees			**549**		138
Acquisition-related costs			**44**		176
Sales and marketing			**175**		176
Product research			**219**		442
Depreciation of property and equipment			**8**		12
Amortization of intangible and ROU assets	7		**1,118**		977
Stock based compensation	12(c)		**270**		728
Foreign exchange gain			**(3)**		(99)
Share based payments	13		**637**		-
Interest loss (income), net			**3**		(159)
Profit (loss) before income tax			**2,843**		(8,590)
Current income tax			**1,058**		(254)
Deferred income tax	9(a)		**(95)**		(1,969)
	9(b)		**963**		(2,223)
Profit (loss) for the period			**1,880**		(6,367)
Other comprehensive loss					
To be recycled through income:					
Exchange differences on translating foreign operations			**(1,499)**		(378)
Total comprehensive income (loss) for the period		**$**	**381**	$	(6,745)
Basic and diluted earnings per share		**$**	**0.08**	$	(0.27)
Basic weighted average number of shares outstanding	13(h)		**23,769,714**		23,756,364
Diluted weighted average number of shares outstanding	13(h)		**23,881,235**		23,768,037

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

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

For the three months ended December 31, 2020 and 2019

	Notes		Share Capital		Contributed Surplus		Foreign Currency Translation Reserve		Deficit		Total Equity
As at September 30, 2019		$	78,667	$	2,406	$	559	$	(23,133)	$	58,499
Loss for the period			-		-		-		(6,367)		(6,367)
Foreign currency translation adjustment			-		-		(378)		-		(378)
Total comprehensive loss for the period			-		-		(378)		(6,367)		(6,745)
Payment of dividends	12(d)		-		-		-		(2,378)		(2,378)
Exercise of options	12(c)		765		(146)		-		-		619
Stock based compensation			-		728		-		-		728
Balance as at December 31, 2019		$	79,432	$	2,988	$	181	$	(31,878)	$	50,723
As at September 30, 2020		$	79,564	$	3,280	$	722	$	(31,694)	$	51,872
Profit for the period			-		-		-		1,880		1,880
Foreign currency translation adjustment			-		-		(1,499)		-		(1,499)
Total comprehensive income for the period			-		-		(1,499)		1,880		381
Payment of dividends	12(d)		-		-		-		(2,963)		(2,963)
Exercise of options	12(f)		2,356		(363)		-		-		1,993
Share buy-back and cancellation	12(e)		(229)		-		-		(493)		(722)
Stock based compensation			-		270		-		-		270
Balance as at September 30, 2020		$	81,691	$	3,187	$	(777)	$	(33,270)	$	50,831

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

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

For the months ended December 31, 2020 and 2019

	Notes	Three months ended December 31, 2020	2019
Operating Activities			
Profit (loss) before income tax		**$ 2,843**	$ (8,590)
Items not affecting cash			
Depreciation of property and equipment		**8**	19
Amortization of intangible assets	7	**1,118**	993
Stock based compensation	12(c)	**270**	728
Interest on lease obligations		**8**	11
Acquisition related costs		**-**	176
Share based payments	13	**637**	-
Cash taxes paid		**(22)**	(6)
Cash generated (utilized) from operating activities before non-cash change in working capital		**4,862**	(6,669)
Changes in non-cash operating assets and liabilities			
Trade and other receivables		**954**	(645)
Inventory		**17**	45
Prepaid expenses and deposits		**87**	248
Trade and other payable		**(1,599)**	(507)
Deferred revenue, deposits and retainers		**(3,310)**	(3,497)
Cash generated (utilized) from operations		**1,011**	(11,025)
Investing Activities			
Purchase of property and equipment		**(9)**	(3)
Acquisition of intangible assets	7	**(201)**	(89)
Interest received		**5**	144
Cash (utilized) generated in investing activities		**(205)**	52
Financing Activities			
Repayments of lease obligations		**(114)**	(78)
Proceeds from share issuance, less issue costs	12(b)	**1,993**	619
Repurchase of common shares	12(e)	**(722)**	-
Payment of dividends	12(d)	**(2,963)**	(2,378)
Cash utilized in financing activities		**(1,806)**	(1,837)
Decrease in cash and cash equivalents		**(1,000)**	(12,810)
Effect of currency translation adjustment on cash and cash equivalents		**(1,043)**	(214)
Cash and cash equivalents, beginning of the period		**42,797**	53,096
Cash and cash equivalents, end of the period		**$ 40,754**	$ 40,072

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, Serenic Software Inc. and Information Strategies, Inc.

Sylogist is headquartered in Calgary, Alberta, Canada with regional offices in Edmonton, Alberta, Newmarket, Ontario, Canada. Atlanta, Georgia, Lakewood, Colorado, and Washington, DC 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 February 10, 2021.

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 audited consolidated financial statements for the year ended September 30, 2020. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended September 30, 2020.

(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.

(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, Serenic Software Inc. and Information Strategies, 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:

Impact of the COVID-19 pandemic – in March 2020, the World Health Organization declared coronavirus outbreak (“COVID-19”) a pandemic. Responses to the spread of COVID-19 resulted in a partial shutdown of the global economy leading to significant disruption to business operations and a significant increase in economic uncertainty with volatile commodity prices and currency exchange rates. In addition, the decrease in demand for crude oil has resulted in a significant decline in global energy prices. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. A potential adverse impact to the Company includes reductions in revenues and cash flows and increased risk of non-payment from customers. Estimates made during this period of extreme volatility are subject to a higher level of uncertainty and as a result, there may be a further prospective impact in future periods.

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.

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.

Goodwill – is not amortized but is subject to impairment testing at least once a year, or more frequently if events or changes in circumstances indicate the carrying amount maybe impaired. 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.'s 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 ("ITC's"), 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 unaudited 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 costs in the consolidated statement of profit and 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.

Contracts with multiple products or services – contracts with customers often include promises to deliver multiple products, such as licenses and maintenance. Determining whether such bundled products and services are considered i) distinct performance obligations that should be separately recognized or ii) non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require significant judgment. The determination of the standalone selling prices for distinct performance obligations can also require judgment and estimates.

The Company also applies estimates when calculating professional services revenue from certain consulting contracts as it relates to remaining labour hours required to complete the contract. Estimates are continually and routinely revised as new information becomes available. In assessing revenue recognition, judgment is also used in assessing the ability to collect the corresponding account receivable.

3. Business acquisition

(a) On April 21, 2020, Sylogist completed the acquisition of all the common shares of Information Strategies, Inc. ("InfoStrat") for cash consideration of approximately $3.5 million before post-closing adjustments. This includes a $540 (CDN) holdback with respect to the settlement of outstanding customer accounts. On October 21, 2020, the Company settled it's holdback with the shareholders of InfoStrat. InfoStrat's shareholders received USD $341 and the remainder went to Sylogist.

InfoStrat, based in Washington, DC, is a long established, profitable business and a Microsoft Gold partner catering to federal and state government and not-for-profit/NGO organizations throughout the United States. It provides software solutions and professional services based on its proprietary intellectual property that uses Microsoft Dynamics 365 CRM and Sharepoint at its core. The acquisition extends Sylogist's public sector footprint to the US federal government and state government agencies, and further provides complementary intellectual property and delivery capabilities to better serve not-for-profit/NGO customers' needs.

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

This transaction has been accounted for as a business combination using the acquisition method whereby the net assets acquired, and the liabilities assumed are recorded at fair value. The goodwill of $996 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of InfoStrat's and Sylogist's Public Sector. None of the goodwill recognized is deductible for income tax purposes. The impact of acquisition accounting applied in connection with the acquisition of InfoStrat is as follows:

Net working capital acquired	$	311
Intangible assets: customer list		309
Intangible assets: brand		537
Intangible assets: software code		779
Intangible assets: non-compete agreement		1,338
Deferred tax		(859)
Total identifiable net assets acquired	$	2,415
Goodwill		996
Consideration paid	$	3,411

4. Cash

As of December 31, 2020, the Company had $40,754 cash on hand (September 30, 2020 - $42,797).

5. Trade and other receivables

		December 31, 2020
Trade receivables, gross	$	1,823
Allowance for doubtful accounts		(193)
Trade receivables		1,630
Other receivables(1)		916
Trade and other receivables	$	2,546

(1) Other receivables consist primarily of income tax receivables and contracts in progress.

Due to their short-term nature, the net carrying value of trade receivables approximates fair value (Note 19).

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

6. Prepaid expenses

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

		December 31, 2020
Prepaid software royalties	$	1,050
Other prepaid expenses and deposits		444
	$	1,494

7. Intangible assets

	December 31, 2020					
		Cost		Accumulated Amortization		Net Book Value
Software licenses and rights	$	3,874	$	3,408	$	466
Customer lists		18,728		12,460		6,268
Software codes		14,683		9,501		5,182
Employment agreements		1,214		168		1,046
	$	38,499	$	25,537	$	12,962

(1) During the three months ended December 31, 2020, $105 of amortization related to ROU asset was included in the total amortization reflected in the unaudited interim consolidated statements of comprehensive income (December 31, 2019 - $72).
(2) During the three months ended December 31, 2020, the Company capitalized $201, offset by $23 of ITC's (December 31, 2019 - $89, offset by $11 of ITC's) of software development costs.

8. Goodwill

The carrying amount of goodwill can be analyzed as follows:

		December 31, 2020
Gross carrying amount from:		
Acquisition of Bellamy	$	1,934
Acquisition of Weave		771
Acquisition of Serenic		4,522
Acquisition of InfoStrat		996
Foreign exchange impact		(92)
	$	8,131

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

9. 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, 2020	Recognized in earnings	Other	As at December 31, 2020
Property, equipment and intangibles	$ (2,722)	$ 233	$ 6	$ (2,483)
Scientific research and development pools	80	(38)	(72)	(30)
Non-capital losses	212	(34)	-	178
Share issuance and other	106	(66)	-	40
	$ (2,324)	$ 95	$ (66)	$ (2,295)

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.

(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:

	For the three months ended December 31, 2020	2019
Profit (loss) before taxes	**$ 2,843**	$ (8,590)
Corporate income tax rate	**23.0%**	25.0%
Computed expected tax provision (recovery)	**654**	(2,148)
Increase (decrease) in income taxes resulting from:		
- Rate difference on foreign operations	**24**	(11)
- Stock compensation expense	**238**	21
- Rate reduction	**-**	(97)
- Other	**47**	12
Income tax expense	**$ 963**	$ (2,223)

(c) The following is a summary of the Canadian tax pools available at the end of December 2020, subject to confirmation by the income tax authorities:

	December 31, 2020
Capital cost allowance	**$ 3,141**

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

(d) The two US subsidiaries, Serenic Software (US) Corporation and Serenic Software Inc., have net operating losses of $768 USD ($978 CAD) and $150 USD ($191 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 ($85 CAD) and $150 USD ($191 CAD), respectively. The net operating losses carried forward expire at various dates up to 2034. 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 £3,316 ($5,618 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.

10. Trade and other payables

Trade and other payables can be summarized as follows:

		December 31, 2020
Trade payables	**$**	**512**
Short-term employee payable		**955**
Professional fees accrual		**201**
Supplier costs accrual		**24**
Other taxes payable		**226**
	$	**1,918**

11. Deferred revenue, deposits and retainers

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

		Deferred Revenue		**Deposits and Retainers**
Balance at October 1, 2020	$	13,693	$	156
New Contracts		2,936		137
Applied or Amortized		(6,298)		(86)
Balance, end of the period	**$**	**10,331**	**$**	**207**

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

12. Share capital

(a) Authorized: Unlimited number of common shares

(b) Issued

	December 31, 2020		
	Number		$
Common shares			
Balance at October 1, 2020	23,765,944	$	79,564
Repurchase of common shares	(68,400)		(229)
Issued on exercise of options	188,333		1,993
Grant date fair value of options exercised	-		363
Balance, end of the period	23,885,877	$	81,691
Total share capital		$	81,691

(c) Contributed surplus

		December 31, 2020
Balance at October 1, 2020	$	3,280
Transfer to common share capital on exercise of options		(363)
Stock based compensation		270
Balance, end of the period	$	3,187

(d) Dividends

During the three months ended December 31, 2020, the Company paid regular dividends to shareholders totaling $2,963 (December 31, 2019 - $2,378) at an average dividend amount of $0.125 (December 31, 2019 - $0.10) per share.

(e) Normal course issuer bid

On July 15, 2020, the Company commenced a further Normal Course Issuer Bid ("NCIB") to acquire up to 2,141,228 of its common shares over the ensuing 12-month period. During the three months ended December 31, 2020, the Company repurchased 68,400 common shares at an average price of $10.56 for a total cost of $722, of which $493 was applied against deficit for the period ended December 31, 2020 and $229 was applied against share capital. The current NCIB terminates on the earlier of July 14, 2021, or when permitted purchases are completed. During the three months ended December 31, 2019, the Company did not repurchase any shares.

All purchases of its common shares are for cancellation.

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

(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 2,374,094 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, 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 December 31, 2020 and changes during the period then ended, is as follows:

	December 31, 2020		
	Number of Options		Weighted Average Exercise Price
Outstanding at October 1, 2020	1,015,000	$	10.54
Granted	810,000		10.30
Exercised	(188,333)		10.59
Expired	(36,667)		10.35
Outstanding, end of the period	1,600,000	$	10.42
Options exercisable, end of the period	343,333	$	10.36

The stock-based compensation included in the unaudited interim consolidated statement of comprehensive income was $270 (December 31, 2019 - $728).

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:

	December 31, 2020
Risk-free interest rate	0.43%
Expected life (years)	5
Expected volatility	35%
Annualized dividend per share	$0.50
Forfeiture rate	10%

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

(g) The following table summarizes information about stock options outstanding and exercisable as at December 31, 2020:

Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Period Until Exercisable	Number of Options Exercisable	Weighted-Average Remaining Contractual Life Post Vesting
$ 10.10	70,000	-	70,000	0.8 years
8.25	20,000	-	20,000	1.4 years
10.08	60,000	-	40,000	2.0 years
12.75	15,000	1.0 years	5,000	3.0 years
10.65	625,000	1.8 years	208,333	3.8 years
10.30	810,000	2.9 years	-	-
	1,600,000	2.2 years	343,333	2.8 years

(h) The earnings per share have been calculated based on the weighted-average number of common shares outstanding during the three-month period ended December 31, 2020, of 23,769,714 (December 31, 2019 – 23,756,364). During the same period, the diluted weighted average number of shares outstanding was 23,881,235 (December 31, 2019 – 23,768,037). For the three-month period ended December 31, 2020, 111,521 options were included in the computation of diluted earnings per share (December 31, 2019 – 11,673).

13. Share based payments

On November 9, 2020, the Company granted 100,000 Phantom Interest Award Units ("PIAU") to an executive, that will entitle the awardee to a cash payment after 5 years of service. 50,000 Phantom Interest Award Units will vest on the grant date and the remaining 50,000 Phantom Interest Award Units will vest in equal installments of 10,000 Phantom Interest Award Units on each of the first four anniversaries of the grant date if the executive has remained employed with Company through the anniversary date. The amount of the cash payment is determined based on the increase in the share price of the Company between grant date and the time of exercise.

The fair value of the share based payments included in the unaudited interim consolidated statements of comprehensive income was $637 (December 31, 2019 – Nil).

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

The input used in the measurement of the fair values at grant date and measurement date of the PIAUs were as follows:

	Grant date November 9, 2020	Measurement date December 31, 2020
Fair value		
Share price	$ 9.90	$ 9.90
Exercise price	$ 9.90	$ 11.80
Expected volatility (weighted-average)	34.9%	45%
Expected life (weighted average)	5 years	4.9 years
Expected dividends	5%	4%
Risk-free interest rate (based on government bonds)	0.43%	0.39%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price. The expected term of the instruments has been based on historical experience and general option holder behavior.

14. 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.

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 are 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.

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

	Three months ended December 31,	
	2020	2019
Licenses		
Canada	**16**	30
USA	**227**	166
	243	196
Subscription and maintenance		
Canada	**2,000**	1,846
USA	**4,943**	4,979
UK and Other	**66**	70
	7,009	6,895
Professional services		
Canada	**144**	148
USA	**2,085**	1,456
UK and Other	**7**	41
	2,236	1,645
Product revenue		
Canada	**9**	4
USA	**-**	96
UK and Other	**-**	1
	9	101
Total revenue		
Canada	**2,169**	2,028
USA	**7,255**	6,697
UK and Other	**73**	112
	$ 9,497	$ 8,837

	Three months ended December 31,	
	2020	2019
Non-current assets		
Canada	**14,866**	17,886
USA	**6,683**	4,627
	21,549	22,513

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized and includes deferred revenue that will be recognized as revenue in future periods. As of December 31, 2020, contracted not yet recognized revenue was $10,331 (December 31, 2019 - $13,693), of which majority will be recognized over the next twelve months.

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

15. 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 operating leases are as follows:

Contractual Obligations	Total	Fiscal 2021	Fiscal 2022
Premise/Services	**$ 758**	$ 590	$ 168

(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.

16. One-time executive bonus buyout

On October 15, 2019, the Company entered into new compensation arrangements with its former Chief Executive Officer and Executive Vice President that provides for annual incentive bonuses based primarily on strategic value improvements in the Company going forward. To facilitate the change the Company paid these executives a total of $12 million.

17. Related party transactions

During the three months ended December 31, 2020, the Company paid director's fees of $40 (December 31, 2019 - $40). No fees are outstanding as of December 31, 2020.

Directors and executive officers, along with certain employees, also participate in the Company's stock option plan (Note 12(f)).

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

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

	December 31, 2020
Salaries and benefits-key management	$ 394
Stock based compensation	265
Share based payments	637
Directors' fees	40
	$ 1,336

18. 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.

19. Financial instruments

The Company's financial instruments consist of cash, trade and other receivables and trade and other payables. The carrying values of the Company's financial instruments approximate their fair values due to the short-term nature of these 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.

(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 December 31, 2020, 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 $66 (September 30, 2020 - $36). 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 $5 (September 30, 2020 - $5).

(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 December 31, 2020, the majority of the Company's cash is 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 $193 represents approximately 10.6% of the trade accounts receivable as of December 31, 2020 (September 30, 2020 – 0.2%). As at December 31, 2020, three customers accounted for 72% (September 30, 2020 – three customers accounted for 23%) of the Company's total trade accounts receivable. Revenue from one customer represented approximately $450 or 4.7% of consolidated revenue earned during the three months ended December 31, 2020 (December 31, 2019 – 12%).

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

Aging of trade accounts receivable

		December 31, 2020
1-30 days	$	1,709
31-90 days		186
91 + days		(72)
Total trade receivables		1,823
Allowance for doubtful accounts		(193)
Other receivables[1]		916
Total accounts receivable	$	2,546

(1) Other receivables consist primarily of income tax receivables and contracts in progress.

Allowance for doubtful accounts continuity schedule

		December 31, 2020
Balance at October 1, 2020	$	(4)
Allowance recognized-net		(189)
Balance, end of the period	$	(193)

(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.

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

Trade and other payables:

	December 31, 2020	
Trade payables	$	**512**
Accrued and other payable		**1,406**
Total trade and other payables	$	**1,918**

Sylogist expects that cash flow from operations generated in fiscal 2021, 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 is subject to interest rate price risk, as the value will fluctuate due to changes in market rates. As at December 31, 2020, the increase or decrease in profit before tax for each 1% change in interest rates on the Company cash, amounts to approximately $408 (September 30, 2020 - $428) 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, 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.

20. Subsequent events

(a) On January 18, 2021, the Company granted 50,000 Phantom Interest Award Units to an officer, that will entitle the awardee to a cash payment after 5 years of service. 10,000 Phantom Interest Award Units will vest on the grant date and the remaining 40,000 Phantom Interest Award Units will vest in equal installments of 10,000 Phantom Interest Award Units on each of the first four anniversaries of the grant date.

(b) On January 19, 2021, the Company granted 225,000 options to purchase common shares at a price of $11.78 per share to an officer of the Company.

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Taylor Gray, [1] [2]
Barry Foster, Chairman of the Board [1] [2]
Lester Fernandes, [1]
Craig O'Neill, [1] [2]

[1] *member of audit committee*
[2] *member of compensation committee*
[5] *member of the board effective November 9, 2020*

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