

Our Vision

TECSYS is in relentless pursuit of one goal — to be the dominant Supply Chain Management (SCM) software technology and solutions provider for distribution-centric operations. Our specific focus is in healthcare, giftware, third-party logistics (3PL) providers, and high-volume wholesale-to-retail distribution. Today, hundreds of world-class companies and thousands of facilities with complex, high-volume order fulfillment environments rely on **EliteSeries**, PointForce, and TECSYS Transportation Systems to achieve the highest level of customer service at the lowest possible operating costs.

Our Mission

We aim to deliver the highest value to our clients, with unparalleled industry solutions based on our advanced, proven technologies and feature-rich suites of enterprise SCM and logistics applications. Backed up by the breadth and depth of our employees' expertise, and focused by our "Customers for Life" philosophy, we continue to be the software vendor of choice because of our value as a strategic business partner. By leveraging the full power of our solutions to improve the efficiency and profitability of their businesses, our clients continue to soar as leaders in their respective fields.

"Businesses will always evolve, but time-proven business principles will never change. Such principles include customer service and commitment. That's what TECSYS is about."

Peter Brereton, President and Co-CEO

Message to Shareholders

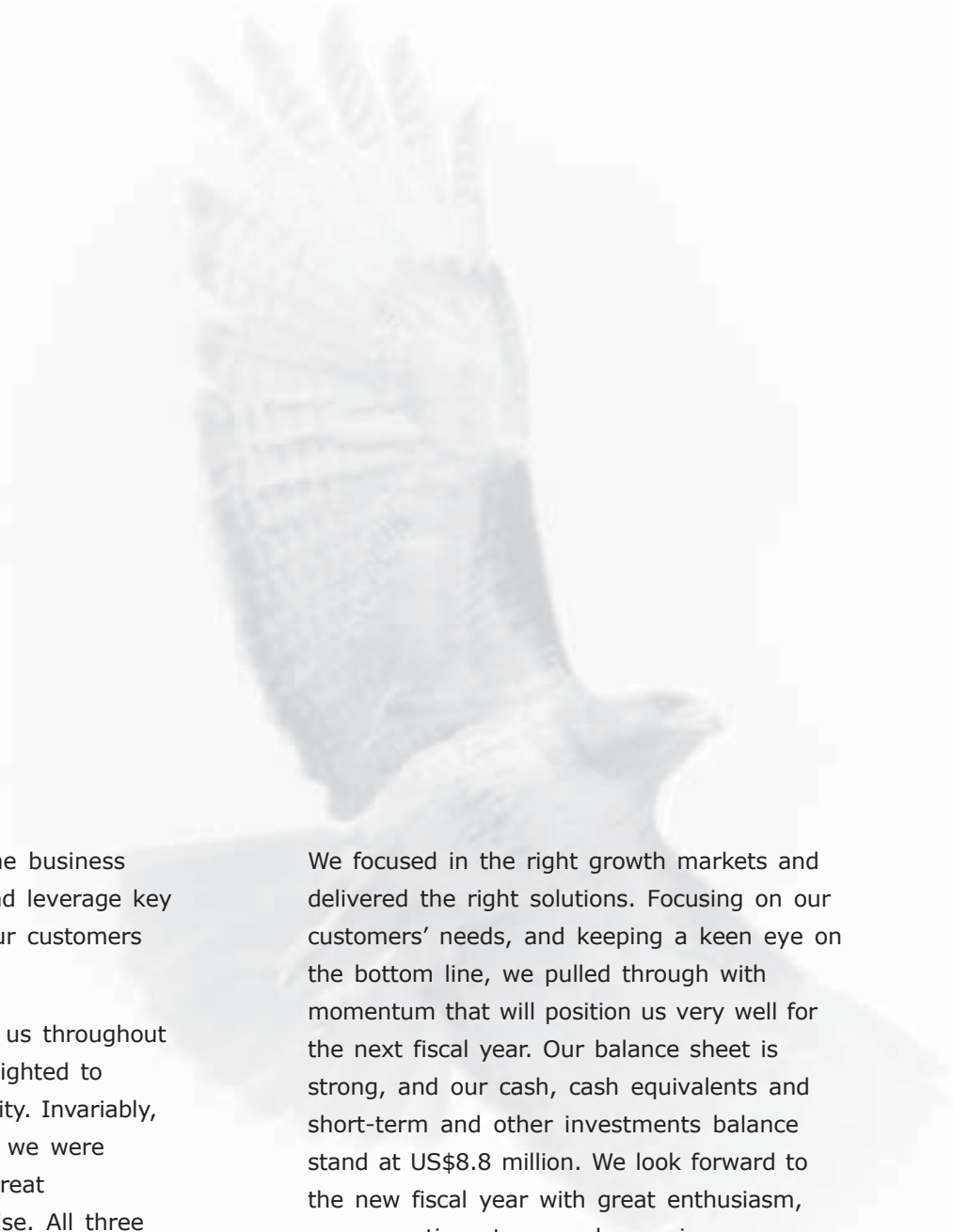


Spreading Our Wings

Growth and profits. This was a year in which we were able to return both of these key indicators to positive territory where they should be — growth of 17% and earnings of US\$0.03 per share compared to a loss of US\$0.45 per share last year. This year, it was all about solidifying our position and growing the business again. Organic growth was key to our strategy. The combination of revenue growth and strict cost control resulted in a significant productivity improvement that directly impacted the bottom line and further strengthened our cash balance. This positioned us well to follow up with our acquisition strategy, which saw PointForce join the TECSYS family and further enhance our growth. We believe that this two-pronged approach to growth — the combination of organic growth and strategic acquisitions — will continue to yield the right results.

Our market continues to be very competitive and increasingly dynamic with increased consolidation in both the large and small enterprise software spaces. This is leading to new opportunities for us. In the last year, we have seen five significant competitors acquired. These companies have largely ceased to be a competitive threat.

We have continued to focus on fine-tuning our products to match the markets we serve. **EliteSeries** continues as our suite for the healthcare and general wholesale distribution segments. PointForce, the market leader in giftware distribution software, is our leading suite for the high-growth import-to-retail distribution market. TECSYS Transportation Systems continues to grow in the transportation and logistics market. We have integrated key business processes and are



sharing key resources across the business units to optimize productivity and leverage key technologies — to best serve our customers with the right products.

New accounts continued to join us throughout the fiscal year, and we were delighted to welcome them into our community. Invariably, these new accounts tell us that we were chosen for our combination of great technology and business expertise. All three business units also had key customers who went live during the year, and had further votes of confidence with new upgrades.

In summary, fiscal 2004 was a great year for us. Although growth and profits have proven elusive for TECSYS and for most of the IT sector over the past several years, we planned and executed well in light of the cautious climate for technology expenditures.

We focused in the right growth markets and delivered the right solutions. Focusing on our customers' needs, and keeping a keen eye on the bottom line, we pulled through with momentum that will position us very well for the next fiscal year. Our balance sheet is strong, and our cash, cash equivalents and short-term and other investments balance stand at US\$8.8 million. We look forward to the new fiscal year with great enthusiasm, as we continue to spread our wings.

I would like to take this opportunity to thank our customers, employees, partners and shareholders for their unfailing support, and our Board members for their astute guidance.



Peter Brereton
President and Co-CEO

Chairman's Perspective




Back to Growth and Profitability

In fiscal 2004, we saw many dynamics taking place in our markets and the global economy. In particular, the North American IT market encountered a slight rebound which lagged the economy's return to growth mode. IT budgets were increased somewhat and key investments were made in technologies that will help to drive down costs of operations while growing revenues again. In addition, the supply chain management software space increased the pace of consolidation. We planned and executed very well within this dynamic high-tech market, coming through with a full year of growth and profitability.

PointForce, a company specializing in complete software solutions for importers/distributors in the giftware, home furnishings, and office supplies markets joined us at the end of December as our latest acquisition. We welcome the clients and employees of PointForce into the family.

We grew our full fiscal year revenue by 17%, which included a very strong fourth quarter finish that showed 47% revenue growth compared to the prior year's fourth quarter. In addition, our product revenues grew 25% in the reporting fiscal year. This growth was due to increased product revenue from the **EliteSeries** business unit and our acquisition of PointForce. We focused on our key markets, delivered competitive products, and served our customers with the best resources. At the same time, we continued to invest significantly in R&D to introduce new technology, features and functions in our three suites.

Our "Customers for Life" focus continues, as we put in place systems, procedures, training, and reporting to carefully measure satisfaction levels, revenue growth, and new product acceptance by our growing customer base. Our customers are key stakeholders, partners, and the foundation of our future at TECSYS Inc.



TECSYS drove annual revenues of US\$17.6 million, up from the previous fiscal year's revenues of US\$15.0 million. Most importantly, our net profit for fiscal 2004 was US\$415,000 compared to a net loss of US\$6.6 million in the prior fiscal year. This was achieved despite the downward pressure on our bottom line from the strength of the Canadian dollar. I believe that we have responded to our investors' need for growth and profits by delivering clear and positive results, while focusing on our costs of operations and driving even more efficiencies throughout our business.

In addition to our dedication to creating shareholder value, TECSYS continues to promote its corporate values. Our basic principles of Commitment to Customer Service, Commitment to Excellence, and Respect for the Individual continue to be the foundation of our business. We are proud to contribute to our community through our youth camps and alternative high school programs as we help those with challenging backgrounds and those in need of opportunities to succeed.

In summary, we believe that TECSYS has delivered very strong results this year and is providing shareholder value, both short and long term. We believe that our management team is of the highest caliber and has its sight set on the right strategies for growth and continued profitability. We have proven that we can survive the tough economic times and pull through to position ourselves to further spread our wings. The market seems to be returning, and we are right there to take advantage of the opportunities — with our leading products and our highly skilled people.

On behalf of the Board of Directors, I would like to thank our employees, shareholders, the investment community, customers and partners for their steadfast support. I would also like to extend my gratitude to the skilled individuals who make up our Board of Directors.



David Breton

Executive Chairman of the Board and Co-CEO

TECSYS Business Units



TECSYS Inc.

TECSYS Inc. is a leading Supply Chain Management (SCM) software provider, focused on delivering the best enterprise distribution and logistics solutions to specific market segments. The company is the corporate parent and is comprised of three divisions which serve three distinct customer sets. The divisions are: **EliteSeries**, PointForce, and TECSYS Transportation Systems. The divisions share integrated business processes and leverage key resources for the development of specific software products and the servicing of their customers. There are also specific resources to best meet the needs of each division and its market segments, thus allowing each division to operate as its own business unit.

EliteSeries Division

Peter Brereton, President and Co-CEO of TECSYS Inc., leads the charge for all operations of the **EliteSeries** Division. The division is headquartered in Montreal, Quebec. It is the largest of the three divisions, providing the leading SCM software suite for the healthcare distribution and high volume wholesale-to-retail distribution market segments. **EliteSeries** targets mid- to large-size businesses with distribution-centric operations in these market segments. Within healthcare distribution, the suite is best suited for pharmaceutical and medical/surgical distributors along with hospital networks or healthcare integrated delivery networks (IDN). **EliteSeries** modules include Enterprise Performance Management (EPM), Distribution Management System (DMS), Warehouse Management System (WMS), Transportation Management System (TMS), and E-Commerce.



PointForce Division

Kevin Tribe, President, heads up all operations of the PointForce Division. The division, acquired by TECSYS Inc. in 2003, is headquartered in Markham, Ontario.

PointForce provides the leading SCM software suite for the giftware distribution, office products distribution, and high-growth import-to-retail distribution market segments. The division targets small- to mid-size business segments. PointForce modules include Distribution Management System (DMS), Warehouse Management System (WMS), Transportation Management System (TMS), Order-Stream, E-Commerce and EDI.

TECSYS Transportation Systems Division

Brian Stevenson, President, is in charge of all operations of the TECSYS Transportation Systems Division (TTS). The division is headquartered in Mississauga, Ontario. TTS was acquired by TECSYS Inc. in 2000, and provides the leading cross-industry enterprise transportation management system (TMS) for logistics planning and execution. The division targets both small- to mid-size businesses and large corporations. TMS is the state-of-the-art multi-carrier solution for parcel and less-than-truck-load (LTL) management, allowing enterprise visibility and management of all shipping requirements as well as integration to leading back-end ERP solutions. TMS is also integrated with the **EliteSeries** and PointForce solutions.





Management's Discussion and Analysis

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto, which are included in this document. The Company's fiscal year ends on April 30. Fiscal 2004 refers to the twelve-month period ended April 30, 2004.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and all financial data derived therefrom in this annual report are expressed in U.S. dollars. The Company's reporting currency is the U.S. dollar; however, the functional currency is the Canadian dollar. Accordingly, the financial statements for the years ended April 30, 2004, 2003 and 2002 are translated into U.S. dollars using the current rate method. All gains and losses resulting from the translation of the consolidated financial statements into U.S. dollars are reflected in the cumulative translation adjustment in shareholders' equity.

In addition, the consolidated financial statements include a reconciliation of the significant measurement differences between Canadian and United States generally accepted accounting principles as they relate to the Company.

Overview

The Company is a leading Supply Chain Management (SCM) software company that provides powerful enterprise-class distribution software solutions.

In response to the continuing challenging business climate for capital spending in information technology in recent years, the Company maintained its vigilance to insure that its business-operating model is in line with realistic revenue expectations. This sustained effort has resulted in revenue growth and profitability. The Company also continued its investment in research and development and launched *EliteSeries 7.2* with improved functionality for import tracking and costing, sales contract management, as well as technological improvements for the intuitive browser interface, increased support for complex data types, and enhanced Web Services engine. This application suite covers everything from the Web customer service center to purchasing, order management, financials and warehousing. It also includes Enterprise Performance Management products that address both high-level business requirements and operational queries and drill-downs.

On December 31, 2003, the Company acquired 100% of the issued and outstanding shares of PointForce Inc. ("PointForce"), a company with 56 employees which develops, markets, and sells distribution software primarily to the import-to-retail distribution market. PointForce was wound up into TECSYS Inc. on January 1, 2004 and the results of its operations are included in the accompanying financial statements commencing January 1, 2004. For the four-month period ended April 30, 2004, PointForce contributed \$1.9 million to revenues and \$29,000 to earnings from operations.

During fiscal year 2004, the Company renewed its banking agreement with National Bank of Canada as described in Note 8. This agreement obliges the Company to respect certain covenants in the form of financial ratios, which have been respected.

The Company generates revenue through the licensing of proprietary and third-party products and the provision of related information technology services. Historically, less than 5% of revenue has been generated through sales of hardware. In fiscal 2004, hardware sales represent 6% of total revenues.

Services revenue includes both the fees associated with implementation assistance and billings for ongoing services. These ongoing services include consulting, training, product adaptations, implementation assistance, maintenance and customer support. Such revenue is typically derived from contracts based on a fixed-price or time-and-material basis and is recognized as the services are performed.

Products revenue has two components: third-party products and the Company's proprietary products. In fiscal 2004, third-party products represented 22% of total revenue (21% in fiscal 2003 and 14% in fiscal 2002) and include products developed by Oracle Corporation, IBM Corporation, Cognos Incorporated, Intermec Systems Corporation, Four J's Development Tools Ltd., Optio Software Inc., Best Software Canada Ltd., and Radio Beacon Inc. Proprietary products revenue was 16% of revenue for fiscal year 2004, 15% and 14% for fiscal years 2003 and 2002 respectively.

Cost of revenue comprises cost of products purchased for re-sale and cost of services, made up mainly of salaries, incentives, benefits and travel expenses of all personnel providing services. Also included in the cost of services is a portion of overhead and multimedia tax credits available under a Quebec government incentive program designed to support the development of the multimedia industry (as described in Note 1). This program became effective in fiscal year 1999. Cost of products purchased for re-sale includes all products not developed by the Company that are required for a sale. These are typically other software products but may include hardware such as radio frequency equipment and servers.

Sales and marketing, as well as general and administration expenses, include all human resources costs involved in these functions. They also include all other costs related to sales and marketing, such as travel, rent, professional fees, office expenses, training, telecommunications, bad debts, and equipment rentals and maintenance. The Company is also committed to donate approximately one-half of one percent of revenue to charitable organizations. Such amounts are included in general and administration expenses.

Research and development (R&D) includes salaries, benefits, incentives and expenses of all staff assigned to R&D. Fees paid to external consultants and sub-contractors are also included, along with a portion of overhead.

The Company's employees number 224 at the end of fiscal 2004 including 56 PointForce employees in comparison to 167 at the end of fiscal 2003. However, the average number of employees for the Company decreased to 186 in fiscal 2004 compared to 210 in fiscal 2003.

Quarterly Selected Financial Data

In thousands of U.S. dollars, except per share data

	Fiscal Year 2004					Fiscal Year 2003				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Total Revenue	3,766	4,147	4,175	5,462	17,550	4,293	3,723	3,294	3,721	15,031
Net Earnings (Loss)	10	24	20	361	415	(355)	(777)	(3,620)	(1,854)	(6,606)
Basic and Diluted Net Earnings (Loss) per Common Share (in U.S. dollars)	-	-	-	0.03	0.03	(0.02)	(0.05)	(0.24)	(0.14)	(0.45)

Results of Operations

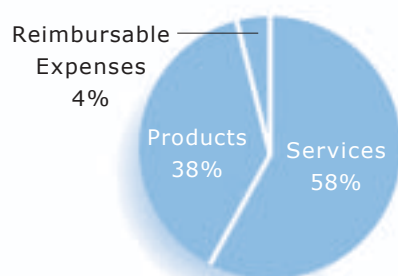
Year ended April 30, 2004 compared to year ended April 30, 2003

Revenue

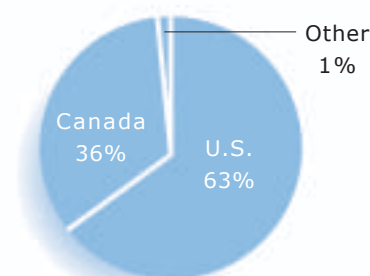
Total revenue increased 17% to \$17.6 million in fiscal 2004 compared to \$15 million in fiscal 2003. PointForce's contribution to revenues during the 2004 fiscal year was \$1.9 million. Products revenue increased by 25% to \$6.7 million compared to \$5.3 million for the previous fiscal year, an increase of \$1.4 million. PointForce accounted for \$528,000 of that increase. Excluding PointForce, products revenue increased by 15% or \$818,000 due to higher products revenue from base accounts. Services revenue increased 12% to \$10.2 million from \$9.1 million in the previous year, an increase of \$1.1 million. PointForce contributed \$1.3 million in services revenue during fiscal year 2004. Excluding PointForce, services revenue decreased slightly by 3% or \$254,000 representing primarily lower consulting and product adaptations. As a percentage of total revenue, products revenue and services revenue were 38% and 58% respectively. In fiscal 2003, products revenue and services revenue were 35% and 61% respectively.

As a result of the strengthening Canadian dollar vis-à-vis the U.S. dollar during fiscal 2004 as compared to fiscal 2003, the revenues for fiscal 2004 were favourably impacted by approximately \$500,000 or 3%. On the other hand, the strengthening Canadian dollar affected services expenses and operating expenses adversely for approximately \$1.4 million. The U.S. dollar to Canadian dollar exchange rates for fiscal 2004 averaged 1.3434 in comparison to 1.5381 for fiscal 2003.

Source of Revenue FY2004



Graphic Breakdown of Revenue FY2004



Cost of Revenue

Total cost of revenue in fiscal 2004 was flat at \$8.2 million in comparison to the previous year. PointForce's cost of revenue for the four months ended April 30, 2004 accounted for \$1.1 million of fiscal 2004 costs. Services costs decreased slightly to \$5.4 million in fiscal 2004, from \$5.5 million in fiscal 2003, a reduction of \$145,000 or 3%. PointForce incurred \$766,000 in services expenses. Excluding PointForce, services costs decreased \$911,000 or 17% reflecting mainly the lower average services personnel count of 79 in fiscal 2004 compared to 101 in fiscal 2003. The cost of services also includes multimedia tax credits of \$612,000 in fiscal 2004 compared to \$730,000 in fiscal 2003. The reduction in multimedia tax credits is due primarily to the reduced services headcount in fiscal 2004 in comparison to fiscal 2003. Costs related to third-party products rose slightly by \$52,000 or 3% to \$2.1 million in fiscal 2004 compared to the previous year.

As a result of the strengthening Canadian dollar vis-à-vis the U.S. dollar for fiscal 2004 as compared to fiscal 2003, the services expenses for fiscal 2004 were unfavourably impacted by approximately \$467,000 or 8%.

Gross Margin

Total gross margin increased to 53% in fiscal 2004 in comparison to 46% for fiscal 2003. The increase is due to a higher proportion of products revenue, which also generated higher margins of 69% compared to 62% for fiscal 2003. This is due to better product mix and better-negotiated costs from suppliers. Services gross margin also increased to 47% in fiscal 2004 compared to 39% for the previous fiscal year. The improvement in services margin is due primarily to lower personnel and related overhead costs.

Operating Expenses

Total operating expenses decreased 30% to \$8.9 million in fiscal 2004 compared to \$12.8 million in fiscal 2003. During fiscal 2003, the Company recorded a number of non-recurring charges. Specifically, the Company wrote off intangible assets regarding acquired technology resulting from a business combination effected in July 2000 and sub-licensing rights acquired in May 2000 amounting to \$1.1 million, incurred restructuring charges related to the sublease of one floor at one of its facilities amounting to \$1.2 million, and wrote off non-refundable tax assets for \$610,000. Additionally, during the fourth quarter of fiscal 2003, the Company provided a bad debt allowance of \$1.1 million for a long-term receivable that was no longer reasonably assured. Excluding the non-recurring charges and the bad debt allowance in fiscal 2003, operating expenses increased 1% or \$104,000 in fiscal 2004 as compared to fiscal 2003. The increase includes PointForce's operating expenses for the four-month period ended April 30, 2004 amounting to \$822,000. Total operating expenses excluding PointForce decreased 8% in fiscal 2004 compared to fiscal 2003 operating expenses excluding the non-recurring charges and the bad debt allowance. The reduction in operating expenses is due primarily to the lower average headcount, excluding PointForce, of 89 for sales and marketing, general and administration, and R&D personnel in comparison to an average headcount of 109 for fiscal 2003, a decrease of 18%.

As a result of the strengthening of the Canadian dollar vis-à-vis the U.S. dollar for fiscal 2004, as compared to fiscal 2003, operating expenses for fiscal 2004 were unfavourably impacted by approximately \$900,000 or 10% of the 2003 operating expenses excluding the non-recurring charges and the bad debt allowance.

Sales and Marketing

Expenses increased 3% to \$3.8 million in fiscal 2004 from \$3.7 million in fiscal 2003. Excluding PointForce's costs of \$387,000, expenses decreased 7% in fiscal 2004 as compared to the previous year due mainly to lower personnel costs. Excluding PointForce's expenses, the strengthening Canadian dollar in fiscal 2004 as compared to fiscal 2003 adversely affected expenses by approximately \$300,000.

General and Administration

Expenses decreased 38% to \$1.5 million in fiscal 2004 compared to \$2.5 million in the previous year. Excluding PointForce's costs in fiscal 2004, and the bad debt allowance referred to above in fiscal 2003, general and administration expenses have remained flat at \$1.4 million. Excluding PointForce's expenses, the strengthening Canadian dollar in fiscal 2004 as compared to fiscal 2003 adversely affected expenses by approximately \$200,000.

Research and Development (R&D)

Gross R&D expenses decreased slightly by 3% to \$3.4 million in fiscal 2004 compared to \$3.5 million in fiscal 2003 (\$2.8 million and \$2.7 million, respectively, net of tax credits). Excluding PointForce's expenses of \$182,000 and the unfavourable impact of the strengthening Canadian dollar in fiscal 2004 as compared to fiscal 2003, estimated at approximately \$400,000, gross R&D expenses decreased 20% to \$2.8 million in fiscal 2004 as compared to \$3.5 million in fiscal 2003. The decrease is due primarily to the reduced average number of personnel engaged in the R&D function from 56 to 45. In fiscal 2004, the Company continued to focus on moving its *EliteSeries* flagship to a fully browser-based application with improved functionality with the release of *EliteSeries* 7.2. In fiscal 2004, gross R&D expenses were 19% of revenue compared to 23% in fiscal 2003. The Company expects that the recent changes to the Quebec tax credit will have an adverse impact of approximately \$150,000 in the amount to be claimed in fiscal year 2005 in comparison to fiscal year 2004.

Amortization of Intangible Assets

The acquisition of PointForce in the third quarter of fiscal 2004 included intangible assets for technology and customer relationships amounting to \$1.0 million (Note 2).

During the third quarter of fiscal 2003, the Company adopted retroactive to May 1, 2002, the new recommendations of the CICA regarding impairment of long-lived assets and reassessed the carrying value under these new rules, resulting in a write-off of \$1.1 million of acquired technology from a business combination effected in July 2000 and sub-licensing rights acquired in May 2000.

The amortization of intangible assets decreased 41% to \$198,000 for fiscal 2004 as compared to \$337,000 for fiscal 2003. The amortization of the PointForce intangible assets in fiscal 2004, included in the amount above for the four-month period ended April 30, 2004, amounted to \$68,000. The reduced expense in fiscal 2004 was due primarily to the reduced asset base resulting from the fiscal 2003 write-off described above.

Other Income and Expenses

Interest income of \$268,000 in fiscal 2004 was 12% higher compared to \$240,000 for fiscal 2003. This can be attributed to more funds being available for investment in fiscal 2004, despite the fact that rates of return were generally lower in fiscal 2004 as compared to fiscal 2003.

Interest expense decreased 46% to \$72,000 compared to \$133,000 for fiscal 2003. The reduction in interest expense is attributable to the repayment of long-term debt and capital lease obligations (Note 10).

As a result of the continuing strengthening of the Canadian dollar against the U.S. dollar, the Company incurred an exchange loss of \$244,000 in fiscal 2004 as compared to \$794,000 in fiscal 2003, a decrease of 69%. The exchange loss is primarily a result of carrying a net asset position in U.S. dollars.

The consolidated financial statements are translated into U.S. dollars using the current rate method. All gains and losses resulting from the translation of Canadian dollar consolidated financial statements into U.S. dollars are reflected in the cumulative translation adjustment (CTA) in shareholders' equity.

The Company has recorded increases in the CTA within shareholders' equity of \$536,000 in fiscal 2004 compared to an increase of \$1.3 million in fiscal 2003. The increases to the CTA account represent exchange gains arising on the translation of the Canadian dollar consolidated financial statements into U.S. dollars where such gains are posted directly into the shareholders' equity section rather than flowing through the statement of operations.

Net Earnings

The Company recorded net earnings of \$415,000 (\$0.03 per share) in fiscal 2004, compared to a net loss of \$6.6 million (\$0.45 per share) in fiscal 2003.

Results of Operations

Year ended April 30, 2003 compared to year ended April 30, 2002

Revenue

Total revenue decreased 29% to \$15 million in fiscal 2003, compared to \$21.2 million in fiscal 2002. Services revenue dropped by 36% to \$9.1 million from \$14.2 million in the previous year, reflecting lower consulting, product adaptations and support fees. Products revenue also declined 9% due mainly to a continuing slower pace of investment in new systems and software in the marketplace. As a percentage of total revenue, products revenue and services revenue were 35% and 61% respectively. In fiscal 2002, products revenue and services revenue were 28% and 67% respectively.

Cost of Revenue

Total cost of revenue in fiscal 2003 was \$8.2 million, down 29% compared to \$11.5 million in the previous year, a net decrease of \$3.3 million. Services costs decreased to \$5.5 million in fiscal 2003, from \$8.6 million in fiscal 2002, a reduction of 36%, reflecting mainly the lower services personnel count which averaged 101 in fiscal 2003, compared to 139 in fiscal 2002. Costs related to third-party products amounted to \$2 million in fiscal 2003, compared to \$1.7 million in the previous year, as a result of higher third-party products revenue. The cost of services also includes multimedia tax credits of \$730,000 in fiscal 2003, compared to \$1.2 million in fiscal 2002.

Gross Margin

Total gross margin remained flat at 46% in fiscal 2003 and fiscal 2002, due to revenue mix. Services gross margin also remained the same at 39% in fiscal 2003 and fiscal 2002. However, gross margin on third-party products decreased to 35% from 42% in fiscal 2002 as a result of further competitive price pressure.

Operating Expenses

Total operating expenses decreased 3% to \$12.8 million in fiscal 2003 compared to \$13.2 million in fiscal 2002. During fiscal 2003, the Company recorded a number of non-recurring charges. The Company wrote off acquired technology resulting from a prior business combination and a sub-licensing agreement, provided a restructuring charge for unused facilities, and also wrote off non-refundable tax assets. During the third quarter of fiscal 2003, the Company reassessed the carrying value of acquired technology from a business combination effected in July 2000 and the sub-licensing rights acquired in May 2000. The test used in determining the fair value of the acquired technology and the sub-licensing rights was discounted future cash flow methodology. The analysis showed no improvement in generating revenue from the sale of these licenses as a result of the continued economic slowdown in the industry; as such the Company determined that both of these assets were fully impaired. Accordingly, the Company recorded an impairment loss equal to the full amount of these assets of \$1.1 million. Also, in fiscal 2003, the Company entered into a sublease agreement with a third-party regarding one floor at one of its facilities which the Company vacated. The Company's remaining lease obligations extend through April 30, 2010, while the sublease term expires on December 31, 2007. At the expiration of the sublease, the sublessee has the option to renew the sublease for the remainder of the Company's contractual lease term, subject to the consent of the Company. Accordingly, the Company has recorded a provision of \$1.2 million for restructuring costs, which represents the estimated excess of future contractual lease payments and operating expenses over the expected future sublease revenue, as well as the write-down of the associated leasehold improvements, furniture and fixtures to their estimated fair value. During fiscal 2003, the Company also determined that the recoverability of the non-refundable tax credits was no longer more likely than not. This determination resulted from the continued uncertain economic climate, the Company's continued history of losses and the uncertainty regarding the Company's ability to generate enough taxable income in future years to utilize the benefit of these losses. As such, the Company wrote down \$610,000 of federal non-refundable tax assets. During the fourth quarter of fiscal 2003, the Company concluded that the collectibility of \$1.1 million of a long-term receivable was no longer reasonably assured and accordingly, established a bad debt allowance for that account. In fiscal 2002, the Company also took a provision of \$1.6 million against accounts receivable related to cancelled projects and other uncollectible accounts resulting from the slowing economy. Excluding these non-recurring charges and the bad debt allowances of \$1.1 million and \$1.6 million respectively in both fiscal year 2003 and 2002, operating expenses in fiscal 2003 decreased to \$8.8 million from \$11.6 million, a drop of \$2.8 million or 24%. Sales and marketing, general and administration, and research and development expenses were all lower in fiscal 2003, reflecting the Company's continued effort to contain costs.

Sales and Marketing

Expenses dropped 12% to \$3.7 million in fiscal 2003 from \$4.2 million in fiscal 2002, due mainly to lower personnel and facilities costs, as well as other marketing related expenses. Given the lack of new system sales during fiscal 2003, the Company realigned its resources in sales to focus on base accounts. More emphasis was also placed on generating quality leads through different Internet-based search engines.

General and Administration

Expenses decreased 37% to \$2.5 million in fiscal 2003 compared to \$3.9 million in the previous year. General and administration expenses dropped due to lower personnel costs, and savings from the consolidation of facilities. Excluding the provision against accounts receivable, general and administration expenses decreased to \$1.4 million in fiscal 2003 compared to \$2.3 million in fiscal 2002, or 39%.

Research and Development (R&D)

Gross R&D expenses dropped 22% to \$3.5 million in fiscal 2003 compared to \$4.5 million in fiscal 2002 as a result of lower headcount (\$2.7 million and \$3.4 million, respectively, net of tax credits). In fiscal 2003, the Company continued to focus on moving its *EliteSeries* flagship to a fully browser-based application with the release of *EliteSeries* 7.0. In fiscal 2003, gross R&D expenses were 23% of revenue compared to 21% in fiscal 2002.

Other Income and Expenses

Interest income of \$240,000 in fiscal 2003 was substantially higher, compared to \$153,000 in fiscal 2002. This can be attributed to more funds being available for investment in fiscal 2003. As a result of the strengthening of the Canadian dollar against the U.S. dollar during the year, the Company incurred an exchange loss of \$794,000 in fiscal 2003.

Net Loss

The Company recorded a net loss of \$6.6 million (\$0.45 per share) in fiscal 2003, compared to a net loss of \$3.3 million (\$0.23 per share) in the previous year.

Liquidity and Capital Resources

As of April 30, 2004, current assets totaled \$14.9 million compared to \$16.8 million at the end of fiscal 2003. Cash, cash equivalents and short-term and other investments amounted to \$8.1 million, compared to \$11.7 million as of April 30, 2003. The decrease is primarily a result of the recent PointForce acquisition, the repayment of long-term debt and capital lease obligations, and the repurchase of shares for cancellation.

Accounts receivable totaled \$4.7 million at the end of fiscal 2004, compared to \$3.2 million at the end of fiscal 2003. The increase in accounts receivable is due largely to the PointForce acquisition accounting for \$1.1 million of the outstanding receivables. The Company's DSO (Days Sales Outstanding) remained flat at 78 days at the end of fiscal 2004 and 2003.

Current liabilities totaled \$5.7 million, compared to \$6.2 million at the end of fiscal 2003. Long-term debt and other long-term liabilities decreased to \$1.0 million from \$1.2 million at the end of fiscal 2003. The reduction of both the short- and long-term liabilities are due mainly to the repayment in full of a term loan as well as certain capital lease obligations.

In fiscal 2004, operating activities generated funds of \$36,000 compared to \$3.3 million in fiscal 2003. In fiscal 2004, cash generated by positive operating activities was offset largely by increases in net non-cash working capital of \$1.3 million. The \$3.3 million and \$1.0 million generated for fiscal 2003 and 2002 respectively were due primarily to the reduction of net non-cash working capital items.

Working capital at the end of fiscal 2004 was \$9.2 million compared to \$10.6 million at the end of the previous year. The reduction in working capital is due primarily to the differential of the cash consideration paid for the PointForce acquisition versus the net working capital acquired (Note 2), the repayment of long-term debt and capital lease obligations, and the repurchase of shares for cancellation. The Company believes that funds on hand at the end of fiscal 2004, together with cash flow from operations, will be sufficient to meet its needs for working capital, R&D, capital expenditures and debt repayment for at least the next twelve months.

Financing activities required funds of \$1.1 million in fiscal 2004 compared to \$884,000 in fiscal 2003 and generated \$2.0 million in fiscal 2002. In fiscal 2004, \$707,000 was used for the repayment of long-term debt and capital lease obligations compared to \$577,000 for fiscal 2003, and \$462,000 for fiscal 2002. The Company purchased 327,700 of its outstanding shares for cancellation for \$360,000 in fiscal 2004 compared to 487,800 shares repurchased for \$307,000 in fiscal 2003. In fiscal 2002, the Company received net proceeds of \$1.8 million from the issuance of common shares and obtained \$945,000 in a revolving term loan.

In fiscal 2004, investing activities generated funds of \$2.7 million by reductions of \$6.2 million in short-term investments and disbursed \$3.2 million for the acquisition of PointForce as well as \$283,000 for the acquisition of property, plant and equipment and computer software for internal use. At April 30, 2004, the Company was carrying a receivable of \$355,000 (CA\$487,000) representing the purchase price adjustment recoverable from the former PointForce shareholders. The final PointForce purchase price was \$2.9 million (CA\$3.8 million). In fiscal 2003, investing activities used funds of \$3.3 million as cash was converted to short-term investments for \$3.1 million and net cash outflows of \$267,000 were used to acquire property, plant and equipment and computer software for internal use. In fiscal 2002, \$4.5 million were used in investing activities.

As at April 30, 2004, the Company had no material commitments for capital expenditures. As at April 30, 2004, the principal commitments consist of capital and operating leases as described in Notes 10 and 18 to the consolidated financial statements. The following table summarizes significant contractual obligations as at April 30, 2004.

Contractual Obligations

In thousands of U.S. dollars

Years Ending	Long-term Debt	Capital Leases	Operating Leases	Total
April 30, 2005	139	47	1,309	1,495
April 30, 2006	-	22	1,167	1,189
April 30, 2007	365	11	1,068	1,444
April 30, 2008	-	-	1,107	1,107
April 30, 2009	-	-	1,113	1,113
Thereafter	-	-	1,044	1,044
	504	80	6,808	7,392

Critical Accounting Policies

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results. A summary of the Company's significant accounting policies, including the critical accounting policies discussed below, is set out in the notes to the consolidated financial statements.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting periods.

As the Company's software implementation period may typically span from six to twelve months, the most significant area requiring judgement and estimation is revenue recognition relating to multiple element arrangements, where the resulting revenue recognition per element and the related timing must be assessed in relation to contract terms, Statement of Position ("SOP") 97-2 criteria, future services, and other criteria as discussed later. The estimates and assumptions are based on past experience and other factors that the Company considers reasonable. As this involves varying degrees of judgement and uncertainty, actual results could differ from those estimates.

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired or liabilities assumed. Goodwill related to business combinations initiated or completed prior to July 1, 2001 was amortized on a straight-line basis over the estimated useful life of five years. Following the adoption of the recommendations of CICA Handbook Section 3062 on May 1, 2002, goodwill is not amortized, but rather is evaluated for impairment annually, or when events or changed circumstances indicate that an impairment may have occurred. In connection with the goodwill impairment test, if the carrying value of the Company's reporting unit to which goodwill relates exceeds its estimated fair value, the goodwill related to that reporting unit is tested for impairment. If the carrying value of such goodwill is determined to be in excess of its fair value, an impairment loss is recognized in the amount of the excess of the carrying value over the fair value. The goodwill impairment test entails the use of a number of estimates including future cash flows and involving varying degrees of judgement and uncertainty. Actual results will differ from those estimates.

The Company assesses the carrying value of its long-lived assets, which include property, plant and equipment and definite-life intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized if the carrying value of a long-lived asset exceeds the sum of the estimated undiscounted future cash flows expected from its use. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value. The long-lived assets impairment test entails the use of a number of estimates including future cash flows and involving varying degrees of judgement and uncertainty. Actual results will differ from those estimates.

Revenue Recognition

The Company licenses software under non-cancellable license agreements and provides services including training, installation, consulting and maintenance, consisting of product support services and periodic updates. The Company recognizes revenue in accordance with SOP 97-2, "Software Revenue Recognition". Revenues generated by the Company include the following:

- **License Fees**

Revenues from licenses sold separately are recognized when a non-cancellable license agreement has been signed, the software product has been shipped, there are no uncertainties surrounding product acceptance, the fees are fixed or determinable, and collection is considered probable. Fees from multiple element arrangements are allocated to the various elements based on vendor-specific objective evidence of fair value provided that services, if any, are not essential to the functionality of the software. Revenues from licenses sold under multiple element arrangements are recognized upon shipment of the software product, provided that all of the above criteria have been met.

Where services are considered to be essential to the functionality of the software, fees from licenses and services are aggregated and recognized as revenue as the related services are performed using the percentage-of-completion method. The percentage of completion is generally determined based on the number of hours incurred to date in relation to the total expected hours of services. The cumulative impact of any revision in estimates of the percent completed is reflected in the period in which the changes become known. Losses on such contracts in progress are recognized when known. Work in process is established for revenue based on the percent completed in excess of progress billings as of the balance sheet date. Any excess of progress

billings over revenue based on the percent completed is deferred and included in deferred revenue. Generally, the terms of long-term contracts provide for progress billing based on completion of certain phases of work. Where acceptance criteria are tied to specific milestones, the percentage of completion up to that milestone is recognized upon acceptance.

- **Support Agreements**

Support agreements generally call for the Company to provide technical support and unspecified software updates to customers. Revenues from technical support and unspecified software update rights are recognized ratably over the term of the support agreement.

- **Consulting and Education Services**

The Company provides consulting and education services to its customers. Revenues from such services are recognized as the services are performed.

Stock-based Compensation and Other Stock-based Payments

CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments", requires an expense to be recognized in the financial statements for all forms of employee stock-based compensation, including stock options effective for fiscal periods commencing in 2004 for public companies. The Company has elected to adopt the fair value based method of accounting for stock options and warrants effective May 1, 2004. Accordingly, for the years ended April 30, 2004, 2003 and 2002, the Company provides only pro forma disclosures of net earnings (loss) and net earnings (loss) per common share as if the fair value based method of accounting had been used to account for options and warrants granted to employees and directors. Any stock-based compensation costs related to awards to individuals other than employees and directors are accounted for at fair value.

Contingencies

During fiscal 2003, the Company received a claim from a customer alleging breach of contract. In May 2004, the Company and the customer attempted to negotiate a settlement of this claim, with the customer having offered to settle the claim for US\$400,000. The Company believes that this claim is unfounded, but in order to avoid protracted court action, related legal expenses, and the disruption to management's time, the Company made a counter-offer to settle for US\$100,000. This offer was rejected by the customer. The claim is in mediation. It is not currently possible to determine the likely outcome of this claim. The financial statements include a provision based on management's assessment of the likely outcome.

Dividend Policy

The Company currently intends to retain future earnings, if any, to support business growth. The Company has never declared or paid dividends on its common shares and does not anticipate paying dividends in the foreseeable future. Dividend policy is determined by the Board of Directors, taking into account the Company's financial condition and other factors deemed relevant.

Risks and Uncertainties

This management's discussion and analysis contains "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on current expectations and estimates. Forward-looking statements may be identified by the use of forward-looking terminology such as "believe", "intend", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. These statements contain potential risks and uncertainties, and actual results may therefore differ materially. The Company undertakes no obligation to update publicity and forward-looking statements whether as a result of new information, future events or otherwise. Important factors that may affect these expectations include, but are not limited to, the factors discussed below.

History of Losses; Uncertainty of Future Operating Results

The Company has incurred losses in fiscal 2003, 2002 and 2001 as well as in other prior fiscal years. The Company has continued to adjust its operating model and downsized its operations in view of achieving profitability. However, there can be no assurance that the Company will achieve or sustain profitability in the future. As at April 30, 2004, the Company had an accumulated deficit of \$27.8 million. The limited operating history of the Company 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 Company 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 Company has achieved or may achieve may not be indicative of future operating results. In addition, the Company may increase its operating expenses in order to fund higher levels of research and development, 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 Company's business, results of operations and financial condition would be materially adversely affected.

Fluctuations in Quarterly Results

The Company's quarterly operating results have in the past and will in the future, fluctuate significantly, depending on factors such as the demand for the Company's products, the size and timing of orders, the number, timing and significance of new product announcements by the Company and its competitors, the ability of the Company 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 Company's quarterly results are affected by the timing of new releases of its products and upgrades. The Company'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 Company's operating results could be materially adversely affected. Quarterly results in the future may 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 may be significant variations in the Company's quarterly operating results.

Lengthy Sales and Implementation Cycle

The sale and implementation of the Company's products generally involve a significant commitment of resources by prospective customers. As a result, the Company'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 licensing of the Company's products varies substantially from customer to customer and typically lasts between six and twelve months. During this time, the Company 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 license sales, the implementation period may involve six to twelve months of consulting services, customer training and integration with the customer's other existing systems.

Product Development and Technological Change

The software industry is characterized by rapid technological change and frequent new product introductions. Accordingly, the Company 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 Company'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 Company to compete successfully will depend in large measure on its ability to maintain a technically competent research and development 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 Company will be successful in these efforts.

Competition

The Company 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 Company'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 Company's products or achieve greater market acceptance due to pricing, sales channels or other factors.

Management of Growth

The Company'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.

Risks Related to Acquisitions

The Company may continue to expand its operations or product line through the acquisition of additional businesses, products or technologies. Acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances and legal liabilities, some or all of which could have a material adverse effect on the Company's business, results of operations and financial condition.

Risk of Software Defects

Software products as complex as those offered by the Company frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. Despite product testing, the Company 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 Company regularly introduces new releases and periodically introduces new versions of its software. There can be no assurance that, despite testing by the Company 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 of Third-party Claims for Infringement

The Company 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 Company or its licensees with respect to current or future products. The Company expects that software developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and as functionality of products in different industry segments overlaps.

Reliance on Third-party Software

The Company 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 Company to sub-license on commercially reasonable terms.

Management's Report

The consolidated financial statements of the Company included herewith as well as all the information presented in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include amounts based on the use of best estimates and judgements. Management has established these amounts in a reasonable manner in order to ensure that the consolidated financial statements are fairly presented in all material respects. Management has also prepared the financial information presented elsewhere in the annual report and has ensured that it agrees with the consolidated financial statements. The Company maintains control systems for internal accounting and administration. The objective of these systems is to provide a reasonable assurance that the financial information is pertinent, reliable and accurate and that the Company's assets are properly accounted for and safeguarded.

The Board of Directors is entrusted with ensuring that management assumes its responsibilities with regard to the presentation of financial information and is ultimately responsible for the examination and approval of the financial statements. However, it is mainly through its Audit Committee, whose members are external directors, that the Board discharges this responsibility. This committee meets periodically with management and the external auditors to discuss the internal controls exercised over the process of presentation of the financial information, auditing issues and questions on the presentation of financial information, in order to assure themselves that each party properly fulfills its function and also to examine the consolidated financial statements and the external auditors' report.

The consolidated financial statements have been audited on behalf of the shareholders by the external auditors, PricewaterhouseCoopers LLP. The auditors have free and full access to internal records and to the Audit Committee.

(signed) Peter Brereton

Peter Brereton
President and Co-CEO

(signed) Berty Ho-Wo-Cheong

Berty Ho-Wo-Cheong
Vice-President, Finance and Administration and
Chief Financial Officer

Auditors' Report to the Shareholders of TECSYS Inc.

We have audited the consolidated balance sheets of **TECSYS Inc.** as at April 30, 2004 and 2003 and the consolidated statements of operations, deficit and cash flows for each of the years in the three-year period ended April 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the three-year period ended April 30, 2004 in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Montreal, Quebec, Canada

June 11, 2004 (except for note 24, which is as of July 19, 2004)

	April 30, 2004	April 30, 2003
Assets		
Current assets		
Cash and cash equivalents	2,388	703
Short-term investments (note 3)	5,665	10,954
Accounts receivable (note 4)	4,705	3,226
Other accounts receivable	579	36
Tax credits receivable (note 5)	1,056	1,359
Prepaid expenses	501	478
	14,894	16,756
Restricted cash equivalents and other investments (note 3)	747	1,046
Property, plant and equipment (note 6)	2,059	2,153
Intangible assets (note 7)	1,215	349
Goodwill (notes 2 and 7)	1,242	-
	20,157	20,304
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	3,691	3,635
Current portion of long-term debt (note 10)	175	611
Deferred revenue	1,809	1,955
	5,675	6,201
Long-term debt (note 10)	401	547
Other long-term liabilities (note 15)	613	684
	6,689	7,432
Contingencies and commitments (notes 17 and 18)		
Shareholders' Equity		
Capital stock (note 11)	39,326	40,291
Contributed surplus (note 11)	1,606	996
Cumulative translation adjustment	300	(236)
Deficit	(27,764)	(28,179)
	13,468	12,872
	20,157	20,304

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

(signed) David Brereton
 _____ Director

(signed) David Wayland
 _____ Director

Consolidated Statements of Deficit

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of U.S. dollars)

	Years ended April 30,		
	2004	2003	2002
Balance – Beginning of year	(28,179)	(21,227)	(17,905)
Transitional goodwill impairment loss (note 7(b))	-	(346)	-
Net earnings (loss) for the year	415	(6,606)	(3,322)
Balance – End of year	(27,764)	(28,179)	(21,227)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Operations
 Prepared in Accordance with Canadian Generally Accepted Accounting Principles
 (in thousands of U.S. dollars, except share and per share data)

	Years ended April 30,		
	2004	2003	2002
Revenue			
Products (note 13)	6,663	5,317	5,871
Services	10,164	9,080	14,216
Reimbursable expenses	723	634	1,110
	17,550	15,031	21,197
Cost of revenue			
Products	2,085	2,033	1,702
Services (note 14)	5,371	5,516	8,648
Reimbursable expenses	723	634	1,110
	8,179	8,183	11,460
	9,371	6,848	9,737
Gross margin			
Operating expenses			
Sales and marketing	3,834	3,725	4,237
General and administration	1,528	2,458	3,898
Gross research and development	3,375	3,490	4,487
Research and development tax credits	(619)	(808)	(1,063)
Write-off of non-refundable tax credits	-	610	-
Amortization of property, plant and equipment	592	685	902
Impairment loss on intangible assets	-	1,059	-
Amortization of intangible assets	198	337	555
Restructuring charges (note 15)	-	1,201	-
Amortization of goodwill	-	-	198
	8,908	12,757	13,214
	463	(5,909)	(3,477)
Earnings (loss) from operations			
Interest income	268	240	153
Interest expense	(72)	(133)	(247)
Foreign exchange gains (losses)	(244)	(794)	265
	415	(6,596)	(3,306)
Earnings (loss) before income taxes			
Provision for current income taxes (note 12)	-	10	16
	415	(6,606)	(3,322)
Net earnings (loss) for the year			
Weighted average number of common shares outstanding – basic			
	14,211,996	14,835,297	14,349,542
Basic and diluted net earnings (loss) per common share (in U.S. dollars)			
	0.03	(0.45)	(0.23)
Following is a summary of reported net earnings (loss) per share figures adjusted to exclude amortization of goodwill:			
Reported net earnings (loss)	415	(6,606)	(3,322)
Amortization of goodwill	-	-	198
Adjusted net earnings (loss)	415	(6,606)	(3,124)
Basic and diluted net earnings (loss) per common share (in U.S. dollars)			
Reported net earnings (loss)	0.03	(0.45)	(0.23)
Amortization of goodwill	-	-	0.01
Adjusted net earnings (loss)	0.03	(0.45)	(0.22)

The accompanying notes are an integral part of these financial statements.

	Years ended April 30,		
	2004	2003	2002
Cash flows from			
Operating activities			
Net earnings (loss) for the year	415	(6,606)	(3,322)
Adjustments for:			
Write-off of non-refundable tax credits	-	610	-
Amortization of property, plant and equipment	592	685	902
Impairment loss on intangible assets	-	1,059	-
Amortization of intangible assets	198	337	555
Unrealized foreign exchange losses (gains)	127	(8)	(29)
Restructuring charges	-	1,015	-
Amortization of goodwill	-	-	198
Changes in non-cash working capital items related to operations:			
Decrease (increase) in accounts receivable	(274)	4,068	4,563
Decrease (increase) in other accounts receivable	(138)	342	(131)
Decrease in tax credits receivable	461	1,292	409
Decrease (increase) in prepaid expenses	111	303	(165)
Decrease in accounts payable and accrued liabilities	(878)	(366)	(2,048)
Increase (decrease) in deferred revenue	(578)	616	65
	36	3,347	997
Financing activities			
Decrease in bank advances	-	-	(348)
Repayment of long-term debt and capital lease obligations	(707)	(577)	(462)
Issuance of long-term debt	-	-	945
Issuance of common shares	5	-	1,914
Purchase of common shares for cancellation	(360)	(307)	-
Share issue costs	-	-	(71)
	(1,062)	(884)	1,978
Investing activities			
Decrease (increase) in short-term and other investments	6,161	(3,077)	(4,371)
Acquisitions of property, plant and equipment	(243)	(318)	(21)
Proceeds on disposal of property, plant, and equipment	-	113	40
Acquisitions of intangible assets	(40)	(62)	(102)
Business combination, net of cash and cash equivalents acquired	(3,199)	-	-
	2,679	(3,344)	(4,454)
Effect of foreign exchange rate fluctuations on cash and cash equivalents	32	84	(7)
Change in cash and cash equivalents	1,685	(797)	(1,486)
Cash and cash equivalents – Beginning of year	703	1,500	2,986
Cash and cash equivalents – End of year	2,388	703	1,500
Supplementary information (note 16)			

The accompanying notes are an integral part of these financial statements.

1 Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Note 22 discloses significant measurement differences between Canadian and United States GAAP as they relate to the Company.

Nature of Activities

The Company develops, markets and sells enterprise-wide supply chain management software for distribution operations, enterprise solutions for e-commerce driven organizations and e-commerce solutions for on-line distributors and retailers. The Company also provides related consulting, education and support services. The Company derives substantially all of its revenue from customers located in the United States and Canada. The Company's customers consist primarily of high-volume distributors of discrete goods operating in such industries as computers, office products, telecommunications, healthcare, hardware, third-party logistics, electrical products, giftware and home decor, and consumer goods.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercorporate accounts and transactions have been eliminated. Acquisitions are accounted for by the purchase method and, accordingly, the results of operations of subsidiaries are included from the dates of acquisition.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Foreign Currency Translation

• **Reporting Currency**

The functional currency of the Company is the Canadian dollar. Accordingly, the consolidated financial statements have been translated into the reporting currency (the U.S. dollar) using the current rate method. Under this method, the financial statements are translated into the reporting currency as follows: assets and liabilities are translated at the exchange rate in effect at the balance sheet date, and revenue and expenses are translated at the average exchange rate for the reporting period. All gains and losses resulting from the translation of the financial statements into the reporting currency are included in the cumulative translation adjustment in shareholders' equity. Changes in the cumulative translation adjustment during each year result solely from the application of this translation method.

• **Foreign Operations**

The Company's foreign operations are classified as integrated and are translated into the functional currency using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the average exchange rate for the reporting period, except for amortization which is translated at the same rate as the asset to which it applies. Gains and losses resulting from translation are reflected in the statement of operations for the year.

- **Foreign Currency Transactions**

Transactions denominated in foreign currencies are translated into the functional currency using the temporal method.

- **Forward Exchange Contracts**

From time to time the Company enters into forward exchange contracts to manage its exposure to fluctuations in foreign exchange rates on both contracted and expected cash flows related to accounts receivable denominated in currencies other than the functional currency. These derivative financial instruments are effective in meeting the risk reduction objectives of the Company by generating offsetting cash flows related to the underlying position in respect of amount and timing. The Company does not hold or issue derivative financial instruments for trading purposes. The foreign currency gains and losses on these contracts are recognized and offset against the exchange losses or gains on the accounts receivable being hedged. Cash flows from forward exchange contract settlements are classified as cash flows from operating activities along with the corresponding cash flows from the accounts receivable being hedged.

Revenue Recognition

The Company licenses software under non-cancellable license agreements and provides services including training, installation, consulting and maintenance, which includes product support services and periodic updates. The Company recognizes revenue in accordance with the guidance set out in Statement of Position ("SOP") 97-2, "Software Revenue Recognition". Revenues generated by the Company include the following:

- **License Fees**

Revenues from licenses sold separately are recognized when a non-cancellable license agreement has been signed, the software product has been shipped, there are no uncertainties surrounding product acceptance, the fees are fixed or determinable, and collection is considered probable. Fees from multiple element arrangements are allocated to the various elements based on vendor-specific objective evidence of fair value provided that services, if any, are not essential to the functionality of the software. Revenues from licenses sold under multiple element arrangements are recognized upon shipment of the software product, provided that all of the above criteria have been met.

Where services are considered to be essential to the functionality of the software, fees from licenses and services are aggregated and recognized as revenue as the related services are performed using the percentage-of-completion method. The percentage of completion is generally determined based on the number of hours incurred to date in relation to the total expected hours of services. The cumulative impact of any revision in estimates of the percentage completed is reflected in the period in which the changes become known. Losses on such contracts in progress are recognized when known. Work in process is established for revenue based on the percentage completed in excess of progress billings as of the balance sheet date. Any excess of progress billings over revenue based on the percentage completed is deferred and included in deferred revenue. Generally, the terms of long-term contracts provide for progress billing based on completion of certain phases of work. Where acceptance criteria are tied to specific milestones, the percentage of completion up to that milestone is recognized upon acceptance.

- **Support Agreements**

Support agreements generally call for the Company to provide technical support and unspecified software updates to customers. Revenues from technical support and unspecified software update rights are recognized ratably over the term of the support agreement.

- **Consulting and Education Services**

The Company provides consulting and education services to its customers. Revenues from such services are recognized as the services are performed.

Reimbursable Expenses

The Company records revenue and the associated cost of revenue on a gross basis in its statement of operations for reimbursable expenses such as airfare, hotel lodging, meals, auto rental and other charges related to providing services to its customers.

Stock-based Compensation and Other Stock-based Payments

The Company maintains a stock-based compensation plan, which is described in Note 11(d). Effective May 1, 2004, the Company has elected to adopt the fair value based method of accounting for stock options and warrants granted to employees and directors. Accordingly, for the years ended April 30, 2004, 2003 and 2002, the Company provides only pro forma disclosures of net earnings (loss) and net earnings (loss) per common share as if the fair value based method of accounting had been used to account for options and warrants granted to employees and directors (Note 11(e)). No compensation cost is recognized for this plan when shares are issued to employees and directors. Any consideration received from plan participants is credited to capital stock. Any stock-based compensation costs related to awards to individuals other than employees and directors are accounted for at fair value.

Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand and balances with banks, as well as all highly liquid short-term investments with original terms to maturity of three months or less.

Short-term and Other Investments

Short-term and other investments are valued at the lower of amortized cost and market value.

Property, Plant and Equipment and Amortization

Property, plant and equipment are carried at cost less accumulated amortization. The Company provides for amortization of property, plant and equipment commencing once the related assets have been put into service using the following methods and rates:

	Method	Rate
Computer equipment	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Exhibition equipment	Declining balance	20%
Leasehold improvements	Straight-line over term of lease	

Intangible Assets

Intangible assets are carried at cost less accumulated amortization. The Company provides for amortization of software over its estimated useful life using the declining balance method at a rate of 30% per year. Technology, customer relationships, and the sub-licensing right are amortized on a straight-line basis over their estimated useful lives of five years.

Goodwill

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired or liabilities assumed. Goodwill related to business combinations initiated or completed prior to July 1, 2001 was amortized on a straight-line basis over the estimated useful life of five years. Since May 1, 2002, goodwill is not amortized. Following the adoption of the recommendations of CICA Handbook Section 3062 on May 1, 2002, the Company recorded a transitional impairment loss of \$346,000 which was charged to deficit (Note 7(b)).

Goodwill is evaluated for impairment annually or when events or changed circumstances indicate an impairment may have occurred. In connection with the goodwill impairment test, if the carrying value of the Company's reporting unit to which goodwill relates exceeds its estimated fair value, the goodwill related to that reporting unit is tested for impairment. If the carrying value of such goodwill is determined to be in excess of its fair value, an impairment loss is recognized in the amount of the excess of the carrying value over the fair value. Management has selected April 30 as the date of its annual impairment test for goodwill.

Impairment of Long-lived Assets

The Company assesses the carrying value of its long-lived assets, which include property, plant and equipment and definite-life intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized if the carrying value of a long-lived asset exceeds the sum of the estimated undiscounted future cash flows expected from its use. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value.

Income Taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Tax Credits

The Company is entitled to scientific research and experimental development ("SRED") tax credits granted by the Canadian federal government ("Federal") and the governments of the Provinces of Quebec and Ontario ("Provincial"). Federal SRED tax credits, which are non-refundable, are earned on qualified Canadian SRED expenditures and can only be used to offset Federal income taxes otherwise payable. Provincial SRED tax credits, which are refundable, are earned on qualified SRED salaries in the Provinces of Quebec and Ontario.

Pursuant to a Quebec Government program aimed at assisting companies operating in the information technology and multimedia sectors, the Company is eligible to receive supplementary tax credits ("multimedia tax credits") through 2008. Such tax credits are generally earned at an annual rate of 40% of salaries paid to employees engaged in eligible activities, to a maximum annual tax credit of CA\$15,000 (US\$10,943) per eligible employee.

SRED and other tax credits are accounted for as a reduction of the related expenditures. The refundable portion of tax credits is recorded in the year in which the related expenditures are incurred. The non-refundable portion of tax credits is recorded in the year in which the related expenditures are incurred provided the Company has reasonable assurance the credits will be realized.

Research and Development Costs

All costs related to development activities, which do not meet generally accepted criteria for deferral, and research are expensed as incurred. Development costs which do meet generally accepted criteria for deferral are capitalized and amortized against earnings over the estimated period of benefit.

As at April 30, 2004 and 2003, the Company had not deferred any development costs.

Employee Future Benefits

The Company maintains employee benefit programs which provide retirement savings, medical, dental and group insurance benefits for current employees. The Company's expense is limited to the employer's match of employees' contributions to a retirement savings plan, and to the employer's share of monthly premiums for insurance covering other benefits. An employee's entitlement to any benefits ceases upon termination of employment with the Company. The Company has no liability for any future benefits.

	Years ended April 30,		
	2004	2003	2002
Contribution to retirement savings	18	32	36
Premiums for other benefits	225	206	322
	243	238	358

Earnings (Loss) per Share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated based on the weighted average number of common shares outstanding during the period plus the effects of dilutive potential common shares outstanding during the period. This method requires that the dilutive effect of outstanding options and warrants be calculated using the treasury stock method, as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of issuance, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period.

The diluted weighted average number of shares has been calculated as follows:

	2004	2003	2002
Weighted average number of shares – basic	14,211,996	14,835,297	14,349,542
Addition to reflect the impacts of:			
Exercise of employee and director stock options and warrants	120,511	-	-
Weighted average number of shares – diluted	14,332,507	14,835,297	14,349,542

Options and warrants to purchase 332,304 common shares (2003 – 864,799; 2002 – 910,592) have been excluded from the above calculations since they would have an anti-dilutive effect. Since the Company was in a loss position in 2003 and 2002, there are no differences between basic and diluted per share figures in those years.

2 Business Combination

At the close of business on December 31, 2003, the Company acquired 100% of the issued and outstanding shares of PointForce Inc. ("PointForce"), a company which develops, markets and sells distribution software products primarily to the import-to-retail distribution market. The total purchase consideration of CA\$3,779,000 (US\$2,924,000) consisted of cash and costs related to the acquisition.

PointForce was wound up into TECSYS Inc. on January 1, 2004 and the results of its operations are included in the accompanying financial statements commencing from that date.

This business combination was accounted for using the purchase method and resulted in goodwill of CA\$1,703,000, based on the following allocation of the purchase price to identifiable assets acquired and liabilities assumed:

	CA\$	US\$
Current assets	1,802	1,395
Intangible assets:		
Technology	797	617
Customer relationships	557	431
Other long-term assets	224	173
	<u>3,380</u>	<u>2,616</u>
Current liabilities	1,232	953
Obligations under capital leases	72	56
	<u>1,304</u>	<u>1,009</u>
Net identifiable assets acquired	2,076	1,607
Goodwill	1,703	1,317
Purchase price	3,779	2,924
Cash and cash equivalents acquired	(128)	(99)
Purchase price adjustment recoverable from the former PointForce shareholders	487	374
Cash paid, net of cash and cash equivalents acquired	<u>4,138</u>	<u>3,199</u>

The agreement for the acquisition of PointForce included provisions for purchase price adjustments based on a final determination of 2003 earnings and net equity at December 31, 2003. Pursuant to this agreement, the Company subsequently determined and negotiated a final purchase price of CA\$3,779,000 (US\$2,924,000) including acquisition costs. The purchase price adjustment of CA\$487,000, representing the excess of the estimated amounts paid over the final price, is included in other receivables as at April 30, 2004 and will be reimbursed to the Company in the first quarter of fiscal 2005 from funds held on deposit in escrow.

None of the goodwill acquired is deductible against corporate income taxes.

3 Short-term and Other Investments

Short-term and other investments comprise the following:

	April 30, 2004	April 30, 2003
Guaranteed investment certificate denominated in U.S. dollars, bearing interest at a rate of 1.1%, maturing on May 1, 2003	-	500
Guaranteed investment certificates denominated in Canadian dollars, bearing interest at a rate of 3.15%, maturing on May 9, 2003	-	419
Commercial paper denominated in U.S. dollars, bearing interest at a rate of 1.25%, maturing on May 22, 2003	-	1,348
Commercial paper denominated in Canadian dollars, bearing interest at rates of between 1.90% and 2.05% (2003 - 3.05% and 3.3%), maturing through December 19, 2004 (2003 - August 25, 2003)	6,412	9,733
	<u>6,412</u>	<u>12,000</u>
Presented as:		
Short-term investments	5,665	10,954
Restricted cash equivalents and other investments	747	1,046

As at April 30, 2004, the Company is obligated to provide short-term investments totalling CA\$1,024,000 (US\$747,000) as security for outstanding letters of guarantee expiring beyond one year from April 30, 2004 (Note 8(c)). As a result, this amount has been classified as restricted cash equivalents and other investments.

An additional CA\$279,000 (US\$203,000) of short-term investments is required as security against a letter of guarantee with respect to certain capital lease obligations (Note 8(c)). As this letter of guarantee expires in fiscal 2005, these short-term investments have not been classified as restricted cash equivalents or other investments.

As at April 30, 2003, the Company was obligated to provide short-term investments totalling CA\$1,500,000 (US\$1,046,000) as security for outstanding letters of guarantee expiring beyond one year from April 30, 2003, and this amount was therefore presented as restricted cash equivalents and other investments.

4 Accounts Receivable

Accounts receivable comprise the following:

	April 30, 2004	April 30, 2003
Trade, net of an allowance for doubtful accounts of \$1,221 (April 30, 2003 - \$1,751)	4,398	3,063
Work in process	307	163
	<u>4,705</u>	<u>3,226</u>

5 Tax Credits Receivable

Tax credits receivable comprise the following:

	April 30, 2004	April 30, 2003
Refundable research and development tax credits	304	227
Refundable multimedia tax credits	752	1,132
	<u>1,056</u>	<u>1,359</u>

6 Property, Plant and Equipment

Property, plant and equipment comprise the following:

	April 30, 2004		
	Cost	Accumulated Amortization	Net
Computer equipment	4,767	3,808	959
Furniture and fixtures	1,900	1,244	656
Exhibition equipment	266	238	28
Leasehold improvements	1,190	774	416
	<u>8,123</u>	<u>6,064</u>	<u>2,059</u>
	April 30, 2003		
	Cost	Accumulated Amortization	Net
Computer equipment	4,703	3,752	951
Furniture and fixtures	1,882	1,171	711
Exhibition equipment	275	234	41
Leasehold improvements	1,089	639	450
	<u>7,949</u>	<u>5,796</u>	<u>2,153</u>

As at April 30, 2004, property, plant and equipment include furniture and fixtures under capital lease with a cost of \$518,000 and accumulated amortization of \$317,000 (April 30, 2003 – \$452,000 and \$260,000 respectively).

7 Goodwill and Other Intangible Assets

- a) Intangible assets comprise the following:

April 30, 2004			
	Cost	Accumulated Amortization	Net
Technology (Note 2)	581	39	542
Customer relationships (Note 2)	406	27	379
Software acquired for internal use	1,692	1,398	294
	<u>2,679</u>	<u>1,464</u>	<u>1,215</u>

April 30, 2003			
	Cost	Accumulated Amortization	Net
Software acquired for internal use	1,580	1,231	349

During fiscal 2004, the Company acquired intangible assets totalling \$1,027,000.

During fiscal 2003, the Company reassessed the carrying value of technology resulting from a business combination effected in July 2000 and of a sub-licensing right acquired in May 2000. These analyses determined that no future cash flows could be expected from the exploitation of either of these assets. Accordingly, the Company concluded that both of these assets were fully impaired and recognized an impairment loss during 2003 equal to their net aggregate carrying value of \$1,059,000.

- b) The changes in the carrying amount of goodwill for the years ended April 30, 2004 and 2003 are as follows:

	Years ended April 30,	
	2004	2003
Balance – Beginning of year	-	320
Business combination (Note 2)	1,317	-
Effect of foreign exchange	(75)	26
Transitional impairment loss	-	(346)
Balance – End of year	<u>1,242</u>	<u>-</u>

Effective May 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3062, "Goodwill and Other Intangible Assets". Upon completion of the transitional impairment tests, the Company determined that at May 1, 2002, the carrying value of the assets of acquired businesses exceeded the fair value of those businesses as determined using expected discounted future cash flows and that the related goodwill was fully impaired. Consequently, the Company recorded a transitional impairment loss as at May 1, 2002 in the amount of \$346,000, which was charged to deficit.

8 Credit Facilities

- a) The Company renewed its banking agreement with National Bank of Canada in January 2004. This agreement obliges the Company to respect certain covenants in the form of financial ratios, which have been respected as of April 30, 2004.
- b) Under the terms of the agreement, the Bank has also agreed to provide a currency risk protection facility for a principal amount not exceeding CA\$750,000 (US\$547,000) which may be used to issue forward exchange contracts regarding the sale or purchase of foreign currencies. As at April 30, 2004 and 2003, the Company had no forward exchange contracts outstanding to hedge against potential gains and losses.
- c) This facility also permits the issuance of letters of guarantee of up to a maximum amount of CA\$1,500,000 (US\$1,094,000). As at April 30, 2004, CA\$1,303,000 (US\$951,000) of this facility was used to obtain letters of guarantee. An amount of CA\$1,024,000 (US\$747,000) is in favour of one of the Company's landlords and must be renewed annually through fiscal 2010 as per the terms of the lease; and CA\$279,000 (US\$203,000) is with respect to certain capital lease obligations and must be maintained through October 2004.
- d) Under the terms of this agreement, the Company also has available a three-year revolving term loan of up to CA\$500,000 (US\$365,000) to finance up to 50% of the net book value of property, plant and equipment at bank prime rate plus 1.75%.
- e) These facilities are secured by a first ranking general hypothec of CA\$2,000,000 on all present and future moveable assets.

9 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following:

	April 30, 2004	April 30, 2003
Trade	2,214	2,601
Accrued employee costs	1,060	848
Other	417	186
	<u>3,691</u>	<u>3,635</u>

10 Long-term Debt

- a) Long-term debt, all of which is denominated in Canadian dollars, includes the following:

	April 30, 2004	April 30, 2003
Term loan, bearing interest at bank prime rate plus 1.75%, repaid during the year (2003 - CA\$750,000)	-	523
Expansion term loan, bearing interest based on the lender's banking rates (5.25% as of April 30, 2004), repayable in October 2006 (CA\$500,000)	365	349
Subordinated loan from a person related to certain shareholders, bearing interest at 12.67%, with no specific terms of repayment (CA\$107,000)	78	74
Capital lease obligations (CA\$98,000; 2003 - CA\$218,000) (Note 8(c))	72	153
Term loan from the Economic Development Agency of Canada, non-interest bearing and repayable annually through 2004 (CA\$84,000)	61	59
	<u>576</u>	<u>1,158</u>
Less: Current portion	175	611
	<u>401</u>	<u>547</u>

- b) As at April 30, 2004, future minimum payments required under capital lease obligations are as follows:

Years ending April 30, 2005	47
2006	22
2007	11
	<u>80</u>
Less: Amounts representing interest (weighted average interest rate of 10.5%)	8
	<u>72</u>
Less: Current portion	36
	<u>36</u>

- c) The estimated aggregate amount of capital repayments on long-term debt as at April 30, 2004, excluding capital lease obligations, required in future years to fully reimburse these obligations is as follows:

Years ending April 30, 2005	139
2007	365

- d) Interest expense on long-term debt and capital lease obligations amounted to US\$72,000, US\$97,000 and US\$149,000 in 2004, 2003 and 2002 respectively.
- e) Certain of these loans and obligations require the Company to respect certain financial covenants, which have been respected as of April 30, 2004.

11 Capital Stock

- a) Authorized – unlimited as to number and without par value
 Class “A” preferred shares, issuable in series, having such attributes as the Board of Directors may determine
 Common shares

- b) The following table summarizes the capital stock activity since April 30, 2001:

	Common Shares	
	Number of Shares	Amount
Balance – April 30, 2001	13,748,325	39,751
Private placements of common shares	1,222,222	1,843
Balance – April 30, 2002	14,970,547	41,594
Repurchase of common shares	(487,800)	(1,303)
Balance – April 30, 2003	14,482,747	40,291
Repurchase of common shares	(327,700)	(970)
Issue of common shares pursuant to exercise of stock options	3,750	5
Balance – April 30, 2004	14,158,797	39,326

- c) On July 15, 2003, the Company filed a renewal with the Toronto Stock Exchange of a Notice of Intention to Make a Normal Course Issuer Bid (the “Notice”). In the Notice, the Company stated its intention to purchase on the open market at prevailing market prices, through the facilities of the Toronto Stock Exchange, up to a maximum of 910,000 of its common shares, being approximately 10% of the common shares comprising the public float as of June 30, 2003, but not more than 2% of the outstanding common shares as at June 30, 2003 in any 30-day period. The Company may purchase common shares under the bid, if it considers it advisable, at any time and from time to time until July 16, 2004. The common shares will be purchased for cancellation.

During the year, the Company purchased 327,700 (2003 – 487,800) of its outstanding common shares for cancellation at an average price of CA\$1.44 (US\$1.05) per share (2003 – CA\$0.96; US\$0.63). The total cost related to purchasing these shares, including other related costs, was CA\$495,000 (US\$360,000) (2003 – CA\$470,000; US\$307,000). The excess of the net book value over the purchase price of these shares of CA\$844,000 (US\$610,000) (2003 – CA\$1,523,000; US\$996,000) has been credited to contributed surplus.

On December 21, 2001, pursuant to a private placement, the Company issued 888,889 common shares at CA\$2.25 per common share. The net proceeds to the Company amounted to CA\$1,904,000 (US\$1,201,000), net of related commissions of CA\$96,000 (US\$60,000).

On July 6, 2001, pursuant to a private placement, the Company issued 333,333 common shares at CA\$3.00 per common share. The net proceeds to the Company amounted to CA\$982,000 (US\$642,000), net of related commissions of CA\$18,000 (US\$11,000).

- d) In 1998, the Company adopted a new stock option plan. All options then outstanding under the previous plan were continued under the new plan. As at the date of adoption of the new plan, there were 265,910 options outstanding under the old plan. Under the new plan, the total number of additional common shares which may be issued is 1,145,000, and the maximum number that may be issued in the aggregate to any single individual under the new plan or any other future plan shall not exceed 5% of the number of shares issued and outstanding at the time of granting. The exercise price shall be the "market price" of the common shares in Canadian dollars at the time of granting, the market price being the weighted average trading price per share traded on the Toronto Stock Exchange during the period of five trading days preceding the date of grant. The options are non-assignable and generally expire five years after the date of granting. Options granted under this plan generally vest over a period of four years, with 25.00% (31.25% for options issued before May 10, 2000) becoming exercisable on the first anniversary of the date of grant and an additional 6.25% becoming exercisable at the end of each three-month period thereafter.

The following table summarizes information about stock options outstanding as at April 30, 2004:

Options Outstanding			Options Exercisable		
Exercise Price US\$	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercise Price US\$	Number Exercisable	Weighted Average Exercise Price US\$
0.72	110,900	2.48	0.72	69,313	0.72
0.82 - 1.34	546,650	3.82	1.16	88,903	1.14
1.55 - 1.93	142,988	3.98	1.66	32,992	1.58
2.31	127,737	1.72	2.31	103,786	2.31
3.77 - 4.32	27,429	0.53	3.87	26,295	3.85
18.71 - 20.16	4,150	0.74	11.46	4,150	11.46
	<u>959,854</u>	<u>3.30</u>	<u>1.46</u>	<u>325,439</u>	<u>1.82</u>

As at April 30, 2003, there were 452,556 options exercisable at a weighted average exercise price of US\$4.76.

The following table summarizes the stock option activity under this plan:

	Number of Options	Weighted Average Exercise Price CA\$	Weighted Average Exercise Price US\$
Balance - April 30, 2001	884,020	7.11	4.63
Granted	282,250	1.57	1.00
Forfeited	(255,678)	(6.24)	(3.98)
Balance - April 30, 2002	910,592	5.64	3.60
Granted	175,450	1.50	0.98
Forfeited	(221,243)	(4.36)	(2.84)
Balance - April 30, 2003	864,799	5.12	3.57
Granted	464,300	1.76	1.31
Exercised	(3,750)	(1.70)	(1.27)
Forfeited	(365,495)	(8.20)	(6.10)
Balance - April 30, 2004	<u>959,854</u>	<u>2.00</u>	<u>1.46</u>

Pursuant to the acquisition of PointForce, a key employee was issued warrants to purchase 30,000 common shares of TECSYS Inc., the exercise price of which was the weighted average price of common shares of TECSYS Inc. on the Toronto Stock Exchange for the twenty trading days preceding December 31, 2003 (the "Grant Date"). The exercise price per warrant was CA\$2.03 (US\$1.48). The warrants will vest in tranches of 25% on each anniversary of the Grant Date over a four-year period and will expire five years from the Grant Date.

The following table summarizes information about the warrants outstanding as at April 30, 2004:

Warrants Outstanding			Warrants Exercisable		
Exercise Price US\$	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercise Price US\$	Number Exercisable	Weighted Average Exercise Price US\$
1.48	30,000	4.67	1.48	-	-

e) Stock-based Compensation Costs

If the fair value based method had been used to account for stock-based compensation costs related to stock options and warrants issued to employees and directors, the net earnings (loss) and related net earnings (loss) per share figures would be as follows:

	Years ended April 30,		
	2004	2003	2002
Net earnings (loss) for the year	415	(6,606)	(3,322)
Stock-based compensation costs	(219)	(551)	(1,298)
Pro forma net earnings (loss) for the year	196	(7,157)	(4,620)
Pro forma basic and diluted net earnings (loss) per common share	0.01	(0.48)	(0.32)

The fair value of options and warrants granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Years ended April 30,		
	2004	2003	2002
Volatility	75%	75%	75%
Risk-free interest rate	3.0%	3.0%	3.0%
Dividend yield	nil	nil	nil
Expected lives (in years)	3	3	3

Following is a summary of the weighted average grant date fair value of options and warrants granted during the years ended April 30, 2004, 2003 and 2002:

	Number of Options and Warrants	Weighted Average Exercise Price US\$	Weighted Average Grant Date Fair Value US\$
2004 warrants	30,000	1.48	0.86
2004 options	464,300	1.31	0.67
2003 options	175,450	0.98	0.49
2002 options	282,250	1.00	0.51

12 Income Taxes

- a) The provision for income taxes varies from the expected provision at the statutory rate for the following reasons:

	Years ended April 30,		
	2004	2003	2002
	%	%	%
Combined basic federal and provincial statutory income tax rate	32.07	34.59	37.12
Unrecognized benefit of non-capital losses and undeducted research and development expenses	-	(23.71)	(25.51)
Benefit of previously unrecognized non-capital losses and undeducted research and development expenses	(19.22)	-	-
Unrecognized benefit of net operating losses of U.S. subsidiaries	-	(0.04)	(11.02)
Benefit of previously unrecognized net operating losses of U.S. subsidiaries	(1.65)	-	-
Unrecognized benefit of current year temporary differences	5.08	(10.89)	-
Large corporations tax	-	0.15	0.48
Permanent differences including amortization of intangible assets, other non-deductible expenses and non-taxable foreign exchange gains	(16.28)	0.10	(0.40)
Other	-	(0.05)	(0.19)
Provision for income taxes per the financial statements	-	0.15	0.48

- b) The future income tax balances are summarized as follows:

	April 30, 2004	April 30, 2003
Future income tax assets:		
Non-refundable research and development tax credits (net of related income taxes)	3,966	3,170
Research and development expenses	3,675	3,517
Share issue costs	12	110
Non-capital losses	2,041	2,231
Net operating losses of U.S. subsidiaries	1,628	1,964
Property, plant and equipment	1,419	1,386
Other	256	412
	12,997	12,790
Valuation allowance	(12,809)	(12,412)
Total future income tax assets	188	378
Future income tax liabilities:		
Multimedia tax credits	(188)	(378)
Total future income tax liabilities	-	-

- c) As at April 30, 2004, the Company had accumulated research and development expenses of approximately CA\$16,210,000 (US\$11,826,000) for Federal income tax purposes and CA\$13,993,000 (US\$10,208,000) for provincial income tax purposes which may be carried forward indefinitely and used to reduce taxable income in future years.
- d) As at April 30, 2004, the Company had non-capital loss carryforwards totalling approximately CA\$7,140,000 (US\$5,209,000) for Canadian Federal income tax purposes and CA\$12,406,000 (US\$9,050,000) for provincial income tax purposes which may be used to reduce taxable income in future years. These losses may be claimed no later than fiscal years ending April 30:

	Federal CA\$	Provincial CA\$
2006	-	170
2007	-	1,145
2008	258	1,624
2009	3,270	5,217
2010	3,612	4,250

- e) As at April 30, 2004, the Company's U.S. subsidiaries had net operating loss carryforwards for Federal income tax purposes totalling approximately US\$5,061,000 which may be used to reduce Federal taxable income in future years. These losses may be claimed no later than fiscal years ending April 30:

2019	133
2020	820
2021	3,924
2023	174
2024	10

13 Products Revenue

Products revenue is broken down as follows:

	Years ended April 30,		
	2004	2003	2002
Software products	2,779	2,209	2,953
Third-party hardware and software products	3,884	3,108	2,918
	<u>6,663</u>	<u>5,317</u>	<u>5,871</u>

14 Cost of Services

Cost of services is detailed as follows:

	Years ended April 30,		
	2004	2003	2002
Gross expenses	5,983	6,246	9,806
Multimedia tax credits	(612)	(730)	(1,158)
	<u>5,371</u>	<u>5,516</u>	<u>8,648</u>

15 Restructuring Charges

During the third quarter of fiscal 2003, the Company entered into a sub-lease agreement with a third party regarding one floor at one of its facilities which the Company vacated at the beginning of that quarter. The Company's remaining lease obligations extend through April 30, 2010, while the sub-lease term expires on December 31, 2007. At the expiration of the sub-lease, the sub-lessee has the option to renew the sub-lease for the remainder of the Company's contractual lease term, subject to the consent of the Company. Accordingly, the Company has recorded a provision for restructuring costs, which represents the estimated excess of future contractual lease payments and operating expenses over the estimated future sub-lease revenue, as well as the write-down of the associated leasehold improvements and furniture and fixtures to their estimated fair value.

The restructuring charges originally consisted of the following:

Rental payments, net of recoveries	945
Write-down of property, plant and equipment	256
	<u>1,201</u>

Following is a summary of the change in the provision for rent and operating costs since the date the provision was established:

Initial provision	945
Actual expenses – 2003	(186)
Foreign exchange	75
	<u>834</u>
Provision as at April 30, 2003	834
Actual expenses – 2004	(160)
Foreign exchange	41
	<u>715</u>
Provision as at April 30, 2004	715

As at April 30, 2004, the provision has been presented as follows:

Accounts payable and accrued liabilities	102
Other long-term liabilities	613
	<u>715</u>

16 Supplementary Cash Flow Information

	Years ended April 30,		
	2004	2003	2002
Cash paid for interest	72	118	247
Cash paid (received) for income taxes	(4)	14	4

17 Contingencies

- a) During fiscal 2003, the Company received a claim from a customer alleging breach of contract. In May 2004, the Company and the customer attempted to negotiate a settlement of this claim, with the customer having offered to settle the claim for US\$400,000. The Company believes that this claim is unfounded, but in order to avoid protracted court action, related legal expenses, and the disruption to management's time, the Company made a counter-offer to settle for US\$100,000. This offer was rejected by the customer. The claim is in mediation. It is not currently possible to determine the likely outcome of this claim. The financial statements include a provision based on management's assessment of the likely outcome.

Through the course of operations, the Company is party to a number of other lawsuits, claims and contingencies. Accruals are made in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accrual has been made, the Company has no reason to believe that the ultimate resolution of such matters will have a material impact on its financial position.

- b) The Company has guaranteed a mortgage loan on behalf of the TECSYS Foundation for Youth (the "Foundation") in the amount of CA\$247,500 (US\$180,500) for the purchase of land and a building to be used by the Foundation as a school. The mortgage loan was granted on December 23, 2002, bears interest at Canadian prime rate plus 0.5% and is payable monthly. The principal is payable in 180 equal and consecutive monthly instalments of CA\$1,375 (US\$1,003), which instalments are being paid by the Foundation. The outstanding principal balance of the mortgage amounted to CA\$225,500 (US\$164,500) as at April 30, 2004. The mortgage is secured by the land and building.

18 Commitments

- a) As at April 30, 2004, the minimum future rental payments required under long-term operating leases are as follows:

2005	1,309
2006	1,167
2007	1,068
2008	1,107
2009	1,113
Thereafter	1,044

- b) Under the terms of a licensing agreement with a third party, the Company is committed to pay royalties calculated at a rate of 1% of revenue, excluding reimbursable expenses, increasing to 1.5% from May 1, 2005. Revenue derived from the operations of PointForce is exempt from royalties under this agreement until June 30, 2005.

The agreement was effective February 1, 2004, has an initial term expiring April 30, 2007, and may be terminated by either party at any time by providing six months notice. The Company has incurred costs of \$39,000 related to this agreement for the period from February 1, 2004 to April 30, 2004.

19 Related Party Transactions

The following transactions occurred between the Company and certain related parties:

	Years ended April 30,		
	2004	2003	2002
Interest on advances from a person related to certain shareholders	10	9	9

All other balances and transactions with related parties are disclosed separately in these financial statements. These transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

20 Financial Instruments

a) Currency Risks

Certain of the Company's sales and expenses are incurred in U.S. dollars, resulting in U.S. dollar-denominated accounts receivable and accounts payable. In addition, certain of the Company's cash and cash equivalents are denominated in U.S. dollars. These balances are therefore subject to gains or losses due to fluctuations in that currency.

As at April 30, 2004 and 2003, the Company held no forward exchange contracts outstanding to hedge against potential gains or losses due to currency fluctuations.

b) Credit and Concentration Risks

Financial instruments which potentially subject the Company to credit risk consist principally of cash and cash equivalents, short-term and other investments, and accounts receivable. The Company's cash and cash equivalents are maintained at major financial institutions and short-term and other investments consist of commercial paper and investment certificates issued by high-credit quality corporations and financial institutions; therefore, the Company considers the risk of non-performance of these instruments to be remote.

With the exception of one customer comprising 11.5% of total trade accounts receivable, there is no particular concentration of credit risk due to the North American distribution of customers and procedures for the management of commercial risks. The Company also performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. In addition, the Company has entered into an arrangement with Export Development Corporation wherein the latter has assumed the risk of credit loss in case of bankruptcy for up to 90% of accounts receivable from certain foreign and domestic customers, to a maximum of US\$2,500,000 and CA\$1,000,000 (US\$730,000) respectively, in any given year. As at April 30, 2004, accounts receivable (prior to the allowance for doubtful accounts) include accounts totalling US\$3,763,000 and CA\$841,000 (US\$614,000) that were pre-approved for coverage, subject to the above-noted maximums, under this arrangement (April 30, 2003 - US\$3,637,000 and CA\$426,000 (US\$297,000)).

c) **Fair Value**

Cash and cash equivalents, short-term and other investments, accounts receivable and accounts payable and accrued liabilities are short-term financial instruments whose fair values approximate their carrying values.

The fair value of the long-term debt, capital lease obligations and other long-term liabilities was determined by discounting future cash flows using interest rates which the Company could obtain for loans with similar terms, conditions and maturity dates. There was no significant difference between the fair value and the carrying value of long-term debt and capital lease obligations as at April 30, 2004 and 2003. The fair value of other long-term liabilities, including the current portion, as at April 30, 2004 was \$607,000 (2003 - \$671,000) versus a carrying value of \$715,000 (2003 - \$834,000).

d) **Interest Rate Risks**

As at April 30, 2004, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Non-interest bearing
Short-term investments	As described in Note 3
Accounts receivable	Non-interest bearing
Restricted cash equivalents and other investments	As described in Note 3
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt and capital lease obligations	As described in Note 10
Other long-term liabilities	Non-interest bearing

21 Segment Information

Management has organized the Company under one reportable segment, the development and marketing of enterprise-wide distribution software and related services. Substantially all of the Company's long-lived assets are located in Canada.

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

	Years ended April 30,		
	2004	2003	2002
United States	11,109	11,135	14,945
Canada	6,208	3,651	5,803
Other	233	245	449
	17,550	15,031	21,197

Major Customers

Revenues from major customers (customers from which 10% or more of total revenue is derived during the specified period) are summarized as follows:

	Years ended April 30,		
	2004	2003	2002
	%	%	%
Customer A	-	11.6	18.0
Customer B	-	-	13.9

22 Significant Differences Between Canadian and United States GAAP

The Company's financial statements were prepared in accordance with Canadian GAAP, which differs in some respects from U.S. GAAP. Significant measurement differences between Canadian GAAP and U.S. GAAP as they relate to the Company are set forth below.

a) Statements of Operations

The following summary sets out the material differences between the Company's reported net earnings (loss) and basic and diluted earnings (loss) per share under Canadian GAAP as compared to U.S. GAAP:

	Years ended April 30,		
	2004	2003	2002
Net earnings (loss) for the year in accordance with Canadian GAAP	415	(6,606)	(3,322)
Transitional goodwill impairment loss	-	(346)	-
Net earnings (loss) for the year in accordance with U.S. GAAP	415	(6,952)	(3,322)
Other comprehensive income (loss): Foreign currency translation adjustments	536	1,313	(414)
Comprehensive income (loss)	951	(5,639)	(3,736)
Basic and diluted net earnings (loss) per share	0.03	(0.47)	(0.23)

b) Summary Statements of Operations

The following are summary statements of operations prepared in accordance with U.S. GAAP:

	Years ended April 30,		
	2004	2003	2002
Revenues	17,550	15,031	21,197
Gross margin	9,371	6,848	9,737
Operating expenses	8,908	12,757	13,214
Earnings (loss) from operations	463	(5,909)	(3,477)
Net earnings (loss)	415	(6,952)	(3,322)

c) Transitional Goodwill Impairment Loss

Upon adoption, in 2003, of SFAS No. 142, "Goodwill and Other Intangible Assets", a transitional impairment loss was charged to the statement of operations in 2003 as a cumulative effect of a change in accounting policy. Under Canadian GAAP, this impairment loss was charged to deficit.

d) Disclosure of Guarantees

The Company has not issued any guarantees subsequent to December 31, 2002 which require recognition in the financial statements under FASB Interpretation No. 45.

The Company does not maintain an accrual for future warranty claims since the costs of providing any warranty services are minimal. The Company is covered by back-to-back warranties from suppliers of third-party products and services.

23 Comparative Figures

Certain comparative figures have been reclassified to conform with the basis of presentation used in the current year.

24 Subsequent Event

On July 15, 2004, the Company filed a one-year renewal with the Toronto Stock Exchange of the Notice of Intention to Make a Normal Course Issuer Bid (the "Notice"). The Notice stated the Company's intention to purchase on the open market at prevailing prices, through the facilities of the Toronto Stock Exchange, up to a maximum of 700,000 of its common shares, being approximately 5% of the 14,158,797 common shares outstanding as of June 30, 2004, but not more than 2% of such outstanding common shares as at June 30, 2004 in any 30-day period. Under the renewal, the Company may purchase common shares, if it considers it advisable, at any time, and from time to time for one year from the date of filing. The common shares will be purchased for cancellation.

General Information



Common Share Information

Principal Market

The Toronto Stock Exchange. The Company's common shares were first listed on July 27, 1998. The stock symbol of the Company's common shares is **TCS**. The following table sets forth the high and low prices, as well as the trading volume for the common shares for the fiscal periods shown below.

	High (CA\$)	Low (CA\$)	Volume (Total)
Fiscal 2004, May 2003 to April 2004			
First Quarter	\$ 2.10	\$ 1.01	920,400
Second Quarter	\$ 2.00	\$ 1.44	399,952
Third Quarter	\$ 2.98	\$ 1.50	734,266
Fourth Quarter	\$ 2.73	\$ 1.68	971,441

Dividend Policy

The Company currently intends to retain future earnings, if any, to support business growth. The Company has never declared or paid dividends on its common shares and does not anticipate paying dividends in the foreseeable future. Dividend policy is determined by the Board of Directors, taking into account the Company's financial condition and other factors deemed relevant.

Investor Inquiries

In addition to its Annual Report, the Company files an Annual Information Form (AIF), as well as a Management Proxy Circular with the Canadian securities commissions. For further information or to obtain additional copies of any of the above-mentioned documents, please contact:

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Brian Bowyer ⁽²⁾

President, ProNet Management Inc.

David Brereton ⁽²⁾

Executive Chairman of the Board and Co-CEO, TECSYS Inc.

Peter Brereton

President and Co-CEO, TECSYS Inc.

André Duquette ⁽¹⁾ ⁽²⁾

Vice-President, T²C², Limited Partnership

James Estill ⁽¹⁾ ⁽³⁾

President and CEO, EMJ Data Systems Ltd.

Michel Racicot

Partner, McCarthy Tétrault LLP

David Wayland ⁽¹⁾

Vice-President, Finance and Information Systems, MRRM (Canada) Inc.

Secretary

Ronald E. Notkin

President, R.E. Notkin and Associates Inc.

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Compensation Committee

⁽³⁾ Resigned on July 14, 2004

Executive Management

David Brereton

Executive Chairman of the Board and Co-CEO

Peter Brereton

President and Co-CEO

Kevin Tribe

President, PointForce

Brian Stevenson

President, TECSYS Transportation Systems Inc.

Berty Ho-Wo-Cheong

Vice-President, Finance and Administration and Chief Financial Officer

Mark Brereton

Executive Vice-President, Worldwide Sales

Nam D. Vo

Senior Vice-President, Business Development

Andrew Brereton

Vice-President, Client Sales

Steve Fliehman

Vice-President Sales, Strategic Accounts

Robert Colosino

Vice-President, Alliances and Technology Strategy

Patricia Barry

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TECSYS CDI, INC.
TECSYS Transportation Systems Inc.
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