



Designed for Growth

TECSYS[®]

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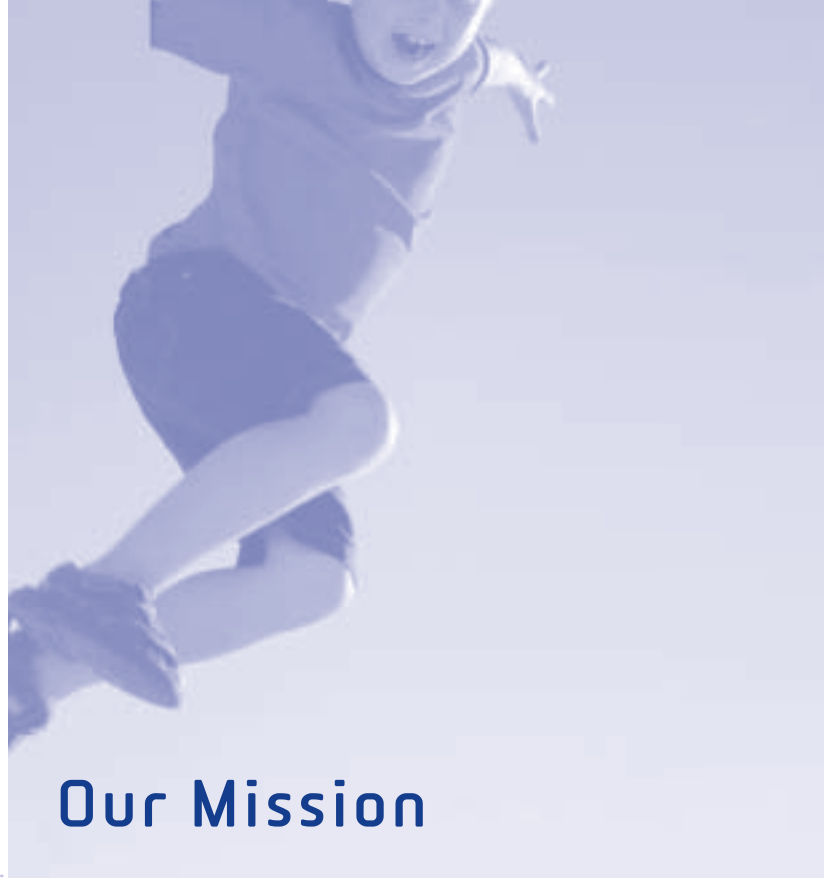
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Annual Report 2005

TECSYS[®]

Enabling Supply Chain Excellence™



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, import-to-retail, 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 and warehousing environments rely on EliteSeries in the Unix/Linux and iSeries environments, PointForce Enterprise in the Unix/Linux and Microsoft environments, and TECSYS Transportation Management Systems in all environments where multi-carrier shipping needs to be managed. In each and every case, the goal is 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.



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Unwavering Focus, Widening Scope

We began fiscal 2005 as a North American business delivering great enterprise supply chain solutions to the distribution market. Our technology platforms were Linux/Unix and Windows, and our annualized run rate was in the low US\$20 million range.

We ended fiscal 2005 with a European subsidiary serving the major Western European countries, solutions for all three viable technology platforms on the market today, a much more multilingual product offering, a strategic agreement with SAP to resell its product and deliver complementary products and services, and an annualized revenue run rate in the low US\$30 million range. Our overall revenue growth was 38%.

Our focus hasn't changed — we enable supply chain excellence — but we have expanded our platforms and territories to the extent that if you have a supply chain problem, we have a state-of-the-art solution for you.

Our accomplishments during fiscal 2005 included our first complete implementations in Europe, providing us a strong foothold in the European supply chain solutions market. We also made further inroads into healthcare, adding another hospital group as well as several pharmaceutical and medical/surgical distributors. We are now positioned as a key supply chain solution provider to this growing, dynamic industry with its own particular set of challenges.

We furthered our Supply Chain Excellence strategy with the acquisition of Markham-based Application Solutions Inc., a leading Canadian provider of warehouse management solutions for IBM iSeries. We also acquired Symplistech Inc., a consulting firm specializing in SAP implementations, with customers in the U.S. and Canada and more than 15 successful implementations under its belt.

We noted several continuing trends during the fiscal year in the enterprise software industry as a whole:

- Consolidation continued unabated in the form of mergers and acquisitions, with mergers occurring at all levels of the market.
- Customer project activity began to pick up as business capital spending began to return to more normal levels in this space. We signed 34 new accounts during the year.
- The growth of offshore manufacturing continued, and with it came increased demand for global trade management. High volume, multinational distribution organizations continue to need efficient enterprise systems to manage transactions and physical logistics on a global basis.

In summary, we are delighted to report of a year of great progress. Our balance sheet remains strong, and we are a substantially larger business than we were a year ago. We look forward to fiscal 2006 from a position of strength.

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



Peter Brereton
President and Co-CEO



Positioned at the Forefront



Fiscal 2005 saw continued and accelerated market consolidation in the supply chain execution space, and TECSYS solidified its position at the forefront of this trend. With only a handful of mid-tier suppliers left to focus on small and medium-sized businesses, we continued to move ahead of the pack and remain one of the few companies able to deliver fully integrated solutions with the latest technology effectively. Our advanced technology is ahead of that of many of our competitors, and we continue to be guided by our “customers for life” philosophy, placing the customer at the center of everything we do.

We are pursuing our strategy to capture market share and increase shareholder value and market capitalization. In terms of financial performance, we have increased revenue, and cash flow from operations, while reducing days sales outstanding.

Our two acquisitions during the year were both right in the sweet spot of our target, and provide us with additional points of entry into this increasingly concentrated space, as well as a substantial customer base.

Application Solutions Inc. (ASI), now TECSYS' Logistics Management Group, provides us with approximately 50 marquis customers, including Honda Canada Inc., ICI Canada Inc., adidas-Salomon Canada Ltd., Schenker of Canada Ltd. and Bayer Inc., and an excellent product suite for the iSeries (formerly the AS/400) world. The acquisition furthers our expansion in the supply chain execution market by opening up the proprietary IBM market to us. It also positions us as an early leader in business opportunities for radio frequency identification devices and mobile warehouse management solutions.

Recognizing that approximately 40% of companies buying ERP systems are buying SAP's supply chain execution solutions, at least in the mid-range to high-end segment of that market, we acquired Symplistech Inc., a leading Canadian consulting firm specializing in SAP implementations. Symplistech Inc. is profitable, and we expect this transaction to be accretive to earnings. Its track record in a number of industries, including consumer packaged goods and electronics manufacturing, make it a key addition to our

Logistics Management Group. This acquisition, along with our new partnership with SAP to resell its products in the mid-market, positions us as a solid option for companies that have made or are making the decision to standardize on SAP.

Our expansion into various niches of our market, coupled with our acquisition strategy, necessitated some changes in our corporate marketing. We have consolidated the identity of our divisions so that they now all operate under the TECSYS banner, each with a specific division name related to its mission: Enterprise Supply Chain Group (formerly the EliteSeries Group), Logistics Management Group (formerly ASI), SMB Group (formerly PointForce) and Transportation Management Group.

In the coming year, we will continue our strategy of acquiring and developing business applications for the supply chain management space where we believe it delivers excellent value for our shareholders, and we will pursue our aggressive growth strategy through internal growth and acquisitions. We plan to be a leader in the mid-market supply chain execution space, delivering high value and solid returns to our shareholders.

On a community note, I am pleased to report that the TECSYS Foundation for Youth continues to make a difference in the lives of young people. The foundation's Montreal school, Education Plus, achieved a major milestone this year by celebrating its tenth anniversary. Since it opened, the school has seen around 200 students receive their high school diplomas.

On behalf of the Board of Directors I would like to thank our employees, shareholders, the investment community, our customers and partners for their support. In closing, I would personally like to extend my sincere thanks and appreciation to the distinguished individuals who make up our Board of Directors. Their guidance and commitment is invaluable.

A handwritten signature in dark ink, appearing to read 'David Brereton', is located above the printed name.

David Brereton
Chairman of the Board and Co-CEO

TECSYS Inc. Annual Report 2005

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 2005 refers to the twelve-month period ended April 30, 2005.

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, 2005, 2004 and 2003 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 provider that delivers powerful enterprise distribution, warehouse and transportation logistics 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. The Company also continued its investment in research and development and launched its latest suite of enterprise distribution applications — EliteSeries 7.3. This new release capitalizes on the Services-Oriented-Architecture (SOA) application development environment and delivers leading edge capabilities such as “anywhere, anytime” distribution management. This release also strengthens the international appeal with improved multilingual and multi-currency support. The Company has also adopted a strategy of acquisition for growth to leverage its strength and expertise in the SCM software industry.

On February 28, 2005, the Company acquired 100% of the issued and outstanding shares of Application Solutions Inc. (“ASI”), a leading Canadian provider of best-of-breed warehouse management systems, Radio Frequency Identification Device (RFID) solutions, and system integration services on the IBM iSeries platform. ASI's solutions have integrated with key ERP solutions in the market including SAP, SSA, Oracle/Peoplesoft/JDE, and MS Business Solutions. ASI was wound-up into TECSYS Inc. on March 1, 2005, and the results of its operations are included in the accompanying financial statements commencing on that date.

On March 31, 2005, the Company acquired 100% of the issued and outstanding shares of Symplistech Inc. (“Symplistech”), a Canadian consulting practice specializing in the implementation of SAP solutions for manufacturing, warehousing, and distribution businesses. Symplistech was wound-up into TECSYS Inc. on April 1, 2005 as an integral part of the operations of the Logistics Management Group (LMG, formerly ASI), and the results of its operations are included in the accompanying financial statements commencing on that date.

For the two-month period ended April 30, 2005, LMG (formerly ASI and Symplistech) contributed \$2.7 million to revenues and \$685,000 to income from operations.

During the previous fiscal year, 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 primarily to the gift and home decor 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. PointForce currently operates as a division of TECSYS known as the Small Medium Business (SMB) group.

During fiscal year 2005, the Company renewed its banking agreement with the National Bank of Canada as described in note 8 of the consolidated financial statements. 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, including third-party software licenses and hardware, and the provision of related information technology services.

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 2005, third-party products represented 19% of total revenue (22% in fiscal 2004 and 21% in fiscal 2003) and include products developed by Oracle Corporation, IBM Corporation, SAP Canada Inc., Psion Teklogix Inc., Cognos Incorporated, Intermec Systems Corporation, Optio Software Inc., Best Software Canada Ltd., and Radio Beacon Inc. Proprietary products' revenue was 17% of revenue for fiscal year 2005, 16% and 15% for fiscal years 2004 and 2003 respectively.

Cost of revenue comprises the cost of products purchased for re-sale and the cost of services, made up mainly of salaries, incentives, benefits and travel expenses of all personnel providing services. Also included in the cost of service 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 241 at the end of fiscal 2005 in comparison to 224 at the end of fiscal 2004. The average number of employees for the Company increased to 221 in fiscal 2005 compared to 186 in fiscal 2004.

Quarterly Selected Financial Data

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

	Fiscal Year 2005					Fiscal Year 2004				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Total Revenue	5,345	5,495	5,303	8,129	24,272	3,766	4,147	4,175	5,462	17,550
Net Earnings (Loss)	136	(316)	180	334	334	10	24	20	361	415
Basic and Diluted Net Earnings (Loss) per Common Share (in U.S. dollars)	0.01	(0.02)	0.01	0.02	0.02	—	—	—	0.03	0.03

Results of Operations

Year ended April 30, 2005 compared to year ended April 30, 2004

Revenue

Total revenue increased 38% or \$6.7 million to \$24.3 million in fiscal 2005 compared to \$17.6 million in fiscal 2004. The Company's latest acquisitions, ASI and Symplistech (LMG) contributed \$2.7 million in revenues for the two-month period ended April 30, 2005. The Company's acquisition from the prior fiscal year, PointForce, contributed to revenues for \$5.5 million in fiscal 2005 compared to \$1.9 million for four-month period ended April 30, 2004 in the previous fiscal year. Excluding the revenue contributions of the above-mentioned acquisitions in both fiscal periods, revenue increased by \$428,000 or 3% in fiscal 2005 in comparison to fiscal 2004.

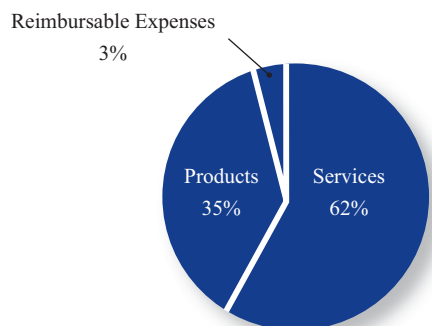
Products revenue increased by 29% or \$1.9 million to \$8.6 million compared to \$6.7 million for the previous fiscal year. LMG contributed \$1.9 million of that increase, while PointForce's products revenue for the twelve-month period in fiscal 2005 increased by \$746,000 to \$1.3 million in comparison to \$528,000 for the four-month period in fiscal 2004. Excluding the revenue contributions of the above-mentioned acquisitions in both fiscal periods, products revenue decreased by \$747,000 or 12% to \$5.4 million in fiscal 2005 in comparison to \$6.1 million for fiscal 2004. This decrease is due exclusively to decreases of third-party products revenue amounting to \$928,000 while proprietary license revenues increased by \$181,000. In fiscal 2004, several large orders of third-party products were shipped to significant customers.

Services revenue increased 47% to \$15.0 million from \$10.2 million in the previous year, an increase of \$4.8 million. LMG contributed \$790,000 of that increase, while PointForce's services revenue for the twelve-month period in fiscal 2005 increased \$2.8 million to \$4.1 million in comparison to \$1.3 million for the four-month period in fiscal 2004. Excluding the revenue contributions of the above mentioned acquisitions in both fiscal periods, services revenue increased \$1.2 million or 14% to \$10.0 million in fiscal 2005 compared to \$8.8 million in the previous fiscal year. The increased revenues are due to a higher number of accounts under implementation in fiscal 2005 as compared to fiscal 2004 in all service areas including consulting, product adaptations, and support.

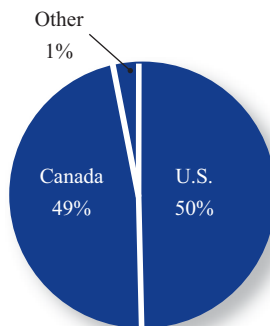
As a percentage of total revenue, products revenue and services revenue were 35% and 62% respectively in fiscal 2005 in comparison to 38% and 58% respectively for fiscal 2004. The reduction of the products revenue percentage is mainly attributable to the decrease of products revenue of \$747,000 described above.

The Canadian dollar has strengthened approximately 6% against the U.S. dollar in fiscal 2005 in comparison to fiscal 2004. The U.S. dollar to Canadian dollar exchange rates for fiscal 2005 averaged 1.2697 in comparison to 1.3434 for fiscal 2004. Consequently, excluding LMG, the strengthening Canadian dollar affected the reported revenues favorably by an estimated \$537,000 or 2% in fiscal 2005. On the other hand, the strengthening Canadian dollar affected services expenses and operating expenses adversely by an estimated \$966,000 in fiscal 2005.

Source of Revenue FY2005



Graphic Breakdown of Revenue FY2005



Cost of Revenue

Total cost of revenue in fiscal 2005 increased by \$3.7 million or 45% to \$11.9 million in comparison to \$8.2 million for the previous fiscal year. LMG accounted for \$1.5 million of this increase for the two-month period ended April 30, 2005. The Company's acquisition from the prior fiscal year, PointForce, incurred cost of revenues for \$2.9 million in fiscal 2005 compared to \$1.1 million for four-month period ended April 30, 2004 in the previous fiscal year.

Services costs increased by \$2.6 million or 48% to \$8.0 million in fiscal 2005 compared to \$5.4 million in fiscal 2004. LMG accounted for \$524,000 of this increase for the two-month period ended April 30, 2005. PointForce incurred services expenses of \$2.4 million in fiscal 2005 in comparison to \$766,000 for the four-month period ended April 30, 2004 reflecting an increase of \$1.6 million. Excluding the above-mentioned acquisitions in both fiscal periods, services costs increased by \$470,000 or 10% in fiscal 2005 in comparison to fiscal 2004 while revenues increased 14%. The increase in services costs, excluding LMG and PointForce, is primarily attributable to unfavorable impact of the strengthening Canadian dollar estimated at \$263,000 and the reduction of \$94,000 to \$518,000 of multimedia tax credits in fiscal 2005 compared to \$612,000 in fiscal 2004. The reduction in multimedia tax credits is due to the slightly reduced services headcount in fiscal 2005 in comparison to fiscal 2004.

Costs related to third-party products increased \$1.1 million or 52% to \$3.2 million in fiscal 2005 compared to \$2.1 million for the previous year. LMG accounted for \$949,000 of this increase for the two-month period ended April 30, 2005 while PointForce incurred increased costs of \$160,000 in fiscal 2005 compared to the four-month operating period in fiscal 2004.

As a result of the strengthening Canadian dollar against the U.S. dollar for fiscal 2005 as compared to fiscal 2004, the cost of revenues for fiscal 2005, excluding LMG, was unfavorably impacted by approximately \$398,000.

Gross Margin

Total gross margin increased \$3.0 million or 32% to \$12.4 million in fiscal 2005 compared to \$9.4 million in the previous fiscal year. The gross margin percentage decreased to 51% in fiscal 2005 in comparison to 53% for fiscal 2004. The decline in the gross margin percentage is primarily attributable to a higher ratio of revenue derived from services (62% in fiscal 2005 compared to 58% in fiscal 2004) which carry a lower margin compared to products and the addition of LMG which has an overall gross margin of 45%.

LMG contributed \$1.2 million to the gross margin for the two-month period ended April 30, 2005 with an overall gross margin percentage of 45%. LMG's lower gross margin percentage is due to the fact that its product revenue mix is weighted more heavily on hardware and supplies, which carry a lower gross margin, than proprietary and third-party software licenses. Additionally, LMG's gross margin for services is lower compared to the gross margin of the existing business mainly due to the fact that a portion of their service revenues comprises the repair of third-party hardware products which carries a significantly lower gross margin.

PointForce's gross margin was 48% with a contribution of \$2.6 million in fiscal 2005 compared to 44% and a contribution of \$850,000 for the four-month period ended April 30, 2004. PointForce's gross margin realization is 68% for products and 43% for services in fiscal 2005 compared to 53% for products and 43% for services for the four-month period in fiscal 2004. The increase of the products gross margin in fiscal 2005 compared to fiscal 2004 is due to the higher ratio of proprietary software licenses within the product revenue mix which carry a higher margin than third-party products.

Excluding the gross margin contributions of the above-mentioned acquisitions in both fiscal periods, gross margin increased by \$23,000 in fiscal 2005 in comparison to fiscal 2004 while the gross margin percentage was 53% in fiscal 2005 compared to 55% for fiscal 2004. This decrease in gross margin percentage is primarily attributable to a change in the revenue mix. In fiscal 2005, services accounted for 63% of revenues compared to 56% in fiscal 2004. Services carry a significantly lower gross margin compared to products.

Operating Expenses

Total operating expenses increased 34% or \$3.0 million to \$11.9 million in fiscal 2005 compared to \$8.9 million in fiscal 2004. The LMG operating activity for the two-month period ended April 30, 2005 accounted for \$549,000 of the increase, while PointForce's operating expenses for fiscal 2005 exceeded the four-month operating expenses of fiscal 2004 by \$1.8 million (2005 - \$2.7 million, 2004 - \$822,000). The Company's adoption of the new stock-based compensation standards without restatement (see note 1) effective May 1, 2004 accounted for \$174,000 of additional operating expenses.

Total operating expenses excluding the above-mentioned acquisitions in both fiscal years and the adoption of the stock-based compensation standards, increased by \$475,000 or 6% over the comparable activity for fiscal 2004. This increase is due primarily to the unfavorable impact of the strengthening Canadian dollar, higher bad debt expense, and the reduction of investment tax credits offset by favorable variances regarding reversed accumulated accruals for the disputed allocation of common space at one of the Company's facilities. Please refer to the "general and administration" discussion below for more specific details.

As a result of the strengthening of the Canadian dollar against the U.S. dollars for fiscal 2005, as compared to fiscal 2004, excluding LMG, operating expenses for fiscal 2005 were unfavorably impacted by approximately \$568,000 or 6% of the 2004 operating expenses.

Sales and Marketing

Expenses increased 33% or \$1.3 million to \$5.1 million in fiscal 2005 from \$3.8 million in fiscal 2004. LMG accounted for \$352,000 of the increase while PointForce's fiscal 2005 costs amounted to \$1.1 million compared to \$387,000 for the four-month period in fiscal 2004 accounting for an additional \$723,000. Excluding the impacts of these acquisitions in both fiscal years, the expenses increased \$193,000 or 6% primarily as a result of the strengthening Canadian dollar estimated at \$156,000.

General and Administration

Expenses increased 49% or \$747,000 to \$2.3 million in fiscal 2005 compared to \$1.5 million in the previous year. LMG accounted for \$103,000 of the increase while expenses for PointForce amounted to \$766,000 in fiscal 2005 compared to \$167,000 for the four-month period in fiscal in 2004 accounting for an additional \$599,000. After taking into account the additional expenses for a twelve-month operating period in fiscal 2005 compared to a four-month period in fiscal 2004, the general and administration expenses in PointForce were adversely affected by the severance of a key employee as well as the absorption of corporate expenses. Excluding the impacts of the acquisitions in both years, general and administration expenses increased \$45,000 in fiscal 2005. The discussion hereunder describes the major changes contributing to the \$45,000 increase.

During the third quarter of fiscal 2005, the Company received a unanimous favorable judgment from a panel of three judges at the Quebec Court of Appeal in connection with a lawsuit brought forth by one of the Company's landlords regarding the disputed allocation of common area space. The landlord has since taken steps to request an appeal to the Supreme Court of Canada. In consideration of the opinions of the Company's legal counsel, management's best estimate at this time considers that it is highly unlikely that the Supreme Court of Canada would grant the landlord's request for an appeal. If the request to appeal is granted, management believes that it is very unlikely that the landlord's position will prevail and that no amount will ever become payable regarding this claim. Since inception of the dispute with the landlord, the Company has been establishing accruals for the amounts claimed by the landlord. In consideration of the above, the Company reversed the accumulated accruals from April 30, 2004 of CA\$300,000 (US\$245,000) in fiscal 2005 related to the dispute and reduced general and administration expenses.

In fiscal 2005, the company incurred \$158,000 of bad debt expense whereas in fiscal 2004 the Company had realized a recovery of \$191,000 accounting for an unfavorable impact of \$349,000 in fiscal 2005.

Excluding the acquisitions in both fiscal years, the strengthening Canadian dollars adversely affected general and administration expenses by approximately \$74,000 in fiscal 2005 as compared to fiscal 2004.

Research and Development (R&D)

Gross R&D expenses increased by 17% or \$569,000 to \$3.9 million in fiscal 2005 compared to \$3.4 million in fiscal 2004 (\$3.5 million and \$2.8 million, respectively, net of tax credits). LMG incurred \$59,000 of gross R&D expenses for the two-month period ended April 30, 2005. PointForce's gross R&D expenses increased by \$394,000 to \$576,000 in fiscal 2005 in comparison to \$182,000 for the four-month period of the previous fiscal year. Excluding the impacts of these acquisitions in both fiscal periods, gross R&D expenses increased by \$116,000 or 4% over the comparable base from the previous fiscal year. Approximately \$182,000 unfavorable impact can be attributed to the strengthening Canadian dollar offset by favorable impacts of a diminished personnel headcount averaging 42 in fiscal 2005 compared to 45 for fiscal 2004.

In fiscal 2005, gross R&D expenses were 16% of revenue compared to 19% in fiscal 2004.

R&D tax credits decreased by \$135,000 or 22% in fiscal 2005 in comparison to fiscal 2004. LMG and PointForce tax credits amounted to \$73,000 in fiscal 2005 whereas there were no credits in fiscal 2004. Excluding LMG and PointForce, the tax credit decrease of \$208,000 is due primarily to a \$60,000 adjustment relating to a prior year as a result of a government audit. Additionally, the fiscal 2005 reduced tax credits reflect the changes reducing research and development tax credit rates from 40% to 35% of the first \$2 million of eligible expenditures and the amendments to tax legislation which specified that an expenditure related to an activity for a given period may not give rise to more than one refundable credit. In the 2004 MD&A, the Company indicated that the changes to the Quebec tax credit would have an adverse impact of approximately \$150,000 in fiscal 2005 in comparison to fiscal 2004.

Amortization of Intangible Assets

The amortization of intangible assets increased \$151,000 or 76% to \$349,000 in fiscal 2005 compared to fiscal 2004. An increase of \$146,000 is due to the amortization of PointForce intangible assets throughout 2005 whereas only four months of activity were amortized in fiscal 2004. Additionally, the acquisition of LMG in fiscal 2005 included intangible assets that were amortized for two months contributing \$39,000 in amortization expense. These increases in the amortization of intangible assets related to these acquisitions were offset by a reduced amortization expense related to software acquired for internal use of \$34,000.

Other Income and Expenses

Interest income decreased 29% or \$79,000 to \$189,000 in fiscal 2005 in comparison to \$268,000 for fiscal 2004. This can be attributed to less funds being available for investment in fiscal 2005 as a result of the acquisitions in fiscal 2004 and 2005, and the repayment a term loan and capital leases in 2004.

Interest expense decreased 50% to \$36,000 in fiscal 2005 compared to \$72,000 for fiscal 2004. The reduction in interest expense is attributable to the repayment of long-term debt in fiscal 2004 and capital lease obligations.

As a result of the continuing strengthening of the Canadian dollar against the U.S. dollar, the Company incurred an exchange loss of \$284,000 in fiscal 2005 as compared to \$244,000 in fiscal 2004. The exchange loss is primarily a result of carrying a net asset position, primarily cash and accounts receivable denominated in U.S. dollars. U.S. monetary assets have been devalued by 8.3% in fiscal 2005 in comparison to a 4.4% devaluation in fiscal 2004 in consideration of the exchange rates at April 30, 2003, 2004, and 2005 (2005 - 1.2569, 2004 - 1.3707, 2003 - 1.4335). During the year, the Company protected a portion of its net monetary U.S. assets by means of four forward exchange contracts selling U.S. dollars forward for maturity before the end of each quarter. The hedging strategy yielded cumulative reduced exchange losses of \$61,000 for the year.

There were no foreign exchange contracts outstanding at the end of either the 2004 or 2005 fiscal year. Subsequent to the current year end, the Company undertook another foreign exchange contract to sell \$2.0 million U.S. dollars forward at 1.2522 on July 29, 2005.

Net Income

The Company recorded net earnings of \$334,000 (\$0.02 per share) in fiscal 2005 compared \$415,000 (\$0.03 per share) in fiscal 2004.

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 against the U.S. dollar during fiscal 2004 as compared to fiscal 2003, the revenues for fiscal 2004 were favorably 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.

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 revenues 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 against the U.S. dollar for fiscal 2004 as compared to fiscal 2003, the services expenses for fiscal 2004 were unfavorably 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 product revenues, 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 facility 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 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 administrative, 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 against the U.S. dollar for fiscal 2004, as compared to fiscal 2003, operating expenses for fiscal 2004 were unfavorably 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 dollars 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 dollars 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 unfavorable 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 is 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 year 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.

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 Income

The Company recorded a 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.

Liquidity and Capital Resources

As of April 30, 2005, current assets totaled \$15.8 million compared to \$14.9 million at the end of fiscal 2004. Cash, cash equivalents and short-term and other investments, amounted to \$6.5 million, compared to \$8.1 million as of April 30, 2004. The decrease is primarily a result of the recent ASI and Symplistech (LMG) acquisition, the repayment of bank advances and capital lease obligations, and the repurchase of shares for cancellation.

Accounts receivable totaled \$7.0 million at the end of fiscal 2005, compared to \$4.7 million at the end of fiscal 2004. The increase in accounts receivable is largely due to the ASI and Symplistech acquisition accounting for \$2.4 million of the outstanding receivables. The Company's DSO (Days Sales Outstanding) is 70 days at the end of fiscal 2005 in comparison to 78 days at the end of fiscal 2004. The decrease in DSO is largely attributable to the collection of a major sale realized in the fourth quarter at LMG.

Current liabilities totaled \$6.9 million, compared to \$5.7 million at the end of fiscal 2004. The increase in current liabilities is due to the acquisition of ASI and Symplistech accounting for \$1.9 million of the current liabilities. Long-term debt and other long-term liabilities decreased \$56,000 to \$958,000 at the end of fiscal 2005.

In fiscal 2005, operating activities generated funds of \$768,000 compared to \$36,000 in fiscal 2004. In both fiscal years, cash generated by positive operating activities was offset largely by increases in net non-cash working capital of \$760,000 for fiscal 2005 and \$1.3 million for fiscal 2004. In fiscal 2003 operating activities generated funds of \$3.3 million characterized primarily by the reduction of net non-cash working capital items of \$6.3 million offset by losses and non-cash charges reducing cash for \$2.9 million.

Working capital at the end of fiscal 2005 was \$9.0 million compared to \$9.2 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 ASI and Symplistech acquisition versus the net working capital acquired (note 2), the repayment of capital lease obligations, and the repurchase of shares for cancellation. The Company believes that funds on hand at the end of fiscal 2005, 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 \$672,000 in fiscal 2005 compared to \$1.1 million in fiscal 2004 and \$884,000 for fiscal 2003. In fiscal 2005, \$275,000 was used for the repayment of a bank loan acquired as part of the ASI acquisition. Additionally, in fiscal 2005, \$104,000 was used for the repayment of capital lease obligations compared to \$707,000 and \$577,000 used in fiscal year 2004 and fiscal year 2003 respectively for the repayment of long-term debt and capital lease obligations. In fiscal 2005, the Company purchased 235,500 of its outstanding shares for cancellation for \$293,000 in fiscal 2005 compared to 327,700 shares repurchased for \$360,000 in fiscal 2004 and 487,800 shares repurchased for \$307,000 in fiscal 2003. The excess of the net book value over the purchase price of these shares and related costs has been credited to contributed surplus (2005 - \$365,000, 2004 - \$610,000, 2003 - \$996,000). Please refer to note 11 b) to the consolidated financial statements for further details.

In fiscal 2005, investing activities used funds of \$1.5 million in comparison to generating \$2.7 million in fiscal 2004. In fiscal 2005, \$812,000 was generated by reductions in short-term investments compared to \$6.2 million for the previous fiscal year. During fiscal 2005, business combinations, net of cash acquired, used funds of \$2.0 million comprising \$2.2 million for the acquisition of ASI, \$255,000 for the acquisition of Symplistech, and was partially offset by the recovery of \$368,000 representing the purchase price adjustment of PointForce acquired in fiscal 2004. In fiscal 2004, \$3.2 million was disbursed for the acquisition of PointForce. In fiscal 2005, \$236,000 was used for the acquisition of property, plant and equipment and computer software for internal use in comparison to \$283,000 for the previous fiscal year. 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.

As of April 30, 2005, the Company had no material commitments for capital expenditures. As at April 30, 2005, the principal commitments consist of capital and operating leases and long-term debt as described in Notes 10 and 18 to the consolidated financial statements. The following table summarizes significant contractual obligations as at April 30, 2005.

Contractual Obligations

In thousands of U.S. dollars

Years Ending	Long-term Debt	Capital Leases	Operating Leases	Total
April 30, 2006	85	24	1,379	1,488
April 30, 2007	398	12	1,241	1,651
April 30, 2008	-	-	1,029	1,029
April 30, 2009	-	-	1,015	1,015
April 30, 2010	-	-	1,025	1,025
	483	36	5,689	6,208

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. Revenues derived from the operations of acquired companies are exempt from royalties only for a period of 18 months from the date of the acquisition. Revenues derived from the operations of PointForce are exempt until June 30, 2005. Similarly, revenues derived from the operations of ASI and Symplistech are exempt from royalties until August 31, 2006 and September 30, 2006 respectively.

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 related to this agreement of \$155,000 for the twelve-month period ended April 30, 2005 and \$39,000 for the period from February 1, 2004 to April 30, 2004.

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.

Based on a structured methodology, portions of the purchase price paid in business acquisitions (PointForce Inc. in fiscal 2004 and Application Solutions Inc. and Symplitech Inc. in fiscal 2005) have been assigned to intangible assets acquired, consisting of customer relationships, acquired technology, in-process research and development, reseller agreement and vendor non-solicitation engagements. Determination of the fair values assigned to each of these acquired intangible assets has required management estimates of revenue growth, gross margins, retention of customer base, technology obsolescence, operating expenses, capital requirements and expected future cash flows. Fair values attributed to the intangible assets acquired in each business acquisition were determined based on the specific circumstances of each acquisition together with management's outlook based on past performance, the business plan, and as incorporated in initial operating and capital budgets. The acquired intangible assets are being amortized on a straight-line basis over five years based on the current estimates of technological obsolescence of five years and a projected 20% annual attrition of the existing customer base. The carrying values of the intangible assets acquired in business acquisitions are reviewed annually for impairment as described below.

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 the 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.

The Company maintains an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on its receivables. Individual overdue accounts are reviewed and allowance adjustments are recorded when determined necessary to state receivables at the realizable value. If the financial condition of customers deteriorates resulting in their diminished

ability or willingness to make payment, additional provisions for doubtful accounts are recorded. Considerable judgement is required to assess the realizable value of the receivables including the probability of collection and the current creditworthiness of each customer. As this involves varying degrees of judgement and uncertainty, actual results could differ from those estimates.

The Company accrues refundable investment tax credit benefits related to qualifying activities, including research and development projects. Considerable judgement is required to assess the various criteria of whether activities qualify. As these activities are audited periodically by the taxation authorities, the actual results attributable to a fiscal period may differ from the accounting estimates posted.

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 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 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

Effective May 1, 2004, the Company adopted the fair value based method of accounting for stock options and warrants granted to employees and directors and elected to apply the new standard retroactively without restatement as prescribed by Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3870, “Stock-based Compensation and Other Stock-based Payments”. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award’s vesting period with a corresponding credit to contributed surplus. The stock-based compensation expense of \$174,000 is recorded in the financial statements for the year ended April 30, 2005. Accordingly, for the years ended April 30, 2004 and 2003, 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 (note 11 (e)). No compensation cost is recognized for this plan when shares are issued to employees and directors

upon the exercise of the options. 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.

The change in accounting for the stock-based compensation has resulted in an adjustment of the opening balance of deficit as of April 30, 2004 for \$4,785,000, with a corresponding credit to contributed surplus, reflecting the prior periods' cost of options and warrants granted since inception of the plan, which occurred in the 1998 fiscal year. Additionally, the capital stock account has been increased by \$353,000 with a corresponding reduction in contributed surplus representing the value of compensation cost associated with the options exercised since inception.

Contingencies

Through the course of operations, the Company is party to a number of 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.

In the 2002 fiscal year, a former customer instituted a lawsuit against the Company claiming damages in the amount of \$3,200,000 for breach of contract and implied warranties, misrepresentation, unfair and deceptive consumer sales practices and unjust enrichment. The Company believes the claim is unfounded and has vigorously contested the lawsuit. No provision is included in the financial statements. Discovery is ongoing with a trial date set for January 2006. The outcome of this claim cannot be determined at this time and it is not possible to reasonably estimate the likely outcome of this claim.

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.

In fiscal 2005, the purchase price allocation regarding the acquisition of ASI identified various intangible assets including in-process research and development with an unamortized balance of \$60,000 as at April 30, 2005. In accordance with Canadian GAAP, the Company provides for the amortization of intangible assets on a straight-line basis over their estimated useful life of five years. U.S. GAAP requires that in-process research and development identified as an intangible asset pursuant to an acquisition is charged to the current period immediately following the acquisition. As such, the net earnings for fiscal 2005 in accordance with U.S. GAAP would be \$274,000 as compared to \$334,000 for Canadian GAAP. There are no significant differences between Canadian and U.S. GAAP for fiscal 2004. The net earnings for fiscal 2004 is \$415,000.

In fiscal 2003, 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 the 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 in accordance with Canadian GAAP. U.S. GAAP requires that the transitional impairment loss is charged to the period, hence the net loss for fiscal 2003 would be \$7.0 million in accordance with U.S. GAAP as compared to \$6.6 million for Canadian GAAP.

The consolidated financial statements prepared in accordance with Canadian GAAP 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 shareholder's equity. The Company has recorded increases in the CTA within shareholder's equity of \$1.2 million in fiscal 2005 compared to \$536,000 and \$1.3 million for fiscal 2004 and fiscal 2003 respectively. The increases to the CTA account represent exchange gains arising on the translation of the Canadian dollar financial statements into U.S. dollars where such gains are posted directly into the shareholder's equity section rather than flowing through the statement of operations.

In accordance with U.S. GAAP, foreign currency translation adjustments are to be considered in determining the comprehensive income (loss). As such, in fiscal 2005, the Company recorded comprehensive income of \$1.5 million compared to \$1.0 million for fiscal 2004 and a comprehensive loss of \$5.6 million for fiscal 2003.

Please refer to note 22 to the consolidated financial statements for further detail.

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 publicly any 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 operation 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, 2005, the Company had an accumulated deficit of \$32.2 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 involves 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 for 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.



Peter Brereton
President and Co-CEO



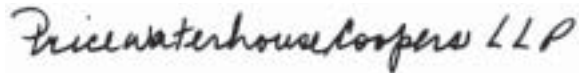
Berty Ho-Wo-Cheong
Vice President, Finance and Administration and
Chief Financial Officer

Auditors' Report to the Shareholders of TECSYS Inc.

We have audited the consolidated balance sheets of TECSYS Inc. as at April 30, 2005 and 2004 and the consolidated statements of operations, deficit and cash flows for each of the years in the three-year period ended April 30, 2005. 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, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended April 30, 2005 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Montreal, Quebec, Canada
June 15, 2005 (except for note 24, which is as of July 14, 2005)

TECSYS Inc.

Consolidated Balance Sheets

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of U.S. dollars)

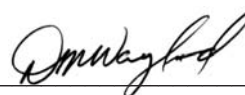
	April 30, 2005	April 30, 2004
Assets		
Current assets		
Cash and cash equivalents	1,054	2,388
Short-term and other investments (note 3)	5,435	5,665
Accounts receivable (note 4)	7,000	4,705
Other accounts receivable	177	579
Tax credits receivable (note 5)	1,241	1,056
Inventory	162	134
Prepaid expenses	749	367
	<hr/>	<hr/>
	15,818	14,894
Restricted cash equivalents and other investments (note 3)	815	747
Property, plant and equipment (note 6)	2,044	2,059
Intangible assets (note 7)	2,239	1,215
Goodwill (notes 2 and 7)	1,827	1,242
	<hr/>	<hr/>
	22,743	20,157
<hr/>		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	4,890	3,691
Current portion of long-term debt (note 10)	106	175
Deferred revenue	1,868	1,809
	<hr/>	<hr/>
	6,864	5,675
Long-term debt (note 10)	410	401
Other long-term liabilities (note 15)	548	613
	<hr/>	<hr/>
	7,822	6,689
<hr/>		
Contingencies and commitments (notes 17 and 18)		
Shareholders' Equity		
Capital stock (note 11)	39,019	39,326
Contributed surplus (note 11)	6,624	1,606
Cumulative translation adjustment	1,493	300
Deficit	(32,215)	(27,764)
	<hr/>	<hr/>
	14,921	13,468
	<hr/>	<hr/>
	22,743	20,157
<hr/>		

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

Approved by the Board of Directors



Director



Director

TECSYS Inc.

Consolidated Statements of Deficit

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of U.S. dollars)

	Years ended April 30,		
	2005	2004	2003
Balance – Beginning of year as originally stated	(27,764)	(28,179)	(21,227)
Adjustment resulting from a change in accounting policy regarding stock-based compensation (note 1)	(4,785)	-	-
Beginning balance as restated	(32,549)	(28,179)	(21,227)
Transitional goodwill impairment loss (note 7(b))	-	-	(346)
Net earnings (loss) for the year	334	415	(6,606)
Balance – End of year	(32,215)	(27,764)	(28,179)

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

TECSYS Inc.

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,		
	2005	2004	2003
Revenue			
Products (note 13)	8,583	6,663	5,317
Services	14,963	10,164	9,080
Reimbursable expenses	726	723	634
	<u>24,272</u>	<u>17,550</u>	<u>15,031</u>
Cost of revenue			
Products	3,179	2,085	2,033
Services (note 14)	7,953	5,371	5,516
Reimbursable expenses	726	723	634
	<u>11,858</u>	<u>8,179</u>	<u>8,183</u>
Gross margin	<u>12,414</u>	<u>9,371</u>	<u>6,848</u>
Operating expenses			
Sales and marketing	5,102	3,834	3,725
General and administration	2,275	1,528	2,458
Gross research and development	3,944	3,375	3,490
Research and development tax credits	(484)	(619)	(808)
Stock-based compensation	174	-	-
Write-off of non-refundable tax credits	-	-	610
Amortization of property, plant and equipment	589	592	685
Impairment loss on intangible assets	-	-	1,059
Amortization of intangible assets	349	198	337
Restructuring charges (note 15)	-	-	1,201
	<u>11,949</u>	<u>8,908</u>	<u>12,757</u>
Earnings (loss) from operations	465	463	(5,909)
Interest income	189	268	240
Interest expense	(36)	(72)	(133)
Foreign exchange losses	(284)	(244)	(794)
Earnings (loss) before income taxes	334	415	(6,596)
Provision for current income taxes (note 12)	-	-	10
Net earnings (loss) for the year	<u>334</u>	<u>415</u>	<u>(6,606)</u>
Weighted average number of common shares outstanding – basic	<u>14,089,359</u>	<u>14,211,996</u>	<u>14,835,297</u>
Basic and diluted net earnings (loss) per common share (in U.S. dollars)	<u>0.02</u>	<u>0.03</u>	<u>(0.45)</u>

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

TECSYS Inc.

Consolidated Statements of Cash Flows

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of U.S. dollars)

	Years ended April 30,		
	2005	2004	2003
Cash flows from			
Operating activities			
Net earnings (loss) for the year	334	415	(6,606)
Adjustments for			
Write-off of non-refundable tax credits	-	-	610
Amortization of property, plant and equipment	589	592	685
Impairment loss on intangible assets	-	-	1,059
Amortization of intangible assets	349	198	337
Unrealized foreign exchange losses (gains)	82	127	(8)
Stock-based compensation	174	-	-
Restructuring charges	-	-	1,015
Changes in non-cash working capital items related to operations			
Decrease (increase) in accounts receivable	130	(274)	4,068
Decrease (increase) in other accounts receivable	47	(138)	342
Decrease in tax credits receivable	160	461	1,292
Decrease in inventory	119	-	-
Decrease (increase) in prepaid expenses	(224)	111	303
Decrease in accounts payable and accrued liabilities	(433)	(878)	(366)
Increase (decrease) in deferred revenue	(559)	(578)	616
	<u>768</u>	<u>36</u>	<u>3,347</u>
Financing activities			
Decrease in bank advances	(275)	-	-
Repayment of long-term debt and capital lease obligations	(104)	(707)	(577)
Issuance of common shares	-	5	-
Purchase of common shares for cancellation	(293)	(360)	(307)
	<u>(672)</u>	<u>(1,062)</u>	<u>(884)</u>
Investing activities			
Decrease (increase) in short-term and other investments	812	6,161	(3,077)
Acquisitions of property, plant and equipment	(223)	(243)	(318)
Proceeds on disposal of property, plant, and equipment	-	-	113
Acquisitions of intangible assets	(13)	(40)	(62)
Business combinations, net of cash and cash equivalents acquired	(2,041)	(3,199)	-
	<u>(1,465)</u>	<u>2,679</u>	<u>(3,344)</u>
Effect of foreign exchange rate fluctuations on cash and cash equivalents	<u>35</u>	<u>32</u>	<u>84</u>
Change in cash and cash equivalents	<u>(1,334)</u>	<u>1,685</u>	<u>(797)</u>
Cash and cash equivalents – Beginning of year	<u>2,388</u>	<u>703</u>	<u>1,500</u>
Cash and cash equivalents – End of year	<u>1,054</u>	<u>2,388</u>	<u>703</u>

Supplementary information (note 16)

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

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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, health care, 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 revenues 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.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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. Revenues 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.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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 billings 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, automobile rental and other charges related to providing services to its customers.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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 adopted the fair value based method of accounting for stock options and warrants granted to employees and directors and elected to apply the new standard retroactively without restatement as prescribed by Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3870, “Stock-based Compensation and Other Stock-based Payments”. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award’s vesting period with a corresponding credit to contributed surplus. The stock-based compensation expense is recorded in the financial statements for the year ended April 30, 2005. Accordingly, for the years ended April 30, 2004 and 2003, 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 (note 11(e)). No compensation cost is recognized for this plan when shares are issued to employees and directors upon the exercise of the options. 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.

The change in accounting for the stock-based compensation has resulted in an adjustment of the opening balance of deficit as of April 30, 2004 of \$4,785,000, with a corresponding credit to contributed surplus, reflecting the prior periods’ cost of options and warrants granted since inception of the plan, which occurred in the 1998 fiscal year. Additionally, the capital stock account has been increased by \$353,000 with a corresponding reduction in contributed surplus representing the value of compensation cost associated with the options exercised since inception.

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.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on its receivables. Individual overdue accounts are reviewed and allowance adjustments are recorded when determined necessary to state receivables at the realizable value. If the financial conditions of customers deteriorate resulting in their diminished ability or willingness to make payment, additional provisions for doubtful accounts are recorded. Considerable judgement is required to assess the realizable value of the receivables, including the probability of collection and the current creditworthiness of each customer. As this involves varying degrees of judgement and uncertainty, actual results could differ from those estimates.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

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 or period:

	Method	Rate/period
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 acquired for internal use over its estimated useful life using the declining balance method at a rate of 30% per year. Technology, customer relationships, other intangible assets, 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 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.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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\$11,934) 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.

The Company accrues refundable investment tax credit benefits related to qualifying activities, including research and development projects. Considerable judgement is required to assess the various criteria of whether activities qualify. As these activities are audited periodically by the taxation authorities, the actual results attributable to a fiscal period may differ from the accounting estimates posted.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

Research and development costs

All costs related to development activities which do not meet generally accepted criteria for deferral and to 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, 2005 and 2004, 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,		
	2005	2004	2003
Contribution to retirement savings	17	18	32
Premiums for other benefits	309	225	206
	<u>326</u>	<u>243</u>	<u>238</u>

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.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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

	2005	2004	2003
Weighted average number of shares – basic	14,089,359	14,211,996	14,835,297
Addition to reflect the impacts of:			
Exercise of employee and director stock options and warrants	80,724	120,511	-
Weighted average number of shares – diluted	14,170,083	14,332,507	14,835,297

Options and warrants to purchase 475,095 common shares (2004 – 332,304; 2003 – 864,799) 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, there is no difference between basic and diluted per share figures for that year.

2 Business combinations

Effective March 1, 2005, the Company acquired 100% of the issued and outstanding shares of Application Solutions Inc. (“ASI”). ASI develops and markets warehouse management solutions and system integration services for the IBM iSeries. The total purchase price of CA\$2,623,000 (US\$2,130,000) consisted of cash, warrants, and costs related to the acquisition.

ASI was wound up into TECSYS Inc. on March 1, 2005 and the results of its operations are included in the accompanying financial statements commencing from that date.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

This business combination was accounted for using the purchase method and resulted in goodwill of CA\$572,000, based on the following allocation of the purchase price to identifiable assets acquired and liabilities assumed:

	CAS	US\$
Current assets	2,780	2,258
Intangible assets		
Technology	503	408
Customer relationships	707	574
Other	155	126
Other long-term assets	169	137
	<hr/>	<hr/>
	4,314	3,503
Current liabilities	2,263	1,838
	<hr/>	<hr/>
Net identifiable assets acquired	2,051	1,665
Goodwill	572	465
	<hr/>	<hr/>
Purchase price	2,623	2,130
Fair value of warrants issued	(24)	(20)
Cash deficit acquired	54	44
	<hr/>	<hr/>
Cash paid, net of cash and cash equivalents acquired	2,653	2,154

Effective April 1, 2005, the Company acquired 100% of the issued and outstanding shares of Symplitech Inc., a consulting practice specializing in the implementation of SAP solutions. The total purchase price of CA\$344,000 (US\$284,000) consisted of cash, warrants, and costs related to the acquisition.

Symplitech was wound up into TECSYS Inc. on April 1, 2005 and the results of its operations are included in the accompanying financial statements commencing from that date.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

This business combination was accounted for using the purchase method and resulted in goodwill of CA\$20,000, based on the following allocation of the purchase price to identifiable assets acquired and liabilities assumed:

	CA\$	US\$
Current assets	188	155
Intangible assets		
Customer relationships	197	163
Other	9	7
Other long-term assets	39	32
	<hr/>	<hr/>
	433	357
Current liabilities	109	90
	<hr/>	<hr/>
Net identifiable assets acquired	324	267
Goodwill	20	17
	<hr/>	<hr/>
Purchase price	344	284
Fair value of warrants issued	(33)	(27)
Cash and cash equivalents acquired	(2)	(2)
	<hr/>	<hr/>
Cash paid, net of cash and cash equivalents acquired	309	255

The agreement for the acquisition of Symplistech includes provisions for an additional balance of the purchase price payable to the vendors. The balance of the purchase price will be an amount equal to 20% of the services billed to existing customers up to a maximum of CA\$350,000 (US\$278,000) until the earlier of the fifth anniversary of the acquisition date or the resignation of a key employee or his termination for cause. The balance of the purchase price will be accounted for as a variable compensation expense as it is incurred.

Effective January 1, 2004, the Company acquired 100% of the issued and outstanding shares of PointForce Inc., a company which develops, markets and sells distribution software products primarily to the import-to-retail distribution market. The total purchase price 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.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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 former PointForce shareholders	487	374
	<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 amount paid over the final price, was included in other receivables as at April 30, 2004 and was reimbursed to the Company in the first quarter of fiscal 2005. The CA\$487,000 (US\$368,000 at the time of receipt) is reflected as a recovery on the business combinations line within "Investing activities" on the consolidated statement of cash flows in fiscal year 2005.

None of the goodwill or intangible assets acquired in the above acquisitions is deductible against corporate income taxes.

TECSYS Inc.

Notes to Consolidated Financial Statements

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(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

3 Short-term and other investments

Short-term and other investments comprise the following:

	April 30, 2005	April 30, 2004
Commercial paper denominated in Canadian dollars, bearing interest at rates of between 2.25% and 2.45% (2004 – 1.90% and 2.05%), maturing through August 15, 2005 (2004 – December 19, 2004)	6,250	6,412
Presented as:		
Short-term investments	5,435	5,665
Restricted cash equivalents and other investments	815	747

As at April 30, 2005, the Company is obligated to provide short-term investments totalling CA\$1,024,000 (US\$815,000) (April 30, 2004 – CA\$1,024,000 (US\$747,000)) as security for outstanding letters of guarantee expiring beyond one year from April 30, 2005 (note 8(c)). As a result, this amount has been classified as restricted cash equivalents and other investments.

4 Accounts receivable

Accounts receivable comprise the following:

	April 30, 2005	April 30, 2004
Trade, net of an allowance for doubtful accounts of \$135 (April 30, 2004 – \$1,221)	6,467	4,398
Work in process	533	307
	<u>7,000</u>	<u>4,705</u>

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5 Tax credits receivable

Tax credits receivable comprise the following:

	April 30, 2005	April 30, 2004
Refundable research and development tax credits	444	304
Refundable multimedia tax credits	797	752
	<u>1,241</u>	<u>1,056</u>

6 Property, plant and equipment

Property, plant and equipment comprise the following:

	<u>April 30, 2005</u>		
	Cost	Accumulated amortization	Net
Computer equipment	5,479	4,492	987
Furniture and fixtures	2,076	1,476	600
Exhibition equipment	338	271	67
Leasehold improvements	1,294	904	390
	<u>9,187</u>	<u>7,143</u>	<u>2,044</u>
	<u>April 30, 2004</u>		
	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>

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- b) The changes in the carrying amount of goodwill for the years ended April 30, 2005 and 2004 are as follows:

	Years ended April 30,	
	2005	2004
Balance – Beginning of year	1,242	-
Business combinations (note 2)	482	1,317
Effect of foreign exchange	103	(75)
Balance – End of year	1,827	1,242

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 the 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 2005. This agreement obliges the Company to respect certain covenants in the form of financial ratios, which have been respected as of April 30, 2005.
- 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\$597,000) which may be used to issue forward exchange contracts regarding the sale or purchase of foreign currencies. As at April 30, 2005 and 2004, 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\$1,193,000). As at April 30, 2005, CA\$1,024,000 (US\$815,000) of this facility was used to obtain letters of guarantee in favour of one of the Company’s landlords and must be renewed annually through fiscal 2010 as per the terms of the lease.
- d) These facilities are secured by a first ranking general hypothec of CA\$2,000,000 on all present and future moveable assets.

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9 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	April 30, 2005	April 30, 2004
Trade	3,039	2,214
Accrued employee costs	1,311	1,060
Other	540	417
	<u>4,890</u>	<u>3,691</u>

10 Long-term debt

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

	April 30, 2005	April 30, 2004
Expansion term loan, bearing interest based on the lender's banking rates (5.75% as of April 30, 2005), repayable in October 2006 (CA\$500,000)	398	365
Subordinated loan from a person related to certain shareholders, bearing interest at 12.67%, with no specific terms of repayment (CA\$107,000)	85	78
Capital lease obligations (CA\$41,000; 2004 – CA\$98,000)	33	72
Term loan from the Economic Development Agency of Canada, non-interest bearing, (CA\$84,000), repaid in 2004	-	61
	<u>516</u>	<u>576</u>
Less: Current portion	106	175
	<u>410</u>	<u>401</u>

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- b) As at April 30, 2005, future minimum payments required under capital lease obligations are as follows:

Years ending April 30, 2006	24
2007	<u>12</u>
	36
Less: Amounts representing interest (weighted average interest rate of 11.4%)	<u>3</u>
	33
Less: Current portion	<u>21</u>
	<u>12</u>

- c) The estimated aggregate amount of capital repayments on long-term debt as at April 30, 2005, excluding capital lease obligations, required in future years to fully reimburse these obligations is as follows:

Years ending April 30, 2006	85
2007	398

- d) Interest expense on long-term debt and capital lease obligations amounted to US\$36,000, US\$72,000 and US\$97,000 in 2005, 2004 and 2003 respectively.
- e) Certain of these loans and obligations require the Company to respect certain financial covenants, which were respected as of April 30, 2005.

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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, 2002:

	<u>Common shares</u>	
	Number of shares	Amount
Balance – April 30, 2002	14,970,547	41,594
Repurchase of common shares	<u>(487,800)</u>	<u>(1,303)</u>
Balance – April 30, 2003	14,482,747	40,291
Repurchase of common shares	(327,700)	(970)
Issuance of common shares pursuant to exercise of stock options	<u>3,750</u>	<u>5</u>
Balance – April 30, 2004	14,158,797	39,326
Repurchase of common shares	(235,500)	(660)
Change in accounting policy regarding prior years' stock-based compensation related to options exercised (note 1)	<u>-</u>	<u>353</u>
Balance – April 30, 2005	<u>13,923,297</u>	<u>39,019</u>

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The following table summarizes the contributed surplus activity since April 30, 2002:

	Amount
Balance – April 30, 2002	-
Repurchase of 487,800 common shares – excess of net book value over purchase price	<u>996</u>
Balance – April 30, 2003	996
Repurchase of 327,700 common shares – excess of net book value over purchase price	<u>610</u>
Balance – April 30, 2004	1,606
Repurchase of 235,500 common shares – excess of net book value over purchase price and related costs	365
Change in accounting policy regarding prior years' stock-based compensation (note 1)	4,785
Change in accounting policy regarding prior years' stock-based compensation related to options exercised (note 1)	(353)
Current year's stock-based compensation	174
Fair value of warrants issued regarding ASI acquisition (note 2)	20
Fair value of warrants issued regarding Symplistech acquisition (note 2)	<u>27</u>
Balance – April 30, 2005	<u>6,624</u>

- c) On July 15, 2004, 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 700,000 of its common shares, being approximately 5% of the 14,158,797 common shares outstanding as at June 30, 2004, but not more than 2% of such outstanding shares in any 30-day period. Under this renewal, the Company may purchase common shares if it considers it advisable, at any time and from time to time until July 16, 2005. The common shares will be purchased for cancellation.

During the year, the Company purchased 235,500 (2004 – 327,700) of its outstanding common shares for cancellation at an average price of CA\$1.51 (US\$1.23) per share (2004 – CA\$1.44 (US\$1.05)). The total cost related to purchasing these shares, including other related costs, was CA\$360,000 (US\$293,000) (2004 – CA\$495,000 (US\$360,000)). The excess of the net book value over the purchase price of these shares of CA\$615,000 (US\$370,000) (2004 – CA\$844,000 (US\$610,000)) has been credited to contributed surplus.

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- 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% (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, 2005:

Exercise price US\$	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price US\$	Number exercisable	Weighted average exercise price US\$
0.79	110,750	1.48	0.79	96,906	0.79
0.94 – 1.40	497,075	2.84	1.26	239,450	1.25
1.41 – 2.11	271,395	3.79	1.66	76,222	1.71
2.52	125,750	0.71	2.52	125,750	2.52
4.71	4,950	0.56	4.71	4,950	4.71
	<u>1,009,920</u>	<u>2.67</u>	<u>1.49</u>	<u>543,278</u>	<u>1.56</u>

As at April 30, 2004, there were 325,439 options exercisable at a weighted average exercise price of US\$1.82.

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

	Number of options	Weighted average exercise price CAS	Weighted average exercise price US\$
Balance – April 30, 2002	910,592	5.64	3.60
Granted	175,450	1.50	0.98
Expired	(143,456)	(4.10)	(2.67)
Forfeited	(77,787)	(4.85)	(3.15)
Balance – April 30, 2003	864,799	5.12	3.57
Granted	464,300	1.76	1.31
Exercised	(3,750)	(1.70)	(1.27)
Expired	(134,681)	(4.10)	(3.05)
Forfeited	(230,814)	(12.00)	(8.93)
Balance – April 30, 2004	959,854	2.00	1.46
Granted	128,500	1.91	1.50
Expired	(24,779)	(6.90)	(5.43)
Forfeited	(53,655)	(1.97)	(2.85)
Balance – April 30, 2005	1,009,920	1.87	1.49

As an integral part of the ASI acquisition cost, each of the five former owners was issued 5,000 warrants to purchase in aggregate 25,000 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 five trading days preceding February 28, 2005 (the “Grant Date”). The exercise price per warrant was CA\$1.64 (US\$1.30). The warrants will vest 33.33% on each anniversary of the Grant Date over a three-year period and will expire four years from the Grant Date.

As an integral part of the Symplistech acquisition cost, a former owner 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 five trading days preceding March 31, 2005 (the “Grant Date”). The exercise price per warrant was CA\$1.73 (US\$1.38). The warrants will vest 25% on the first anniversary of the Grant Date and 6.25% per quarter thereafter and will expire five years from the Grant Date.

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In fiscal 2004, 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 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, 2005:

Exercise price US\$	Number outstanding	Warrants outstanding		Warrants exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price US\$	Number exercisable	Weighted average exercise price US\$
1.30 – 1.62	85,000	3.37	1.44	7,500	1.62

The following table summarizes the stock warrant activity:

	Number of warrants	Weighted average exercise price CA\$	Weighted average exercise price US\$
Balance – April 30, 2003	-	-	-
Granted	30,000	2.03	1.48
Balance – April 30, 2004	30,000	2.03	1.48
Granted	55,000	1.69	1.34
Balance – April 30, 2005	85,000	1.81	1.44

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e) Stock-based compensation costs

Commencing May 1, 2004, the Company adopted the fair value based method of accounting for stock options and warrants granted to employees and directors and elected to apply the new standard retroactively without restatement. The stock-based compensation cost recorded for the year ended April 30, 2005 was CA\$221,000 (US\$174,000). Stock-based compensation costs are not reflected in the statement of operations for the years ended April 30, 2004 and 2003. 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
Net earnings (loss) for the year	415	(6,606)
Stock-based compensation costs	(219)	(551)
Pro forma net earnings (loss) for the year	196	(7,157)
Pro forma basic and diluted net earnings (loss) per common share	0.01	(0.48)

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,		
	2005	2004	2003
Volatility	62.5%	75%	75%
Risk-free interest rate	3.7%	3.0%	3.0%
Dividend yield	nil	nil	nil
Expected lives (in years)	4	3	3

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Following is a summary of the weighted average grant date fair value of options and warrants granted during the years ended April 30, 2005, 2004 and 2003:

	Number of options and warrants	Weighted average exercise price US\$	Weighted average grant date fair value US\$
2005 Warrants	55,000	1.34	0.81
2005 Options	128,500	1.50	0.76
2004 Warrants	30,000	1.48	0.86
2004 Options	464,300	1.31	0.67
2003 Options	175,450	0.98	0.49

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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,		
	2005 %	2004 %	2003 %
Combined basic federal and provincial statutory income tax rate	33.19	32.07	34.59
Unrecognized benefit of non-capital losses and undeducted research and development expenses	29.38	-	(23.71)
Benefit of previously unrecognized non-capital losses and undeducted research and development expenses	(119.32)	(19.22)	-
Unrecognized benefit of net operating losses of U.S. subsidiaries	-	-	(0.04)
Benefit of previously unrecognized net operating losses of U.S. subsidiaries	(1.17)	(1.65)	-
Unrecognized benefit of current year temporary differences	89.52	5.08	(10.89)
Large corporations tax	-	-	0.15
Permanent differences including non-deductible expenses and non-taxable foreign exchange gains	(31.60)	(16.28)	0.10
Other	-	-	(0.05)
Provision for income taxes per the financial statements	-	-	0.15

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

	April 30, 2005	April 30, 2004
Future income tax assets		
Non-refundable research and development tax credits (net of related income taxes)	4,053	3,966
Research and development expenses	4,370	3,675
Share issue costs	8	12
Non-capital losses	1,815	2,041
Net operating losses of U.S. subsidiaries	1,624	1,628
Property, plant and equipment	1,873	1,419
Other	254	256
	<hr/>	<hr/>
	13,997	12,997
Valuation allowance	(13,288)	(12,809)
	<hr/>	<hr/>
Total future income tax assets	709	188
Future income tax liabilities		
Multimedia tax credits	(41)	(188)
Intangible assets on business acquisitions	(668)	-
	<hr/>	<hr/>
Total future income tax liabilities	-	-

- c) As at April 30, 2005, the Company had accumulated research and development expenses of approximately CA\$16,510,000 (US\$13,135,000) for Federal income tax purposes, CA\$14,594,000 (US\$11,611,000) for Quebec provincial income tax purposes, and CA\$17,482,000 (US\$13,909,000) for Ontario provincial income tax purposes which may be carried forward indefinitely and used to reduce taxable income in future years.

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- d) As at April 30, 2005, the Company had non-capital loss carryforwards totalling approximately CA\$5,790,000 (US\$4,607,000) for Canadian Federal income tax purposes, CA\$11,368,000 (US\$9,044,000) for Quebec provincial income tax purposes, and CA\$6,792,000 (US\$5,404,000) for Ontario 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 CAS	Quebec Provincial CAS	Ontario Provincial CAS
2007	-	341	-
2008	-	1,134	-
2009	3,295	5,217	4,340
2010	1,180	4,250	1,198
2011	889	-	889
2012	426	426	365

- e) As at April 30, 2005, the Company's U.S. subsidiaries had net operating loss carryforwards for Federal income tax purposes totalling approximately US\$5,049,000 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	3,912
2023	174
2024	10

13 Product revenue

Product revenue is broken down as follows:

	Years ended April 30,		
	2005	2004	2003
Software products	4,031	2,779	2,209
Third party hardware and software products	4,552	3,884	3,108
	8,583	6,663	5,317

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14 Cost of services

Cost of services is detailed as follows:

	Years ended April 30,		
	2005	2004	2003
Gross expenses	8,471	5,983	6,246
Multimedia tax credits	(518)	(612)	(730)
	<u>7,953</u>	<u>5,371</u>	<u>5,516</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	<u>256</u>
	<u>1,201</u>

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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
	<hr/>
Provision as at April 30, 2003	834
Actual expenses – 2004	(160)
Foreign exchange	41
	<hr/>
Provision as at April 30, 2004	715
Actual expenses – 2005	(102)
Foreign exchange	55
	<hr/>
Provision as at April 30, 2005	668

As at April 30, 2005, the provision has been presented as follows:

Accounts payable and accrued liabilities	120
Other long-term liabilities	548
	<hr/>
	668

16 Supplementary cash flow information

	<u>Years ended April 30,</u>		
	2005	2004	2003
Cash paid for interest	36	72	118
Cash paid (received) for income taxes	-	(4)	14

17 Contingencies

- In the 2002 fiscal year, a former customer instituted a lawsuit against the Company claiming damages in the amount of \$3,200,000 for breach of contract and implied warranties, misrepresentation, unfair and deceptive consumer sales practices and unjust enrichment. The Company believes the claim is unfounded and has vigorously contested the lawsuit. No provision is included in the financial statements. Discovery is

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ongoing with a trial date set for January 2006. The outcome of this claim cannot be determined at this time and it is not possible to reasonably estimate its likely outcome.

- b) 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.
- c) 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\$197,000) 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\$1,094), which instalments are being paid by the Foundation. The outstanding principal balance of the mortgage amounted to CA\$209,000 (US\$166,000) as at April 30, 2005. The mortgage is secured by the land and building.

18 Commitments

- a) As at April 30, 2005, the minimum future rental payments required under long-term operating leases are as follows:

2006	1,379
2007	1,241
2008	1,029
2009	1,015
2010	1,025

- 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. Revenues derived from the operations of acquired companies are exempt from royalties only for a period of 18 months from the date of the acquisition. Revenues derived from the operations of PointForce are exempt until June 30, 2005. Similarly, revenues derived from the operations of ASI and Symplitech are exempt from royalties until August 31, 2006 and September 30, 2006 respectively.

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 related to this agreement of \$155,000 for the twelve-month period ended April 30, 2005 and \$39,000 for the period from February 1, 2004 to April 30, 2004.

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19 Related party transactions

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

	<u>Years ended April 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest on advances from a person related to certain shareholders	11	10	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.

During fiscal 2005, the Company protected a portion of its net monetary U.S. assets by means of various forward exchange contracts to sell U.S. currency forward.

As at April 30, 2005 and 2004, the Company held no forward exchange contracts outstanding to hedge against potential gains or losses due to currency fluctuations.

Subsequent to the current year ended April 30, 2005, the Company undertook another forward exchange contract to sell US\$2,000,000 forward at a rate of 1.2522 on July 29, 2005.

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.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

There is no customer comprising more than 10% 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 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 the 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\$796,000) respectively, in any given year. As at April 30, 2005, accounts receivable (prior to the allowance for doubtful accounts) include accounts totalling US\$1,905,000 and CA\$777,000 (US\$618,000) that were pre-approved for coverage, subject to the above-noted maximums, under this arrangement (April 30, 2004 – US\$3,763,000 and CA\$841,000 (US\$614,000)).

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, 2005 and 2004. The fair value of other long-term liabilities, including the current portion, as at April 30, 2005 was \$578,000 (2004 – \$607,000) versus a carrying value of \$668,000 (2004 – \$715,000).

d) Interest rate risks

As at April 30, 2005, 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
Restricted cash equivalents and other investments	As described in note 3
Accounts receivable	Non-interest bearing
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.

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(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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

	Years ended April 30,		
	2005	2004	2003
United States	12,114	11,109	11,135
Canada	11,969	6,208	3,651
Other	189	233	245
	24,272	17,550	15,031

Major customers

There were no major customers (customers from which 10% or more of total revenue is derived during the specified period) for fiscal year 2005 and 2004. In fiscal 2003, one customer accounted for 11.6% of total revenue.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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 net earnings (loss) per share under Canadian GAAP as compared to U.S. GAAP:

	Years ended April 30,		
	2005	2004	2003
Net earnings (loss) for the year in accordance with Canadian GAAP	334	415	(6,606)
Write-off of in-process research & development relating to ASI acquisition	(60)	-	-
Transitional goodwill impairment loss	-	-	(346)
Net earnings (loss) for the year in accordance with U.S. GAAP	274	415	(6,952)
Other comprehensive income			
Foreign currency translation adjustments	1,193	536	1,313
Comprehensive income (loss)	1,467	951	(5,639)
Basic and diluted net earnings (loss) per share	0.02	0.03	(0.47)

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

b) Summary statements of operations

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

	Years ended April 30,		
	2005	2004	2003
Revenues	24,272	17,550	15,031
Gross margin	12,414	9,371	6,848
Operating expenses	12,009	8,908	12,757
Earnings (loss) from operations	405	463	(5,909)
Net earnings (loss)	274	415	(6,952)

c) Write-off of in-process research and development projects regarding the ASI acquisition

In fiscal 2005, the purchase price allocation regarding the acquisition of ASI identified various intangible assets including in-process research and development with an unamortized balance of \$60,000 as at April 30, 2005. In accordance with Canadian GAAP, the Company provides for the amortization of intangible assets on a straight-line basis over their estimated useful life of five years. U.S. GAAP requires that in-process research and development identified as an intangible asset pursuant to an acquisition is charged to the current period immediately following the acquisition.

d) 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 consolidated 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.

e) 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.

TECSYS Inc.

Notes to Consolidated Financial Statements

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in U.S. dollars, tabular amounts in thousands, except as otherwise noted)

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 June 21, 2005, the Company adopted a resolution to amend the stock option plan (the "Plan") adopted in 1998 (note 11(d)) to change the total number of common shares which may be issued upon the exercise of options that may be granted under the Plan. The amendment would increase the maximum number of stock options from 1,145,000 to 10% of the total number of common shares issued and outstanding. The amendment to the Plan requires the approval of the Toronto Stock Exchange and the Company's shareholders at the next shareholders meeting.

On July 14, 2005, the Company filed a one-year renewal with the Toronto Stock Exchange, a 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 market prices, through the facilities of the Toronto Stock Exchange, up to a maximum of 690,000 of its common shares, being approximately 5% of the 13,857,797 common shares outstanding as of June 30, 2005, but not more than 2% of such outstanding common shares 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 between July 19, 2005 and July 18, 2006.

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 (CAS)	Low (CAS)	Volume (Total)
Fiscal 2005, May 2004 to April 2005			
First Quarter	\$ 2.45	\$ 1.50	443,714
Second Quarter	\$ 2.00	\$ 1.60	497,599
Third Quarter	\$ 1.79	\$ 1.26	1,762,433
Fourth Quarter	\$ 2.20	\$ 1.42	845,033

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

Peter Brereton

President and Co-CEO, TECSYS Inc.

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Peter Brereton

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Berty Ho-Wo-Cheong

Vice President, Finance and Administration and Chief Financial Officer

Patricia Barry

Vice President, Human Resources

Greg MacNeill

President, Logistics Management Group

Andrew Ford

President, SMB Group

Brian Stevenson

President, Transportation Management Group

René Poirier

Senior Vice President, Operations

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⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Compensation Committee

Corporate Information

Corporate Headquarters

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The statements in this report relating to matters that are not historical fact are forward looking statements that are based on management's beliefs and assumptions. Such statements are not guarantees of future performance, and are subject to a number of uncertainties, including but not limited to future economic conditions, the markets that TECSYS Inc. serves, the actions of competitors, major new technological trends and other factors beyond the control of TECSYS Inc., which could cause actual results to differ materially from such statements.

