



ANNUAL INFORMATION FORM  
FOR THE FISCAL YEAR ENDED APRIL 30, 2019

**JULY 25, 2019**

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## ANNUAL INFORMATION FORM OF TECSYS INC.

In this Annual Information Form, “Tecsyst” or the “Corporation” represents Tecsyst Inc. Unless the context otherwise requires, reference to “Tecsyst” or the “Corporation” includes the subsidiaries of Tecsyst Inc.

**Unless otherwise noted, all dollar references in this Annual Information Form (“AIF”) are expressed in Canadian dollars and in accordance with generally accepted accounting principles in Canada (“GAAP”) for publicly accountable enterprises which integrates International Financial Reporting Standards (“IFRS”).**

### 1. INCORPORATION AND SUBSIDIARIES

#### (A) Incorporation

Tecsyst was incorporated under the *Canada Business Corporations Act* (“CBCA”) on April 28, 1983. The Articles of Incorporation of Tecsyst were amended on May 30, 1983, to change the name of the Corporation from 123293 Canada Inc. to Tecsyst Inc.; on April 28, 1988, to create new classes of shares and add “private company” restrictions; on October 3, 1995, to subdivide the outstanding Class “A” shares; on December 12, 1996, to further subdivide the outstanding Class “A” shares; on March 18, 1998, to create a new class of shares; and on June 18, 1998, in connection with the initial public offering of Tecsyst’s common shares, to subdivide all the issued and outstanding Class “A” shares on a 2 for 1 basis, to create an unlimited number of common shares and Class A preferred shares issuable in series, to change all the issued and outstanding Class “A” shares into common shares on a 1 for 1 basis, to cancel all the authorized and unissued shares other than the common shares, to change the minimum number of directors from 1 to 3, to remove the “private company” restrictions on the transfer and issue of shares and the number of shareholders and to authorize the appointment of directors in compliance with Section 106(8) of the *Canada Business Corporations Act*.

The head and registered office of the Corporation is located at 1 Place Alexis Nihon, Suite 800, Montréal, Québec, Canada, H3Z 3B8.

#### (B) Subsidiaries

Tecsyst owns:

- (i) all of the issued and outstanding shares of Tecsyst U.S. Inc., a corporation incorporated under the laws of the State of Ohio.
- (ii) all of the issued and outstanding shares of Tecsyst Europe Limited, a corporation incorporated under the laws of England;
- (iii) all of the issued and outstanding securities of Logi D Holding Inc. (“Logi D”), a corporation incorporated under the CBCA which owns all of the issued and

outstanding shares of Logi D Inc., a corporation also incorporated under the CBCA, and Logi D Corp., a corporation incorporated under the laws of Delaware;

- (iv) all of the issued and outstanding shares of OrderDynamics Corporation (“OrderDynamics”), a corporation amalgamated under the CBCA, which owns all of the issued and outstanding shares of OrderDynamics US Inc., a corporation incorporated under the laws of Delaware; and
- (v) indirectly through Tecsys Denmark Holding ApS of all the issued and outstanding shares of PCSYS A/S (“PCSYS”), a company incorporated under the laws of Denmark.

## **2. GENERAL DEVELOPMENT OF THE BUSINESS**

### **(A) Overview**

Tecsys is a global provider of supply chain solutions that equip organizations with industry-leading services and tools to achieve operational success. Tecsys’ solutions are designed to create clarity out of the complex supply chain challenges facing organizations today. Tecsys solutions include warehouse management, distribution and transportation management, supply management at point-of-use, distributed order management, as well as financial management and analytics solutions.

Customers running on Tecsys’ Itopia® supply chain platform are confident knowing they can execute, day in and day out, regardless of business fluctuations or changes in technology. As their businesses grow more complex, organizations operating a Tecsys platform can adapt and scale to business needs or size, expand and collaborate with customers, suppliers and partners as one borderless enterprise, and transform their supply chains at the speed that their growth demands. From demand planning to demand fulfillment, Tecsys puts power into the hands of both front-line workers and back office planners, helping business leaders focus on the future of their products, services and people, not on their operational challenges.

Tecsys is the market leader in North America for supply chain solutions for health systems and hospitals. Over 1,000 small, mid-size and large customers trust their supply chains to Tecsys in the healthcare, service parts, third-party logistics, retail and general wholesale high-volume distribution industries.

With the acquisition of OrderDynamics, Tecsys has added a number of major customers in the retail industry located in Canada, the U.S. Europe and Australia. With the acquisition of PCSYS, Tecsys has added hundreds of customers in the manufacturing, retail and logistics industries, most of which are based in Europe.

As ecommerce grows exponentially, distribution organizations are facing mounting pressures to fulfil higher order volumes with changing customer demands. Consumers are expanding their use of shopping options, thereby increasing order fulfillment complexity for retail and direct-to-consumer companies, and driving investments in Distributed Order Management (DOM) systems. Through acquisition, Tecsys became a supplier to this market.

Tecsys' DOM offering orchestrates and optimizes the process of customer order fulfillment across a wide variety of inventory-holding locations by meeting customer expectations at the lowest possible cost of order fulfillment.

Tecsys' partnership strategy continued to develop and mature in Fiscal 2019. Foundational relationships with key technology partners including International Business Machines Corporation, Oracle Corporation, Microsoft Corporation, Amazon Web Services (AWS), Workday Inc., and Honeywell International Inc. continued to support its product offering while strategic industry players like Zebra Technologies Corporation, Terso Solutions Inc., and BluePay Processing LLC extend its offering. Value added reseller and service partners such as Sequoia Group Inc., Avalon Corporate Solution, OSF Commerce and RiseNow, LLC have become active in the Corporation's customer base, extending its reach as intended.

In July 1998, Tecsys completed an initial public offering and listed its common shares on the Montréal and Toronto Stock Exchanges. Tecsys' common shares currently trade on the Toronto Stock Exchange (TSX) under the ticker symbol "TCS".

## **Industry Verticals**

Tecsys' management believes that the Itopia® platform is well-suited to respond to the changing distribution market. Currently, Tecsys' business development and sales efforts are focused on vertical markets where the Corporation has the highest winning opportunity and best financial returns. From research and development and customer services perspectives, this allows Tecsys to replicate its solutions, enabling the Corporation to reduce costs inherent in new development and adoption of technology. It also helps increase the depth of expertise in these market segments where the Corporation has developed a reputation as an expert among its customers.

One such industry vertical is built on Tecsys' decades of expertise and investment into the healthcare industry through point-of-use, distribution and warehouse management solutions. Longstanding customers include major distributors, a number of health systems or Integrated Delivery Networks (IDNs), as well as third-party logistics providers (3PLs) in Canada and the United States. According to the American Hospital Association (AHA)<sup>1</sup>, there are over 6,200 hospitals in the United States.

Today's healthcare supply chain is complex and costly; it represents the second largest area of expense for hospitals, behind only labor, consuming approximately 40% to 55%<sup>2</sup> of the average operating budget. Unlike retail and other industries where the supply chain is viewed as a strategic asset, the healthcare supply chain has often been underleveraged, even neglected. Most healthcare organizations are managing supplies using outdated information technology systems that cannot communicate with one another. As a result, supply chain processes are largely manual, with staff entering data into various hospital systems as they procure products, manage inventory, capture its use and trigger replenishment needs.

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<sup>1</sup> <https://www.aha.org/statistics/fast-facts-us-hospitals>

<sup>2</sup> <https://rctom.hbs.org/submission/healthcare-where-supply-chain-digitalization-is-life-or-death/>

Healthcare has traditionally lagged behind other industries when it comes to supply chain technology investments. The manual labor required among supply chain, operations and clinical staff is inefficient, error prone and expensive. With disjointed systems and data, healthcare organizations have little or no visibility into and control over their supplies. This leads to expired product and significant waste.

In order for a hospital to transform its supply chain from a major liability into a strategic asset, it must transition from manual to electronic processes. This requires the use of enabling technologies for supply chain automation such as those offered by Tecsyst. Technologies enabling standardization, consolidation and integration within a unified platform are a prerequisite to overcome the complexity and challenges.

As part of its vertical market strategy, the Corporation has been on the lookout for vertical market opportunities in the high-volume complex distribution area where it can profitably provide unique value and be able, over time, to capture market share and eventually dominate that industry. For the year ended April 30, 2019 (“Fiscal 2019”), Tecsyst continued this initiative to explore additional opportunities using this strategy.

### **The SCM Industry**

Supply Chain Management (SCM) is a business strategy to improve shareholder and customer value. SCM encompasses the processes of creating and fulfilling the market’s demand for goods and services; it enhances distributor and customer value by optimizing the flow of products, services and related information from suppliers to customers, with a goal of enabling customer satisfaction. Within SCM is Supply Chain Execution (SCE), on which Tecsyst has most of its focus, an execution-oriented set of solutions that enable the efficient procurement and supply of goods, services and information to meet customer-specific demand. Businesses deploying SCE solutions are looking to achieve greater visibility into product movements, cost containment and compliance.

Today’s distribution landscape is more sophisticated and volatile than ever; nonetheless, it demands 100% fulfillment with faster service and at a lower cost. It demands collaboration with customers, suppliers and partners as a borderless enterprise. From omnichannel to the internet of things (IoT), change is reshaping supply chain platforms and they must extend, scale and adapt to the size and needs of business. Competition is fierce, and disintermediation continues to pose a significant threat, giving rise to omnichannel distribution networks and shrinking the margin for error in operations.

Thriving in the current distribution era means adapting internal infrastructure, technology and processes to external challenges. Consider the impact of major brick and mortar and online retailers, strong competition from those who stick to their core competencies and disruptions by new and innovative technologies. Such disruptions and the increasingly digital environment is pressuring distribution industry leaders to rethink their strategy and take the first step to transform their supply chain or risk being left behind.

Agile companies are quickly outperforming and overtaking their less nimble competitors. A study by The Boston Consulting Group<sup>3</sup> shows that the leaders in digital supply chain management are seeing tremendous benefits:

- Increases in product availability of up to 10%
- Response times to changes in market demand reduced by at least 25%
- Realization of working-capital reductions improved by 30%
- Operating margins 40-110% higher than others, and 17-64% fewer cash conversion days.

McKinsey & Company's research<sup>4</sup> suggests that, on average, companies that digitize their supply chains can expect to boost annual growth of earnings before interest and taxes by 3.2% and annual revenue growth by 2.3%.

Furthermore, according to the 2019 Material Handling Industry ("MHI")<sup>5</sup>, the largest U.S. material handling, logistics and supply chain association, Annual Industry Report produced in conjunction with Deloitte Consulting LLP: "Many of today's consumers are demanding more from businesses in terms of shorter service cycles, lower costs, greater transparency and increased corporate responsibility. Over time, consumers have come to expect unprecedented levels of service, ranging from same-day delivery and free shipping to real-time alerts on the status and location of items they have purchased. These expectations are rippling across the entire supply chain ecosystem. Consumer-facing organizations themselves are increasingly demanding speed, visibility and transparency from their own upstream supply chain partners to meet the end-customer's rising expectations."

In response, leading companies are adopting a more digital approach to business. Using digital innovation to improve supply chain efficiency, transparency and sustainability has become a necessity for continuing to grow the customer base and maintain a competitive standing

#### **(B) Development of business during most recent three years**

On May 17, 2016, Tecsys announced that it has been granted Patent No. 2565934 from Canada Intellectual Property Office that covers the system and method for the replenishment of supplies.

On July 12, 2016, Tecsys announced that it has been granted Patent No. 2682561 from Canada Intellectual Property Office that covers the system and method for tracking medical products in a two bin per medical product replenishment system.

On November 17, 2016, Gartner, Inc. released its eighth annual Healthcare Supply Chain Top 25 ranking<sup>6</sup>. The top four in Gartner's ranking for 2016 are Tecsys customers. Gartner's

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<sup>3</sup> <https://on.bcg.com/2wkJDHC>

<sup>4</sup> McKinsey & Company; Digital transformation: raising supply chain performance to new levels

<sup>5</sup> <https://www.mhi.org/publications/report>

<sup>6</sup> Gartner, "The Healthcare Supply Chain Top 25 for 2016", Eric O'Daffer et al., November 2016

ranking recognizes companies across the healthcare value chain that demonstrate leadership in improving human life at sustainable costs.

On February 13, 2017, Tecsyst was recognized as a “Visionary” in Gartner, Inc.’s Magic Quadrant<sup>7</sup> for Warehouse Management Systems report, an annual publication<sup>7</sup>. Gartner is a leading information technology research and advisory company. Tecsyst has now been positioned in Gartner’s Visionary quadrant for six consecutive years.

On May 19, 2017, Tecsyst appointed Brian Cosgrove, CPA, CA, as Chief Financial Officer to succeed Berty Ho-Wo-Cheong. Mr. Ho-Wo-Cheong stepped down on July 6, 2017, after almost 20 years as CFO to take on a new role within the business. Mr. Cosgrove took over the role of CFO on July 6, 2017.

On June 27, 2017, Tecsyst completed an offering of 1,000,000 common shares of the Corporation as well as an additional 100,050 common shares issued as a result of the exercise in full by the underwriters of their over-allotment option (the “Offered Shares”) at a price of \$15.00 per share, for gross proceeds of \$16,500,750 (the “2017 Offering”). The 2017 Offering includes a treasury offering of 767,050 Offered Shares by the Corporation for gross proceeds of \$11,505,750 and a secondary offering of 333,000 Offered Shares by David Brereton, Executive Chairman of the Corporation, Dabre Inc., his holding company, and Kathryn Ensign-Brereton for gross proceeds of \$4,995,000. The 2017 Offering was completed on a bought deal basis and was underwritten by a syndicate of underwriters led by Cormark Securities Inc. and which included Beacon Securities Limited and Laurentian Bank Securities Inc.

On August 29, 2017, Tecsyst decided to exit the label business, which had revenue of approximately \$600,000 in the fiscal year ended April 30, 2017 (“Fiscal 2017”).

On November 15, 2017, Gartner, Inc. released its ninth annual Healthcare Supply Chain Top 25 ranking<sup>8</sup>. The top three in Gartner’s Healthcare Supply Chain Top 25 for 2017 are Tecsyst customers. Gartner’s annual Healthcare Supply Chain Top 25 ranking recognizes companies across the healthcare value chain that demonstrate leadership in improving human life at sustainable costs.

On January 18, 2018, Laurie McGrath joined the Corporation as its new Chief Marketing Officer. Ms. McGrath leads global corporate and product marketing initiatives across all aspects of brand execution, including market positioning, product definition and strategy, public relations, social media, corporate communications, and demand generation.

Brian Cosgrove, CPA, CA, resigned as Chief Financial Officer on April 20, 2018. Tecsyst appointed Mr. Berty Ho-Wo-Cheong, Vice President, Mergers and Acquisitions and former CFO, to serve as Tecsyst’s interim CFO.

On April 9, 2018, Tecsyst launched Delivery Management Solution for the last mile that is designed to empower regional distribution organizations and 3PLs to thrive in customer service in the digital era and achieve a significant competitive advantage. The Delivery Management

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<sup>7</sup> Gartner “Magic Quadrant for Warehouse Management Systems” by C. Dwight Klappich & Simon Tunstall, February 13, 2017

<sup>8</sup> Gartner, “The Healthcare Supply Chain Top 25 for 2017”, Eric O’Daffer et al., November 2017



Solution enables logistics management to create, pickup and deliver shipments directly from a smartphone and offers their customers real-time, online traceability of shipments similar to the functionality offered by major international parcel shipping organizations.

On May 2, 2018, Gartner, Inc. released the 2018 Magic Quadrant<sup>9</sup> for Warehouse Management Systems, in which Tecsys was positioned in the “Visionaries” quadrant, a position that it has held since its first inclusion in 2010. Gartner Magic Quadrant research methodology provides a graphical competitive positioning of four types of technology providers in fast-growing markets: Leaders, Visionaries, Niche Players and Challengers. Gartner has evaluated global WMS vendors based on their completeness of vision and ability to execute and has recognized 13 WMS suppliers that were included in the 2018 Magic Quadrant for Warehouse Management Systems, one of which is Tecsys.

On July 5, 2018, the Board authorized the establishment of a stock option plan, which was approved by the shareholders of the Corporation on September 6, 2018, (“2018 Stock Option Plan”) pursuant to which directors, officers, key employees and consultants will be granted options to purchase common shares. Each option will be subject to the terms and conditions set forth in the 2018 Stock Option Plan and to those other terms and conditions specified by the Compensation Committee.

On August 20, 2018, Tecsys appointed Jeromie Atkinson as Senior Director, Supply Chain. Mr. Atkinson leads Tecsys’ supply chain product marketing team across vertical industries.

On September 10, 2018, Tecsys launched an IDN Readiness Assessment for Supply Chain Transformation. The interactive tool guides integrated delivery networks (IDN) leadership through a cross-functional view of their business and generates a quantifiable measure of the organization’s readiness for a consolidated supply chain strategy.

On September 17, 2018, Mark J. Bentler joined the Corporation as Chief Financial Officer to succeed interim CFO, Berty Ho-Wo-Cheong.

On November 14, 2018, Tecsys acquired OrderDynamics, a Distributed Order Management software provider based in Richmond Hill, Ontario, to expand omnichannel distribution capabilities for E-commerce companies. See “Significant Acquisitions”.

On November 14, 2018, Gartner, Inc. released its tenth annual Healthcare Supply Chain Top 25 ranking<sup>10</sup>. Each year, the Healthcare Supply Chain Top 25 identifies the supply chains that successfully advance healthcare by improving patient outcomes and controlling costs. To celebrate the 10th anniversary of the ranking, Gartner created a Masters category, recognizing supply chains that have sustained leadership over the past decade. The top three healthcare supply chains in the inaugural group of inductees are Tecsys customers.

In January 2019, Tecsys appointed Bill King as Chief Revenue Officer.

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<sup>9</sup> Gartner “Magic Quadrant for Warehouse Management Systems” by C. Dwight Klappich & Simon Tunstall, May 2, 2018

<sup>10</sup> Gartner, “The Healthcare Supply Chain Top 25 for 2018”, Eric O’Daffer et al., November 2018

On January 14, 2019, Tecsys announced a new brand identity and logo that more readily communicates the Corporation's long-standing intention of equipping supply chain greatness. This move comes at a time when more organizations are experiencing increases in performance pressure and complexities in their supply chains. The new identity communicates the brand's purpose of empowering good companies to achieve greatness by clarifying uncertainty in the supply chain.

On January 30, 2019, Tecsys entered into a credit agreement with National Bank of Canada ("NBC") providing for (i) a \$5,000,000 revolving facility to be used for general corporate purposes including to finance working capital requirements, capital expenditures, permitted acquisitions and permitted distributions and (ii) a \$12,000,000 term facility used, inter alia, for the purposes of financing the acquisition of PCSYS. The credit facility must be repaid in full on February 1, 2024. Tecsys' credit facility is secured by a first ranking movable hypothec or security interest on all of the assets of Tecsys, Logi D, Logi D Inc. and OrderDynamics (the "Guarantors") and a guarantee agreement between each Guarantor and NBC.

On February 1, 2019, Tecsys acquired PCSYS, a Danish technology company to continue its European expansion. PCSYS is a leading European supplier of software and hardware solutions for warehouse management, transportation management, and labelling systems. See "Significant Acquisitions".

On April 8, 2019, Tecsys extended its warehouse management system with distributed order management capabilities following its acquisition of OrderDynamics enabling omnichannel efficiency benefits for customers. This end-to-end technology approach enables third-party logistics (3PL) companies, distributors, and retailers, including brand managers, to handle the complexities of multifaceted fulfillment demands.

On May 8, 2019, Gartner, Inc. released the latest Magic Quadrant<sup>11</sup> for Warehouse Management Systems, in which Tecsys was positioned in the "Visionaries" quadrant, a position it has held since its first inclusion in 2010. Gartner Magic Quadrant research methodology provides a graphical competitive positioning of four types of technology providers in fast-growing markets: Leaders, Visionaries, Niche Players and Challengers. Gartner has evaluated global WMS vendors based on their completeness of vision and ability to execute and has recognized 14 WMS suppliers that were included in the 2019 Magic Quadrant for Warehouse Management Systems, one of which is Tecsys.

### **(C) Significant Acquisitions**

On November 14, 2018, Tecsys Inc. acquired 100% of the issued and outstanding shares of OrderDynamics for a total consideration of \$13,399,461 including \$9,380,184 of cash paid at closing, \$500,000 of cash paid in January 2019, the assumption of \$1,604,512 of short term liabilities owed by OrderDynamics to Canada Revenue Agency ("CRA Liability") and future cash payments of (a) \$500,000 held back pending final calculation of the CRA Liability ("CRA Liability Holdback") and (b) \$1,500,000 held back for indemnification security ("Indemnification Holdback"). The CRA Liability Holdback will be paid to the seller upon final agreement with Canada Revenue Agency on the CRA Liability. The Indemnification Holdback will be released

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<sup>11</sup> Gartner "Magic Quadrant for Warehouse Management Systems" by C. Dwight Klappich & Simon Tunstall, May 8, 2019

two years from the date of closing, subject to the terms of the share purchase agreement and is recorded in other non-current liabilities. The acquisition was funded from existing cash balances.

On February 1, 2019, Tecsys Inc. acquired 100% of the issued and outstanding shares of PCSYS for \$13,370,000, net of cash and cash equivalents acquired, and consisting of \$10,355,088 of cash paid at closing, \$792,135 cash paid in March 2019 for working capital adjustments and future cash payments of (a) \$1,216,800 held back for indemnification security payable fifty percent 12 months after closing and fifty percent payable 24 months after closing and (b) \$1,006,036 earnout payment based on achieving certain revenue and earnings before income taxes, depreciation and amortization targets through September 30, 2019. Cash payments for the acquisition were funded with a bank term loan of \$12.0 million and existing cash balances.

### **3. DESCRIPTION OF THE BUSINESS**

The supply chain execution market, in which Tecsys is a player, is a diverse market. Supply chain execution solutions are comprised of four groups: Warehouse Management, Transportation Management, Collaborative Production Management and other real-time supply chain applications. Supply chain execution (SCE) is the flow of tasks involved in the supply chain, such as order fulfillment, procurement, warehousing and transportation.

Since mid-fiscal year 2007, the Corporation has streamlined its business operations with the objective of achieving improved margins and profitability. The strategy transformed the Corporation into an organization focused on specific vertical markets. It has strengthened its expertise and product offerings by going deeper in each vertical and by building what Tecsys' management believes is unique expertise in each market to differentiate itself and better serve each customer.

Currently, vertical markets targeted by Tecsys include:

#### **Healthcare:**

- Hospitals and Hospital supply networks or health systems;
- Healthcare products distributors such as speciality drug, med-surge & LifeScience products distributors; and
- Healthcare third party logistics providers.

#### **High-volume Complex distribution:**

- Warehouse-centric distribution operations such as heavy equipment dealers, service and auto-parts distributors;
- Omni-Channel distributors and retailers;
- Giftware and import-to-retail distributors;
- Industrial manufacturers and distributors;
- General high-volume distributors; and
- third party logistics providers.

Including the acquisitions of OrderDynamics and PCSYS, Tecsys' products are used by over 1000 customers including: Adventist Health System, Basic Office Products Ltd., Beaumont Health System, British Columbia Liquor Distribution Branch, Canon U.S.A., Inc., Cardinal Health Specialty Pharmaceutical Services, a division of Cardinal Health, Inc., Children's Health Systems of Dallas, Delmar Logistics Inc., Empire Southwest, Ferreyros S.A.A., Gundersen Health System, Holt Texas Ltd., Honda Canada Inc., Humana Inc., Inova Health Systems, Intermountain Healthcare, John Fabick Tractor Company, Leesar Inc., Mayo Regional Hospital, New York City Health and Mental Hygiene, North Mississippi Medical Center Inc., Nova Scotia Liquor Corporation, Orlando Regional Healthcare System Inc., OSF Healthcare System, Parkview Health Systems Inc., Rinchem Company Inc., Rolf C. Hagen Inc., Sanford Health, Saskatchewan Liquor and Gaming Authority, Hospitals Inc, Sisters of Mercy Health System, The Liquor Control Board of Ontario, The Quinn Group Inc., Toromont Industries Ltd., Trinity Health Corporation, United States Department of Agriculture, University of Washington, UNC Health Care Systems and Werner Electric Supply Co.

With the acquisition of OrderDynamics, the following major customers were added: Columbia Sportswear International Sarl, Kmart Australia Limited and Scrubs & Beyond LLC. .

With the acquisition of PCSYS A/S, the following major customers were added: Coloplast A/S, Dagrofa A/S, DKI Logistics A/S, Holmris B8 A/S, Illums Bolighus A/S, Kopenhagen Fur, Nobia Denmark A/S, Novo Nordisk A/S, Novozymes A/S, Prime Cargo A/S, Salling Group A/S, Thortrans-Randers A/S and Visti Christensen A/S.

Approximately 69% and 61% of Tecsys' revenues in the fiscal year ended April 30, 2018 ("Fiscal 2018") and Fiscal 2019, respectively, were derived from the United States market, approximately 28% and 32% from the Canadian market and the remainder from outside of the United States and Canada.

Tecsys U.S. Inc., a wholly-owned subsidiary of Tecsys, acts as a sales, services and marketing agent for Tecsys in the United States, where a significant portion of Tecsys' revenues is generated. As at April 30, 2019, there were approximately 25 employees working for Tecsys U.S. Inc. All revenue generated in the United States is recognized in Tecsys' consolidated revenue.

In Fiscal 2018 and Fiscal 2019, respectively, 19% and 18% of Tecsys' revenue was derived from the sale of products, whereas 81% and 82%, respectively, of its revenue was received in exchange for the provision of services. The following table shows the categories of products and services that accounted for 10% or more of Tecsys' total consolidated revenue in Fiscal 2018 and Fiscal 2019:

	FISCAL 2018	FISCAL 2019
PROPRIETARY PRODUCTS	10%	9%
THIRD PARTY HARDWARE AND SOFTWARE PRODUCTS	9%	9%
CLOUD, MAINTENANCE AND SUBSCRIPTION	38%	41%
PROFESSIONAL SERVICES	43%	41%

Tecsys' products combine best-of-breed supply chain functionalities to provide accurate and synchronized real-time information, to enable users to make rapid, proactive decisions.

Tecsys' product line offers the following modules: Warehouse Management, Demand Planning, Order Management, Procurement, Financial Management, Requisition Management, Supply Management, Transportation Management, Mobile Delivery Management, Radio Frequency Identification, Electronic Commerce, Business Intelligence, and Value-added Services. With the acquisition of OrderDynamics, a Distributed Order Management solution was added, and with the acquisition of PCSYS, WMS and TMS SaaS solutions were added. Tecsys' current products run on an open systems platform and therefore support complementary software modules from third parties that enable Tecsys to offer a broader set of functionalities and interface to such capabilities as material handling systems to address added customer requirements.

Tecsys offers its software products to customers via a perpetual license model or under a Software as a Service (SaaS) subscription model.

**(A) Tecsys' Proprietary Products**

*(i) Tecsys Itopia®* (formerly known as Itopia for EliteSeries)

Tecsys Itopia® is Tecsys' technology platform on which all of Tecsys' applications are built; customers use Itopia to adapt Tecsys' supply chain applications to their business needs. The Itopia platform is one of the industry's most dynamic and powerful engines for distribution organizations' supply chain business, connecting customers and suppliers as one borderless enterprise.

In the supply chain, change is constant, and adapting to change in an agile way is key to an organization's success. Tecsys' Itopia helps distribution organizations adapt and scale to remain at the forefront of ever-evolving technology and supply chain trends on transactional, operational, and strategic levels.

Itopia leverages web technologies by permitting the transformation of data from disparate systems into critical and timely information that can be easily accessed and shared by different users. Information can be securely published via the portal or can be communicated between systems through web services.

One of the fundamental capabilities that differentiates Tecsys' modules are their tight integration into the Tecsys Itopia platform that enables communication between the different Tecsys modules. This enables users to directly achieve cost savings and more rapid deployment of the complete solution. In addition, the elimination of batch processing and update delays enables synchronized, real-time and accurate inventory information to be available across the entire enterprise, permitting significant competitive advantage in customer service.

**Business Intelligence**

Tecsys' Business Intelligence (BI) offers business analysis and reporting that provides access to the customer's corporate database to support easy information access and executive decision-making. Tecsys' BI includes a full suite of pre-built views on key benchmark performance indicators specific to the information needs of distribution operations. Views include trend analysis on inventory, customer service, warehouse productivity, sales/profits, procurement and financial performance.

Tecsys' BI offers extensive data extraction capabilities and can analyse data sets of millions of records. It can be used to generate presentation-quality reports, charts, graphs and spreadsheets. Tecsys' BI product design is based on IBM Cognos Business Intelligence Tools.

**(ii) Tecsys Itopia® Modules (formerly known as EliteSeries modules)**

**Warehouse Management System (WMS)**

Tecsys' primary Warehouse Management System (WMS) uses java as its programming language. It is a feature-rich and functionally robust software system that manages warehouse activities of a distribution organization including: Receiving, Putaway, Cross Docking, Replenishment, Order Planning, Picking, Packing, Shipping, Cycle Counting, Freight Management, Labour Management and Warehouse Planning.

Another WMS that Tecsys offers is for IBM System I, designed to manage activities within the warehouse including: Receiving, Putaway, Cross Docking, Replenishment, Order Planning, Load Building, Pallet Building, Picking, Packing, Kitting, Shipping, Cycle Counting, Returns Management, Quality Control, Freight Management, Labour Management and Warehouse Planning.

With the acquisition of PCSYS, Tecsys adds another WMS software product, built on the Microsoft .NET development platform, to its product portfolio. This is a SaaS and on-premise application designed for small to mid-size distribution operations.

**Distribution Management System (DMS)**

Tecsys' Distribution Management System (DMS) is a market leading integrated distribution software system for mid-market and high-end distribution operations. The software is mature, functionally feature-rich and used in high-volume transaction processing environments. Tecsys' DMS has been installed across a wide variety of vertical market segments.

The DMS is comprised of the following integrated components: Demand Planning & Forecasting, Procure-to-Pay, Inventory Management, Order-to-Cash and Financial Accounting.

**Import-to-Retail Distribution (PointForce)**

PointForce Enterprise, is a comprehensive suite of integrated modules geared to enhance distribution management efficiencies of the small to mid-size distribution organization. With over 25 modules, PointForce Enterprise is a multi-company, multi-currency and multi-warehouse application developed specifically for wholesalers, importers and distributors which sell to retailers.

**Distributed Order Management (DOM)**

With the acquisition of OrderDynamics, Tecsys adds a market leading Distributed Order Management (DOM) software solution to its portfolio of supply chain management applications.

OrderDynamics' DOM permits companies to orchestrate and optimize the process of customer order fulfillment across a wide variety of inventory-holdings. It helps retailers and brands connect digital commerce to physical stores. DOM also permits companies to optimize retail and order fulfillment, help, minimize shipping costs and manage in-store returns.

### **Transportation Management System incorporating Delivery Management (TMS)**

Tecsys' Transportation Management System ("TMS") provides a multi-carrier shipping manifesting system that optimizes carrier selection and shipping for outbound small parcels and less than truckload ("LTL") freight on a number of major carriers in the United States, Canada and internationally. Tecsys' TMS permits the automation of many of the time-consuming, labour-intensive tasks in the shipping department and is designed to enable companies to generate savings and efficiencies if they process high volumes of shipping parcels.

### **Delivery Management**

Tecsys' Delivery Management solution is a powerful end-to-end event tracking and delivery management mobile system for a distribution organization, in-house courier and internal deliveries, including all unattended or unscheduled pickups and deliveries. It enables logistics management to create, pick up and deliver shipments directly from a smartphone and offers companies' customers real-time, online traceability of shipments similar to the functionality offered by major international parcel shipping organizations.

With the acquisition of PCSYS, Tecsys adds another TMS product to its portfolio. PCSYS TMS consists of an administrative back-end application for use in the office, as well as a front-end application for a vehicle's mobile computers, which helps the driver in his or her daily routines with routes, navigation and barcode scanning.

### **Point of Use Inventory Management**

Tecsys' Point of Use Inventory Management System captures, manages and tracks the usage of supplies at the actual point-of-use, allowing an organization to value its inventory. In a hospital environment, this product can be tailored be used in nursing units, cath labs, operating rooms, pharmacies, and non-acute care facilities.

Tecsys' Point of Use Inventory Management includes proprietary hardware technology that enables process efficiency through automatic identification and data capture through Radio Frequency Identification's ("RFID"). Tecsys' RFID technology products eliminate the line-of-sight requirements of current barcode systems and automatically provide basic yet critical information about products, such as item number, item location, serial number and expiry date. Within a point of use supply location, this enables increased order and inventory accuracy.

#### **(iii) Streamline**

Streamline is a full suite of software designed for the industrial distribution market that provides business solutions to manage all aspects of supply chain activities from financials to forecasting to fulfillment. Optional modules for E-commerce, Remote Signature capture and

Remote Order Taking are fully integrated. In addition, APIs include Microsoft Dynamics CRM, Moneris Solutions, EDI, EFT, Positive Pay, and UPS Worldship.

**(B) Third-party Hardware and Software**

**(i) Third-party Hardware**

Tecsys is a single-source solution provider for both the software and hardware designed to make businesses a success. Tecsys' hardware expertise is fine-tuned for customers' needs.

Third-party hardware that may be a component of an overall delivery typically include hardware vendors Honeywell International Inc., Zebra Technologies Corporation and Terso Solutions Inc.

**(ii) Third-party Software**

Tecsys products are extended by way of complementary software modules from third parties that enable Tecsys to offer a broader set of functions to address the requirements of customers.

**(C) Tecsys Services**

Tecsys complements its product line with services that support, enhance and extend the lifecycle of its software portfolio, and which Tecsys' management believes differentiate Tecsys in the marketplace. The services provided are likewise major contributors to Tecsys' revenues and profitability. Tecsys' service categories include Implementation, Support, Advisory and System Enhancement. As previously mentioned, Tecsys is also selling its software products under a SaaS model.

**(i) SaaS and Cloud Services**

Tecsys provides its customers with subscription-based SaaS and managed service offerings in order to provide stable and predictable business models to its customers. Tecsys continues to expand its SaaS portfolio in line with broader industry cloud adoption. The SaaS portfolio represents an important and growing service stream. In addition to organic SaaS customer growth, Tecsys' SaaS revenue has increased as a result of its acquisition of OrderDynamics, as all of OrderDynamics' customers are deployed on a SaaS basis.

Tecsys' SaaS offering extends to its entire supply chain software portfolio and offers all the functionality of Tecsys' on-premise portfolio with the benefit of a flexible and less resource-dependent infrastructure. It combines the benefits of the entire Tecsys cloud technology stack: cloud-deployed highly-available ("HA") platform ("PaaS"), cloud-deployed infrastructure ("IaaS"), cloud-deployed database administration ("DBA"), managed cloud services ("MS") and cloud-deployed disaster recovery ("DRaaS") into a performant, secure, resilient and scalable solution which enables Tecsys' customers to accelerate their businesses.



**(ii) Implementation**

Tecsys offers full-range project management services to support customer design, implementation, training, and deployment of Tecsys software. Through its team of project managers, software experts and industry specialists, Tecsys' implementation team uses an industrialization-inspired structured implementation methodology designed to shorten time to value. This implementation methodology helps define a project's scope from the outset based on customers' needs and requirements, and continues throughout the full implementation lifecycle through the use of standard process models and tasks tailored to each customer's specific needs.

In addition to an extensive library of knowledgeable resources geared towards customer training and onboarding, Tecsys offers training at many different levels. Tecsys aims to transfer its in-depth knowledge of supply chain operations in a way that best suits the particular business environment of the customer. Super-user training is designed to accommodate both the scope of systems knowledge required by employees and their level of comfort with new technology. Tecsys also provides application development training that allows in-house business and IT users to maintain and customize the software themselves and provides them with the tools to migrate their customization to new releases as these are delivered.

**Third-party Implementation**

Organically and through acquisition, Tecsys' customer base has grown both domestically and globally. To ensure system integration support that is timely and geographically distributed, Tecsys has partnered with third-party service providers such as OSF Global Services Inc., Luminos Labs, Sequoia Group Inc., Avalon Corporate Solution and RiseNow, LLC.

**(iii) Support**

Once a system has been implemented and the customer's support organisation and processes are in place, that support group is the main user contact at Tecsys. Customers gain access to multi-tiered customer care programs, other services, and application, software and hardware support. Tecsys' support specialists respond via their omni-channel support portal to support incidents which have been triaged by the customer's helpdesk, provide diagnostics of the reported customer problems and provide technical resolution. The specialists are able to access the customer's system, execute sophisticated remote diagnostics and take corrective measures as needed.

Tecsys offers optional hardware configuration and setup, as well as ongoing hardware integration support on a time and materials basis. Tecsys provides hardware repair support according to the service level agreement negotiated based upon manufacturer repair service level agreements.

**(iv) Advisory**

Tecsys' consultants work with customers throughout the customer lifecycle to proactively plan and execute professional services mandates that identify underleveraged or ineffective use of system functionality, and reconcile space, resource and operational issues. Logistics, software and analytics experts have extensive experience and in-depth knowledge in distribution operations

across a wide range of industries. Advisory consultants can be functional or technical in nature, and work with the customer teams, both business and IT, to provide the continuity and accountability necessary to provide performance-oriented advisory services.

**(v) System Enhancement**

Tecsys' System Enhancement services provide customers with system integrations whereby built-in standardized Application Programming Interface (API) are installed and configured to the customers' relevant complementary systems. These integrations ensure data integrity between systems automatically while limiting manual input requirements.

System Enhancement services also build and support software personalization and customizations requested by customers that are not considered a generic feature of the Tecsys product line.

**(D) Pricing**

Tecsys' subscription sales for SaaS are based on a monthly subscription fee which is typically prepaid on a monthly, quarterly or yearly basis. Tecsys' subscription agreements usually have a fixed term of up to five years.

Licensing and SaaS pricing is typically based on the number of end users in the customer's organization and the number of products (or modules) sites and environments requested by the customer. In healthcare point of use deployments, pricing is based on the number of perioperative rooms and/beds depending on the application and use.

Perpetual licensing has related maintenance services that is typically priced at 20% of the license fee for 9-5 support and 24% of the license fee for 24x7 support.

Consulting services including implementations, project management, training, advisory services and system enhancements are priced generally on an hourly rate, depending on the type of work that will be performed for the customer and the length of the project.

**(E) Intellectual Property, Other Proprietary Rights and Cyber Security**

Tecsys relies primarily on a combination of copyright and trade secret laws and license agreements to establish and protect Tecsys' proprietary rights on its products and technology. The source codes for Tecsys' products and technology are protected both as trade secrets and as unpublished copyrighted works.

Tecsys also utilizes certain software technologies and other information that it licenses from third parties on a non-exclusive basis, including software that is integrated with internally developed software and used in Tecsys' products to perform key functions. These third-party license agreements generally require the payment of license fees based on sales of the product in which the technology is used.

Because the software development industry is characterized by rapid technological change, Management believes that factors such as the technological and creative skills of its personnel,

new product developments, frequent product enhancements, name and brand recognition and reliable product maintenance are more important for establishing and maintaining a technology leadership position than the various legal protective measures for its technology.

With the increasing sophistication and persistence of cyber-threats, Tecsys is well aware of the need to manage the risks of data loss, malware and malicious attacks, whether originating internally or externally. Tecsys has implemented a continuously-evolving security program (including firewalls, intrusion detection software, network access control measures, antivirus software and regular back-ups to limit data losses) to keep pace with these threats. Independent checks reveal that Tecsys has not experienced material breaches in cyber security. Tecsys continues to both monitor these risks as well as to fortify its defenses against intrusion and refining its security governance plans and procedures.

Patent registrations owned by Tecsys include U.S. Patent No. 8,839,132 for its Method and System for Providing Visual Instructions to Warehouse Operators, U.S. Patent No. 8,461,962 for its System and Method for Provisioning Two Bins Replenishment Systems and U.S. Patent No. 8,113,424 for its System and Method for Tracking Medical Products in a Two Bin Per Medical Products Replenishment System. In Canada, Tecsys owns patent registrations for the System and Method for Items Replenishment (Registration No. 2565934) and for the System and Method for Tracking Medical Products in a Two Bin Per Medical Products Replenishment System (Registration No. 2682561). Tecsys also has trademark registrations in Canada, the United States and the European Union for Tecsys and EliteSeries. The Corporation also has trademark registrations for Visual Logistics and Winsol in Canada and DI in the United States. Tecsys currently has a number of patent applications pending for different methods and systems in relation to its products. It has registered or applied to register certain trademarks and service marks with limited periods of protection, and will continue to evaluate the registration of additional trademarks and service marks as appropriate.

## **(F) Distribution Methods**

Tecsys is headquartered in Montréal, Canada, with members of its sales and marketing organizations located at Tecsys' head office and in various parts of Europe and North America. Tecsys' sales and marketing organizations market and sell its products and services by targeting key vertical markets in geographic regions through direct sales efforts and reseller partners.

### **(i) Direct Sales**

The majority of Tecsys' software sales originate from its direct sales channel. Tecsys' direct sales force is located in North America and Europe. Tecsys' sales personnel are equally focused on the management of existing accounts and sales to new customers. Tecsys' sales representatives tasked with new customer acquisition have expertise in SCM in specific vertical markets, namely complex distribution (wholesale distributors, 3PLs and retail) and healthcare.

### **(ii) Reseller and Affiliate Partners**

In addition to Tecsys' direct sales channel, Tecsys' reseller partner, Avalon Corporate Solutions, as well as Tecsys' affiliate partners, OSF Global Services Inc., and PFSweb, Inc. extend

Tecsys' reach into the market. Tecsys provides partners with the tools and resources to keep them apprised of the latest product and industry developments.

Additionally, Tecsys has partnered with the leading provider of enterprise cloud applications for finance and human resources, and have been engaged in a number of joint opportunities where Tecsys software fills key supply chain execution gaps around this provider's financial management, human capital management, planning, and analytics applications.

As at April 30, 2019, Tecsys employed 65 individuals in sales and marketing.

#### **(G) Production Methods**

Tecsys' suite of supply-chain software products is continually expanding as new products are developed and capabilities are added to existing products. Tecsys' research and development ("R&D") division produces a new version of the entire suite, with new major features, every six to ten months. In between these major releases, smaller enhancements are regularly produced, typically every three months.

Tecsys' R&D division achieves short development cycles and responsiveness to market opportunities and client needs by:

- using software methodologies based on the iterative process known as Scrum;
- continually validating and integrating software under development so that it is ready to release; and
- organizing itself in small, self-directed teams that have the skills to define, develop and test their software products.

Tecsys' software architecture has been modernized through a substantial investment in R&D over the past several years. It is now web-based, supporting multiple web browsers and devices (PCs, tablets and phones). The business logic is written in Java, which Management believes is the world's most popular programming language, and runs on the leading commercial databases.

In line with Tecsys' SaaS transition, it is significantly investing in a SaaS product architecture and delivery model.

With respect to hardware products, including mobile computing technology, Tecsys acquires these from various suppliers (including Honeywell and Zebra) and resells them to its customers.

#### **(H) Description of Properties**

Tecsys presently has six offices as follows:

Tecsys' registered and executive offices are located in leased facilities of approximately 42,000 square feet located at 1 Place Alexis Nihon, Suite 800, Montréal, Québec. The original

lease was signed on September 15, 2009, became effective May 1, 2010, and will expire on October 31, 2020. On April 21, 2017, the Corporation signed an amendment extending the current lease to November 30, 2025.

On June 30, 2011, Tecsys signed a new lease for a facility of approximately 14,000 square feet at 15 Allstate Parkway, Markham, Ontario. The lease became effective on April 1, 2012, and will expire on July 31, 2022. However, occupancy began on December 1, 2011.

On December 3, 2015, Tecsys signed a new lease for a facility of approximately 14,000 square feet at 820 Boulevard St-Martin West, Laval, Québec. This lease became effective March 1, 2016, and will expire February 28, 2026.

On January 3, 2014, OrderDynamics signed a new lease for a facility of approximately 17,400 square feet at 1 68B Leek Crescent, Richmond Hill, Ontario. This lease became effective September 1, 2014, and will expire on August 31, 2019. At the end of this lease, employees from this location will be moving to the 15 Allstate Parkway, Markham, Ontario location.

PCSYS leases a facility of approximately 10,000 square feet, located at Stationsparken 25, DK-2600 Glostrup, Denmark. The lease became effective July 1, 2015, and can be terminated with 6 months notice, at the earliest on June 30, 2020.

PCSYS leases a facility of approximately 450 square feet, located at Bogøvej 15, DK-8382 Hinnerup, Denmark. The lease became effective June 1, 2015, and can be terminated with 4 months notice.

## **(I) Competitive Conditions**

The supply chain management software industry is highly competitive and fragmented, consisting of many rapidly changing and evolving competitors. Tecsys' management believes that its technology platform and integrated applications, which include office applications - demand planning & forecasting, order management and financial management applications - as well as its warehouse management for the distribution center, are currently unique. The Corporation's management is not aware of any competitor that has equivalent integrated functionality, technology and industry-specific expertise to address the high-volume distribution market. The principal competitive factors affecting the market for Tecsys' products include supplier competency, product functionality, performance and reliability of technology, depth and experience in distribution and operations, ease of implementation, speed of deployment and total cost of ownership.

Management believes that Tecsys' technology platform and its integrated products and their respective capabilities are more advanced with respect to the high volume distribution market than those of its direct competitors in particular for the flexibility, scalability, ease-of-use and depth of functionality of the Corporation's Distribution Order Management, Warehouse Management, Transportation Management, Point-of-Use inventory management, Electronic Commerce and Business Intelligence applications. Competitors to Tecsys include SAP AG, Oracle Corporation, IBM, Manhattan Associates, Inc., JDA Software Group, Inc., HighJump Software Inc., Infor Inc., Softeon, Inc., Microsoft Corporation, Cardinal Health, Inc., Par Excellence Systems, Inc. and Omnicell, Inc.

**(J) Net Research and Development**

Net R&D expenditures of the Corporation (in thousands of dollars) for the five most recently completed financial years are set out in the table below:

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
EXPENDITURES	13,441	9,998	10,055	10,218	8,842
LESS: TAX CREDITS	(1711)	(1,484)	(6,096)	(1,411)	(1,582)
LESS: DEFERRED DEVELOPMENT COSTS	(163)	0	(27)	(887)	(1,551)
AMORTIZATION OF DEFERRED DEVELOPMENT COST	<u>1114</u>	<u>1,283</u>	<u>1,319</u>	<u>1,418</u>	<u>1,291</u>
<b>TOTAL</b>	<b><u>12,681</u></b>	<b><u>9,797</u></b>	<b><u>5,251</u></b>	<b><u>9,338</u></b>	<b><u>7,000</u></b>

Net R&D expenses increased to \$12.7 million in Fiscal 2019, \$2.9 million higher than the previous fiscal year. OrderDynamics and PCSYS contributed \$1.6 million of the increase with the balance mainly attributable to higher salaries and benefits and consulting fees in our organic business. The Corporation recorded \$ 1.7 million of refundable and non-refundable tax credits in fiscal 2019 compared to \$1.6 million for Fiscal 2018. The Corporation amortized deferred development costs and other intangible assets of \$1.1 million in Fiscal 2019 in comparison to \$1.3 million for Fiscal 2018. In Fiscal 2017, there was a recognition of Canadian federal non-refundable research and development tax credits of \$4.9 million compared to \$223,000 in Fiscal 2018. The amount of non-refundable research and development tax credits recognized in Fiscal 2017 represent primarily tax credits earned in prior years for which the criteria for recognition was met in Fiscal 2017 due to the increased probability that the tax credits will be realized in the future. These non-refundable tax credits will be used in the future to reduce federal income taxes payable.

**(K) Number of Employees**

As at April 30, 2019, Tecsys had approximately 480 employees.

**4. DESCRIPTION OF CAPITAL STRUCTURE**

**Authorized Capital**

The authorized share capital of Tecsys consists of an unlimited number of common shares and an unlimited number of Class A preferred shares, issuable in series, of which 13,082,376 common shares were issued and outstanding and no Class A preferred shares were issued and outstanding as at April 30, 2019.

**Common Shares**

Each common share entitles the holder thereof to one vote at meetings of shareholders of the Corporation and to receive dividends if, as and when declared by the Board and to participate upon liquidation or winding-up in the distribution of the assets of the Corporation, subject to the rights of holders of any class ranking prior to the common shares.

## **Class A Preferred Shares**

The Class A preferred shares may be issued from time to time in one or more series as may be determined by the Board. The Class A preferred shares rank ahead of the common shares with respect to the payment of dividends and return of capital. The Class A preferred shares do not entitle the holder to vote at meetings of shareholders of the Corporation except as required pursuant to applicable law.

## **5. DIVIDEND POLICY**

On February 26, 2008, the Board approved a dividend policy whereby it intended to declare a cash dividend of \$0.02 per common share to be distributed following the release of its financial results of the first and the third quarter of each financial year. Since that date, the Board has consistently increased dividends and under the current dividend policy, the board intends to declare a cash dividend of \$0.055 per common share on a quarterly basis.

The decision of whether to declare a dividend is subject to the discretion of the Board and applicable law. In determining whether to declare, and the amount of, a dividend, the Board, among other criteria, takes into account the Corporation's financial condition, results of operations, capital requirements and such other factors as the Board deems relevant.

The Corporation paid \$0.21 per common share (\$2,747,000 in aggregate) in dividends in Fiscal 2019, \$0.19 per common share (\$2,486,000 in aggregate) in dividends in Fiscal 2018, and \$0.15 per common share (\$1,847,000 in aggregate) in dividends in Fiscal 2017.

## **6. MARKET FOR SECURITIES**

The common shares of Tecsys are listed under the symbol "TCS" on the TSX. The following table sets forth the market price range, in Canadian dollars, and trading volumes of the common shares on the TSX and combined with other alternative exchanges (including Alpha, Aeroquest, Aequitas, Chi-X, CX2, CSE Pure, Instinet, LiquidNet, Lynx and Omega) for each month of the most recently completed financial year:

	PRICE RANGE		TRADING VOLUMES	TRADING VOLUME
	HIGH	LOW	TSX	TSX + ALTERNATIVE EXCHANGES
May	15.74	14.73	264,184	285,349
June	15.67	14.58	76,798	93,548
July	17.02	15.40	205,926	205,926
August	17.50	16.66	31,136	49,274
September	17.25	16.19	68,202	81,523
October	16.51	13.84	62,547	118,718
November	15.00	12.75	52,217	65,294
December	14.05	11.50	44,074	74,527
January	13.01	10.30	56,692	100,554
February	13.72	10.76	149,773	198,680
March	15.05	12.75	72,796	139,706
April	14.81	13.65	369,394	543,435

## 7. OFFICERS & DIRECTORS

The following table sets forth, as of April 30, 2019, the name, province or state and country of residence, office with Tecsys and principal occupation during the past five years of each director and executive officer of Tecsys, as well as the number of common shares of Tecsys beneficially owned or over which control or direction is exercised by him. Directors are elected until the next annual meeting of shareholders or, in the case of a vacancy or resignation, until a successor is elected by shareholders or appointed by the Board.

<u>NAME &amp; PLACE OF RESIDENCE</u>	<u>OFFICE HELD WITH TECSYS</u>	<u>PRINCIPAL OCCUPATIONS DURING THE PAST 5 YEARS</u>	<u>OFFICER/DIRECTOR SINCE</u>	<u>NUMBER OF COMMON SHARES HELD</u>
Frank J. Bergandi California, USA	Director	Business Consultant	June 29, 1998	2,200
David Brereton <sup>(1)</sup> Québec, Canada	Executive Chairman of the Board and Director	Executive Chairman of the Board, Tecsys	September 17, 1997	3,143,740
Peter Brereton <sup>(2)</sup> Québec, Canada	President, Chief Executive Officer and Director	President and Chief Executive Officer, Tecsys	September 17, 1997	456,830
Mark J. Bentler <sup>(3)</sup> Québec, Canada	Chief Financial Officer and Secretary	Chief Financial Officer, Aptos Inc.	September 17, 2018	Nil
Vernon Lobo <sup>(4)(6)(7)</sup> Ontario, Canada	Director	Managing Director, Mosaic Venture Partners Inc.	October 17, 2006	143,700
Steve Sasser <sup>(4)(5)(8)</sup> Texas, USA	Director	Co-Founder and Managing Principal, Swordstone Partners	April 29, 2009	42,000



<u>NAME &amp; PLACE OF RESIDENCE</u>	<u>OFFICE HELD WITH TECSYS</u>	<u>PRINCIPAL OCCUPATIONS DURING THE PAST 5 YEARS</u>	<u>OFFICER/DIRECTOR SINCE</u>	<u>NUMBER OF COMMON SHARES HELD</u>
David Wayland <sup>(5)</sup> Québec, Canada	Director	Corporate Director	September 17, 1997	16,000
John Ensign <sup>(4)(6)</sup> Ohio, USA	Director	President and General Counsel, MRI Software LLC	September 8, 2016	1,500
David Booth <sup>(5)(6)(9)</sup> Virginia, USA	Director	Consultant BackOffice Associates LLC	September 8, 2016	5,600

- (1) David Brereton, directly and through his holding company, Dabre Inc., and his spouse, Kathryn Ensign-Brereton, hold respectively 2,114,638 and 1,029,102 common shares, which represent respectively 16.16% and 7.87% of the outstanding common shares. David Brereton disclaims beneficial ownership and control or direction over the common shares held by Kathryn Ensign-Brereton.
- (2) Peter Brereton and his spouse, Sharon House, hold respectively 356,671 and 100,159 common shares. Peter Brereton disclaims beneficial ownership and control or direction over the common shares held by Sharon House.
- (3) Mark J. Bentler was appointed Chief Financial Officer of the Corporation effective September 17, 2018, replacing Berty Ho-Wo Cheong as interim Chief Financial Officer. Mr. Bentler was the Chief Financial Officer of Aptos Inc from June 2015 to August 2018. Previously, Mr. Bentler was the Vice-President of Epicor Software Corp. from June 2008 to June 2015.
- (4) Member of Compensation Committee. Vernon Lobo is the Chair of the Compensation Committee.
- (5) Member of Audit Committee. David Wayland is the Chair of the Audit Committee.
- (6) Member of the Corporate Governance and Nominating Committee. John Ensign is the Chair of the Corporate Governance and Nominating Committee.
- (7) Vernon Lobo and his spouse, Ingrid Lobo, hold respectively 59,400 and 84,300 common shares. Vernon Lobo disclaims beneficial ownership and control or direction over the common shares held by Ingrid Lobo.
- (8) Steve Sasser co-founded Swordstone Partners in April 2016 and is currently the Managing Principal. Previously, Mr. Sasser was the Chief Executive Officer of Merlin Technologies Corporation from February 2007 until August 2015.
- (9) David Booth is a consultant at BackOffice Associates LLC since February 2019. Previously, Mr. Booth was the President, Chairman and Chief Executive Officer of BackOffice Associate LLC from August 2011 to February 2019.

As of July 3, 2019, the directors and executive officers of Tecsys, as a group, beneficially own, directly or indirectly, or exercise control or direction over, 20.49% of the outstanding common shares.

During the past five years, each of the directors and officers of Tecsys has been engaged in his present principal occupations or in other executive capacities with the companies indicated opposite his name or with related or affiliated companies

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of the Corporation, no director or executive officer of the Corporation is, as at the date hereof, or has been within ten years before the date hereof, a director, chief executive officer or chief financial officer of any company that was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days (a) that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (b) that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the knowledge of the Corporation, no director or executive officer of the Corporation and no shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation (a) is, as at the date hereof, or has been within ten years before the date hereof, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (b) has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets, except that John Ensign was the Chief Legal Officer of Domin-8 Enterprise Solutions, Inc. when that company filed for reorganization under chapter 11 of the US Bankruptcy Code in 2009. The assets of Domin-8 Enterprise Solutions, Inc. were eventually the subject of a court approved sale in early 2010.

Furthermore, to the knowledge of the Corporation, no director or executive officer of the Corporation and no shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **Audit Committee**

### **General**

Tecsys has established an Audit Committee (the “Audit Committee”) comprised of three members: Steve Sasser, David Wayland and David Booth, each of whom is considered “independent” and “financially literate” within the meaning of Multilateral Instrument 52-110 - *Audit Committees*. David Wayland is the Chairman of the Audit Committee.

### **Mandate of the Audit Committee**

The mandate of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. As such, it reviews the quality and integrity of Tecsys’ financial reporting, the independence, qualifications and performance of Tecsys’ external auditor, the adequacy of Tecsys’ internal systems of accounting and financial controls, the appropriateness of Tecsys’ accounting policies and compliance with applicable legal and regulatory requirements and internal corporate policies.

The Charter of the Audit Committee is attached hereto as Appendix A.

### **Relevant Education and Experience of the Audit Committee Members**

The following is a brief summary of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an

understanding of the accounting principles used by Tecsys to prepare its annual and interim financial statements.

<b>Name of Audit Committee Member</b>	<b>Relevant Education and Experience</b>
David Wayland	Mr. Wayland holds a Bachelor's of Arts (Economics) from Loyola College. He is a Chartered Professional Accountant and is now a Corporate Director. Mr. Wayland was an auditor for over ten years at Campbell Sharp Nash and Field (now part of Raymond Chabot Grant Thornton). Mr. Wayland acquired significant financial and accounting knowledge related to the preparation, auditing, analysis and evaluation of financial statements during his tenure as Secretary-Treasurer and Chief Financial Officer of MRRM Inc. from June 2002 to June 2008, and as Corporate Secretary of MRRM Inc. until June 2011.
Steve Sasser	Mr. Sasser holds a Bachelor's of Business Administration and a Master's of Business Administration from Southern Methodist University, with a concentration in finance. Currently, Mr. Sasser is the Managing Principal of Swordstone Partners which he co-founded in April 2016. Previously, Mr. Sasser was the Chief Executive Officer of Merlin Technologies Corporation from February 2007 until August 2015. Prior to February 2007, Mr. Sasser was the Chief Executive Officer of Peopleclick Inc. Between 1995 and 2003, Mr. Sasser was the Chief Executive Officer of Frontstep Inc. (formerly Symix Systems Inc.), a public company, the shares of which were traded on NASDAQ.
David Booth	Mr. Booth holds a Bachelor's degree in commerce with a concentration in marketing from Mount Allison University which included three years of accounting courses, and completed the Lessons in Leadership Executive Development Program at Harvard University. Currently, Mr. Booth is currently a consultant at BackOffice Associates, LLC. Prior to February 2019, Mr. Booth was the President, Chairman and Chief Executive Officer at BackOffice Associates, LLC. Mr. Booth has served in several key positions in his over 30-year career in the industry including President of Global Sales and Marketing at Computer Science Corp. (CSC), Hewlett-Packard (HP) Corporation's Senior Vice President and General Manager of the Americas Technology Solutions Group, President of Compaq Canada and Digital Equipment Corporation as Regional Vice President and General Manager.

### **External Auditor Service Fees**

The following table shows the fees paid to Tecsys' auditors, KPMG LLP, in Fiscal 2019 and Fiscal 2018, respectively, for services provided:

	<b>FISCAL 2019</b>	<b>FISCAL 2018</b>
AUDIT FEES	\$217,000	\$185,000
AUDIT-RELATED FEES	\$451,040	\$187,640
TAX FEES	\$87,150	\$77,100
TOTAL	\$755,190	\$449,740

### *Audit Fees*

These fees include professional services rendered by the external auditors for statutory audits of Tecsyst's annual financial statements and the coordination of the audit on PCSYS. The increase in the audit fees is due to the fees related to OrderDynamics and PCSYS. This amount excludes an amount incurred of approximately \$20,000 from another auditor firm for services related to the 2019 audit of PCSYS.

### *Audit-Related Fees*

These fees include professional services that reasonably relate to the performance of the audit or review of Tecsyst's financial statements, including interim reviews on an as needed basis, performance of required securities procedures and assistance to the underwriters, when applicable, in our share offerings and translation.. The fees also include fees related to financial and tax due diligence on acquisitions, the interim review and audit of OrderDynamics for periods prior to the acquisition, advisory services on Business Acquisition Reports and Service Organization Control Reports. Finally, these fees also includes consultations and advice regarding financial accounting and reporting standards.

### *Tax Fees*

These fees include professional services for tax compliance, tax advice and tax planning.

## **Policies and Procedures for the Engagement of Audit and Non-Audit Services**

The Audit Committee Charter outlines policies and procedures for the engagement of audit and non-audit services. Under these policies and procedures, all audit and non-audit services to be provided by Tecsyst's external auditor (the "Auditors") must be pre-approved by the Audit Committee. A pre-approved range of services to be provided by the external auditors has been established in the policy.

If an engagement of the Auditors for a particular service that is not covered under the range of pre-approved services is contemplated, pre-approval by the Audit Committee must be received for the engagement to proceed.

Similarly, in the case of proposed engagements of the Auditors involving any of the services covered under the pre-approved range of services where the fees for any such engagement are expected to exceed \$5,000, specific pre-approval must be obtained from the Audit Committee. In respect of any other pre-approved services to be provided by the Auditors, the Chairman of the Audit Committee shall be notified expeditiously of such services commenced by the Auditors.

## **8. MATERIAL CONTRACTS**

On November 14, 2018, Tecsys entered into a share purchase agreement with Nevis Holdings Limited, ODHold Ltd., ODEExchange Ltd. and OrderDynamics for the purchase of all of the issued and outstanding shares of OrderDynamics.

On February 1, 2019, Tecsys entered into a share purchase agreement with IT Investments ApS, Klaus Juhl, Ulrik Havsager, Henrik B. Eriksen and Tecsys Denmark Holding ApS for the purchase of all of the issued and outstanding shares of PCSYS. Both share purchase agreements are available on SEDAR at [www.sedar.com](http://www.sedar.com). See also “Significant Acquisitions”.

## **9. LEGAL PROCEEDINGS**

Neither the Corporation or its properties is, nor was, during the year ended April 30, 2019, subject to any legal proceeding that would have a material adverse effect on it. To the Corporation’s knowledge, no material legal proceedings involving the Corporation, or its property are contemplated.

## **10. TRANSFER AGENT AND REGISTRAR**

Tecsys’ transfer agent and registrar is Computershare Investor Services Inc. (“Computershare”). The register of transfers of the common shares of Tecsys maintained by Computershare is located at its offices in Montréal, Québec.

## **11. INTEREST OF EXPERTS**

The Corporation’s auditors are KPMG LLP, Chartered Professional Accountants. It has prepared an independent auditors’ report dated July 3, 2019, in respect of the Corporation’s consolidated financial statements with accompanying notes for Fiscal 2019 and has advised that it is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Québec.

KPMG LLP and Inforevision are the only persons, companies or partnerships which are named as having prepared or certified a statement, report or valuation described, included or referred to in a filing made by the Corporation during or relating to the Corporation’s most recently completed financial year and whose profession gives authority to the statement, report or valuation made. Inforevision, based in Denmark is responsible for the audit of PCSYS A/S and Tecsys Denmark Holding ApS.

## **12. RISK FACTORS**

### **Special note regarding forward-looking statements**

Certain statements contained under the captions “General Development of the Business”, “Description of the Business” and “Risk-Factors” and elsewhere in this Annual Information Form constitute forward-looking statements. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “anticipate”, “believe”, “expect” and similar expressions, as they relate to Tecsys or Management, are intended to identify forward-looking statements. Such statements

reflect Tecsys' current views with respect to future events, are based on information currently available to Tecsys and are subject to certain risks and uncertainties, including those discussed above. Such statements are also based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) competitive environment; (ii) operating risks; (iii) Tecsys' Management and employees; (iv) capital investment by Tecsys' customers; (v) customer project implementations; (vi) liquidity; (vii) current global financial conditions; (viii) implementation of Tecsys' commercial strategic plan; (ix) credit; (x) potential product liabilities and other lawsuits to which Tecsys may be subject; (xi) additional financing and dilution; (xii) market liquidity of Tecsys' common shares; (xiii) development of new products; (xiv) intellectual property and other proprietary rights; (xv) acquisition and expansion; (xvi) foreign currency; (xvii) interest rates; (xviii) technology and regulatory changes; (xix) internal information technology infrastructure and applications; and (xx) cyber security.

Many factors could cause Tecsys' actual results, performance or achievements to differ materially from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. These forward-looking statements are made as of the date of this Annual Information Form and Tecsys does not intend, and does not assume any obligation, to update or revise these forward-looking statements.

**In addition to the other information in this Annual Information Form, the following risk factors should be carefully considered when evaluating an investment in Tecsys' common shares:**

**The Corporation has incurred net losses in the past and may incur losses in the future.**

The Corporation incurred net profits from FY2008 to FY2018, but incurred losses in FY2019. The Corporation continuously adjusts its operating model to ensure ongoing profitability. However, there can be no assurance that the Corporation will achieve or sustain profitability in the future. As of April 30, 2019, the Corporation had retained earnings of \$10.6 million. The limited operating history of the Corporation as a public company and its dependence on a market characterized by rapid technological change make the prediction of future results of operations difficult or impossible. There can be no assurance that the Corporation can generate substantial revenue growth on a quarterly or annual basis, or that any revenue growth that is achieved can be sustained. Revenue growth that the Corporation has achieved or may achieve may not be indicative of future operating results. In addition, the Corporation may increase its operating expenses in order to fund higher levels of R&D, increase its sales and marketing efforts, develop new distribution channels, broaden its customer support capabilities and expand its administrative resources in anticipation of future growth. To the extent that increases in such expenses precede or are not subsequently followed by increased revenues, the Corporation's business, results of operations and financial condition would be materially adversely affected.

**If the Corporation is unable to attract new customers or sell additional products to its existing customers, its revenue growth and profitability will be adversely affected.**

To increase its revenue and achieve and maintain profitability, the Corporation must regularly add new customers or sell additional solutions to its existing customers, which it plans to do. Numerous factors, however, may impede its ability to add new customers and sell additional solutions to its existing customers, including its inability to convert companies that have been referred to the Corporation by its existing network into paying customers, failure to attract and effectively train new sales and marketing personnel, failure to retain and motivate its current sales and marketing personnel, failure to develop relationships with partners or resellers and/or failure to ensure the effectiveness of its marketing programs. In addition, if prospective customers do not perceive its solutions to be of sufficiently high value and quality, it will not be able to attract the number and types of new customers that it is seeking.

**Impact of transitioning from primarily on-premise perpetual license sales to a higher mix of Software as a Service (“SaaS”)**

The Corporation offers certain of its solutions as Software as a Service (“SaaS”) which will negatively impact revenue and earnings in the transition period and make forecasting its revenue, earnings and cash flow more unpredictable. The Corporation significantly began to offer more of its solutions under the SaaS option in FY2019, in addition to its on-premise perpetual license option. Under an SaaS subscription agreement, customers pay a periodic fee for the right to use the Corporation’s software within a cloud-based environment that it provides and manages over a specified period of time. The Corporation believes that over time a growing number of its customers and prospects will elect to purchase its solutions as SaaS rather than under an on-premise perpetual license.

Until the Corporation has fully transitioned to a stable mix of SaaS and on-premise perpetual license arrangements, it expects that combined license and SaaS revenue will decrease due to the difference in revenue recognition for an SaaS (for which revenue is recognized ratably over the term of the SaaS arrangement) and an on-premise perpetual license (for which revenue is generally recognized upon purchase) and that maintenance revenue (which comprises a significant portion of Tecsys’ revenue) may also be impacted due to support being included in the SaaS offering.

The Corporation’s revenue, earnings and cash flow are based on the mix of revenue between SaaS and on-premise perpetual license revenue including timing, number and size of deals. If a greater percentage of its customers purchase its solutions as SaaS in any period, Tecsys’ revenue, earnings and cash flow will likely fall below expectations for that period.

**Fluctuations in Quarterly Results may fail to meet the expectations of investors or security analyst which could cause the Corporation’s share price to decline.**

The Corporation’s quarterly operating results have in the past, and will in the future, fluctuate significantly, depending on factors such as the demand for the Corporation’s products, the size and timing of orders, the mix of on-premise perpetual license and SaaS, the number, timing and significance of new product announcements by the Corporation and its competitors, the ability

of the Corporation to develop, introduce and market new and enhanced versions of its products on a timely basis, the level of product and price competition, changes in operating expenses, changes in average selling prices and product mix, sales personnel changes, the mix of direct and indirect sales, product returns and general economic factors, among others.

In particular, the Corporation's quarterly results are affected by the mix of on-premise perpetual license and SaaS, timing of new releases of its products and upgrades. The Corporation's operating expenses are based on anticipated revenue levels in the short term and are relatively fixed and incurred throughout the quarter. As a result, if the revenues are not realized in the expected quarter, the Corporation's operating results could be materially adversely affected. Quarterly results in the future will be influenced by these or other factors, including possible delays in the shipment of new products and purchasing delays of current products as customers anticipate new product releases. Accordingly, there will be significant variations in the Corporation's quarterly operating results.

**Lengthy Sales and Implementation Cycle could have an adverse effect on the amount, timing and predictability of the Corporation's revenue.**

The sale and implementation of the Corporation's products generally involves a significant commitment of resources by prospective customers. As a result, the Corporation's sales process is often subject to delays associated with lengthy approval processes attendant to significant capital expenditures. For these and other reasons, the sales cycle associated with the signing of new sales agreements for the Corporation's products varies substantially from customer to customer and typically lasts between six and twelve months. During this time, the Corporation may devote significant resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which it has no control. In addition, following a new sales agreement, the implementation period may involve six to twenty-four months for consulting services, customer training and integration with the customer's other existing systems.

**Defects, Delays or Interruptions in providing SaaS will have an impact on the operating results of the Corporation.**

If the Corporation encounters defects, delays or interruptions in its SaaS, the demand for these services could diminish, and the Corporation could incur significant liability. The Corporation currently utilizes data center hosting facilities and cloud compute service providers, which are managed by third-parties, to provide cloud-based solutions and hosting services to its customers. If the data center facilities or cloud compute service providers fail or encounter any damage, it could result in interruptions in services to the Corporation's customers. This could result in unanticipated downtime for the Corporation's customers, and in turn, its reputation and business could be adversely affected. In addition, if the Corporation's customers use SaaS arrangements in unanticipated ways, this could cause an interruption in service for other customers attempting to access their data. Moreover since SaaS customers access the services via the internet, any interruptions in the internet availability will affect the customers' operations.

If any defects, delays or interruption in the Corporation's SaaS solutions occur, customers could elect to cancel their service, delay or withhold payment to the Corporation, not purchase



from the Corporation in the future or make claims against it, which could adversely affect its business reputation, results of operations, cash flow, and financial condition.

**Security breaches could delay or interrupt service to its customers, harm its reputation or subject the Corporation to significant liability and adversely affect its business and financial results. Its ability to retain customers and attract new customers could be adversely affected by an actual or perceived breach of security relating to customer information.**

The Corporation's operations involve the storage and transmission of the confidential information of many of its customers and security breaches could expose it to a risk of loss of this information, litigation, indemnity obligations and other liability. If its security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to its customers' data, including personally identifiable information regarding users, damage to its reputation is likely, its business may suffer and it could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, it may be unable to prevent these techniques or to implement adequate preventative measures. The Corporation has implemented technical, organizational and physical security measures, including employee training, backup systems, monitoring and testing and maintenance of protective systems and contingency plans, to protect and to prevent unauthorized access to confidential information of its customers and to reduce the likelihood of disruptions to its systems.

Despite these measures, all its information systems, including back-up systems and any third party service provider systems that it employs, are vulnerable to damage, interruption, disability or failure due to a variety of reasons, including physical theft, electronic theft, fire, power loss, computer and telecommunication failures or other catastrophic events, as well as from internal and external security breaches, denial of service attacks, viruses, worms and other known or unknown disruptive events. The Corporation or its third-party service providers may be unable to anticipate, timely identify or appropriately respond to one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber-terrorists and others may attempt to breach its security measures or those of its third-party service providers' information systems.

If a breach of its security measures occurs, the market perception of their effectiveness could be harmed and the Corporation could lose potential sales and existing customers. Further, a security breach affecting one of its competitors or any other company that provides hosting services or delivers applications under a SaaS model, even if no confidential information of its customers is compromised, may adversely affect the market perception of its security measures and it could lose potential sales and existing customers.

**The Corporation's ability to develop new products and services in order to sell its solutions into new markets or further penetrate its existing markets will impact its revenue growth.**

The software industry is characterized by rapid technological change and frequent new product introductions. Accordingly, the Corporation believes that its future success depends upon

its ability to enhance current products or develop and introduce new products that enhance performance and functionality at competitive prices. The Corporation's inability, for technological or other reasons, to develop and introduce products in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on its business, results of operations and financial condition.

The ability of the Corporation to compete successfully will depend in large measure on its ability to maintain a technically competent R&D staff and adapt to technological changes and advances in the industry, including providing for the continued compatibility of its software products with evolving computer hardware and software platforms and operating environments. There can be no assurance that the Corporation will be successful in these efforts.

**The markets in which the Corporation participates is highly competitive, its failure to compete successfully would make it difficult to add and retain customers and would reduce and impede its growth.**

The Corporation competes in many cases against companies with more established and larger sales and marketing organizations, larger technical staff and significantly greater financial resources. As the market for the Corporation's products continues to develop, additional competitors may enter the market and competition may intensify. Additionally, there can be no assurance that competitors will not develop products superior to the Corporation's products or achieve greater market acceptance due to pricing, sales channels or other factors.

**If the Corporation fails to retain its key employees, its business would be negatively impacted.**

The Corporation's dependence on key personnel to operate its business represents risk of loss of expertise if key personnel were to leave.

The Corporation depends on the experience and expertise of its executive management team. Competition for executives, as well as for skilled product development and technical personnel, in the software industry is intense and the Corporation may not be able to retain or recruit needed personnel. If the Corporation is not able to retain and attract existing and additional highly-qualified management, sales and technical personnel, it may not be able to successfully execute its business strategy.

The Corporation's ability to support the growth of its business will be substantially dependent upon having in place highly trained internal and third-party resources to conduct pre-sales activity, product implementation, training and other customer support services.

**The Corporation's strategy includes pursuing acquisitions and its potential inability to successfully integrate newly-acquired companies or businesses may adversely affect its financial results.**

The Corporation may continue to expand its operations or product line through the acquisition of additional businesses, products or technologies which may include different geographic locations. Acquisitions may involve a number of special risks, including diversion of Management's attention, failure to retain key acquired personnel, risk associated with specific

vertical markets, business model, integration, geographic locations, unanticipated events or circumstances and legal liabilities, some or all of which could have a material adverse effect on the Corporation's business, results of operations and financial condition.

### **Risk of Software Defects could adversely affect the Corporation's business.**

Software products as complex as those offered by the Corporation frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. Despite product testing, the Corporation has in the past released products with defects, discovered software errors in certain of its new versions after introduction and experienced delays or lost revenue during the period required to correct these errors. The Corporation regularly introduces new releases and periodically introduces new versions of its software. There can be no assurance that, despite testing by the Corporation and its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after commencement of commercial shipments.

### **Risk Related to Protection of Intellectual Property**

The Corporation considers certain aspects of its internal operations, software and documentation to be proprietary, and relies on a combination of copyright, patents, trademark and trade secret laws; confidentiality agreements with employees and third parties; protective contractual provisions (such as those contained in its license agreements with consultants, vendors, partners and customers) and other measures to maintain its intellectual property rights. Any of the Corporation's intellectual property rights could be challenged, invalidated, circumvented or copied, causing a competitive disadvantage, lost opportunities or market share, and potential costly litigation to enforce or re-establish the Corporation's rights. This could materially and adversely affect the Corporation's business, operating results and financial condition.

### **Risk of Third-Party Claims for Infringement**

The Corporation is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Corporation or its licensees with respect to current or future products. The Corporation expects that software developers will increasingly be subject to such claims as the number of products and competitors in the Corporation's industry segment grows and as functionality of products in different industry segments overlaps.

### **Reliance on Third-Party Software**

The Corporation relies on certain software that it sub-licenses from third parties. There can be no assurance that these third-party software companies will continue to permit the Corporation to sub-license on commercially reasonable terms.

### **Cyber Security**

With the increasing sophistication and persistence of cyber-threats, Tecsyst is well aware of the need to manage the risks of data loss, malware and malicious attacks, whether originating internally or externally. Tecsyst has implemented a continuously-evolving security program to keep

pace with these threats. Independent checks reveal that Tecsys has not experienced material breaches in cyber security. Tecsys continues to monitor these risks and continues to fortify its defenses against intrusion and refine its security governance. Despite the Corporation's security measures, its information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise Tecsys' networks and the information stored there could be accessed, publicly disclosed, lost or stolen.

### **Currency Risk**

A significant part of the Corporation's revenues are realized in U.S. dollars. Fluctuations in the exchange rate between the U.S. dollar and other currencies may have a material adverse effect on the margin the Corporation may realize from its products and services and may directly impact results of operations. From time to time, the Corporation may take steps to manage such risk by engaging in exchange rate hedging activities; however, there can be no assurance that the Corporation will be successful in such hedging activities. The Corporation also has an operating subsidiary in Denmark. Significant fluctuations between the Danish krone and the Canadian dollar may have an impact on the Corporation's operating results.

**The Corporation may need to raise additional funds to pursue its growth strategy or continue its operations, and it may be unable to raise capital when needed or on acceptable terms.**

From time to time, the Corporation may seek additional equity or debt financing to fund its growth, enhance its products and services, respond to competitive pressures or make acquisitions or other investments. Its business plans may change, general economic, financial or political conditions in its markets may deteriorate or other circumstances may arise, in each case that have a material adverse effect on its cash flows and the anticipated cash needs of its business. Any of these events or circumstances could result in significant additional funding needs, requiring the Corporation to raise additional capital. It cannot predict the timing or amount of any such capital requirements at this time. If financing is not available on satisfactory terms, or at all, it may be unable to expand its business at the rate desired and its results of operations may suffer. Financing through issuances of equity securities would be dilutive to holders of its shares.

### **13. OTHER INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Tecsys' securities and securities authorized for issuance under equity compensation plans is contained in Tecsys' management proxy circular for Fiscal 2019.

Additional financial information is provided in Tecsys' comparative financial statements and management's discussion and analysis for Fiscal 2019 contained in Tecsys' 2019 Annual Report.

Additional information relating to Tecsys may also be found on SEDAR at [www.sedar.com](http://www.sedar.com).

For further information, please contact:

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**APPENDIX A**  
**CHARTER FOR THE AUDIT COMMITTEE**  
**OF THE BOARD OF DIRECTORS**

**1. PURPOSE**

- a) The primary functions of the Audit Committee are to oversee the accounting and financial reporting practices of the Corporation and the audits of the Corporation's financial statements and to exercise the responsibilities and duties set forth below, including, but not limited to, assisting the Board in fulfilling its responsibilities in its oversight of the following: the integrity of the Corporation's financial statements and related information; internal controls over financial reporting and risk management; the system of internal control; the Corporation's compliance with Applicable Requirements (as defined below); selecting the auditors for shareholder approval; reviewing the qualifications, independence and performance of the auditors; and reviewing the qualifications and performance of the Corporation's financial management.

**2. MEMBERSHIP AND ORGANIZATION**

- a) **Composition** - The Audit Committee shall consist of not less than three independent members of the Board. At the invitation of the Audit Committee, members of the Corporation's management and others may attend Audit Committee meetings as the Audit Committee considers necessary or desirable.
- b) **Appointment and Removal of Audit Committee Members** - Each member of the Audit Committee shall be appointed by the Board on an annual basis and shall serve at the pleasure of the Board, or until the earlier of (a) the close of the next annual meeting of the Corporation's shareholders at which the member's term of office expires, (b) the death of the member, or (c) the resignation, disqualification or removal of the member from the Audit Committee or from the Board. The Board may fill a vacancy in the membership of the Audit Committee.
- c) **Chair** - At the time of the annual appointment of the members of the Audit Committee, the Board shall appoint a Chair of the Audit Committee. The Chair shall: be a member of the Audit Committee, preside over all Audit Committee meetings, coordinate the Audit Committee's compliance with this mandate, work with management to develop the Audit Committee's annual work plan and meeting agendas to ensure that all business requiring the Audit Committee's approval is appropriately tabled and provide reports of the Audit Committee to the Board.
- d) **Independence** - Each member of the Audit Committee shall meet the requirements promulgated by any exchange upon which securities of the Corporation are traded, or any governmental or regulatory body exercising authority over the Corporation,

as are in effect from time to time (collectively, the “Applicable Requirements”) related to independence and audit committee composition.

- e) ***Financial Literacy*** - At the time of his or her appointment to the Audit Committee, each member of the Audit Committee shall be able to read and understand fundamental financial statements, including a balance sheet, cash flow statement and income statement and not have participated in the preparation of the financial statements of the Corporation or any current subsidiary of the Corporation at any time during the preceding three years. At least one member of the Audit Committee shall have past employment experience in financing or accounting, requisite professional certificate in accounting, or other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

### 3. MEETINGS

- a) ***Meetings*** - The members of the Audit Committee shall hold meetings as are required to carry out this mandate, and in any case no less than four meetings annually. The external auditors are entitled to attend and be heard at each Audit Committee meeting. The Chair, in consultation with the Executive Chairman, Chief Executive Officer, Chief Financial Officer and the Corporate Secretary, determine the frequency, dates and locations of meetings of the Audit Committee. The Chair shall chair all Audit Committee meetings that he or she attends, and in the absence of the Chair, the members of the Audit Committee present may appoint a chair from their number for a meeting.
- b) ***Corporate Secretary and Minutes*** - The Corporate Secretary, his or her designate or any other person the Audit Committee requests, shall act as secretary at Audit Committee meetings. Minutes of Audit Committee meetings shall be recorded and maintained by the Corporate Secretary and subsequently presented to the Audit Committee for approval.
- c) ***Quorum*** - A majority of the members of the Audit Committee shall constitute a quorum.
- d) ***Access to Management and Outside Advisors*** - The Audit Committee shall have unrestricted access to the Corporation’s management and employees and the books and records of the Corporation, and, from time to time may hold unscheduled or regularly scheduled meetings or portions of regularly scheduled meetings with the auditor, the Chief Financial Officer, the Chief Executive Officer or the Executive Chairman. The Audit Committee shall have the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective compensation for these advisors. This is in line with

regulations issued by the CSA. The Corporation shall provide appropriate funding, as determined by the Audit Committee, for the services of these advisors.

- e) ***Meetings Without Management*** - The Audit Committee shall hold unscheduled or regularly scheduled meetings, or portions of regularly scheduled meetings, at which management is not present. The Audit Committee shall meet at least annually with the external auditor without management present.

#### **4. FUNCTIONS AND RESPONSIBILITIES**

The Audit Committee shall have the functions and responsibilities set out below as well as any other functions that are specifically delegated to the Audit Committee by the Board and that the Board is authorized to delegate by applicable laws and regulations. In addition to these functions and responsibilities, the Audit Committee shall perform the duties required of an audit committee by the Applicable Requirements.

a) **Financial Reports**

- i. ***General*** - The Audit Committee is responsible for overseeing the integrity of Corporation's financial statements and financial disclosures. Management is responsible for the preparation, presentation and integrity of the Corporation's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by the Corporation. The auditors are responsible for auditing the Corporation's annual consolidated financial statements and for reading the Corporation's unaudited interim financial statements.
- ii. ***Review of Annual Financial Reports*** - The Audit Committee shall review the annual consolidated audited financial statements of the Corporation, the auditors' report thereon and the related management's discussion and analysis of the Corporation's financial condition and results of operation ("MD&A"). After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval the annual financial statements and the related MD&A.
- iii. ***Review of Interim Financial Reports*** - The Audit Committee shall review the interim consolidated financial statements of the Corporation and the related MD&A. After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval the interim financial statements and the related MD&A.
- iv. ***Review Considerations*** - In conducting its review of the annual financial statements, the Audit Committee shall:
- meet with management and the auditors to discuss the financial statements and MD&A;
  - review the disclosures in the financial statements;



- review the audit report or other input prepared by the auditors;
  - discuss with management, the auditors and legal counsel, as required, any litigation claim or other contingency that could have a material effect on the financial statements;
  - review critical accounting and other significant estimates and judgments underlying the financial statements as presented by management;
  - review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements as presented by management;
  - review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements as presented by management;
  - review management’s report on the effectiveness of internal controls over financial reporting;
  - review the factors identified by management as factors that may affect future financial results;
  - review results of the Corporation’s audit committee Procedure for Treatment of Complaints (“Whistle Blower”) Policy; and
  - review any other matters, related to the financial statements, that are brought forward by the auditors, management or which are required to be communicated to the Audit Committee under accounting policies, auditing standards or Applicable Requirements.
- v. ***Approval of Other Financial Disclosures*** - The Audit Committee shall review and, if advisable, approve and recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Corporation, press releases disclosing financial results of the Corporation and any other material financial disclosure, including financial guidance provided to analysts rating agencies or otherwise publicly disseminated.

b) **Auditors**

- i. ***General*** - The Audit Committee shall be responsible for oversight of the work of the auditors, including the auditors’ work in preparing or issuing an audit report, performing other audit, review or attest services or any other related work.
- ii. ***Appointment and Compensation*** - The Audit Committee shall review, select and recommend for shareholder approval the appointment of, the auditors.

The Audit Committee shall have ultimate authority to approve all audit engagement terms and fees, including the auditor's audit plan.

- iii. ***Resolution of Disagreements*** - The Audit Committee shall resolve any disagreements between management and the auditors as to financial reporting matters brought to its attention.
- iv. ***Discussions with Auditors*** - At least annually, the Audit Committee shall discuss with the auditors such matters as are required by applicable auditing standards to be discussed by the auditors with the Audit Committee, including the matters required to be discussed by Statement on Auditing Standards 61, as it may be modified or supplemented.
- v. ***Audit Plan*** - At least annually, the Audit Committee shall review a summary of the auditors' annual audit plan. The Audit Committee shall consider and review with the auditors any material changes to the scope of the plan.
- vi. ***Interim Reporting*** - The Audit Committee shall review any comments or input provided by the auditors following the auditors' reading of the Corporation's interim unaudited financial statements.
- vii. ***Independence of Auditors*** - At least annually, and before the auditors issue their report on the annual financial statements, the Audit Committee shall: obtain from the auditors a formal written statement describing all relationships between the auditors and the Corporation; discuss with the auditors any disclosed relationships or services that may affect the objectivity and independence of the auditors; and obtain written confirmation from the auditors that they are objective and independent within the meaning of the applicable Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of chartered professional accountants to which it belongs and other Applicable Requirements. The Audit Committee shall take appropriate action to oversee the independence of the auditors.
- viii. ***Evaluation and Rotation of Lead Partner*** - At least annually, the Audit Committee shall review the qualifications and performance of the lead partner(s) of the auditors. The Audit Committee shall obtain a report from the auditors annually verifying that the lead partner of the auditors has served in that capacity for no more than seven fiscal years of the Corporation and that the engagement team collectively possesses the experience and competence to perform an appropriate audit. Obtain and review a report describing the auditor's internal quality control reporting and any material issues raised by most recent internal quality control review at least annually.
- ix. ***Requirement for Pre-Approval of Non-Audit Services*** - The Audit Committee shall approve in advance any retainer of the auditors to perform any non-

audit service to the Corporation that it deems advisable in accordance with Applicable Requirements, and Board approved policies and procedures. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any member of the Audit Committee to whom this authority has been delegated must be presented to the full Audit Committee at its next scheduled Audit Committee meeting.

- x. ***Approval of Hiring Policies*** - The Audit Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.
- c) **Internal Controls & Risk Management**
- i. ***General*** - The Audit Committee shall review the Corporation's internal controls and risk management systems.
  - ii. ***Establishment, Review and Approval*** - The Audit Committee shall require management to implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements and guidance, including internal control over financial reporting and disclosure and to review, evaluate and approve these procedures. At least annually, the Audit Committee shall consider and review with management and the auditors:
    - the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Corporation's internal controls (including computerized information system controls and security); the overall control environment for managing business risks, including major financial risk exposures, major security risks and business continuity risks; accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;
    - any significant changes in internal control over financial reporting that are disclosed, or considered for disclosure, including those in the Corporation's periodic regulatory filings;
    - any material issues raised by any inquiry or investigation by the Corporation's regulators;
    - the Corporation's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Corporation to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against

management or other employees who have a significant role in financial reporting; and

- related significant issues and recommendations of the auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls.
- iii. ***Compliance with Legal and Regulatory Requirements*** - The Audit Committee shall review reports from the Corporation's Corporate Secretary and other management members on: legal or compliance matters including any pending or threatened litigation that may have a material impact on the Corporation; the effectiveness of the Corporation's compliance policies; and any material communications received from regulators. The Audit Committee shall review management's evaluation of and representations relating to compliance with specific Applicable Requirements, and management's plans to remediate any deficiencies identified.
- iv. ***Audit Committee Treatment of Complaints*** - The Audit Committee shall establish procedures for (a) the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters. Any such complaints or concerns that are received shall be reviewed by the Audit Committee and, if the Audit Committee determines that the matter requires further investigation, it will direct the Chair of the Audit Committee to engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management and the general counsel to reach a satisfactory conclusion.
- v. ***Audit Committee Disclosure*** - The Audit Committee shall prepare, review and approve any audit committee disclosures required by Applicable Requirements in the Corporation's disclosure documents.
- vi. ***Delegation*** - The Audit Committee may, to the extent permissible by Applicable Requirements, designate a sub-committee to review any matter within this mandate as the Audit Committee deems appropriate.

## **5. REPORTING TO THE BOARD**

The Chair shall report to the Board, as required by Applicable Requirements or as deemed necessary by the Audit Committee or as requested by the Board, on matters arising at Audit Committee meetings and, where applicable, shall present the Audit Committee's recommendation to the Board for its approval.

**6. GENERAL**

The Audit Committee shall, to the extent permissible by Applicable Requirements, have such additional authority as may be reasonably necessary or desirable, in the Audit Committee's discretion, to exercise its powers and fulfil the duties under this mandate.

**7. CURRENCY OF THE AUDIT COMMITTEE CHARTER**

This charter was last reviewed and approved by the Board on July 3, 2019.