

TECSYS Inc.

1st Quarter

Fiscal 2010 Report

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

Dear Shareholder,

In Q1 of fiscal 2010, our business continued to prove resilient, generating cash and delivering positive results, both from operations and net earnings in spite of the economic climate. Our focus on proprietary software sales during this downturn is demonstrated by our numbers with sales of our own software and services rising by 4% in comparison to Q1 of last fiscal year while sales of third-party products dropped by 45%. This improved business mix more than compensated for the reduction in overall revenue and drove our gross margin up to 46% from 39% in Q1 of last year.

Below are the key financial highlights for the quarter:

- Revenue was \$9.2M in Q1 of fiscal 2010 compared to \$10.2M in Q1 in fiscal 2009. (License revenue held steady and services grew, but hardware and other third-party products dropped by \$1.3M.)
- Earnings from operations in Q1 of fiscal 2010 increased to \$300K compared to \$266K in Q1 2009.
- EBITDA for Q1 of fiscal 2010 was \$455K compared to \$656K for Q1 of last fiscal year. (Last year, we gained on exchange and this year, we lost on exchange.)
- Net earnings in Q1 of fiscal 2010 were \$108K or \$0.01 per share, compared to \$274K or \$0.02 per share for the first quarter of last fiscal year. Net earnings were achieved after accounting for net interest income of \$2K, foreign exchange losses of \$168K and a share of net loss and amortization of intangible assets of \$26K from a company in which TECSYS has an equity interest.
- Annualized recurring revenue stood at \$12.8M at the end of Q1 of fiscal 2010, up from \$11.7M at the end of Q1 of fiscal 2009.

Our cash position continues to be strong. During the quarter, we generated \$442K cash from operations, up from \$47K in the first quarter of the prior fiscal year. Cash and cash equivalents and short-term investments amounted to \$8.0M compared to \$5.5M at the end of Q1, 2009 with no significant long-term debt.

During the quarter, we signed agreements with nine existing clients and new customers. From a services' perspective, we completed the deployment of our supply chain execution solutions at twenty customers in Canada, the U.S. and Europe.

We renewed our Normal Course Issuer Bid during the quarter and purchased 144,340 of our outstanding common shares for cancellation at an average price of \$1.77 per share for a total cost of \$258K. In addition, as per our dividends policy, and due to our continued positive performance as well as cash generation, the board declared a two and half cent dividend, a 25% increase over our previously declared dividends; to be paid on October 7, 2009 to shareholders of record on September 23, 2009.

The increase of our dividend underscores our commitment to shareholders and makes dividend distribution on an annual basis equal to approximately 15% of cash from operations generated within the last twelve months.

Our business development initiatives continue to be strong and our sales pipeline healthy. At the end of the quarter, our annualized recurring revenue stood at \$12.8M up from \$11.7M at the end of Q1, 2009, and our backlog stood at \$18.4M. Recurring revenue is principally made-up of annual software maintenance contracts. Moving forward, we remain cautiously optimistic about our business opportunities while continuing to monitor the changing landscape.

Thank you for your ongoing support.

Sincerely,



Peter Brereton
President and CEO

TECSYS Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations dated September 10, 2009

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of TECSYS Inc. ("Company") and Notes thereto, which are included in this document. This discussion and analysis should also be read in conjunction with the annual report for fiscal year 2009. The Company's first quarter for fiscal year 2010 ended on July 31, 2009. Additional information about the Company, including copies of the continuous disclosure materials such as the annual information form and the management proxy circular are available through the SEDAR website at <http://www.sedar.com>.

These interim unaudited consolidated financial statements have not been reviewed by the Company's auditors.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and all financial data derived there from in this interim report are expressed in Canadian dollars. The Company's functional currency is the Canadian dollar as substantially all of the Company's assets, operations and resources are located in Canada.

Quarterly Selected Financial Data

(Quarterly data are unaudited)

In thousands of Canadian dollars, except per share data

	2010 Q1	Q4	2009 Q3	Q2	Q1	Q4	2008 Q3	Q2
Total Revenue	9,198	10,420	9,649	10,711	10,237	10,612	10,690	9,846
Net Earnings	108	572	97	644	274	49	723	414
Basic & Diluted Net Earnings per Common Share	0.01	0.04	0.01	0.05	0.02	-	0.05	0.03

Results of Operations

Three months ended July 31, 2009 compared to three months ended July 31, 2008

Revenue

Total revenue for the first quarter ended July 31, 2009 decreased to \$9.2 million, \$1.0 million or 10% lower, compared to \$10.2 million for the same period of fiscal 2009.

Products revenue decreased to \$2.9 million, \$1.5 million or 34% lower, in the first quarter of fiscal 2010 in comparison to \$4.4 million for the same period last year. The decrease was comprised primarily of a drop of \$1.3 million in third-party product sales due to a general lack of interest in hardware upgrades during this downturn and an increased focus on sales of proprietary products and services. Additionally, the first quarter of fiscal 2009 can be characterized as a better than average quarter regarding third-party revenues as higher volumes of radio frequency equipment and IBM servers on a few large orders from base accounts were realized. The current economic, financial, and credit environment in North America is clearly having an impact in delaying capital investment decisions by customers.

Services increased to \$6.0 million, higher by \$442,000 or 8%, in the first quarter of fiscal 2010 compared to \$5.5 million for the same period in the previous fiscal year. The improved performance was generated by higher professional services, support, and hosting activities and partially offset by diminished activity for custom enhancements. This increase in service revenue is mainly due to a strong service revenue backlog at the end of the fourth quarter of fiscal 2009.

As a percentage of total revenue, products accounted for 32% and services for 65% in the first quarter of fiscal 2010 compared to 43% and 54%, respectively, in the first quarter of fiscal 2009.

Cost of Revenue

Total cost of revenue decreased to \$5.0 million, lower by \$1.2 million or 20%, in the first quarter of fiscal 2010 compared to \$6.2 million for the same three-month period in fiscal 2009. The decrease is mainly due to a reduction

of third-party product costs for \$1.2 million related to the decrease of third-party product revenues mentioned earlier and to a slight decrease in services cost for \$76,000.

The decrease in the cost of services is attributable to lower traveling expenses and overhead costs, and higher tax credits offset by higher employee costs as there has been a slight increase in headcount to satisfy the service backlog requirements. The cost of services includes tax credits of \$198,000 for the first three months of fiscal 2010 compared to \$116,000 for the same period in the previous fiscal year. The increase in tax credits relates to the new e-business tax credits introduced by the Quebec government in March 2008 for which the Company believes that it qualifies.

Gross Margin

The gross margin increased to \$4.2 million, higher by \$206,000 or 5%, for the first quarter of fiscal 2010 in comparison to \$4.0 million for the same period last year. Total gross margin percentage in the first quarter of fiscal 2010 was 46% compared to 39% in the same period of fiscal 2009. The increase in the gross margin percentage is due to changes in the revenue mix characterized by lower third party products and a higher margin percentage on services. The increase in the gross margin is attributable to higher services margin of \$518,000 as revenues increased significantly while costs remained relatively stable. Services margin during the first quarter of fiscal 2010 increased to 40% compared to 34% for the same period of fiscal 2009. The diminished revenues for proprietary and third-party products were the primary cause for lower product margins of \$312,000.

Operating Expenses

Total operating expenses for the first quarter increased to \$3.9 million, \$172,000 or 5% higher, compared to the same three-month period last year.

The most notable differences between the first quarter of fiscal 2010 in comparison with the same period in fiscal 2009 are as follows.

- Sales and marketing expenses decreased \$195,000 or 12% to \$1.4 million. The decrease is primarily attributable to lower commissions, European sales costs, marketing program expenses, and travel.
- General and administrative expenses increased to \$1.1 million, \$270,000 or 33% higher. The increase is due to an increased provision of doubtful accounts of \$204,000 as a result of a potential bankruptcy, higher consulting and legal fees of approximately \$80,000, offset by lower management incentives.
- Gross R&D expenses increased to \$1.4 million, \$181,000 or 15% higher. The increase is primarily attributable to higher employee related, overhead, and consulting expenses as a result of the Company focusing its efforts on the migration to the Java platform.
- Capitalized deferred development costs increased to \$178,000, \$46,000 higher. As anticipated the Company accelerated the migration of its existing product onto the Java platform during this quarter.
- The amortization of deferred development costs increased to \$91,000, \$54,000 higher. The increased expense is due to the incremental capitalization related to version 7.7 and 8.0 of the Company's flagship product, EliteSeries, which were released in fiscal 2009.
- The amortization of intangible assets decreased to \$122,000, \$71,000 lower. The decrease is attributable to the fully amortized intangible assets of PointForce Inc., an acquisition dating back to January 1, 2004. These intangible assets were fully amortized by the end of December 2008.

Earnings from Operations

Earnings from operations increased slightly to \$300,000 representing 3% of revenues in the first quarter of fiscal 2010 in comparison to \$266,000 representing 3% of revenues for the first quarter of the previous year.

Other Income and Expenses

In the first quarter of fiscal 2010, the Company recorded net interest income of \$2,000 compared to a net interest expense of \$5,000 for the comparable period last year.

The Company recorded an exchange loss of \$168,000 during the first quarter of fiscal 2010 compared to a \$12,000 exchange gain for the comparable period last year. The unfavorable result of the current quarter was due to a timing difference between the generation of revenue recognition and the corresponding accounts receivable and the execution of the forward exchange contract on these U.S. monetary assets. The U.S. dollar to Canadian dollar exchange rate stood at CA\$1.194 at April 30, 2009 in comparison to CA\$1.079 at July 31, 2009.

On July 31, 2009, the Company held outstanding foreign exchange contracts with various maturities to January 29, 2010 to sell US\$4,100,000 into Canadian dollars at rates averaging CA\$1.1969 to yield CA\$4,907,000. The Company recorded unrealized exchange gains of \$484,000 related to these contracts for the period ended July 31, 2009. Subsequent to the first quarter, the Company sold US\$210,000 at a spot rate of CA\$1.0626 and another US\$1,100,000 at CA\$1.098 with a settlement date of April 30, 2010 to yield CA\$1,208,000.

The Company did not write-down the carrying value of the asset-backed commercial paper in either the first quarter of fiscal 2009 or fiscal 2010. Please refer to note 6 of these consolidated financial statements and to note 7 in the 2009 annual report for a detailed discussion of this matter.

Net Earnings

The Company recorded net earnings of \$108,000 or \$0.01 per share in the first quarter of fiscal 2010 compared to net earnings of \$274,000 or \$0.02 per share for the same period last year.

Liquidity and Capital Resources

On July 31, 2009, current assets totaled \$20.3 million compared to \$20.1 million at the end of fiscal 2009. Cash, restricted cash equivalents, short-term and other investments, and asset-backed commercial paper less the bank advances increased to \$8.2 million compared to \$8.1 million as at April 30, 2009. Accounts receivable and work in progress totaled \$8.9 million on July 31, 2009 compared to \$9.6 million as at April 30, 2009. The Company's DSO (days sales outstanding) increased to 87 days at the end the first quarter of fiscal 2010 in comparison to 83 days at the end of fiscal 2009 and 90 days at the end of the first quarter of fiscal 2009.

Current liabilities on July 31, 2009 totaled \$15.8 million compared to \$15.5 million at the end of fiscal 2009. Working capital remained flat at \$4.5 million at the end of July 31, 2009 in comparison the end of fiscal year 2009.

During the first quarter of fiscal 2010, operating activities generated funds of \$442,000 compared to \$47,000 for the same period last year. Operating activities in the first quarter of fiscal 2010 excluding non-cash working capital items used funds of \$137,000 and net non-cash working capital generated funds of \$579,000 primarily due to reductions in accounts receivable and increases of the deferred revenues and offset by reductions of accounts payable and accrued liabilities and increases in prepaid expenses. During the first quarter of fiscal 2009, operating activities excluding non-cash working capital items generated \$661,000 and net non-cash working capital used funds of \$614,000 mainly due to increases in accounts receivable, work-in-progress, and tax credit receivables, and decreases of deferred revenues.

The Company believes that funds on hand at July 31, 2009, together with short term investments and cash flow from operations, and access to the revolving line of credit, 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 used funds of \$258,000 for the first quarter of fiscal 2010 and generated \$7,000 for the same three-month period in fiscal 2009. During the first quarter of fiscal 2010, the Company purchased 144,340 of its outstanding common shares for cancellation at an average price of \$1.77 per share under a Normal Course Issuer Bid (NCIB). The total cost related to the purchasing of these shares including other related costs, was \$258,000. During the first quarter of fiscal 2009, the Company purchased 6,100 shares at an average price of \$1.54 per share. The total cost related to the purchasing of these shares, including related costs, was \$10,000. Additionally, during the first quarter of fiscal 2009, 12,500 options were exercised to purchase shares generating \$20,000.

During the first quarter of fiscal 2010, investing activities used funds amounting to \$44,000 in comparison to \$251,000 for the comparable period of fiscal 2009. In the first quarter of fiscal 2010, the Company received \$17,000 in partial redemption of the principal and \$70,000 as interest on the third-party ABCP. The principal and interest received was used to write-down the carrying value of the ABCP and was not reported as interest income. The Company used funds of \$152,000 and \$240,000 for the acquisition of property and equipment, and intangible assets for the first quarter of fiscal 2010 and fiscal 2009 respectively. Additionally, the Company collected \$21,000 and \$12,000 on previously advanced loans to TECSYS Latin America (TLA) for the first quarter of fiscal 2010 and fiscal 2009 respectively. In the first quarter of fiscal 2009, the Company used \$23,000 for increasing its investment serving as a guarantee to one of its landlords.

Related Party Transactions

The company has a subordinated loan for \$107,000 from a person related to certain shareholders, bearing interest at 12.67%. The loan is payable on the earlier of demand or on the death of the lender. The same amount was outstanding as at July 31, 2009 and July 31, 2008.

Pursuant to the equity investments in TECSYS Latin America Inc (TLA), as described in note 10 of the 2009 annual report, the Company has committed to advance funds to TLA for an aggregate amount of US\$250,000. During 2007 and 2008, the Company provided four loans of US\$50,000 each at various dates amounting to US\$200,000. These amounts are repayable over four years commencing six months following each advance. The loans bear interest at 5% per annum. The loans outstanding at July 31, 2009 amount to US\$98,000, of which US\$44,000 is included in long-term receivables and US\$54,000 is included in other accounts receivable.

Subsequent Event

On September 10, 2009, the Company declared a dividend of \$0.025 per share, to be paid on October 7, 2009 to shareholders of record at the close of business on September 23, 2009.

Current and Anticipated Impacts of Current Economic Conditions

The current downturn in the overall economic condition and constrained credit markets continue to have an adverse impact on the demand for the Company's products and services. As industry is exercising caution and generally delaying capital spending, the immediate impact is manifesting itself in fewer new customers and lower revenues. The magnitude of the impact will depend on the length and depth of the recession.

Given the current backlog, comprised primarily of services, the Company's management believes that the current services revenue level of approximately \$6.0 million per quarter can be sustained in the very short term if no significant new agreements are completed.

Strategically, the Company continues to focus its efforts on the most likely opportunities within our existing customer base, particularly in some of the vertical markets that are less likely to be affected such as Healthcare. The Company also currently offers "software as a service" (SAAS), modular sales and implementations, and enhanced payment terms to promote revenue growth.

The exchange volatility of the U.S. dollar in comparison to the Canadian dollar continues to be an important factor affecting revenues and profitability as the Company continues to derive approximately 50% of its business from U.S. customers while the majority of its cost base is in Canadian dollars.

The Company will continue to adjust its business model to ensure that costs are aligned to its revenue expectations and the economic reality. Current cost containment initiatives include a limited number of new hires for the R&D initiatives related to the Java migration program and revenue generating activities with foreseeable short-term benefits. Additionally, other cost savings areas that are under consideration are facilities, traveling, consulting and communications.

Although, the Company believes that funds on hand, together with anticipated cash flows from operations, and access to the revolving line of credit will be sufficient to meet all its needs for a least the next twelve months, the Company can further manage its capital structure by adjusting its purchases of shares for cancellation pursuant to the normal course issuer bids, adjusting its dividend policy, and extending or amending its credit facilities.

Outstanding Share Data

On September 10, 2009, the Company has 12,380,044 common shares outstanding as an additional 1,500 shares have been purchased for cancellation under the Normal Course Issuer Bid since the end of the Company's first quarter.

Similarly, on September 10, 2009, outstanding stock options to purchase common shares number 944,626 as the Company has granted 500 additional options since the end of the first quarter and no options have been exercised, cancelled, or have expired unexercised.

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 in the annual report for the year ended April 30, 2009.

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. Significant areas requiring the use of management estimates include the fair value of asset-backed commercial paper, determining separate units of accounting in connection with revenue recognition relating to multiple element arrangements, determining the percentage-of-completion of projects for purposes of revenue recognition, establishing the fair value of assets and liabilities, intangible assets, and goodwill related to business combinations, determining estimates and assumptions related to impairment tests for all long-lived assets and goodwill, estimating stock-based compensation, assessing the recoverability of research and development and other tax credits, and establishing provisions related to doubtful accounts and future income taxes. Consequently, actual results could differ from those estimates.

As the Company's software implementation period may typically span from six to twelve months, a 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 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, the 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 and a projected 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.

The Company assesses the carrying value of its long-lived assets, which include property and equipment, technology, customer relationships, and other purchased 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 management estimates including but not limited to revenue growth, gross margins, operating expenses, capital requirements, and future cash flows. The estimates involve varying degrees of judgement and uncertainty. Actual results will differ from those estimates.

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired or liabilities assumed. Goodwill 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, 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 management estimates including but not limited to revenue growth, gross margins, retention of customer base, technology obsolescence, operating expenses, capital requirements and future cash flows. The estimates involve 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.

Stock-based compensation costs are accounted for using the fair value based method of accounting for stock options and warrants granted to employees and directors. 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. Upon the exercise of the options, any consideration received from plan participants is credited to capital stock and the stock-based compensation cost originally credited to contributed surplus is reclassified to capital stock. Any stock-based compensation costs related to awards to individuals other than employees and directors are accounted for at fair value. Cancellations are accounted for as they occur, with any previously recognized compensation cost related to unvested options being reversed in the period of cancellation. The Company uses the Black-Scholes options pricing model to calculate stock option values, which requires certain assumptions, including the future stock price volatility and expected time to exercise. Changes to any of these assumptions, or the use of a different option pricing model, could produce different fair values for stock-based compensation, which could have a material impact on the Company's earnings.

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Management provides valuation allowances against the future tax asset for amounts which are not considered "more likely than not" to be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company has determined that a 100% tax valuation allowance is necessary at April 30, 2009 and July 31, 2009. In the event the Company was to determine that it would be able to realize its tax asset, an adjustment to the tax asset would increase income in the period in which such determination is made.

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. Software licenses sold by the Company are generally perpetual in nature. The Company recognizes revenue as described below, which is consistent 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**

Revenue from perpetual licenses sold separately is recognized when a non-cancellable license agreement has been signed, the software product has been delivered, 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. Revenue from perpetual licenses sold under multiple element arrangements are recognized upon shipment of the software product, provided that all of the above criteria have been met and subject to the following.

Certain of the Company's license agreements require the customer to renew its annual support agreement in order to maintain its right to continue to use the software. In such cases, the perpetual license is effectively transformed into a renewable annual license. An up-front license fee representing a significant and incremental premium over subsequent year renewal fees is deferred and recognized as revenue over the period in which support is expected to be provided, which is generally considered to be the estimated useful life of the software license. Where an up-front fee is not considered to represent a significant and incremental premium over subsequent year renewal fees, the license fee is recognized ratably over the initial contractual support period, which is generally one year.

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 progress 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. Proprietary licenses support revenues for technical support and unspecified software update rights are recognized ratably over the term of the support agreement. Third-party support revenues and the related costs are generally recognized upon delivery of the third-party products as the Company's direct customer support for these products is generally limited to interface issues between the Company's proprietary products and the third-party products. Customer support for technical issues related to the third-party products is referred to the third-party supplier for resolution.

- **Consulting and Training Services**

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

Change in Accounting Policies

2010 Accounting Changes

Effective with the commencement of its 2010 fiscal year beginning May 1, 2009, the Company adopted the new CICA accounting standards presented hereunder.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which will replace Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The standards provide guidance on the recognition, measurement, presentation and disclosure of intangible assets and goodwill in accordance with the definition of an asset and the criteria for asset recognition, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The new standards clarify the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. These new standards are applicable for fiscal years beginning on or after October 1, 2008, and require retroactive application to prior period financial statements. Accordingly, the Company adopted this standard on May 1, 2009. The adoption of this standard did not have an impact on the financial statements.

Future Accounting Changes

Business combinations, Consolidated financial statements and Non-controlling interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011, which will be May 1, 2011 for the Company. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces the former Section 1581, Business Combinations, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3, Business Combinations. The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities; and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase, while acquisition-related costs are to be expensed. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. This new section will have an impact on the consolidated financial statements for future acquisitions that will be made subsequent to the date of adoption.

Consolidated Financial Statements, Section 1601 and Non-controlling Interests, Section 1602 replace Section 1600, Consolidated Financial Statements with the exception of non-controlling interest which is addressed in a separate section. These two sections are the equivalent to the corresponding provisions of International Financial Reporting Standards IAS 27, Consolidated and Separate Financial Statement. Section 1602 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. The new sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new sections also require non-controlling interest to be presented as a separate component of shareholders' equity. Under Section 1602, non-controlling interest in income is not deducted in arriving at consolidated net income or other comprehensive income. Rather, net income and each component of other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests. These sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. This new section will have an impact on the consolidated financial statements for future acquisitions that will be made subsequent to the date of adoption.

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, would be fully converged into IFRS, as issued by the International Accounting Standards Board (IASB). The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to report under IFRS for its 2012 interim and annual financial statements. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Company will convert to these new standards according to the timetable set within these rules. The Company has not determined the impact of adopting the standards on its consolidated financial statements.

The Company has developed a high-level plan to convert its financial reporting to IFRS using key resources in the areas of accounting, taxation, and management information systems. An update regarding the progress of the conversion plan will be provided to the Audit Committee of the board of directors of the Company after the completion of the diagnostic phase anticipated for the first half of fiscal 2010 and quarterly thereafter.

The plan addresses the impact of IFRS on accounting policies, implementation decisions, employee training requirements, financial and operating systems requirements, and the updating of internal controls over financial reporting. A brief summary of the plan follows:

The diagnostic and planning phase of accounting policy decisions include the thorough analysis of differences in Canadian GAAP and IFRS, the selection of IFRS policies, the assessment of IFRS 1 exemptions and choices, the selection of the IFRS 1 choices for the first-time adoption of IFRS standards, and the assessment of implications on the Company's IT systems. The Company anticipates completion of this phase for the first-half of fiscal 2010.

The development and implementation phase will focus on the development of the IFRS financial statement format, the quantification of the effect of changes on the Company's financial statements, employee training, the development of system requirements and solutions, and changes to internal controls over financial reporting that result from the accounting policy conversion. The Company is targeting completion of this phase for the second half of fiscal 2010.

The IFRS conversion plan should provide the Company with the opportunity to generate comparative financial reporting under IFRS standards for the 2011 fiscal year to be used the following fiscal year when the Company will report under IFRS.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of July 31, 2009.

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with Canadian GAAP in its consolidated financial statements. The control framework that was designed by the Company's ICFR is in accordance with the framework criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

No changes to internal controls over financial reporting have come to management's attention during the three-months from May 1, 2009 and ending on July 31, 2009 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Forward-Looking Information

This management's discussion and analysis contains "forward-looking information" within the meaning of applicable securities legislation. Although the forward-looking information is based on what the Company believes are reasonable assumptions, current expectations, and estimates, investors are cautioned from placing undue reliance on this information since actual results may vary from the forward-looking information. Forward-looking information 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, and the use of the conditional tense as well as similar expressions.

Such forward-looking information that is not historical fact, including statements based on management's belief and assumptions cannot be considered as guarantees of future performance. They are subject to a number of risks and uncertainties, including but not limited to future economic conditions, the markets that the Company serves, the actions of competitors, major new technological trends, and other factors, many of which are beyond the Company's control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. The Company undertakes no obligation to update publicly any forward-looking information whether as a result of new information, future events or otherwise other than as required by applicable legislation.

Management has compiled the unaudited interim consolidated financial information of TECSYS Inc. consisting of the interim Consolidated Balance Sheet and the Consolidated Statement of Shareholders' Equity as at July 31, 2009 and the Consolidated Statements of Earnings and Comprehensive Earnings, and Cash Flows for the three-month periods ended July 31, 2009 and July 31, 2008. An accounting firm has not reviewed or audited these interim consolidated financial statements.

TECSYS Inc.**Consolidated Balance Sheets**

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of Canadian dollars)

	July 31, 2009 (unaudited)	April 30, 2009
Assets		
Current assets		
Cash and cash equivalents	7,650	7,510
Short-term and other investments	325	325
Accounts receivable	8,608	9,307
Work in progress	248	303
Other accounts receivable	595	198
Tax credits receivable	1,626	1,536
Inventory	205	219
Prepaid expenses	1,074	668
	<u>20,331</u>	<u>20,066</u>
Restricted cash equivalents and other investments	739	739
Asset-backed commercial paper (note 6)	3,513	3,535
Long-term receivables	47	77
Long-term investment	264	290
Property and equipment	1,495	1,481
Intangible assets	825	930
Deferred development costs	1,606	1,519
Goodwill	2,829	2,829
	<u>31,649</u>	<u>31,466</u>
Liabilities		
Current liabilities		
Bank advances	4,000	4,000
Accounts payable and accrued liabilities	4,786	5,154
Current portion of long-term debt	133	133
Deferred revenue	6,922	6,249
	<u>15,841</u>	<u>15,536</u>
Long-term debt	100	100
	<u>15,941</u>	<u>15,636</u>
Subsequent event (note 9)		
Shareholders' equity		
Capital stock (note 2)	1,403	1,420
Contributed surplus (note 2)	12,115	12,328
Retained earnings	2,190	2,082
	<u>15,708</u>	<u>15,830</u>
	<u>31,649</u>	<u>31,466</u>

TECSYS Inc.**Consolidated Statements of Earnings and Comprehensive Earnings**

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of Canadian dollars, except share and per share data)

	Three Months Ended July 31, 2009	Three Months Ended July 31, 2008
	(unaudited)	(unaudited)
Revenue		
Products (note 7a)	2,946	4,445
Services	5,991	5,549
Reimbursable expenses	261	243
	<u>9,198</u>	<u>10,237</u>
Cost of revenue		
Products	1,098	2,285
Services (note 7b)	3,613	3,689
Reimbursable expenses	261	243
	<u>4,972</u>	<u>6,217</u>
Gross margin	<u>4,226</u>	<u>4,020</u>
Operating expenses		
Sales and marketing	1,385	1,580
General and administration	1,077	807
Gross research and development	1,425	1,244
Research and development tax credits	(145)	(137)
Deferred development costs	(178)	(132)
Stock-based compensation	28	30
Amortization of property and equipment	121	132
Amortization of intangible assets	122	193
Amortization of deferred development costs	91	37
	<u>3,926</u>	<u>3,754</u>
Earnings from operations	300	266
Interest income	6	21
Interest expense	(4)	(26)
Foreign exchange (losses) gains	(168)	12
Share of net loss and amortization of intangible assets of a company subject to significant influence	(26)	1
Net earnings and comprehensive earnings for the period	<u>108</u>	<u>274</u>
Weighted average number of common shares outstanding		
- basic	12,467,119	13,006,383
- diluted	12,585,590	13,090,031
Basic and diluted net earnings per common share	<u>\$ 0.01</u>	<u>\$ 0.02</u>

TECSYS Inc.**Consolidated Statements of Cash Flows**

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of Canadian dollars)

	Three Months Ended July 31, 2009	Three Months Ended July 31, 2008
	(unaudited)	(unaudited)
Cash flows from		
Operating activities		
Net earnings for the period	108	274
Adjustments for		
Amortization of property and equipment	121	132
Amortization of intangible assets	122	193
Amortization of deferred development costs	91	37
Stock-based compensation	28	30
Unrealized foreign exchange (gains) losses	(455)	128
Deferred development costs	(178)	(132)
Share of net loss and amortization of intangible assets of a company subject to significant influence	26	(1)
	<u>(137)</u>	<u>661</u>
Changes in non-cash working capital items related to operations		
Decrease (increase) in accounts receivable	699	(163)
Decrease (increase) in work in progress	55	(343)
Decrease in other accounts receivable	2	66
Increase in tax credits receivable	(90)	(111)
Decrease (increase) in inventory	14	(8)
(Increase) decrease in prepaid expenses	(406)	48
Decrease in long-term receivables	-	29
(Decrease) increase in accounts payable and accrued liabilities	(368)	45
Increase (decrease) in deferred revenue	673	(177)
	<u>442</u>	<u>47</u>
Financing activities		
Bank advances	-	(3)
Issuance of common shares	-	20
Purchase of common shares for cancellation	(258)	(10)
	<u>(258)</u>	<u>7</u>
Investing activities		
Increase in short-term and other investments and restricted cash equivalents and other investments	-	(23)
Interest and principal received on asset-backed commercial paper	87	-
Acquisitions of property and equipment	(135)	(163)
Acquisitions of intangible assets	(17)	(77)
Decrease in long-term receivables including the current portion from a related party	21	12
	<u>(44)</u>	<u>(251)</u>
Variation in cash and cash equivalents	140	(197)
Cash and cash equivalents - beginning of period	7,510	5,693
	<u>7,650</u>	<u>5,496</u>
Cash and cash equivalents - end of period	7,650	5,496

TECSYS Inc.**Consolidated Statements of Shareholders' Equity**

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of Canadian dollars, except number of shares)
(unaudited)

	Common shares		Contributed surplus	Retained earnings	Total
	Number	Amount			
Balance, April 30, 2009	12,525,884	1,420	12,328	2,082	15,830
Repurchase of common shares (note 2)	(144,340)	(17)	(241)	-	(258)
Stock-based compensation	-	-	28	-	28
Net earnings for the period	-	-	-	108	108
Balance, July 31, 2009	12,381,544	1,403	12,115	2,190	15,708

	Common shares		Contributed surplus	Retained earnings	Total
	Number	Amount			
Balance, April 30, 2008	13,003,684	1,444	12,826	1,003	15,273
Repurchase of common shares (note 2)	(6,100)	(1)	(9)	-	(10)
Stock options exercised (note 2)	12,500	20	-	-	20
Fair value associated with options exercised	-	10	(10)	-	-
Stock-based compensation	-	-	30	-	30
Net earnings for the period	-	-	-	274	274
Balance, July 31, 2008	13,010,084	1,473	12,837	1,277	15,587

Interim financial information

The interim financial statements for the three-month periods ended July 31, 2009 and July 31, 2008 are unaudited and have not been reviewed by the Company's auditors. The interim financial statements include all adjustments that management considers necessary for a fair presentation of the financial position of the Company, the results of its operations and its cash flows. The adjustments made were of a normal recurring nature except for the valuation related to the fair value of the third-party asset-backed commercial paper (ABCP) discussed in note 6. The results of operations for the three-month periods ended July 31, 2009 and 2008 are not necessarily indicative of the trends for the operating results for the full year.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of their application as described in the annual financial statements for the year ended April 30, 2009, except for the new accounting policies that have been adopted as noted below. The Company's functional currency is the Canadian dollar as substantially all of the Company's assets, operations and resources are located in Canada. All financial data presented in this interim report are expressed in Canadian dollars except as otherwise noted.

The notes presented in these unaudited interim consolidated financial statements include only significant changes and transactions occurring since the Company's last year end. The disclosures in these interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements; therefore these interim financial statements should be read in conjunction with the audited annual financial statements for the year ended April 30, 2009.

1. Changes in accounting policies

a) 2010 accounting changes

Effective with the commencement of its 2010 fiscal year beginning May 1, 2009, the Company adopted the new CICA accounting standards presented hereunder.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which will replace Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The standards provide guidance on the recognition, measurement, presentation and disclosure of intangible assets and goodwill in accordance with the definition of an asset and the criteria for asset recognition, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The new standards clarify the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. These new standards are applicable for fiscal years beginning on or after October 1, 2008, and require retroactive application to prior period financial statements. Accordingly, the Company adopted this standard on May 1, 2009. The adoption of this standard did not have an impact on the financial statements.

b) Future accounting changes

Business combinations, Consolidated financial statements and Non-controlling interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011, which will be May 1, 2011 for the Company. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces the former Section 1581, Business Combinations, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3, Business Combinations. The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities; and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase, while acquisition-related costs are to be expensed. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the

first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. This new section will have an impact on the consolidated financial statements for future acquisitions that will be made subsequent to the date of adoption.

Consolidated Financial Statements, Section 1601 and Non-controlling Interests, Section 1602 replace Section 1600, Consolidated Financial Statements with the exception of non-controlling interest which is addressed in a separate section. These two sections are the equivalent to the corresponding provisions of International Financial Reporting Standards IAS 27, Consolidated and Separate Financial Statement. Section 1602 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. The new sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new sections also require non-controlling interest to be presented as a separate component of shareholders' equity. Under Section 1602, non-controlling interest in income is not deducted in arriving at consolidated net income or other comprehensive income. Rather, net income and each component of other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests. These sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. This new section will have an impact on the consolidated financial statements for future acquisitions that will be made subsequent to the date of adoption.

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, would be fully converged into IFRS, as issued by the International Accounting Standards Board (IASB). The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to report under IFRS for its 2012 interim and annual financial statements. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Company will convert to these new standards according to the timetable set within these rules. The Company has not determined the impact of adopting the standards on its consolidated financial statements.

2. Capital stock and contributed surplus

On July 17, 2009, the Company renewed its Notice of Intention to Make a Normal Course Issuer Bid (the "Notice") with the Toronto Stock Exchange (TSX). The Notice stated the Company's intention to purchase on the open market at prevailing market prices, through the facilities of the TSX, the greater of 25% of the average trading volume of the common shares on the TSX for the six complete months prior to the date of acceptance by the TSX of the Notice (the "ADTV") or 1,917 common shares on any trading day. Once a week, the Company may make a block purchase from a person who is not an insider exceeding the daily repurchase limit of (i) common shares having a price of at least \$200,000 (ii) at least 5,000 common shares for at least \$50,000 or (iii) at least 20 board lots of the common shares which total at least 150% of the ADTV. The maximum number of common shares, which may be purchased under the bid, is 620,463 or 5% of the 12,409,274 issued and outstanding common shares on July 7, 2009. The Company may purchase common shares under the bid, if it considers it advisable, at any time, and from time to time during the period of July 21, 2009 to July 20, 2010. The common shares will be purchased for cancellation.

During the three-month period ended July 31, 2009, the Company purchased 144,340 of its outstanding common shares at an average price of \$1.77 under the Normal Course Issuer Bid. The total cost related to the purchasing of these shares, including other related costs, was \$258,000. The excess of the purchase price over the net book value of these shares of \$241,000 was charged to contributed surplus.

During the three-month period ended July 31, 2008, the Company purchased 6,100 of its outstanding common shares at an average price of \$1.54 under the Normal Course Issuer Bid. The total cost related to the purchasing of these shares, including other related costs, was \$10,000. The excess of the purchase price over the net book value of these shares of \$9,000 was charged to contributed surplus. Additionally, during this period 12,500 options were exercised to purchase shares generating \$20,000.

The total number of common shares outstanding at July 31, 2009 is 12,381,544.

Please see the Consolidated Statements of Shareholders' Equity for a summary of the transactions affecting capital stock, contributed surplus, and retained earnings.

As at July 31, 2009, options to purchase 944,126 common shares at exercise prices ranging between \$1.15 and \$2.01 were outstanding. During the three-month period ended July 31, 2009, the Company granted options to purchase 139,500 common shares with an exercise price of \$1.80, while options to purchase 3,984 common shares at exercise prices ranging from \$1.32 to \$1.70 were cancelled or expired unexercised, although they were vested. No warrants were issued or exercised during the period.

As at July 31, 2008, options to purchase 1,102,733 common shares at exercise prices ranging between \$1.15 and \$2.46 and warrants to purchase 15,000 common shares at an exercise price of \$1.64 were outstanding. During the three months ended July 31, 2008, the Company granted options to purchase 39,500 common shares with exercise prices ranging between \$1.59 and \$1.70, while options to purchase 9,878 common shares at exercise prices ranging from \$1.23 to \$2.46 were either cancelled or expired unexercised, although they were vested. During this three-month period 12,500 options with an exercise price of \$1.61 were exercised. No warrants were issued or exercised during the period.

3. Capital disclosures

The Company defines capital as shareholders' equity, long-term debt and bank advances, net of cash. The Company objectives in its management of capital is to safeguard its ability to continue funding its operations as a going concern, insuring sufficient liquidity to finance research and development activities, sales and services activities, general and administrative expenses, working capital, capital expenditures, potential future acquisitions, future growth, and to provide returns to shareholders through its dividend policy. The capital management objectives remain the same as for the previous fiscal period.

Its capital management policies include promoting shareholder value through the concentration of its shareholdings by means of purchasing its own shares for cancellation through normal course issuer bids when the Company considers it advisable to do so.

In recent history, the Company has followed an approach that relies almost exclusively on its existing liquidity and cash flow from operations to fund its activities. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including investment tax credits, and interest income.

The Company's policy is to maintain a minimum level of debt. The Company's revolving credit facilities providing access to \$4,000,000 of liquidity to be used to finance the Company's working capital needs is precautionary security to ensure sufficient liquidity in light of the ABCP market disruption since the summer of 2007. The credit facilities are secured by a first-ranking hypothec of the MAV2 restructured long-term notes and the IA Tracking restructured notes that arose on the conversion of the third-party ABCP held with the Bank. Please refer to note 11 b) of the consolidated financial statements in the 2009 annual report for a further description of the Company's credit facilities.

The Company manages its capital structure by adjusting purchased shares for cancellation pursuant to issuer bids, adjusting the amounts of dividend to shareholders, paying off existing debt, and extending or amending its banking credit facilities.

The Company banking and credit facilities require the Company to maintain a working capital ratio equal to or greater than 1.00 : 1.00, and shareholders' equity equal or greater than US\$3,500,000. The Company is in compliance with these ratios.

4. Stock-based compensation costs

The Company maintains a stock-based compensation plan ("Stock Option Plan"), which is described in note 13(e) in the audited financial statements for the year ended April 30, 2009.

Stock-based compensation costs are accounted for using the fair value based method of accounting for stock options and warrants granted to employees and directors. Under the fair value based method, compensation cost is measured at the fair value of options and warrants at the date of grant and is expensed over the award's vesting period with a corresponding credit to contributed surplus. Upon the exercise of the options, any consideration received from plan participants is credited to capital stock and the stock-based compensation cost originally credited to contributed surplus is reclassified to capital stock. Any stock-based

compensation costs related to awards given to individuals other than employees and directors are accounted for at fair value. Cancellations are accounted for as they occur, with any previously recognized compensation cost related to unvested options being reversed in the period of cancellation.

The fair value of options and warrants granted in the three-month periods ended July 31, 2009 and July 31, 2008 was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

	Three months ended July 31 2009	Three months ended July 31 2008
Volatility	45.4%	40.2%
Risk-free interest rate	2.3%	3.3%
Dividend yield	2.7%	nil
Expected lives (in years)	4	4

Following is a summary of the weighted average grant date fair value of options granted during the three-month periods ended July 31, 2009 and 2008:

	Three months ended July 31 2009	Three months ended July 31 2008
Number of options	139,500	39,500
Weighted average exercise price	1.80	1.62
Weighted average grant date fair value	0.56	0.58

5. Financial Instruments and risk management

There have been no changes in classification of financial instruments since April 30, 2009. The table below summarizes the Company's financial instruments and their classifications for the periods ended July 31, 2009 and April 30, 2009.

	July 31, 2009			Total	April 30, 2009
	Held-for-trading, at fair value	Loans and receivables, at amortized cost	Financial liabilities, at amortized cost		
Financial Assets					
Cash and cash equivalents	7,650	-	-	7,650	7,510
Short-term and other investments	325			325	325
Restricted cash equivalents and other investments	739	-	-	739	739
Asset-backed commercial paper	3,513	-	-	3,513	3,535
Accounts receivable	-	8,608	-	8,608	9,307
Other accounts receivable	-	111	-	111	181
Foreign exchange derivatives included in other accounts receivable	484	-	-	484	17
Long-term receivables	-	47	-	47	77
	12,711	8,766	-	21,477	21,691
Financial Liabilities					
Bank advances	-	-	4,000	4,000	4,000
Accounts payable and accrued liabilities	-	-	4,786	4,786	5,154
Current portion of long-term debt	-	-	133	133	133
Long-term debt	-	-	100	100	100
	-	-	9,019	9,019	9,387

The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash and cash equivalents, short-term and other investments, accounts receivable, other accounts receivable, bank advances, as well as accounts payable and accrued liabilities, approximate their fair value because of the relatively short period to maturity of the instruments.

The fair value of the long-term receivables and the long-term debt were 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 these instruments as at July 31, 2009. See note 6 for the determination of the fair value of the asset-backed commercial paper.

The Company is exposed to the following risks as a result of holding financial instruments: currency or foreign exchange risk, credit risk, liquidity risk, interest rate risk, and market risk.

Currency risk

The Company is exposed to currency risk as a certain portion of the Company's sales and expenses are incurred in U.S. dollars resulting in U.S. dollar-denominated accounts receivable and accounts payable and accrued liabilities. 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. The Company may enter into foreign exchange contracts in order to offset the impact of the fluctuation of the U.S. dollar regarding the revaluation of its U.S. net monetary assets. The Company uses derivative financial instruments only for risk management purposes, and not for generating trading profits. As such, any change in cash flows associated with derivative instruments is designed to be offset with changes in cash flows related to the net monetary position in the foreign currency.

On July 31, 2009, the Company held outstanding foreign exchange contracts with various maturities to January 29, 2010 to sell US\$4,100,000 into Canadian dollars at rates averaging CA\$1.1969 to yield CA\$4,907,000. The Company recorded unrealized exchange gains of \$484,000 related to these contracts for the period ended July 31, 2009. Subsequent to the quarter ended July 31, 2009, the Company sold US\$210,000 at a spot rate of CA\$1.0626 and undertook another foreign exchange contract to sell US\$1,100,000 at a rate of CA\$1.0980 for maturity on April 30, 2010.

The following table provides an indication of the Company's significant foreign exchange currency exposures as at July 31, 2009.

	US\$	GBP
Cash and cash equivalents	1,748	17
Accounts receivable	3,629	21
Other accounts receivable	70	-
Long-term receivables	44	-
Accounts payable and accrued liabilities	(1,194)	(7)
Derivative financial instruments – notional amount	(4,100)	-
	197	31

The following exchange rates applied during the three-month period ended July 31, 2009.

	Average rate	Reporting date rate
\$CDN per \$US	1.1332	1.0790
\$CDN per GBP	1.8190	1.8033

Based on the Company's foreign currency exposures noted above, varying the above foreign currency reporting date exchange rates to reflect a 5% appreciation of the U.S. dollar (CA\$1.1330) and GBP (CA\$1.8935) would have had the following impact on the net earnings, assuming all other variables remained constant.

	US\$	GBP
Increase in net earnings	11	3

A 5% depreciation of these currencies would have an equal but opposite effect on net earnings, assuming all other variables remained constant.

Credit risk

Credit risk is the risk associated with incurring a financial loss when the other party fails to discharge an obligation.

Financial instruments which potentially subject the Company to credit risk consist principally of cash and cash equivalents, short-term and other investments, asset-backed commercial paper, and accounts receivable. The Company's cash and cash equivalents and short-term and other investments consisting of guaranteed investment certificates are maintained at major financial institutions.

The asset-backed commercial paper were rated R1-high, the highest credit rating issued by the Dominion Bond Rating Service (DBRS), and were consistent with the criteria of the Company's investment policy. As a result of the liquidity disruption in the asset-backed commercial paper market in the summer of 2007, some of these investments did not settle on maturity and were reclassified as long-term assets. Please refer to note 7 to the consolidated financial statements in the annual report for the period ended April 30, 2009 and to note 6 below for a discussion on the restructuring of the ABCP into long-term notes and the risks associated with these instruments.

At July 31, 2009, there is one customer comprising more than 10% of total trade accounts receivable and work in progress. Generally 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. Customers do not provide collateral in exchange for credit. The Company has entered into an arrangement with a federal crown 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\$1,500,000 and \$1,888,000 (US\$1,750,000) respectively, in any given year.

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. At July 31, 2009, \$3,007,000 of trade accounts receivable were not past due, \$4,714,000 were past due 0-180 days, and \$2,099,000 were past due 180 days. The total allowance for doubtful accounts was \$1,212,000 at July 31, 2009. The Company's maximum credit risk exposure corresponds to the carrying amounts of the accounts receivable.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in the capital disclosures discussion in note 3 above. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The following are contractual maturities of financial liabilities as of July 31, 2009.

	Carrying amount	Less than 1 year	1 to 2 years
Bank advances	4,000	4,000	-
Accounts payable and accrued liabilities	4,786	4,786	-
Long-term liabilities including current portion	233	133	100
	9,019	8,919	100

As discussed in greater detail in note 11 b) to the consolidated financial statements in the 2009 annual report, on May 14, 2009, the Company executed new revolving credit facilities reflected above as bank advances. The new credit facilities have maturities ranging from 2 to 3 years that can be extended annually until the seventh anniversary of the agreement, subject to the bank's approval.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Short-term fixed interest rates
Short-term and other investments	Short-term fixed interest rate
Restricted cash equivalents and other investments	Short-term fixed interest rate
Accounts receivable	Non-interest bearing
Long-term receivables	Fixed interest rate
Asset-backed commercial paper	As described in note 7 to the consolidated financial statements in the 2009 annual report
Bank advances	Short-term variable interest rate
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	Fixed interest rates

A 1% increase in interest rates would decrease net earnings by approximately \$30,000 annually arising mainly as a result of higher interest expense on bank advances, assuming all other variables remained constant. A 1% decrease in interest rates would have an equal but opposite effect, assuming all other variables remained constant.

Interest income in the consolidated statement of earnings represents interest income for financial assets classified as held-for-trading. Interest expense represents interest expense for financial liabilities classified at amortized cost.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk; interest rate risk; and other price risk, comprising those changes caused by factors specific to the financial instrument or its issuer, or factors affecting all similar instruments traded in the market. Please refer to the asset-backed commercial paper discussed below regarding these instruments and the associated market risks.

6. Asset-backed commercial paper

At July 31, 2009, the Company held MAV2 long-term floating rate notes and IA Tracking long-term floating-rate notes arising from the conversion of various third-party asset-backed commercial paper (ABCP) pursuant to the restructuring process caused by the liquidity disruption of the Canadian market for ABCP in mid-August 2007. Please see note 7 to the consolidated financial statements for the year ended April 30, 2009 for a description of the restructuring process and the investments held by the Company.

The converted ABCP and the resulting newly issued floating rate notes in which the Company has invested has not traded in an active market since mid-August 2007 and there are currently no market quotations available.

During the quarter ended July 31, 2009, the Company received \$17,000 in partial redemption of the principal relating to its IA Tracking notes and approximately \$70,000 of interest. The interest was accrued at the end of the Company's last fiscal year, April 30, 2009. All payments received and all accrued interest was used to write-down the carrying value of the ABCP and was not reported as interest income. As a result of the restructuring, the subsequent redemption of the portion of the notes, and the depreciation of the U.S. dollar since April 30, 2009, at July 31, 2009, the Company held replacement long-term floating rate notes with settlement values as follows:

MAV2 notes	July 31, 2009	April 30, 2009
Class A-1	2,879	2,891
Class A-2	1,485	1,503
Class B	270	273
Class C	143	144
	<u>4,777</u>	<u>4,811</u>

IA Tracking notes	302	332
	5,079	5,143

MAV2 notes represent a combination of leveraged collateralized debt, synthetic assets, and traditional securitized assets with maturities of approximately eight years. The expected repayment date for these notes is January 22, 2017. On January 21, DBRS assigned an "A" rating to the MAV2 senior notes (Class A-1 and A-2) while the subordinated notes (Class B and Class C) were unrated. Class A-1, A-2, and B notes will bear interest at the rate equal to the BA rate less 50 basis points. Class C notes will bear interest at a rate equal to 20% per annum. In April 2009, the MAV2 Class A-2 notes were placed under review with negative implications by DBRS. On August 11, 2009, DBRS downgraded the rating of the Class A-2 notes to "BBB" and maintained the rating under review with negative implications.

The IA Tracking notes is represented by assets that have an exposure to U.S. mortgages and sub-prime mortgages with expected maturities of approximately between five and nine years. No indication has been provided regarding the rating these notes may receive, if any.

The valuation technique used by the Company to estimate the fair value of its investment in ABCP incorporates weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The Company used the following assumptions in its valuation of the MAV 2 notes based on the limited available financial information:

	July 31, 2009	April 30, 2009
Weighted average interest rate:	2.58%	1.80%
Weighted average discount rate:	8.63%	7.60%
Maturity:	7.5 years	7.75 years

The discount rates for each of the MAV2 classes vary as a function of the credit rating of each class of the replacement long-term notes. Discount rates have been estimated using long-term fixed rates plus expected spreads for similarly rated instruments with similar maturities and structure and estimated credit risk factors. An increase in the estimated discount rate of 1 percent would reduce the estimated fair value of the Company's ABCP by approximately \$205,000.

For the valuation of the IA Tracking notes, the Company has used a minimum fair value of 75% of the face value discounted for 2 years at the Company's borrowing rate based on the credit facilities executed with the Company's banker. The credit facilities agreement includes a put option feature exercisable by the Company at the second anniversary and limits the Company's losses to 25% of the IA Tracking notes, subject to certain conditions. Excluding the value of the put option, the Company estimated the value of the IA Tracking notes at approximately 12% of the face value.

After taking into consideration the changes in the credit market characterized by the narrowing of credit spreads and the increasing of the average interest rates, the down-grading of the MAV2 Class A-2 notes to "BBB", the additional accrued interest on the ABCP, the depreciation of the face value of the U.S. denominated ABCP, and the review of the valuation assumptions, the Company undertook no further write-downs during the first quarter of fiscal 2010.

Estimates of the fair value of the ABCP and the related put option are not supported by observable market prices or rates, therefore are subject to uncertainty, including, but not limited to, the estimated amounts to be recovered, the yield of the substitute financial instruments and the timing of future cash flows, and the market for these types of instruments. The resolution of these uncertainties could be such that the ultimate fair value of these instruments may vary significantly from the Company's current estimates. Changes in the near term could require significant changes in the recognized amounts of these assets. As the Company records the new notes at current fair value each period, such adjustments will directly impact earnings.

7. Other information

a) Products revenue

Products revenue is broken down as follows:

	Three months ended July 31 2009	Three months ended July 31 2008
Software products	1,314	1,497
Third-party hardware and software	1,632	2,948
	2,946	4,445

b) Cost of services consist of the following:

	Three months ended July 31 2009	Three months ended July 31 2008
Gross expenses	3,811	3,805
Refundable tax credits	(198)	(116)
	3,613	3,689

c) Earnings per share

Basic net earnings per common share are calculated using the weighted average number of common shares outstanding during the period.

Diluted net earnings per common share are 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 and warrants had been exercised at the later of the beginning of the reporting period or date of issuance, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period.

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

	Three months ended July 31 2009	Three months ended July 31 2008
Weighted average number of common shares - basic	12,467,119	13,006,383
Addition to reflect the impact of:		
Employee and director stock options and warrants	118,471	83,648
Weighted average number of common shares - diluted	12,585,590	13,090,031

Options and warrants to purchase 207,500 common shares for the three-month period ended July 31, 2009 (178,781 – July 31, 2008) could have an effect on the calculation of diluted earnings per share in the future but have been excluded from the above calculations since these options and warrants had exercise prices greater than the average price of common shares during this period. There is no difference between the basic and diluted net earnings per common share figures for the periods represented above.

TECSYS Inc.

Notes to Consolidated Financial Statements for the three months ended July 31, 2009

(Unaudited)

Prepared in Accordance with Canadian Generally Accepted Accounting Principles
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

8. Segment Information

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

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

	Three months ended July 31 2009	Three months ended July 31 2008
Canada	4,813	5,050
United States	4,300	5,001
Other	85	186
	<u>9,198</u>	<u>10,237</u>

No customer accounted for greater than 10% of revenues for the periods presented.

9. Subsequent event

On September 10, 2009, the Company declared a dividend of \$0.025 per share, to be paid on October 7, 2009 to shareholders of record at the close of business on September 23, 2009.

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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. Additional information about the Company, including copies of the continuous disclosure materials such as the annual information form, is available through the SEDAR website at <http://www.sedar.com>.

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