

SYLOGIST LTD.

Management's Discussion & Analysis of Financial Condition and Results of Operations

**For the three and fifteen month periods ended
December 31, 2022**



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Management's Discussion & Analysis

For the three- and fifteen-month periods ended December 31, 2022

Management's Discussion & Analysis of Financial Condition and Results of Operations

The following Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") of Sylogist Ltd. ("Sylogist" or the "Company") should be read in conjunction with the Company's audited consolidated financial statements and the related notes for the periods ended December 31, 2022 and September 30, 2021 ("Financial Statements"). The Company's Financial Statements and MD&A consist of its results and the results of its wholly-owned subsidiaries; Sylogist USA Inc. and Serenic Software (U.K.) Limited, and its indirect wholly-owned subsidiaries, Serenic Software Inc., Serenic Software (US) Corporation, Municipal Accounting Systems, Inc. ("MAS"), Information Strategies, Inc. ("InfoStrat"), Mission CRM Ltd. ("Mission CRM") and The Pavlik Group Inc. ("Pavliks"). Mission CRM and Pavliks were amalgamated into Sylogist effective October 1, 2022 and January 1, 2023, respectively.

Data, comments and analysis are provided in this MD&A wherever considered appropriate, subject to reasonable limitations for confidentiality or competitive positioning of the Company, to assist the reader in understanding the Company's business from a management perspective. Certain information provided in this MD&A is forward-looking, being based on assumptions or anticipated results, which is subject to uncertainties. Incorrect assumptions or uncertainties materializing could lead to actual results differing materially from those expected. Readers are referred to "Forward-Looking Statements", "Critical Accounting Estimates" and "Risks and Uncertainties" in this MD&A.

Unless otherwise indicated, the reporting and measurement currency referred to in this MD&A is the Canadian dollar.

Additional information about Sylogist is available on its website at www.sylogist.com, as well as on SEDAR at www.sedar.com.

This MD&A is dated as of March 22, 2023.

Overview

Sylogist is a software company that provides mission-critical Software-as-a-Service ("SaaS") solutions to over two thousand public sector customers globally across the government, nonprofit, and education verticals.

Sylogist is focused three core verticals: government ("SylogistGov"), education ("SylogistEd"), and not-for-profit ("SylogistMission"). The Company's goal is to drive organic growth while maintaining a "Rule of 40" posture, meaning there is a long run expected combined blend of organic revenue growth rate and Adjusted EBITDA Margin greater than 40 (see "Non-IFRS measures" section for Adjusted EBITDA definition). The Company is targeting an organic growth run rate in the low double digits while maintaining a balanced Adjusted EBITDA Margin profile. Sylogist's is making strategic investments that it believes will lead to balanced and profitable growth, and shareholder value creation.

Organic Growth Strategy

Sylogist is executing an organic growth strategy centered on its three core verticals. The Company continues to invest in go-to-market capacity across each of the verticals, augmenting prior investments in sales and marketing, product development, and customer account management, to enhance the Company's market presence and drive growth via new logo wins and wallet share expansion.

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Concurrent with these investments, Sylogist is executing a rebranding strategy focused on SylogistGov, SylogistEd, and SylogistMission. The rebranding strategy will simplify messaging, increase marketing return on investment, drive market awareness and emphasize core areas of focus.

Sylogist sees its organic growth strategy leading to long term sustainable revenue expansion and shareholder value creation.

M&A Growth Strategy

Sylogist sees mergers and acquisitions ("M&A") as a growth accelerant, and pursues a strategy of integrating, investing in, and growing acquired companies, while maintaining capital discipline. To execute its M&A strategy, Sylogist is maintaining and nurturing a robust pipeline of opportunities, investing in its M&A outreach, and is continuously evaluating inorganic growth opportunities relative to shareholder value creation.

The M&A strategy is driving positive results, as the Company made two strategic acquisitions in the first quarter of fiscal 2022. On October 6, 2021, the Company acquired Mission CRM. Founded in 2016, Mission CRM has developed an innovative, 100% SaaS fundraising and donor engagement platform built on a Microsoft Dynamics 365 and Azure foundation. On October 18, 2021, the Company acquired Pavliks, a provider of proprietary SaaS applications and professional services primarily to public sector organizations and member associations, as well as managed IT services.

These acquisitions brought near-term enhanced scale, revenue growth, cash flows, and exciting strategic IP and value creation upside.

Significant Events

Effective November 17, 2022, Sylogist commenced a Normal Course Issuer Bid ("NCIB"), allowing for the repurchase of up to 2,281,177 common shares, which is 10% of the public float. The daily purchase limit under the NCIB will be 8,342 common shares and expires after twelve months. During the fifteen months ended December 31, 2022, the Company repurchased 86,100 common shares at an average price of \$5.52 for a total cost of \$0.5 million.

Effective November 14, 2022, Sylogist, and its board of directors, declared a new quarterly dividend of \$0.01 per share. Sylogist decided to materialize the Company's self-funding capabilities through continued investment in its platforms and go-to-market capabilities. Given Sylogist's investments, M&A pipeline potential and adjusted dividend, the Company is confident in its ability to attractively redeploy capital for a foreseeable period.

On November 1, 2022, the Company announced the change in its financial year-end from September 30 to December 31, to be effective for fiscal 2022, to align with the financial reporting of most public issuers. The information presented in this MD&A reflects that of the Company's audited consolidated statement of comprehensive income and cash flows for the three and fifteen months ended December 31, 2022 compared to three months ended December 31, 2021 and twelve months ended September 30, 2021 as well as the Company's audited consolidated statements of financial position as at December 31, 2022 and September 30, 2021.

On February 3, 2022, the Company amended its Credit Facility agreement to expand available credit from \$75 million to \$125 million, subject to certain conditions. As part of the amendments, advances under the Credit Facility may now be made based on the lenders' prime rate or the U.S. base rate plus 0.0% – 0.8% or based on the banker's acceptance ("BA") rate plus 1.5% – 2.3%.

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Sylogist pays standby fees of between 0.3% – 0.5% per annum on any undrawn portion of the Credit Facility. The standby fees and premiums on base interest rates within the respective ranges are determined based on the Company's ratio of Funded Debt to EBITDA. Funded Debt to EBITDA is a non-IFRS measures. See "Non-IFRS measures" for definition. The amended credit agreement requires the Company to maintain a Funded Debt to EBITDA ratio not greater than 3.50:1.00 at any given time (or 4.00:1.00 for 180 days following an acquisition), and a Fixed Charge Coverage Ratio not less than 1.50:1.00. Effective January 31, 2023, the Company amended the Credit Facility to extend the maturity date to January 31, 2024, under the same terms. This expanded Credit Facility provides the Company with further capacity to execute on its M&A growth strategy.

Outlook

The Company intends to continue growing its business while striving for a Rule of 40 posture and holding focus on the three core verticals. In recent quarters, Sylogist has materially improved organic revenue growth while generating consistently positive Adjusted EBITDA. Indications are the Company can sustain a low double digit growth rate. The Company intends to continue allocating capital to support opportunities in all its core verticals which may pressure Adjusted EBITDA Margin in 2023.

Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with International Financial Reporting Standards ("IFRS"), namely "Adjusted Working Capital", "Adjusted Working Capital per share", "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted EBITDA per share", "Backlog" and "Funded Debt to EBITDA".

These terms are not measures that have any standardized meaning prescribed by IFRS and are considered non-IFRS measures. While these measures may not be comparable to similar measures presented by other issuers, these measures have been described and presented in this MD&A to provide shareholders and potential investors with additional information regarding the Company's results, liquidity, and its ability to generate funds to finance its operations. When assessing the Company's operating performance or liquidity, investors and others should not consider this data in isolation or as a substitute for net profit, cash flow from operating activities or other cash flow data calculated in accordance with IFRS. In addition, the Company's calculation of Adjusted EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner.

The non-IFRS measures "Adjusted Working Capital", "Adjusted Working Capital per share", "Adjusted EBITDA", "Adjusted EBITDA Margin", and "Adjusted EBITDA per share" used in this MD&A are calculated as follows:

Adjusted Working Capital refers to current assets less current liabilities adjusted for deferred revenue. The Company believes Adjusted Working Capital is a useful metric as it demonstrates the Company's ability to manage its resources, meet its short-term obligations, and is monitored internally for such purposes most efficiently.

Adjusted Working Capital per share refers to Adjusted Working Capital per basic weighted average number of shares outstanding.

Adjusted EBITDA refers to profit for the period before stock based compensation, share based payments, foreign exchange, interest expense, income taxes, acquisition-related costs, executive retirement compensation, earnout, depreciation and amortization. The Company believes that

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Adjusted EBITDA is useful supplemental information, as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration significant non-recurring items comprised of costs directly attributable to acquisitions, share based payments, executive retirement compensation, earnout, as well as non-cash expenses, which include stock based compensation and share based payments expense, depreciation and amortization. Adjusted EBITDA also serves as a proxy for the Company's cash flow. Management also uses Adjusted EBITDA and Adjusted EBITDA Margin measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet its capital expenditure, current taxes payable, and working capital requirements. Foreign exchange gains or losses are excluded from Adjusted EBITDA as they are not operational in nature. The foreign exchange gains and loss reflected in the Company's financial statements are primarily the result of intercompany payables and receivables between the Company and its foreign subsidiaries. The Company believes that the fluctuation in exchange rates is not a true indicator of the Company's performance.

Adjusted EBITDA Margin refers to Adjusted EBITDA as a percentage of revenue.

Adjusted EBITDA per share (Basic) refers to Adjusted EBITDA per basic weighted average number of shares outstanding.

Backlog refers to unrecognized contracted revenues, from cloud subscriptions, maintenance and support or professional services, that have not been recognized or invoiced to date but will be in future periods.

Funded Debt to EBITDA refers to Credit Facility principal outstanding, less unencumbered cash and cash equivalents, to EBITDA.

Each non-IFRS measure is reconciled to its most directly comparable IFRS measure within the "Results of Operations" and "Liquidity and Capital Resources" sections of this MD&A, except Funded Debt to EBITDA, which was discussed above.

Three months ended December 31, 2022 highlights

During the three-month period ended December 31, 2022, revenue increased 22% to \$15.3 million compared to the same period in the last year. Sylogist delivered Adjusted EBITDA of \$4.9 million, or 32% of revenues.

Revenues increased due to the 2022 Mission and Pavliks acquisitions (the "2022 Acquisitions"), greater new bookings and project delivery, combined with favorable movements in the USD/CAD exchange rate. These increases were partially offset by purposeful, one-time strategic pricing discounts offered to a legacy platform.

The 2022 Acquisitions, which were completed early in three-month period ended December 31, 2021, drove meaningful revenue growth period over period as the Company successfully integrated and improved operations post-acquisition.

Operational and financial results for the three months ended December 31, 2022 compared to the three months ended December 31, 2021 include:

- Revenues of \$15.3 million, compared to \$12.6 million, an increase of 22%.
- Recurring revenues from cloud subscriptions and maintenance and support grew by a combined 11% to \$9.7 million, compared to \$8.8 million;

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- Cloud subscriptions grew by 14% to \$6.0 million, compared to \$5.3 million;
- Maintenance and support grew by 6% to \$3.7 million, compared to \$3.5 million;
- Gross Profit of \$9.7 million, compared to \$8.1 million, an increase of 19%;
- Gross Profit Margin of 63%, compared to 65%;
- Profit before income tax in the quarter was \$0.2 million, consistent with the prior year;
- Backlog was \$30.3 million, compared to \$26.0 million, an increase of 17% as at September 30, 2021
- Adjusted EBITDA of \$4.9 million, compared to \$3.7 million;
- Adjusted EBITDA Margin of 32%, compared to 30%;
- Adjusted EBITDA per share of \$0.20 per share, compared to \$0.16 per share;
- Cash used in operations totaled \$1.2 million, compared to cash used in operations of \$1.7 million;
- The Company paid \$0.3 million in dividends to shareholders, compared to \$3.0 million; and
- Cash and cash equivalents totaled \$14.5 million compared to \$29.6 million as at September 30, 2021.

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Results of operations

(Amounts are in thousands of dollars, except percentages, share, and per share amounts.)

	Three months ended December 31,		Period-Over- Period Change		Fifteen months ended December 31, 2022	Twelve months ended September 30, 2021	Period-Over Period Change		Twelve months ended September 30, 2020
	2022	2021	\$	%			\$	%	
Revenue	15,344	12,561	2,783	22%	69,000	38,675	30,325	78%	38,079
Expenses, net of interest income	12,003	8,878	3,125	35%	50,695	21,754	28,941	133%	29,714
Profit before income tax	182	93	89	96%	2,948	6,276	(3,328)	-53%	2,472
Executive retirement compensation	1,211	-	1,211	n/m	1,211	-	1,211	n/m	-
One-time executive bonus buyout	-	-	-	n/m	-	-	-	n/m	12,000
Amortization of intangible and ROU assets	2,354	2,518	(164)	-7%	12,756	6,608	6,148	93%	4,182
Depreciation of property and equipment	41	30	11	37%	173	61	112	184%	38
Stock based compensation	128	395	(267)	-68%	1,006	1,777	(771)	-43%	1,072
Interest expense	326	51	275	n/m	1,428	247	1,181	n/m	67
Share based payments	290	415	(125)	-30%	75	1,001	(926)	-93%	-
Earnout	333	-	333	n/m	737	-	737	n/m	-
Foreign exchange loss	11	2	9	n/m	1	94	(93)	-99%	(108)
Acquisition-related costs	2	230	(228)	-99%	609	1,104	(495)	-45%	710
Adjusted EBITDA ⁽¹⁾	4,878	3,734	1,144	31%	20,944	17,168	3,776	22%	20,433
Adjusted EBITDA Margin ⁽¹⁾	32%	30%			30%	44%			54%
Income tax expense									
Current income tax	773	1,008	(235)	-23%	4,000	3,479	521	15%	1,292
Deferred income tax	(362)	(750)	388	-52%	(3,593)	(1,576)	(2,017)	128%	(744)
Income tax expense	411	258	153	59%	407	1,903	(1,496)	-79%	548
(Loss) Profit	(229)	(165)	(64)	39%	2,541	4,373	(1,832)	-42%	1,924
Weighted average number of shares outstanding									
Basic	23,915,877	23,903,486			23,908,268	23,849,461			23,762,916
Diluted	23,915,877	24,068,490			23,908,480	24,118,525			23,800,319
Profit per share									
Basic	\$ (0.01)	\$ (0.01)	0.00	0%	\$ 0.11	\$ 0.18	(0.07)	-39%	\$ 0.08
Diluted	\$ (0.01)	\$ (0.01)	0.00	0%	\$ 0.11	\$ 0.18	(0.07)	-39%	\$ 0.08
Adjusted EBITDA per share ⁽¹⁾									
Basic	\$ 0.20	\$ 0.16	0.04	25%	\$ 0.88	\$ 0.72	0.16	22%	\$ 0.86
Diluted	\$ 0.20	\$ 0.16	0.04	25%	\$ 0.88	\$ 0.71	0.17	24%	\$ 0.86
Working Capital	(23,437)	(22,226)	(1,211)	5%	(23,437)	(6,207)	(17,230)	278%	31,507
Working Capital per share									
(Basic shares outstanding at period end)	\$ (0.98)	\$ (0.93)	(0.05)	5%	\$ (0.98)	\$ (0.26)	(0.72)	277%	\$ 1.33
Adjusted Working Capital ⁽¹⁾	(4,240)	(8,758)	4,518	-52%	(4,240)	11,246	(15,486)	-138%	45,200
Adjusted Working Capital per share ⁽¹⁾									
(Basic shares outstanding at period end)	\$ (0.18)	\$ (0.37)	0.19	-51%	\$ (0.18)	\$ 0.47	(0.65)	-138%	\$ 1.90
Cash dividends declared per share	\$ 0.010	\$ 0.125	(0.115)	-92%	\$ 0.510	\$ 0.500	0.010	2%	\$ 0.435
Total assets	100,044	107,169	(7,125)	-7%	100,044	98,033	2,011	2%	70,956
Total long-term liabilities	12,246	17,563	(5,317)	-30%	12,246	11,565	681	6%	2,442

n/m - "Not Meaningful"

1) Is a non-IFRS measure. See "Non-IFRS measures" for definition.

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Revenue analysis

(Amounts in thousands of dollars, except percentages)

	Three months ended December 31,		Period-Over- Period Change		Fifteen months ended December 31, 2022	Twelve months ended September 30, 2021	Period-Over Period Change	
	2022	2021	\$	%			\$	%
Cloud subscriptions	6,029	5,296	733	14%	28,185	15,130	13,055	86%
Maintenance and support	3,662	3,462	200	6%	17,063	15,629	1,434	9%
Professional services	4,934	2,911	2,023	69%	20,410	7,083	13,327	188%
License	497	397	100	25%	1,923	607	1,316	217%
Hardware and other	222	495	(273)	-55%	1,419	226	1,193	n/m
	\$ 15,344	\$ 12,561	\$ 2,783	22%	\$ 69,000	\$ 38,675	\$30,325	78%

For the three-month period ended December 31, 2022, total revenue increased 22% to \$15.3 million, compared to \$12.6 million in the same period last year.

For the three-month period ended December 31, 2022, cloud subscriptions revenue increased by 14% to \$6.0 million, compared to \$5.3 million during the same period in 2021. The increase was largely a result of the 2022 Acquisitions creating an additional \$0.3 million over last year, as the Company integrated, improved and accelerated their operations throughout 2022. The increase was also the result of positive \$0.3 million in FX tailwinds, and \$0.1 million for the continued conversion of the Company's Non-Profit Organizations ("NPO") customers from maintenance and support to cloud subscriptions. The period over period increase was partially offset by the impact of \$0.1 million in purposeful discounts offered to legacy municipal Bellamy customers in return for 3-year contracts.

For the three-month period ended December 31, 2022, maintenance and support revenue increased by 6% to \$3.7 million, compared to \$3.5 million during the same period in 2021. The increase was the result of positive \$0.2 million in FX tailwinds and the 2022 Acquisitions creating an additional \$0.1 million. The increase was partially offset by the impacts of the discounts offered to legacy municipal Bellamy customers and customer conversion to cloud subscriptions.

For the three-month period ended December 31, 2022, the \$2.0 million or 69% increase in professional services revenue, compared to the prior year was due mainly to the ramped up 2022 Acquisitions contributing \$1.4 million. The remainder of the increase was driven by existing customer upgrades and new implementations associated with NPO customers.

As at December 31, 2022, the Company had a Backlog of \$30.3 million, an increase of 17% when compared to \$26.0 million at September 30, 2021. The increase was largely created by the 2022 Acquisitions, and their contributions of deferred revenue and unrealized contracted professional services revenue.

The Company's revenues are impacted by foreign exchange fluctuations due to a majority of the Company's revenues being generated in the United States. Any weakening or strengthening of the Canadian dollar in relation to the United States dollar has an impact of the Company's revenue. During the three months ended December 31, 2022, exchange rate fluctuation provided a positive revenue impact of approximately 5%.

For the fifteen-month period ended December 31, 2022, total revenue increased to \$69.0 million, compared to \$38.7 million for the twelve-month period ended September 30, 2021, an overall increase of 78%.

For the fifteen-month period ended December 31, 2022, cloud subscriptions revenue increased 86% to \$28.2 million, compared to \$15.1 million for the twelve-month period ended September 30, 2021.

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For the fifteen-month period ended December 31, 2022, maintenance and support revenue increased 9% to \$17.1 million, compared to \$15.6 million for the twelve-month period ended September 30, 2021.

For the fifteen-month period ended December 31, 2022, professional services revenue increased by 188% to \$20.4 million, compared to \$7.1 million for the twelve-month period ended September 30, 2021.

For the fifteen-month period ended December 31, 2022, license revenue increased to \$1.9 million, compared to \$0.6 million for the twelve-month period ended September 30, 2021.

For the fifteen-month period ended December 31, 2022, hardware and other revenue increased to \$1.4 million, compared to \$0.2 million for the twelve-month period ended September 30, 2021.

For the fifteen-month period ended December 31, 2022, when compared to the twelve-month period ended September 30, 2021, the 2022 Acquisitions contributed \$2.6 million of cloud subscriptions revenue, \$0.6 million of maintenance and support revenue, \$10.1 million of professional services revenue, \$1.1 million in license revenue and \$0.6 million of hardware and other revenue, for total revenue of \$15.0 million.

Geographical revenues:

(Amounts in thousands of dollars, except percentages)

	Three months ended December 31,		Period-Over- Period Change		Fifteen months ended December 31, 2022	Twelve months ended September 30, 2021	Period-Over-Period Change	
	2022	2021	\$	%			\$	%
Canada	5,893	4,254	1,639	39%	25,249	8,604	16,645	193%
U.S.	9,399	8,240	1,159	14%	43,462	29,766	13,696	46%
UK and other	52	67	(15)	-22%	289	305	(16)	-5%
	\$ 15,344	\$ 12,561	\$ 2,783	22%	\$ 69,000	\$ 38,675	\$30,325	78%

For the three-month period ended December 31, 2022, geographically revenues in the Company's Canadian operations increased 39% to \$5.9 million, compared to the same period last year. Revenue from U.S. operations increased 14% to \$9.4 million, compared to the same period last year. U.K. and other operations decreased 22% to \$52 thousand for the three-month period ended December 31, 2022, compared to the same period last year.

For the fifteen months ended December 31, 2022, revenues in the Canadian operations were \$25.2 million, compared to \$8.6 million for the twelve months ended September 30, 2021. Revenue from U.S. operations increased to \$43.5 million, compared to \$29.8 million the twelve months ended September 30, 2021. U.K. and other revenues decreased to \$289 thousand for the fifteen months ended December 31, 2022, compared to \$305 thousand for the twelve months ended September 30, 2021.

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Expenses, net of interest income

(Amounts in thousands of dollars, except percentages)

	Three months ended December 31,		Period-Over- Period Change		Fifteen months ended December 31, 2022	Twelve months ended September 30, 2021	Period-Over Period Change	
	2022	2021	\$	%			\$	%
Expenses								
Cost of sales	5,691	4,458	1,233	28%	25,446	10,710	14,736	138%
General and administrative	2,141	2,210	(69)	-3%	10,870	6,757	4,113	61%
Executive retirement compensation	1,211	-	1,211	n/m	1,211	-	1,211	n/m
Professional fees	388	287	101	35%	2,002	1,270	732	58%
Sales and marketing	1,051	667	384	58%	4,425	904	3,521	389%
Product development	1,238	1,207	31	3%	5,363	1,881	3,482	185%
Interest expense	326	51	275	539%	1,428	247	1,181	478%
Interest income	(43)	(2)	(41)	n/m	(50)	(15)	(35)	233%
	\$ 12,003	\$ 8,878	\$ 3,125	35%	\$ 50,695	\$ 21,754	\$ 28,941	133%

n/m - "Not Meaningful"

Since March 2021, Sylogist completed three acquisitions, driving the increase in expenses, net of interest income. The Company also continues to invest in organic growth through expanding go-to-market capabilities, customer relations and product development and innovation.

For the three-month period ended December 31, 2022, expenses, net of interest income, increased by 35% to \$12.0 million, compared to \$8.9 million in the same period last year. This increase was primarily related to the 2022 Acquisitions and increased go-to-market, product development, and project delivery capacity investments.

For the fifteen-month period ended December 31, 2022, expenses, net of interest income, increased by 133% to \$50.7 million, compared to \$21.8 million for the twelve months ended September 30, 2021.

Cost of sales

The components of cost of sales are: 1) personnel costs (employees and external consultants) related to providing support, upgrade, and implementation services to the Company's customers; 2) royalties payable to Microsoft associated with the part of the Company's business that resells the Microsoft Business Central product and other Microsoft SKUs; and 3) cost of hardware components that are included in the sale of the Company's hardware products. These costs are all directly related to revenues.

For the three-month period ended December 31, 2022, cost of sales of \$5.7 million was 28% higher, due mainly to the increased in professional services capacity and the ramped-up 2022 Acquisitions' operations.

During the three-month period ended December 31, 2022, cost of sales was 37% of revenues compared to 35% of revenues for the comparative period ended December 31, 2021.

For the fifteen-month period ended December 31, 2022, cost of sales of \$25.4 million was 138% higher than the twelve-month period ended September 30, 2021.

During the fifteen-month period ended December 31, 2022, cost of sales was 37% of revenues, compared to 28% of revenues for the twelve-month period ended September 30, 2021. This increase is due to a greater proportion of revenue and related costs being from lower margin professional services.

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General and administrative

General and administrative expenses include salaries paid to management and administrative personnel, accrued bonuses, training, public company expenses, occupancy costs, as well as other costs associated with operations, including doubtful accounts.

For the three-month period ended December 31, 2022, general and administrative expenses of \$2.1 million were 3% lower than the same period last year, due to reductions in administrative expenses associated with information technology consulting and investor relations, which was partially offset by increases in staffing.

For the three-month period ended December 31, 2022, general and administrative expenses were 14% of revenues compared to 18% of revenues for the comparative period ended December 31, 2021.

For the fifteen months ended December 31, 2022, general and administrative expenses were \$10.9 million, compared to \$6.8 million for the twelve months ended September 30, 2021, an increase of 61%. For the fifteen-month period ended December 31, 2022, general and administrative expenses were 16% of revenues consistent with 17% of revenues for the twelve-month period ended September 30, 2021.

Executive retirement compensation

Executive retirement compensation is a one-time expenditure in connection with retirement of the Executive Vice President per the executive's employment agreement.

Professional fees

Professional fees consist primarily of legal, accounting, corporate financing services and recruitment fees. During the three-month period ended December 31, 2022, professional fees were \$0.4 million, compared to \$0.3 million for the same period last year, an increase of 35%. The increased professional fees reflect greater levels of normal course legal activity and personnel recruitment as the Company continues to strategically add where needed.

For the fifteen months ended December 31, 2022, professional fees were \$2.0 million, compared to \$1.3 million for the same period last year. For the fifteen-month period ended December 31, 2022, professional fees were 3% of revenues consistent with 3% of revenues for the twelve-month period ended September 30, 2021.

Sales and marketing

Expenses incurred in sales and marketing consist primarily of salaries, sales commissions, travel, and other costs required to retain existing clients and to develop new client relationships. Other expenses such as advertising, promotional material, trade shows and other marketing programs are also included in this category.

Sales and marketing costs were \$1.1 million, or 7% of revenue, in the three months ended December 31, 2022, compared to \$0.7 million, or 5% of revenue in the same period last year. The increase was due to the Company-wide strategic investments in additional sales personnel and marketing activities to enhance market awareness, accelerate quality lead generation and close new business.

For the fifteen months ended December 31, 2022, sales and marketing costs were \$4.4 million or 6% of revenue compared to \$0.9 million or 2% of revenue for the same period last year. The

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increase in percentage is due to the Company-wide strategic investments made in additional sales personnel and marketing activities.

Product development

The Company continues to focus on product development, innovation and advancements based on customer feedback, the competitive landscape, inhouse expertise, and overall market priorities. Certain costs associated with product development, measured through internal projects, create long term value to the Company and in turn its customers. These internal projects that upgrade and enhance each of the Company's initiatives, resulting in new logo wins or wallet share expansion, are capitalized.

Internal product development projects are charged to expense until the determination of technological feasibility, probable future benefits, intent and ability to use or sell the software, resources to complete the software, and ability to measure cost, at which time they are eligible to be capitalized.

For the fifteen months ended December 31, 2022, certain of Sylogist's development projects met the criteria for software development capitalization, resulting in \$3.2 million of costs associated with software development (twelve months ended September 30, 2021 - \$0.7 million) being capitalized, offset by \$0.2 million (twelve months ended September 30, 2021 - \$0.1 million) of investment tax credits.

For the three months ended December 31, 2022, Sylogist capitalized \$0.6 million of costs associated with software development (December 31, 2021 - \$0.1 million), offset by \$53 thousand (December 31, 2021 - \$13 thousand) of investment tax credits.

For the three-month period ended December 31, 2022, product development expense was \$1.2 million consistent with the same period last year. This is the result of the net impact of product development costs increasing due to adding additional product development capacity, offset by the increase in software development projects meeting the criteria for capitalization.

For the fifteen-month period ended December 31, 2022, product development expense was \$5.4 million, or 8% of revenue, compared to \$1.9 million, or 5% of revenue, for the twelve-month period ended September 30, 2021. The increase in percentage of revenue is due to the investments made in the product development across the Company's offerings.

Interest expense

For the three and fifteen months ended December 31, 2022, the Company incurred interest expense of \$0.3 million and \$1.4 million, respectively, compared to \$0.1 million and \$0.2 million, respectively, for the three and twelve months ended September 30, 2021. The increase in interest expense is driven by the principal outstanding and expansion of the Credit Facility.

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Earnout

As part of the Mission CRM acquisition there is an earnout, which is tied to agreed-upon revenue and operating expense targets for each of the three years subsequent to the acquisition. The earnout is treated as employee remuneration and is accrued throughout the year, to be settled in cash within 90 days following each September 30, for three years up to and including September 2024.

For the three and fifteen months ended December 31, 2022, the Company incurred earnout costs of \$0.4 million and \$0.7 million, respectively. On January 3, 2023, the Company settled \$0.4 million related to the earnout period ended September 30, 2022.

Acquisition-related costs

For the three and fifteen months ended December 31, 2022, the Company incurred acquisition-related costs of \$2 thousand and \$0.6 million, respectively, associated mainly with the 2022 Acquisitions, compared to \$0.2 million and \$1.1 million, respectively, for the same periods last year, associated with the MAS acquisition and the 2022 Acquisitions.

Profit before income tax

For the three-month period ended December 31, 2022, the Company generated a profit before income tax of \$0.2 million, consistent with the same period last year. The increase in revenue was offset by the Company-wide investments in revenue growth, the one-time executive retirement compensation, and the Mission CRM acquisition earnout.

For the fifteen months ended December 31, 2022, profit before income tax was \$2.9 million compared to \$6.3 million in the twelve months ended September 30, 2021. The decrease was due to the continuing Company-wide investment in organic revenue growth and long-term value creation and increases in non-cash expenses, the one-time executive retirement compensation, partially offset by greater revenue.

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Adjusted EBITDA/Adjusted EBITDA per share

(Amounts in thousands of dollars, except percentages and per share amounts)

	Three months ended December 31,		Period-Over- Period Change		Fifteen months ended December 31, 2022	Twelve months ended September 30, 2021	Period-Over Period Change	
	2022	2021	\$	%			\$	%
Adjusted EBITDA Calculation ⁽¹⁾								
Profit before income tax	\$ 182	\$ 93	\$ 89	96%	\$ 2,948	\$ 6,276	\$ (3,328)	-53%
Adjusted for:								
Executive retirement compensation	1,211	-	1,211	n/m	1,211	-	1,211	n/m
Depreciation of property and equipment	41	30	11	37%	173	61	112	184%
Amortization of intangible assets	2,354	2,518	(164)	-7%	12,756	6,608	6,148	93%
Stock based compensation	128	395	(267)	-68%	1,006	1,777	(771)	-43%
Foreign exchange	11	2	9	n/m	1	94	(93)	-99%
Interest expense	326	51	275	n/m	1,428	247	1,181	n/m
Acquisition-related costs	2	230	(228)	-99%	609	1,104	(495)	-45%
Earnout	333	-	333	n/m	737	-	737	n/m
Share based payments	290	415	(125)	-30%	75	1,001	(926)	-93%
Adjusted EBITDA	\$ 4,878	\$ 3,734	\$ 1,144	31%	\$ 20,944	\$ 17,168	\$ 3,776	22%
Adjusted EBITDA per basic weighted average number of shares outstanding	\$ 0.20	\$ 0.16	\$ 0.04	25%	\$ 0.88	\$ 0.72	\$ 0.16	22%
Adjusted EBITDA per diluted weighted average number of shares outstanding	\$ 0.20	\$ 0.16	\$ 0.04	25%	\$ 0.88	\$ 0.71	\$ 0.17	24%

n/m - "Not Meaningful"

(1) Adjusted EBITDA is a non-IFRS. See "Non-IFRS measures".

Adjusted EBITDA for the three-month period ended December 31, 2022, was \$4.9 million, compared to \$3.7 million for the same period last year. The increase is due to the growth in revenue, partially offset by the required investments to achieve the revenue growth.

Adjusted EBITDA for the fifteen-month period ended December 31, 2022, was \$20.9 million compared to \$17.2 million for the twelve-month period ended September 30, 2021. Adjusted EBITDA Margin for the fifteen-month period ended December 31, 2022, was 30% compared to 44% for the twelve-month period ended September 30, 2021. The tightening of the margin is a result of the investments to achieve revenue growth and a shift in revenue mix towards professional services.

Due to a majority of the Company's revenues and expenses being generated in the United States, any weakening or strengthening of the Canadian dollar in relation to the United States dollar has an impact on the Company's Adjusted EBITDA. During the three and fifteen months ended December 31, 2022, exchange rate changes did not have a material impact on the Company's Adjusted EBITDA.

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Cash from operating activities before non-cash change in working capital.

(Amounts in thousands of dollars, except percentages and per share amounts)

	Three months ended December 31,		Period-Over- Period Change		Fifteen months ended December 31, 2022	Twelve months ended September 30, 2021	Period-Over- Period Change	
	2022	2021	\$	%			\$	%
Profit before income tax	\$ 182	\$ 93	\$ 89	96%	\$ 2,948	\$ 6,276	\$ (3,328)	-53%
Items not affecting cash								
Depreciation of property and equipment	41	30	11	37%	173	90	83	92%
Amortization of intangible and ROU assets	2,206	2,518	(312)	-12%	12,756	6,691	6,065	91%
Stock based compensation	128	395	(267)	-68%	1,006	1,777	(771)	-43%
Interest on lease obligations	13	14	(1)	-7%	63	34	29	85%
Share based payments	290	415	(125)	-30%	75	1,001	(926)	-93%
Cash taxes paid	(1,755)	(2)	(1,753)	n/m	(3,464)	(1,806)	(1,658)	92%
Cash generated from operating activities before non-cash change in working capital	\$ 1,105	\$ 3,463	\$ (2,358)	-68%	\$ 13,557	\$ 14,063	\$ (506)	-4%
Cash generated from operating activities before non-cash change in working capital per share (basic)	\$ 0.05	\$ 0.14	\$ (0.09)	-64%	\$ 0.57	\$ 0.59	\$ (0.02)	-3%
Cash generated from operating activities before non-cash change in working capital per share (diluted)	\$ 0.05	\$ 0.14	\$ (0.09)	-64%	\$ 0.57	\$ 0.58	\$ (0.01)	-2%

n/m - "Not Meaningful"

The IFRS measure of cash from operating activities before non-cash changes working capital decreased \$2.4 million for the three months ended December 31, 2022, to \$1.1 million compared to \$3.5 million for the same period last year.

For the fifteen months ended December 31, 2022, cash generated from operating activities before non-cash changes in working capital of \$13.6 million, compared to \$14.1 million for the twelve months ended September 30, 2021.

Amortization of intangible and ROU assets

For the fifteen months ended December 31, 2022, the amortization of intangible and right of use ("ROU") assets increased year over year due to the 2022 Acquisitions.

For the fifteen-month period ended December 31, 2022, total amortization costs related to intangible assets was \$12.4 million, compared to \$6.2 million for the twelve months ended September 30, 2021, due to the assets acquired in the acquisitions over the last two fiscal years. For the fifteen months ended December 31, 2022, ROU amortization was \$0.4 million (twelve months ended September 30, 2021 - \$0.4 million).

Share based payments

On March 30, 2022, the Company instituted a share unit plan ("the Plan"), under which the Company is authorized to grant restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"). The purpose of the Plan is to advance the interests of the Company and its Shareholders by providing to the directors, officers and employees of the Company a performance incentive for continued and improved services. The aggregate number of units issuable under the Plan, when combined with all other security-based compensation arrangements, shall not exceed 10% of the issued common shares of the Company. Under the Plan, the board of directors may determine the relevant conditions and vesting provisions of the RSUs and PSUs and any restriction period during which RSUs or PSUs are not vested.

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Under this plan, the Board of Directors granted DSUs to non-officer directors of the Company for services rendered. The DSUs are to be settled in cash no later than December 31st of the calendar year following the calendar year in which the non-officer director ceases to be a director of the Company. Additional DSUs are credited to the directors' accounts when cash dividends are paid to the common shareholders of the Company. Such amount of additional DSUs is determined by dividing the dividends which would have been paid on the DSUs had they been common shares of the Company by the volume weighted average trading price of the Company's shares over the 5-day trading period immediately preceding the date the dividends are paid.

Upon redemption, and at each reporting date, the DSUs are valued on a per DSU basis at an amount equal to the volume weighted average trading price of the Company's shares over the immediately preceding 5-day trading period.

As of December 31, 2022, 36,536 DSUs were granted to non-officer directors with an additional 293 DSUs granted based on dividends earned for a total of 36,829 DSUs outstanding. At December 31, 2022, \$0.2 million was included in share based units on the consolidated statement of the financial position.

On November 9, 2020, the Company granted 100,000 Phantom Interest Award Units ("PIAUs") to an executive, that will entitle the awardee to a cash payment after 5 years of service or when a payment event occurs, whichever is first. 50,000 PIAUs vested on the grant date and the remaining 50,000 PIAUs will vest in equal instalments of 10,000 PIAUs on each of the first five anniversaries of the grant date if the executive has remained employed with Company through the anniversary date.

On January 18, 2021, the Company granted 50,000 PIAUs to another executive that will entitle the awardee to a cash payment after 5 years of service or when a payment event occurs, whichever is first. 10,000 PIAUs vested on the grant date and the remaining 40,000 PIAUs will vest in equal instalments of 10,000 PIAUs on each of the first four anniversaries of the grant date if the executive has remained employed with the Company through the anniversary date.

The amount of cash payment for each vested PIAU shall be equal to the value of a Company common shares as of the payment date plus any dividends accrued on vested common shares.

The share based payments for the three and fifteen months ended December 31, 2022, was \$0.3 million and \$0.1 million, respectively, based on average exchange rate for the period (three months ended December 31, 2021 - \$0.4 million and twelve months ended September 30, 2021 - \$1.0 million).

All share based payments are excluded from Adjusted EBITDA.

Stock based compensation expense

For the fifteen months ended December 31, 2022, the Company did not grant stock options to directors and officers of the Company (twelve months ended September 30, 2021 - 1,155,000 at an average exercise price of \$11.13). In the same period, 15,000 stock options were exercised (twelve months ended September 30, 2021 - 253,333) and 131,333 options expired (twelve months ended September 30, 2021 - 46,667). For the fifteen months ended December 31, 2022, 82,667 options were forfeited (twelve months ended September 30, 2021 - nil).

The compensation cost for the stock options has been determined based on the fair value method. It resulted in a non-cash expense of \$1.0 million to profit before income tax for the fifteen months ended December 31, 2022, compared to a non-cash expense of \$1.8 million for the twelve months ended September 30, 2021.

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Foreign exchange

A portion of the Company's revenue is generated through its wholly-owned U.S. and U.K. subsidiaries. In addition, some international contracts are denominated in U.S. and GBP currencies. Accordingly, Sylogist is susceptible to foreign exchange fluctuations. This exposure is reduced to the extent that the Company incurs some payroll and other operating expenses in those foreign currencies. According to IFRS, exchange gains and losses arising on translation of the Company's foreign operations are recorded as foreign currency translation adjustments in other comprehensive income.

For the three-month period ended December 31, 2022, the foreign exchange differences on translating the Company's foreign operations were a loss of \$0.4 million compared to a gain of \$0.1 million for the same period last year.

All other foreign exchange gains and losses are recorded in earnings for the period. For the three-month period ended December 31, 2022, the Company recorded a foreign exchange loss of \$11 thousand compared to a loss of \$2 thousand for the same period last year. These foreign exchange gains and losses are primarily the result of intercompany payables and receivables between the Company and its foreign subsidiaries.

For the fifteen months ended December 31, 2022, the foreign exchange differences on translating the Company's foreign operations were a gain of \$2.2 million compared to a loss of \$0.8 million for the twelve months ended September 30, 2021. All other foreign exchange gains and losses are recorded in earnings for the period. For the fifteen months ended December 31, 2022, the Company recorded a foreign exchange loss of \$1 thousand compared to a loss of \$0.1 million for the twelve months ended September 30, 2021. The foreign exchange variance was due primarily to effects of the Canadian dollar to United States dollar exchange rate changes and working capital dominated in foreign currencies.

Income tax

As at December 31, 2022, the carrying value of the deferred income tax assets was \$nil (September 30, 2021 - \$nil) and the carrying value of the deferred tax liability was \$10.1 million (September 30, 2021 - \$10.0 million), using the asset and liability method of accounting for income taxes. The Company recognizes deferred income tax assets to the extent it believes that these assets will more likely than not be realized. In making this determination, the Company considers 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 offsets the deferred income tax assets against the deferred income tax liability when it has the legal right to do so.

For the three months ended December 31, 2022, the Company recorded a current income tax expense of \$0.8 million compared to \$1.0 million for the same period in the prior year. Over the same period, a deferred income tax recovery of \$0.4 million was recorded, compared to a deferred income tax recovery of \$0.8 million in the same period last year.

For the fifteen months ended December 31, 2022, the Company recorded \$4.0 million in current tax expense, compared to \$3.5 million for the twelve months ended September 30, 2021. For the fifteen months ended December 31, 2022, a deferred income tax recovery of \$3.6 million was recorded, compared to a deferred income tax recovery of \$1.6 million in the twelve months ended September 30, 2021.

(a) The US operations have net operating losses of \$1.0 million which is available to reduce taxable income in future periods subject to specific annual loss limitations with the maximum

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annual loss claim being approximately \$0.2 million. The net operating losses carried forward expire at various dates up to 2031. 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.

(b) The UK operations have trading losses of approximately \$5.7 million, 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.

(Loss) profit

For the three months ended December 31, 2022, loss was \$0.2 million consistent with a loss of \$0.2 million for the same period in the prior year. The increase was due to Company-wide investment in organic revenue growth and a material one-time executive retirement expense, partially offset by a greater revenue generation.

Profit for the fifteen months ended December 31, 2022 was \$2.5 million, compared to a profit of \$4.4 million for the twelve months ended September 30, 2021. The decrease was due to the continuing investments in organic growth and higher amortization of intangibles, partially offset by greater revenue generation.

Selected financial data

(Amounts in thousands of Canadian dollars, except per share amounts)

	5 QTR 22	4 QTR 22	3 QTR 22	2 QTR 22	1 QTR 22	4 QTR 21	3 QTR 21	2 QTR 21
Revenue	\$ 15,344	\$ 14,234	\$ 13,725	\$ 13,136	\$ 12,561	\$ 10,799	\$ 9,519	\$ 8,860
Profit (loss) before income tax	182	512	1,141	1,021	93	1,916	(211)	1,728
Adjusted EBITDA ⁽¹⁾	4,878	4,101	4,315	3,920	3,734	4,796	3,001	4,447
Adjusted EBITDA per basic weighted number of shares ⁽²⁾	0.20	0.17	0.18	0.16	0.16	0.20	0.12	0.18
Profit (loss) for the period	(229)	1,356	895	685	(165)	1,386	(8)	1,115
Profit (loss) per basic weighted average shares outstanding	(0.01)	0.06	0.04	0.03	(0.01)	0.06	-	0.05
Profit (loss) per diluted weighted average shares outstanding	(0.01)	0.06	0.04	0.03	(0.01)	0.06	-	0.05
Dividends per share	0.010	0.125	0.125	0.125	0.125	0.125	0.125	0.125

(1) Adjusted EBITDA is a non-IFRS measure. See "Non-IFRS measures" for definition.

(2) Non-IFRS measure. See "Non-IFRS measures" for definition.

Summary of quarterly results

During the periods in the table above, Sylogist's financial and operating results were impacted by the following factors and trends:

- On November 14, 2022, the Company adjusted its quarterly dividend to \$0.01 per share
- On February 3, 2022, the Company amended its Credit Facility agreement to expand available credit from \$75 million to \$125 million, as well as other aspects of the facility;
- On October 18, 2021, the Company acquired Pavliks, a provider of proprietary SaaS applications and professional services primarily to public sector organizations and member associations, with three distinct business units. The acquisition brought scale, cash flows and strategic IP.
- On October 6, 2021, the Company acquired Mission CRM and their SaaS fundraising and donor engagement platform which complements and furthers Sylogist's platform versus siloed product strategy;

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- On March 17, 2021, the Company acquired MAS which expanded its K-12 customer footprint and provided valuable IP, a talented team, and a dominant position in the Oklahoma K-12 market;
- Sylogist is strategically investing in talent across its product, R&D, sales, marketing, and customer account management teams to enhance the Company's awareness and market presence and drive growth across product lines; and
- COVID-19 continued to put myriad pressures on the Company's customers which impacted delivery of professional services.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2022, the Company had adjusted working capital deficit of \$4.2 million, compared to adjusted working capital surplus of \$11.2 million as at September 30, 2021. As at December 31, 2022, the Company had cash and cash equivalents of \$14.5 million, compared to \$29.6 million as at September 30, 2021.

Adjusted working capital ⁽¹⁾

(Amounts in thousands of dollars, except per share amounts)

	December 31, 2022	September 30, 2021
Current assets	\$ 24,456	\$ 33,567
Current liabilities	(47,893)	(39,774)
Deferred revenue	19,197	17,453
	\$ (4,240)	\$ 11,246
Per basic shares outstanding at period end	\$ (0.18)	\$ 0.47

1) *Adjusted Working Capital is a non-IFRS measure, defined as: current assets less current liabilities adjusted for deferred revenue. See "Non-IFRS measures".*

Sylogist's requirement for property and equipment ("PE") is generally limited to computers, network applications, telephone systems, servers and furniture and fixtures for leased space. Investment in PE for the fifteen months ended December 31, 2022, was \$0.2 million, compared to \$0.1 million in the twelve months ended September 30, 2021.

Due to the Company's customer base and strong financial position, it has the appropriate resources in place to carry on its operations. Cash proceeds from previous financing activities are available to pursue business expansion through organic growth initiatives, such as continued investment in venture opportunities and platform software development, as well as strategic acquisitions.

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The Company has entered into various leases for its operating premises and service commitments. The following table discloses Sylogist's contractual obligations as at December 31, 2022:

(Amounts in thousands of Canadian dollars)

Contractual Obligations	Total	Fiscal 2023	Fiscal 2024-2027
Premise/Services	\$ 1,958	\$ 1,557	\$ 401

FINANCIAL INSTRUMENTS

Sylogist's principal financial instruments are cash and cash equivalents, trade and other receivables, trade and other payables, income taxes payable and Credit Facility. The carrying value of all financial instruments approximates fair value.

Counterparty credit risk management

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, 2022, 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 \$14 thousand represents approximately 0.2% of the trade accounts receivable as of December 31, 2022 (September 30, 2021 – 4%). As at December 31, 2022, three customers accounted for 30% (September 30, 2021 – three customers accounted for 19%) of the Company's total trade accounts receivable. Revenue from one customer represented approximately \$2.6 million or 4% of consolidated revenue earned during fifteen months ended December 31, 2022 (twelve months ended September 30, 2021 – 5%).

The aging of the trade receivables balance is as follows:

(Amounts in thousands of dollars)

	December 31, 2022	September 30, 2021
1-30 days	\$ 3,548	\$ 1,297
31-90 days	1,880	104
91 + days	926	554
Total trade receivables	6,354	1,955
Allowance for doubtful accounts	(14)	(83)
Other receivables ⁽¹⁾	54	80
	\$ 6,394	\$ 1,952

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

The majority of the accounts receivable balance relates to professional services and maintenance and support charges to customers that have a history of payment.

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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, 2022, the change in profit before tax for each 1% change in the value of the Canadian dollar against the U.S. dollar amounts to approximately \$48 thousand (September 30, 2021 - \$6 thousand). For the same period, the increase or decrease in profit before income tax for each 1% change in the value of the Canadian dollar against the GBP amounts to approximately \$4 thousand (September 30, 2021 - \$5 thousand).

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.

Sylogist expects that cash flow from operations 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 risks may necessitate the need for the Company to conduct equity issues, reduce its dividends, and/or draw on debt financing.

Interest rate risk

The Company's cash and cash equivalents and Credit Facility are subject to interest rate price risk, as the value will fluctuate due to changes in market rates. As at December 31, 2022, 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 \$145 thousand (September 30, 2021 - \$296 thousand) per annum.

OFF BALANCE SHEET FINANCIAL ARRANGEMENTS

The Company has not engaged in any off-balance sheet financial arrangements as at December 31, 2022.

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TRANSACTIONS WITH RELATED PARTIES

The related party transactions are limited to its five non-executive directors and its key management personnel. Following the shareholder approval at the March 2022 Annual General Meeting, the five non-executive directors are entitled to cash retainer amounts and DSUs as outlined below:

Non-Executive Director Retainer⁽¹⁾	2021 Retainer Amount (Cash)	2022 Retainer Amount (Cash/DSUs)
Non-executive director	\$40,000	\$65,000
Chairman	<i>Nil</i>	+\$22,500
Audit Committee Chair	<i>Nil</i>	+\$15,000
Compensation Committee Chair	<i>Nil</i>	+\$25,000
Nominating and Governance Committee Chair	<i>Nil</i>	+\$10,000

(1) A non-executive director can elect to receive the annual cash retainer in cash or DSUs. Effective October 1, 2022, a portion must be taken in DSUs.

Salaries and benefits were paid to key management personnel, being the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, Chief Customer Officer, the Chief Technology & Innovation Officer, the Vice President, Talent and Engagement, Vice President, Marketing, and the Chief Revenue Officer.

Compensation of key management personnel during the fifteen months ended December 31, 2022 and the twelve months ended September 30, 2021 was as follows:

(Amounts in thousands of dollars)

	December 31, 2022	September 30, 2021
Salaries and benefits-key management	\$ 1,868	\$ 1,751
Executive bonus	347	677
Executive retirement compensation ⁽¹⁾	1,211	-
Stock based compensation	961	1,638
Share based payments	75	1,001
Directors' fees	270	179
	\$ 4,732	\$ 5,246

CRITICAL ACCOUNTING ESTIMATES

Sylogist prepares its financial statements in accordance with IFRS. Its significant accounting policies are contained in Note 3 to the December 31, 2022, Financial Statements. Some of these policies involve critical accounting estimates because they require the Company to make subjective or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. Management has discussed the application of key accounting policies and the critical accounting estimates and assumptions with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the disclosures described in the Financial Statements.

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Outstanding share data

As of the date of this MD&A, the Company has 23,738,477 common shares issued and outstanding and 1,091,000 stock options to acquire common shares outstanding, with an average exercise price of \$11.09 per common share.

RISK AND UNCERTAINTIES

Sylogist is subject to risks and uncertainties that could result in a material adverse effect on the Company's business and financial results on a consolidated basis. The Board of Directors of the Company has the overall responsibility and oversight of the Company's risk management practices. The Company's management is responsible for developing and monitoring the Company's risk strategy, and reports to the Board of Directors of the Company on its activities. Risk management is incorporated in all levels of strategic and operational planning and is reviewed regularly to reflect changes in market conditions and the Company's activities. Management has identified the risks below as specific risks to Sylogist. The reader is urged to review these risk factors. The markets in which Sylogist currently operates are very competitive and change rapidly and therefore, new risks may emerge from time to time.

Profitability

As Sylogist grows its business, it expects operating expenses and capital expenditures to increase correspondingly, and as a result, it will need to generate increased revenue to maintain profitability. Sylogist may not be able to sustain or to increase profitability or cash flows from operations on a quarterly or annual basis in the future and could incur losses in future periods. If revenues decline, operating results could be seriously impaired because many of Sylogist's expenses are fixed and cannot be easily or quickly reduced.

Volatility in Quarterly Operating Results

Quarterly operational results may be impacted by many factors, including revenue fluctuations based on demand, economic conditions, capital allocation and budgeting cycles, timing of project sales, by acquisitions and related costs, by customer acceptance of product enhancements and by seasonal variations. The Company considers fluctuations in its quarterly operations to have an impact on its future financial position. The Company's expense levels are based in part on its expectations of future sales and projects, and the Company may not be able to adjust spending in a timely manner to compensate for any sales shortfall.

Fixed Price Contracts and Delivery Management

A portion of Sylogist's contracts are fixed price contracts. In the context of these fixed price contracts, there is a risk that the Company will be unable to deliver under the contract within the time specified and at a cost to the Company that is equal to or less than the contract price. The technical sophistication of the systems delivered under the contracts may require amendments to be negotiated from time to time, subject to agreed contract change processes. A significant contract overrun that is caused by the actions or inactions of the Company could affect the Company's results of operation and financial position.

Market and Competition

The markets for the Company's products and services are competitive and significantly affected by new product introductions and other market activities by industry participants. The Company expects competition to persist, increase and intensify in the future as the markets for the Company's products and services continue to develop and as additional companies enter each of its markets. Numerous releases of products and services that compete with those of the Company can be expected in the near future. There can be no assurance that the Company will

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be able to compete effectively with current and future competitors. If these or other competitors were to engage in aggressive pricing policies with respect to other competing products, or significant price competition was to otherwise develop, the Company may be forced to lower its prices.

Potential Acquisitions and Investments

In previous years, the Company acquired and expects to continue acquiring or investing in businesses, products and technologies that expand or complement the Company's current business, products and services. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisition or investment can be satisfactorily financed or, if acquired, will generate revenue, income or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth.

Management of Growth and Integration of Acquisitions

The Company believes that growth of its product lines and number of personnel is required to maintain and further its competitive position. The Company plans to grow both organically and by acquisition in the future. There can be no assurance that the Company will complete any future acquisitions and, if completed, such acquisitions will be successfully integrated into the Company. The Company's growth will likely place strains on its resources and increased demands on its internal systems, procedures and controls. With any acquisition, the Company needs to integrate and manage the businesses acquired. This would increase the demands on the Company's management, resources, systems, procedures and controls. There can be no assurance that the Company's administrative infrastructure, systems, procedures and controls will continue to adequately support the Company's operations or that management will be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully penetrate the markets for the Company's products and services, and successfully integrate any business acquisitions in the future.

Major Contracts

The Company has and may enter into major contracts that are complex and have several delivery milestones. These contracts are often subject to delay, change, revision and renewal. There is no guarantee that the Company can complete all activities on time and on budget and that the funding available from the customer will be adequate to meet adjustments to the contract. Failure by the Company to manage customer delivery responsibilities, secure project resources and collect payments on a timely basis are significant risks to the Company.

Government Contracts

A significant portion of the Company's total annual services revenue is derived from contracts with Public Sector entities. Changes in government, government policy, priorities or funding levels could affect the Company's financial condition or results of operations. Government contracts could be terminated or suspended at any time.

Risk to Reputation

Reputation is a critical asset in the technology services industry. Potential damage to that reputation is a significant risk for the Company. Any of the risks identified in this MD&A could damage Sylogist's reputation, which in turn, could result in a lack of customer or employee confidence, legal liability and difficulties in raising capital.

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Volatility in Stock Price

The market price of the Company's common shares can be highly volatile and subject to fluctuations. These fluctuations in market price may continue due to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts or other events or factors. In addition, the financial markets have experienced significant price fluctuations that have particularly affected the market price of equity securities of many high technology companies, and that have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter or year.

Foreign Currency Risk

The Company operates internationally and, accordingly, a portion of Sylogist's financial resources is held in currencies other than the Canadian dollar, the functional currency of the Company. Further, the Company generates revenues and incurs expenses in U.S. dollars, Euros and British Pounds. The Company's exposure to the U.S. dollar, Euros and the British pound may change over time as the geographic mix of Sylogist's business changes. Consequently, the Company's results have been affected and it expects its future results could be adversely affected by significant foreign exchange fluctuations.

Cyber Security

Sylogist manages cyber security risk by ensuring appropriate technologies, processes and practices are effectively designed and implemented to help prevent, detect and respond to threats as they emerge and evolve. The primary risks to Sylogist include, but are not limited to: loss of data, destruction or corruption of data, compromising of confidential customer or employee information, leaked information, disruption of business, theft or extortion of funds, regulatory infractions, loss of competitive advantage and reputational damage. Any of said risks could have a material adverse effect on Sylogist's competitive position, financial condition or results of operations. Sylogist applies technical and process controls in line with industry-accepted standards to protect its information assets and systems.

Sylogist may need to expend significant capital and other resources to protect against the threat of security breaches or alleviate problems caused by breaches. Identifying and eliminating security breaches, viruses and other external intrusions may require interruptions, delays or cessation of service to users and customers transacting business with Sylogist. Infrastructure and network security breaches may lead to a material disruption of the Company's business and/or the loss of business information, which may materially and adversely affect the Company's business. Risks relating to such a security breach may include, among other things: a material adverse impact on the Company's business and future financial results due to the theft, destruction, loss, misappropriation or release of confidential data; possible negative publicity resulting in reputation or brand damage with customers, vendors or peers due to the theft, destruction, loss, misappropriation or release of confidential data; operational or business delays resulting from the disruption of information technology systems and subsequent clean-up and mitigation activities; and potential adverse effects on the Company's compliance with regulatory laws and regulations. Repeated or substantial interruptions could result in the loss of customers and reduced revenues.

Environment and Market Risk

Sales are subject to some conditions outside the Company's control such as economic cycles, the growth of complementary businesses such as communications networks and software applications or events in specific industry verticals. The liquidity and financial position of the Company is a function of the decisions it will have to make to successfully compete in these markets. As the marketplace for the Company's products and services evolves, the Company's

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future results could be impacted by a dependence on a few customer or partner relationships. In addition, the timing and customer acceptance of new or upgraded products and services may also affect the Company's results in the future.

Pricing and Margins

Pricing of software products and services is highly competitive, as is pricing for related hardware and components. There are competitors of all sizes with competitive offerings, with notably larger competitors offering mission critical systems and support services. These competitive offerings can put pressure on prices and, consequently, operating margins. Hardware margins are typically lower than those realized in software sales.

Dividends

The Company's Board of Directors determined to pay a quarterly dividend commencing in 2010, which policy is reviewed quarterly. Sylogist's Board of Directors will, at their discretion, determine the amount of any future dividends payable. Although the Company has paid quarterly dividends since 2010, there can be no assurance that the Board of Directors will declare further dividends. The actual dividends declared, if any, will depend on numerous factors, such as capital requirements to fund growth, working capital and sufficient operating cash flow. The Company may adjust future dividends payable upward or downward based on opportunities available to the Company.

Intellectual Property Rights

Although the Company makes efforts to protect its intellectual property rights, there can be no guarantee that unlicensed copying of the Company's software will not take place, especially in countries where software piracy laws and enforcement are weak. Policing unauthorized use of its technology, if required, may be difficult and costly.

From time to time the Company may receive notices from third parties alleging that it has infringed their intellectual property rights. Responding to any such claim, regardless of its merit, may be time-consuming, result in costly litigation, divert management's attention and resources or cause Sylogist to incur significant expenses. Any meritorious claim of intellectual property infringement against the Company may potentially result in a temporary or permanent injunction, prohibiting it from marketing or selling certain products or requiring it to pay royalties to a third-party. In the event of a meritorious claim, failure of the Company to develop or license substitute technology may materially adversely affect its business and results of operations.

As the Company develops new technologies, Sylogist's ability to protect its proprietary rights from unauthorized use by third parties may be possible only to the extent that its intellectual property is effectively maintained as confidential know-how/trade secrets. The industries in which the Company operates can be subject to expensive litigation regarding intellectual property rights. As a result, Sylogist may be required to defend against claims of intellectual property infringement which may adversely affect its financial condition and operating results. Although the Company does not typically pursue patents, if it chooses to do so in the future, it cannot foresee whether any of its future patent applications will result in the issuance of any patents. If approved, any future patents of the Company may not be sufficiently broad to prevent others from developing competing products. The validity and enforceability of the Company's patents, if any, cannot be predicted with certainty and its future patents may be found to be invalid or unenforceable or its future patent applications may not be accepted.

Unauthorized parties may attempt to copy or otherwise obtain and use the Company's products or technology. Monitoring unauthorized use of its intellectual property is difficult, and Sylogist cannot be certain that the steps it has taken will prevent unauthorized use of its technology. If competitors are able to use Sylogist's technology, its ability to compete effectively could be

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harmed. Moreover, others may independently develop and obtain patents for technologies that are similar to, or superior to, Sylogist's technologies. If that happens, the Company may need to license these technologies, and Sylogist may not be able to obtain licenses on reasonable terms, if at all, which could have a material adverse effect on its business.

Information Systems

Certain of Sylogist's information systems are internally developed and contain external applications that are linked to the proprietary core. There are continued risks when various departments operate on different systems and the Company must rely on developed interfaces between these systems.

Damage to the Company's Computer Systems

Sylogist's operations are dependent on the continued and uninterrupted performance of its computer systems and, accordingly, on its ability to protect its computer systems against damage from computer viruses, fire, power loss, telecommunications failures, vandalism or other malicious acts, or similar unexpected adverse events. Any system failure, security breach or other damage or unanticipated problem with the Company's computer systems could interrupt or delay its operations, damage its reputation and, if sustained or repeated, reduce the attractiveness of its services and result in the potential loss of customers.

Third Party Technology

The Company incorporates third party technology into some of its products and may incorporate additional third-party technology as it develops and expands its product lines. The operation of its products could be impaired if errors occur in such third-party technology, which errors may be difficult to correct being out of the Company's control, or to replace if a third-party vendor seeks to terminate the Company's license to use the technology. Such technology could become subject to claims of infringement by others.

Legislative, Insurance, Compliance Costs, Regulatory Action and Environment

To comply with various increasing and complex regulatory reporting and standards involves significant cost. Recent changes to securities regulatory standards, accounting policy, and compliance reporting have placed an additional expense burden on the Company. The Company is utilizing more outside legal, accounting and advisory services than in the past. As a result, general and administrative costs will increase. Insurers may increase premiums as a result of high claims rates experienced by them over the past and so future premiums for the Company's various insurance policies, including directors' and officers' insurance policies, could be subject to increase. Proposed changes in the accounting rules could materially increase the Company's internal accounting and external audit fees. Corporate governance standards in Canada are evolving continuously. Despite its best attempts, there can be no assurance that the Company will comply with all applicable corporate governance guidelines or best practices.

Key Partner Relationships

The Company has some reliance on partner relationships with a number of third-party suppliers to generate revenue. The financial stability, marketing plans, and personnel of these partnering organizations could change and materially impact the Company's relationship and the services and products Sylogist provides to its customers.

Key Supplier Relationships

Sylogist is dependent on its relationships with third parties to provide strategic components of its software license sales and maintenance revenue, as well as its hardware. To the extent third parties are unable to support the Company in its growing need for hardware components and fabrication, or to support the Company's software infrastructure, the Company may be forced

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to source components or software from others, perhaps at increased prices and with an impact on the Company's ability to service its customers. Many of the Company's products are dependent on the uninterrupted operations of data hosting centers, which, if unavailable, even for a limited period, could result in revenue loss and customer claims. While Sylogist takes what it believes to be reasonable precautions against some events, and that the Company believes its hosts are reputable businesses, there can be no assurance that their services will be provided uninterrupted.

Financial Condition, Liquidity, and Requirements Outlook

Sylogist's cash balance and working capital position are expected to be adequate to sustain the Company's existing operations. If the Company is unable to continue to grow revenue and cash flow from operations, its cash and working capital position could be affected.

Reliance on Financial Incentives

Sylogist receives payments and credits from vendors, including consideration pursuant to volume sales, incentive programs and marketing development funding programs. Vendor funding is used to offset, among other things, inventory costs, costs of goods sold, marketing costs and other operating expenses. If Sylogist is not in compliance with the terms of these programs, there could be a material negative effect on the amount of incentives offered or paid to the Company by its vendors. No assurance can be given that Sylogist will continue to receive financial incentives at historical payment levels in the future, or that Sylogist will be able to collect outstanding amounts relating to these incentives in a timely manner, or at all. Any sizeable reduction in the discontinuance of, significant delay in receiving, or the inability to collect such incentives could have a material adverse effect on Sylogist's business, results of operations and financial condition.

Management of Future Growth and Expansion

Planned expansion of the Company's business and its future success will depend on its ability to manage growth as it expands its products and marketing capacities, which may place a significant strain on the Company's management resources, employees and operations, as well as its ability to finance such growth. To manage growth effectively, the Company will be required to continue to implement changes in certain aspects of its business, expand its operations, and develop, train, manage and assimilate an increasing number of management-level and other employees. If management is unable to manage growth effectively, the Company's business, prospects, financial condition and operating results could be affected.

Business Disruption Due to COVID-19

Beginning in 2019, COVID-19 created material disruptions to the global economic environment. As a result, equity markets experienced significant volatility and governments and central banks enacted significant monetary and fiscal interventions designed to stabilize the global economy.

While the economic ripple effect is still being felt from COVID-19, economic conditions continue to improve, with Sylogist's operations resuming pre-COVID normalcy over the course of 2022. The extent of any future business disruption due to COVID-19, or any future pandemics, cannot be known with any degree of certainty but the Company does not believe it will have an overall material adverse effect on Sylogist's long-term outlook.

Dependence on Key Personnel

The success of the Company is largely dependent on the performance of its key senior management employees. Failure to retain key employees and to attract and retain additional key employees with necessary skills could impact the Company's growth and profitability.

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Competition for highly skilled management, technical, R&D, and other employees is intense in the information technology industry.

The Company's progress to date in commercializing its proprietary products has been dependent, to a significant extent, on the skills of its senior management. The departure or death of certain members of the executive team could have an adverse effect on the Company.

The Company has experienced changes in its management personnel and further changes may occur in the future. The Company may face transitional difficulties in connection with these changes, and there can be no assurance that the Company will be able to attract and retain highly skilled and qualified personnel to replace employees who leave the Company.

Financial Position of Customers

Some of Sylogist's customers are smaller entities with significant market concentration. If any one or more of such customers is not able to secure financing or reduces or postpones current or expected purchases of Sylogist's products, the Company's business, results of operations and financial condition could be adversely affected.

Customer Retention/Attrition

Once Sylogist's solutions are deployed to a customer, they generally rely on Sylogist's support services to resolve any related issues. A high level of customer support and service is important for the successful future marketing and sales of the Company.

Industry Growth

There can be no assurance that the market for the Company's existing products will continue to grow, that firms within the industry will adopt the Company's products for integration with their wireless data communications solutions, or that the Company will be successful in independently establishing markets for its products. If the markets in which the Company's products compete fail to grow or grow more slowly than the Company currently anticipates, or if the Company is unable to establish markets for its new products, the Company's operating results, and financial condition could be adversely affected.

Reliance on Third Party Suppliers

Certain parts, components and hardware sold to Sylogist's customers, and used in Sylogist's products, are purchased from third party suppliers. The Company's reliance on suppliers involves certain risks and uncertainties, including the possibility of a shortage or discontinuation of certain key hardware and reduced control over delivery schedules, manufacturing capability, quality and costs. In addition, the purchase of certain key components may involve long lead times, and, in the event of unanticipated increases in demand or disruptions to the supply chain, the Company may be unable provide certain products in a quantity sufficient to meet customers' future demand in a timely manner.

Third Party Software

Sylogist licenses certain technologies from third parties, which may in turn be offered by the Company to customers or channel partners and ultimately to end users. The termination of any of these third-party licenses could materially impact the Company's ability to sell its products and it may be forced to seek alternative solutions. There can be no guarantee that alternative solutions will be readily available, if at all. If the Company's third-party licensors do not maintain or update their products, the Company's ability to sell its products could be materially impacted, again potentially requiring the Company to seek alternatives, which may not be available. It may be necessary in the future to seek new third-party licenses from others than whom it currently contract, to sustain its business offerings and there can be no certainty that such licenses will be available on commercially reasonable terms, if at all.

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Lengthy and Variable Sales Cycle

Licensing the Company's technologies and selling its products is a long and complex process. In the past, the Company's sales cycle has generally ranged from three to thirty-six months. Sylogist spends a substantial amount of time educating potential customers about the use and benefits of its technologies and products. Because the adoption of the Company's technologies often represents a substantial investment, potential customers may take months to evaluate the Company's technologies and products, determine the size of the user base to be covered, and obtain the necessary expenditure authorizations and financing required to purchase the Company's technologies or products. The process of entering into a licensing agreement with a service provider typically involves lengthy negotiations. This process may be extended if the service provider is marketing Sylogist's technologies and products as part of a larger project or system. After a prospective customer has signed a license agreement, Sylogist may then be required to integrate its technologies and products into the licensee's products and services, which integration must be accepted by the licensee.

In addition, the Company may spend a significant amount of time and money on a potential customer that ultimately does not purchase its technologies or products. Any delay in sales of the Company's technologies and products could cause the Company's operating results to vary significantly from projected results. Also, the Company may not be able to accurately predict the sales of its technologies and products by its alliance partners, since the Company's alliance partners do not always keep Sylogist informed about the status of possible sales and other revenue opportunities with their customers. Sales of the Company's products by the Company's alliance partners also depend on the timing of the roll-out of their own products and systems. The Company has no control over the timing of its alliance partners' rollouts, and the Company may not be informed of when these rollouts will occur.

Because of these factors, it is especially difficult to forecast the Company's revenue and operating results. The Company's inability to accurately predict the timing and magnitude of the Company's sales could cause a number of problems, including the following: (i) the Company may have difficulty meeting the Company's customers' delivery requirements in the event many large orders are received in a short period of time; (ii) the Company may expend significant management efforts and incur substantial sales and marketing expenses in a particular period that do not translate into orders during that period, or at all; and, (iii) the Company may have difficulty meeting its cash flow requirements and obtaining credit because of delays in receiving orders or delays in receiving payment for its products and services. The problems resulting from the Company's lengthy and variable sales cycle could impede its growth, harm its valuation, and restrict its ability to take advantage of new opportunities.

Risks Related to Acquisitions

The Company intends to expand its operations and business by acquiring additional businesses, products or technologies. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired businesses, products or technologies into the Company without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances, and legal liabilities. In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income. Acquisitions could also result in potentially dilutive issuances of equity securities. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, results of operations and financial condition.

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Economic Slowdown

From time-to-time markets have witnessed the weakening of global macro-economic conditions. This weakness affected information technology spending patterns on a global basis, and as a result affected Sylogist's ability to forecast current and future period revenues. In spite of the weakness in economic activity, Sylogist's customer base remains solid, and the Company remains encouraged by the level of interest that the marketplace continues to show in its offerings. A deterioration of economic conditions may have a negative impact on the Company's future financial performance.

International Markets

Sales outside of Canada represent a significant portion of the Company's total gross revenues. Sales to international customers are subject to a number of risks and uncertainties including, but not limited to, complications in both compliance with and unexpected changes in foreign government laws, regulations and telecommunications standards, import and export license requirements, tariffs and other trade barriers, potential adverse tax consequences, fluctuations in currency exchange rates, exchange controls, difficulty in collecting accounts receivable, difficulty in staffing and managing foreign operations, potential political and economic instability, events of international terrorism, economic effects of public health threats such as pandemics or epidemics, uncertainties of laws and enforcement relating to the protection of property rights including intellectual property rights, unauthorized copying of the Company's proprietary technologies, uncertainties in local commercial or financial sector practices, uncertainties in local accepted business practices and standards which may not be similar to accepted business practices and standards in Canada and which may create unforeseen business or public relations situations, and other factors depending on the country involved. While international sales are typically denominated in U.S. dollars and Sylogist typically extends limited credit terms, fluctuations in currency exchange rates could cause the Company's products to become relatively more expensive to customers in a particular country, leading to a reduction in sales or profitability in that country. As a result of these factors, the Company may not be successful in entering certain international markets and maintaining or increasing international market demand for the Company's products.

Litigation

The Company may be subject to litigation in the ordinary course of business, as well as in the context of potential securities claims, class actions and other corporate activities. Any litigation is time consuming and costly, both financially and by distracting management and staff resources from the Company's day to day business.

Taxation

Sylogist is subject to income and non-income-based taxes in Canada, the United States, the United Kingdom and other foreign jurisdictions. Tax structure and tax filings are subject to review by taxation authorities in the ordinary course of business and Sylogist cannot be assured that the final determination of any such review will not be different from what is reflected in its historical income tax filings, provisions or accruals and any such differences could materially affect operating results or result in additional tax expense in future periods. Significant judgment is required of management in determining the Company's provisions for income taxes and other tax liabilities and while management strives to ensure its estimates and filing positions are reasonable, there can be no assurance that the result of any tax audits or proceedings will not differ, which may materially impact operating results. In addition, tax laws are subject to change which may materially impact the Company's tax filings and operating results.

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Potential Need for Future Financing

The Company may have fewer financial resources than some of its principal competitors. If the Company exceeds its growth expectations, it may require additional equity or debt financing. There can be no assurance that the Company will be able to obtain additional financial resources that may be required to successfully compete in its markets on favorable commercial terms, or at all. Failure to obtain such financing could result in the delay or abandonment of some or all of the Company's plans for product development, or in the Company being unable to satisfy its obligations as they become due.

Acquisition Related Liabilities

Sylogist may incur contingent liabilities through acquisitions which may be material, despite the Company's best efforts to estimate risks associated with the contingencies and the likelihood of them materializing. The Company's estimates could differ materially from such liabilities actually incurred.

Product Liability

Sylogist's products are highly complex and sophisticated and, from time to time, may contain design defects that are difficult to detect and correct. Errors may be found in new products after commencement of commercial shipments or, if discovered, Sylogist may not be able to successfully correct such errors in a timely manner, if at all. The occurrence of such errors and failures in Sylogist's products could result in a loss or delay in their market acceptance and correcting these could require significant expenditure of capital. Sylogist's products are integrated into its customers' networks and equipment. The sale and support of these products may entail the risk of product liability or warranty claims based on damage to such networks and equipment. In addition, the failure of Sylogist's products to perform to customer expectations could give rise to warranty claims.

MAINTENANCE OF DISCLOSURE CONTROLS, PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have, as at December 31, 2022, designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to Sylogist is made known to them by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by Sylogist in its annual filings, interim filings, or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The CEO and CFO have designed or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of Sylogist's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Sylogist's management, under the supervision of the CEO and CFO, used the criteria and framework established in the 2013 Internal Controls - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission to design Sylogist's ICFR.

During the fifteen months ended December 31, 2022, there were no changes in Sylogist's ICFR that have materially affected or are reasonably likely to materially affect the Corporation's ICFR. As at December 31, 2022, the CEO and CFO have evaluated the design and operation of Sylogist's DC&P and ICFR and concluded that they were effective. This assessment was based on the 2013

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Internal Controls - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

It should be noted that a control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Forward-looking statements

The Company cautions that forward-looking statements in this MD&A are based on certain assumptions or anticipated results made by the Company that may prove to be inaccurate or unachievable. Such forward-looking statements are made for the purpose of providing information about management's current expectations and plans relating to the future. Investors are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions.

Since forward-looking information addresses future events and conditions, such information by its very nature involves inherent risks, uncertainties and other factors, any or all of which could cause or contribute to actual results or achievements differing materially from those currently anticipated. These include, but are not limited to, the risks and uncertainties associated with the industries and markets in which Sylogist operates in general such as: costs and expenses; impacts of the coronavirus pandemic, commodity prices, interest rate and exchange rate fluctuations; competition; failure to realize the anticipated benefits of a transaction and to successfully integrate an acquired company or business unit; ability to access sufficient capital from internal and external sources; and changes in legislation, including but not limited to tax laws. Readers are referred to the "Risks and Uncertainties" section in this MD&A.

Forward-looking statements include those identified by the expressions "allow", "anticipate", "believe", "could", "may", "plan", "estimate", "expect", "intend" and "will", and similar expressions to the extent that they relate to the Company or its management. In particular, forward-looking information and statements contained in this MD&A include, but are not limited to, the following:

- The Company's goal is to drive organic growth while maintaining a "Rule of 40" posture, meaning there is a long run expected combined blend of organic revenue growth rate and Adjusted EBITDA Margin greater than 40
- The Company is targeting an organic growth run rate in the low double digits while maintaining a balanced Adjusted EBITDA Margin profile.
- Sylogist's is making strategic investments that it believes will lead to balanced and profitable growth, and shareholder value creation.
- Sylogist is executing an organic growth strategy centered on its three core verticals.
- The Company continues to invest in go-to-market capacity across each of the verticals, augmenting prior investments in sales and marketing, product development, and customer account management, to enhance the Company's market presence and drive growth via new logo wins and wallet share expansion.
- Sylogist is executing a rebranding strategy focused on SylogistGov, SylogistEd, and SylogistMission. The rebranding strategy will simplify messaging, increase marketing return on investment, drive market awareness and emphasize core areas of focus.

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- Sylogist sees its organic growth strategy leading to long term sustainable revenue expansion and shareholder value creation.
- Sylogist sees M&A as a growth accelerant, and pursues a strategy of integrating, investing in, and growing acquired companies, while maintaining capital discipline.
- To execute its M&A strategy, Sylogist is maintaining and nurturing a robust pipeline of opportunities, investing in its M&A outreach, and is continuously evaluating inorganic growth opportunities relative to shareholder value creation.
- The 2022 Acquisitions brought near-term enhanced scale, revenue growth, cash flows, and exciting strategic IP and value creation upside.
- The Company continues accelerating organic growth and inorganic growth via M&A and is seeing the positive impact of its strategic investments in its product offerings, customer wellness, and revenue growth.
- The Company intends to continue growing its business while striving for a Rule of 40 posture and holding focus on the three core verticals.
- The Company intends to continue allocating capital to support opportunities in all its core verticals which may pressure Adjusted EBITDA Margin in 2023.
- Effective January 31, 20223, the Company amended the Credit Facility to extend the maturity date to January 31, 2024, under the same terms. This expanded Credit Facility provides the Company with further capacity to execute on its M&A growth strategy.
- Sylogist continues the shift from a predominately EBITDA focused company to one that focuses on value creation, through both organic growth and M&A, while maintaining a healthy Adjusted EBITDA margin to self-fund its growth activities. With the board of directors' support, management continues to execute this strategy.
- The Company also continues to invest in organic growth through expanding go-to-market capabilities, customer relations and product development innovation.
- The actual dividends declared, if any, will depend on numerous factors, such as capital requirements to fund growth, working capital and sufficient operating cash flow. The Company may adjust future dividends payable upward or downward based on opportunities available to the Company.
- Sylogist expects that cash flow from operations 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.
- Liquidity risks may necessitate the need for the Company to conduct equity issues, reduce its dividends, draw on debt financing.
- The Company expects competition to persist, increase and intensify in the future as the markets for the Company's products and services continue to develop and as additional companies enter each of its markets.
- The extent of future potential business disruption due to COVID-19 cannot be known with any degree of certainty but the Company does not believe it will have an overall material adverse effect on Sylogist's long-term outlook.

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- The Company may enter major contracts that are complex and have several delivery milestones.
- The Company's results have been affected and it expects its future results could be adversely affected by significant foreign exchange fluctuations.
- As Sylogist grows its business, it expects operating expenses and capital expenditures to increase correspondingly, and as a result, it will need to generate increased revenue to maintain profitability.
- Quarterly operational results may be impacted by many factors, including revenue fluctuations based on demand, economic conditions, capital allocation and budgeting cycles, timing of project sales, by acquisitions and related costs, by customer acceptance of product enhancements and by seasonal variations.
- The Company believes that growth of its product lines and number of personnel is required to maintain its competitive position.
- The Company plans to grow both organically and by acquisition in the future.
- Sylogist may need to expend significant capital and other resources to protect against the threat of security breaches or alleviate problems caused by breaches.
- Sylogist's cash balance and working capital position are expected to be adequate to sustain the Company's existing operations.

All of the aforementioned statements and information can be found in the "Overview", "Focus and Strategy", "Results of Operations", "Liquidity and Capital Resources", "Financial Instruments", and "Risk and Uncertainties" sections of this MD&A.

These forward-looking statements relate to the future operations and profitability of the Company and are not historical facts but reflect the Company's current expectations and assumptions regarding future results or events. Particularly, these forward-looking statements are based on management's estimate of revenues and expenses based on business volumes and commitments at the date of this MD&A. Readers are cautioned, as provided in this MD&A, that actual revenue and expense results may vary materially from estimates and, in particular, are subject to risks including delivery, competition and management of growth. Additional assumptions include: customer demand for the Company's services, the Company's ability to maintain and enhance customer relationships, as well as the Company's ability to bring to market its services. Please see also the "Risk and Uncertainties" section for risks and uncertainties that may affect the Company.

Although Sylogist believes that the expectations and anticipated results reflected in these forward-looking statements are reasonable, undue reliance should not be placed on them because Sylogist can give no assurance that they will prove to be correct. The forward-looking statements contained in this MD&A are made as of its date and Sylogist undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information or future events, unless so required by applicable securities laws.

Certain information set out in this MD&A may be considered as "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Sylogist's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.

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This MD&A should be read in conjunction with the Company's other publicly available filings found on SEDAR at www.sedar.com.