

# 2nd Quarter Fiscal 2006 Report

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

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Dear Shareholder,

I am pleased to report the significant progress we have made in the second quarter of fiscal year 2006, as we continued our high-growth path and achieved a 63% increase in revenue compared to the second quarter of last fiscal year. The combination of organic and acquisition-related growth has resulted in a tremendous increase in revenue during this quarter, led by a 102% increase in product sales.

We had an eventful second quarter with strong sales activity and a number of customers commenced live operations on TECSYS software. In September we held our seventh user conference, showcasing our latest products and technology to our customers and prospects, and as importantly listening to their new ideas and challenges. Their reaction to our latest product lines was very positive.

Key highlights of the quarter include:

- Revenue increased to \$9 million, from \$5.5 million for the same quarter of last year, a 63% increase
- Product revenue increased to \$3.7 million from \$1.8 million for the second quarter of the previous fiscal year, an increase of 102%
- Services revenue increased to \$5 million from \$3.4 million for the second quarter of the previous fiscal year, an increase of 46%
- Net loss for the quarter was \$166,000, compared with a net loss of \$316,000 for the same period in the previous year
- We had six new customer wins:
  - A medical/Medicaid distributor, as we continue our success in the healthcare market
  - A California-based third party logistics (3PL) provider, continuing our penetration of the 3PL industry
  - A mid-size distributor of plastic bags and packaging products in Ohio
  - Three distributors/manufacturers, one of which is a major distributor for the world's leading manufacturers of construction and mining equipment in the United States

We also signed a significant number of product upgrades, for all of our product lines and have successfully completed the deployment of our solutions in a number of accounts during the quarter. Two of these customers are of particular note:

1. The go-live of a U.K.-based global logistics company. This deployment was completed using our resources in Europe, and provides us with a reference account for our sales and marketing initiatives to expand into the European market.
2. The further deployment of our warehouse management software in one of the world's leading global logistics companies.

These types of initiatives, spanning Europe and the Americas, make TECSYS an attractive vendor not only to regional prospective clients, but also to companies with global reach.

We believe our positioning is excellent given today's global trends. TECSYS is all about demand-driven supply chain management and this is right in-line with the challenges of industry at large as manufacturers adapt to the new world they face, distributors capitalize on globalization and retailers demand better products and service at lower costs. Our acquisition strategy alongside our value proposition is paying off not only with sales extending to the newly acquired entities, but also with expertise and technology leverage across all business units.

I am also pleased to report that at the end of the second quarter of fiscal 2006 backlog was \$14.4 million compared to \$10.4 million at the end of the second quarter of fiscal 2005.

As we continue our initiatives to grow the top line, we are making every effort to improve margins and drive earnings up. This has clearly proven to be a challenge in the face of the continually rising Canadian dollar. We are confident, however, that our solid financial position in combination with our market leadership will ultimately lead to improved returns for our shareholders.

Yours truly,

A handwritten signature in black ink, appearing to read 'Peter Brereton', with a long horizontal flourish extending to the right.

Peter Brereton  
President and Co-CEO

## Management's Discussion and Analysis of Financial Condition and Results of Operations dated November 22, 2005

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of TECSYS Inc. ("The 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 2005. The Company's second quarter for fiscal year 2006 ended on October 31, 2005.

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 therefrom in this interim report are expressed in U.S. dollars. The Company's reporting currency is the U.S. dollar; and the functional currency is the Canadian dollar. Accordingly, the consolidated financial statements for the three and six-month periods ended October 31, 2005 and October 31, 2004 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.

### Business Combinations

On February 28, 2005, the Company acquired 100% of the issued and outstanding shares of Application Solutions Inc. ("ASI"), a Canadian provider of 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, organized as the Logistics Management Group ("LMG") and the results of its operations are included in the consolidated 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 consolidated financial statements commencing on that date.

For the six-month period ended October 31, 2005, LMG (formerly ASI and Symplistech) contributed \$5.5 million to revenues and \$161,000 to earnings from operations.

## Results of Operations

### *Three and six months ended October 31, 2005 compared to three and six months ended October 31, 2004*

#### Revenue

Total revenue for the three months ended October 31, 2005 increased by \$3.5 million or 63% to \$9.0 million compared to \$5.5 million for the same period of fiscal 2005. The increase in revenues is mainly attributable to the Company's latest acquisitions, ASI and Symplistech (LMG) accounting for \$2.8 million, while the remainder of the increase is due to the larger volume of third-party products sold by other business units amounting to \$639,000. One single customer accounted for about \$400,000 of the increase in third-party products.

Products revenue increased by 102% or \$1.9 million to \$3.7 million in the second quarter of fiscal 2006 compared to \$1.8 million for the same period in the previous fiscal year. LMG accounted for \$1.2 million and the remainder of the increase is due to the increase of third-party products mentioned earlier. Services revenue increased 46% or \$1.6 million to \$5.0 million during the second quarter of fiscal 2006 compared to \$3.4 million for the same fiscal period last year. The increase in services revenue is virtually entirely attributable to the addition of LMG.

As a percentage of total revenue, products accounted for 41% and services accounted for 56% in the second quarter of fiscal 2006 compared to 33% and 63%, respectively, in the second quarter of fiscal 2005. The increase in the products revenue percentage is due to the fact that the LMG revenue mix is more heavily weighted on radio frequency equipment (RF), hardware and supplies. LMG's revenue mix was 44% for products and 54% for services in the second quarter of fiscal 2006. Excluding LMG, in the second quarter, the product mix was influenced by the larger volume of third-party products sold and products accounted for 40% and services for 57%.

The Canadian dollar has strengthened approximately 8% against the U.S. dollar for the second quarter of fiscal 2006 as compared to the same period in fiscal 2005. The Canadian dollar to U.S. dollar exchange rates for the three-month period ended October 31, 2005 have averaged \$0.8429 US in comparison to \$0.7799 US for the same period last year. Consequently, excluding LMG, the strengthening Canadian dollar has affected the reported revenues favorably by approximately \$183,000 in the second quarter of fiscal 2006 in comparison to the same period last year. On the other hand, excluding LMG, the strengthening Canadian dollar has affected cost of revenue and operating expenses adversely by approximately \$145,000 and \$204,000 respectively, hence a net unfavorable impact of \$166,000 on earnings from operations.

During the first half of fiscal 2006 total revenue increased by \$6.1 million or 57% to \$17.0 million compared to \$10.8 million for the same period of fiscal 2005. LMG's revenue contribution of \$5.5 million accounted for most of the increase.

Products revenue increased by 87% or \$3.1 million to \$6.7 million in the first half of fiscal 2006 compared to \$3.6 million for the same period in the previous fiscal year. LMG accounted for \$2.4 million of the increase while third-party products of the other business units increased by \$697,000 in comparison to the first half of fiscal 2005. Services revenue increased 45% or \$3.0 million to \$9.9 million during the first half of fiscal 2006 compared to \$6.9 million for the same fiscal period last year. The increase in services revenue is virtually entirely attributable to the addition of LMG.

As a percentage of total revenue, products accounted for 40% and services accounted for 58% in the first half of fiscal 2006 compared to 33% and 63%, respectively, in the first half of fiscal 2005. The increase in the products revenue percentage is due to the fact that the LMG revenue mix is more heavily weighted on radio frequency equipment (RF), hardware and supplies. LMG's revenue mix was 44% for products and 54% for services in the first half of fiscal 2006. Excluding LMG, in the first half of fiscal 2006, the product mix was influenced by the larger volume of third-party products as products accounted for 37% and services for 60%.

The Canadian dollar has strengthened approximately 9% against the U.S. dollar for the first half of fiscal 2006 as compared to the same period in fiscal 2005. The Canadian dollar to U.S. dollar exchange rates for the six-month period ended October 31, 2005 have averaged \$0.8245 US in comparison to \$0.7591 US for the same period last year. Consequently, excluding LMG, the strengthening Canadian dollar has affected the reported revenues favorably by approximately \$371,000 in the first half of fiscal 2006 in comparison to the same period last year. On the other hand, excluding LMG, the strengthening Canadian dollar has affected cost of revenue and operating expenses adversely by approximately \$296,000 and \$399,000 respectively. The exchange rate movement effected earnings from operations unfavorably to the tune of \$324,000.

## Cost of Revenue

The total cost of revenue increased 110% or \$2.9 million to \$5.6 million in the second quarter of fiscal 2006 compared to \$2.6 million for the same three-month period in fiscal 2005. The LMG acquisition accounted for \$2.1 million of the increase.

Services costs increased by \$1.7 million or 93% to \$3.4 million for the second quarter of fiscal 2006 compared to \$1.8 million for the comparable period of the previous fiscal year. The LMG acquisition accounts for \$1.2 million of this increase. Excluding LMG, gross services expenses increased by 24% or \$462,000 to \$2.4 million for the second quarter of fiscal 2006 compared to \$1.9 million for the previous fiscal year. Gross service expenses, excluding LMG, have been affected unfavorably by approximately \$153,000 due to the strengthened Canadian dollar, the use of more outside consultants, and the expansion of the Company's operations in Europe. The total cost of services also includes multimedia tax credits of \$153,000 for the second quarter of fiscal 2006 compared to \$120,000 for the same period in the previous fiscal year.

The cost of third-party products increased by \$1.3 million or 193% to \$1.9 million for the second quarter of fiscal 2006 in comparison to \$660,000 for the same three-month period for the previous fiscal year. LMG accounted for \$815,000 of the increase. Excluding LMG, \$460,000 of the increase is related to the increased third-party products revenue of \$639,000 realized in the quarter.

The total cost of revenue increased 98% or \$5.0 million to \$10.1 million in the first half of fiscal 2006 compared to \$5.1 million for the same six-month period in fiscal 2005. The LMG acquisition accounted for \$3.9 million of the increase.

Services costs increased by \$2.9 million or 84% to \$6.5 million for the first half of fiscal 2006 compared to \$3.5 million for the comparable period of the previous fiscal year. The LMG acquisition accounts for \$2.2 million of this increase. Excluding LMG, gross services expenses increased by 21% or \$788,000 to \$4.6 million for the first half of fiscal 2006 compared to \$3.8 million for the previous fiscal year. Gross service expenses, excluding LMG, have been affected unfavorably by approximately \$313,000 due to the strengthened Canadian dollar, the use of more outside consultants, and the expansion of the Company's operations in Europe. The total cost of services also includes multimedia tax credits of \$296,000 for the half of fiscal 2006 compared to \$252,000 for the same period in the previous fiscal year.

The cost of third-party products increased by \$2.1 million or 181% to \$3.3 million for the first half of fiscal 2006 in comparison to \$1.2 million for the same six-month period for the previous fiscal year. LMG accounted for \$1.7 million of the increase. Excluding LMG, \$449,000 of the increase is related to the increased third-party products revenue of \$697,000 realized in the first half of fiscal 2006.

## Gross Margin

Gross margin increased by \$555,000 or 19% to \$3.4 million for the second quarter of fiscal 2006 in comparison to \$2.9 million for the same fiscal period last year. LMG contributed \$741,000 to the increased gross margin. Total gross margin percentage in the second quarter of fiscal 2006 was 38% (43% excluding LMG) compared to 52% in the same period of fiscal 2005. The gross margin reduction of 9% on the existing business is mainly attributable to the strengthening Canadian dollar, the higher proportion of third-party products revenue within the revenue mix, and the increased services expenses related to outside consultants and expanded European operations. The reduction in the overall gross margin percentage is also largely influenced by the addition of LMG, which realized an overall gross margin of 26% in the second quarter.

Products margin was \$1.8 million or 48% of product revenues in the second quarter of fiscal 2006 compared to \$1.2 million or 64% of product revenues for the same three-month period last year. Excluding LMG, products margin was 55% in the second quarter of fiscal 2006. The reduction in product margin in the second quarter, excluding LMG, is largely attributable to a single very large order of third-party products where the realized margin was negligible. LMG's products gross margin percentage was 34% reflecting the fact that its product revenue mix is more heavily weighted on the resale of RF equipment, hardware and supplies, which carry a lower gross margin, than proprietary and third-party software licenses.

Services gross margin was \$1.6 million or 32% of services revenues in the second quarter of fiscal 2006 compared to \$1.7 million or 49% of services revenues in the same period last year. Excluding LMG, the services gross margin decreased \$363,000 and represented 37% of the services revenue in the second quarter for fiscal 2006 compared to 49% for the same fiscal period last year. This decrease in services gross margin is due primarily to the unfavorable impact of the strengthening Canadian dollar, the use of more outside consultants, and the expansion of the European operations. LMG services gross margin was 20% in the second quarter of fiscal 2006. LMG's gross margin for services is lower compared to the existing business mainly due to the fact that a portion of their services revenue comprises the repair of third-party RF equipment and hardware products, which carry a significantly lower gross margin, as well as using more outside consultants to provide consulting services for SAP implementation. Additionally, LMG does not benefit from the multi-media tax credits.

For the first half of fiscal 2006, the gross margin increased by \$1.1 million or 20% to \$6.9 million in comparison to \$5.8 million for the same fiscal period last year. LMG contributed \$1.6 million to the increased gross margin. Total gross margin percentage in the first half of fiscal 2006 was 41% (46% excluding LMG) compared to 53% in the same period of fiscal 2005. The gross margin reduction of 7% on the existing business is mainly attributable to the strengthening Canadian dollar, the higher proportion of third-party products revenue within the revenue mix, and the increased services expenses related to outside consultants and expanded European operations. The reduction in the overall gross margin percentage is also largely influenced by the addition of LMG, which realized an overall gross margin of 29% in the first half of the current fiscal year.

Products margin was \$3.4 million or 51% of product revenues in the first half of fiscal 2006 compared to \$2.4 million or 68% of product revenues for the same six-month period last year. Excluding LMG, products margin was 62% in the first half of fiscal 2006. The reduction in product margin in the first half, excluding LMG, is largely attributable to higher volume of RF equipment and hardware revenue. LMG's products gross margin percentage was 32% reflecting the fact that its product revenue mix is more heavily weighted on the resale of RF equipment, hardware and supplies, which carry a lower gross margin, than proprietary and third-party software licenses.

Services gross margin was \$3.5 million or 35% of services revenues in the first half of fiscal 2006 compared to \$3.3 million or 49% of services revenues in the same period last year. Excluding LMG, the services gross margin decreased \$673,000 and represented 38% of the services revenue in the first half for fiscal 2006 compared to 49% for the same fiscal period last year. This decrease in services gross margin is due primarily to the unfavorable impact of the strengthening Canadian dollar, the use of more outside consultants, and the expansion of the European operations. LMG services gross margin contributed \$790,000 to the overall gross margin and represented 27% of its service revenues in the first half of fiscal 2006. LMG's gross margin for services is lower compared to the existing business mainly due to the fact that a portion of their services revenue comprises the repair of third-party RF equipment and hardware products, which carry a significantly lower gross margin, as well as using more outside consultants to provide consulting services for SAP implementation. Additionally, LMG does not benefit from the multi-media tax credits.

## Operating Expenses

Total operating expenses increased by \$730,000 or 26% to \$3.5 million in the second quarter of fiscal 2006 compared to \$2.8 million in the second quarter of fiscal 2005. LMG accounted for \$723,000 of the overall increase.

The most significant variances, excluding LMG, accounting for the \$7,000 increase in operating expenses in the second quarter of fiscal 2006 compared to the same period last year are characterized by favorable variances due to fewer sales and marketing resources accounting for \$78,000 and higher research and development investment tax credits for \$134,000 offset by unfavorable variances for bad debts for \$158,000 related primarily to a single customer and higher R&D expenses of \$100,000 most of which is due to the unfavorable impact of the strengthening Canadian dollar.

Due to the strengthened Canadian dollar in the second quarter of fiscal 2006 in comparison to the same period in fiscal 2005, excluding LMG, all operating expenses have been affected unfavorably by approximately \$204,000.

For the six months ended October 31, 2005, operating expenses have increased \$1.2 million or 21% to \$6.8 million in comparison to the same period of the previous fiscal year. Excluding LMG, operating expenses decreased by \$224,000 or 4% as LMG operating expenses accounted for \$1.4 million.

The most significant variances, excluding LMG, accounting for the \$224,000 decrease in operating expenses include \$221,000 of favorable sales & marketing variances due primarily to fewer resources and variable commission expense. Excluding LMG, sales & marketing resources have averaged 25 for the first half of fiscal 2006 in comparison to 31 for the same six-month period last year. Additionally, excluding LMG, research and development tax credits are considerably higher by \$191,000 for the first six months of fiscal 2006 in comparison to the same period last year largely because amounts for prior years were conservatively under accrued by \$88,000. Other favorable variances include lower stock-based compensation and amortization expenses of \$60,000. Unfavorable variances for the first half of fiscal 2006 in comparison to the first half of fiscal 2005, excluding LMG, include higher research and development expenses of \$120,000, which is entirely attributable to the impacts of the strengthening Canadian dollar, as well as higher general and administration expenses of \$128,000, which is explained primarily as a higher bad debt realized on a single account in the current quarter.

Due to the strengthened Canadian dollar in the first half of fiscal 2006 in comparison to the same period in fiscal 2005, excluding LMG, all operating expenses have been affected unfavorably by approximately \$399,000.

## Other Income and Expenses

During the second quarter of fiscal 2006, the Company recorded an exchange loss of \$62,000 compared to an exchange loss of \$400,000 for the same period in the previous fiscal year. The exchange loss arises because the Company carries net monetary assets, primarily cash and accounts receivable, denominated in U.S. dollars. The net U.S. monetary assets are devalued due to the strengthened Canadian dollar against the U.S. dollar. The exchange rate at July 31, 2005, the beginning of the quarter, was \$1 US = \$1.2259 CA. The exchange rate at October 31, 2005 was \$1 US = \$1.1801 CA representing a 3.7% depreciation of U.S. monetary assets for the quarter. The exchange rate at July 31, 2004 was \$1 US = \$1.3292 CA and at October 31, 2004 the rate was \$1 US = \$1.2207 CA representing 8.2% depreciation of U.S. monetary assets in the second quarter of the last fiscal year.

Similarly, for the first half of fiscal 2006, the Company recorded an exchange loss of \$127,000 compared to an exchange loss of \$433,000 for the same period a year earlier. The U.S. dollar has been depreciated by CA 7.68 cents or 6.1% in the six-month period ended October 31, 2005 compared to CA 15.00 cents or 10.9% depreciation for the six-month period ended October 31, 2004.

During the second quarter of fiscal 2006, the Company protected a portion of its net monetary assets by means of a forward exchange contract selling \$2.0 million U.S. dollars forward at an average rate of \$1.21. The contract matured before the end of the quarter. There were no foreign exchange contracts outstanding at the end of the quarter. The hedging strategy in the second quarter of fiscal 2006 resulted in reducing the exchange loss for US \$51,000. The Company followed a similar strategy of selling U.S. dollars forward at the end of the second quarter of fiscal 2005 selling \$1.0 million U.S. dollars at an average rate of 1.2958. The hedging strategy in the second quarter of fiscal 2005 also resulted in reduced exchange losses for US \$60,000 in that quarter. For the first half of fiscal 2006, the hedging strategy has resulted in cumulative reduced exchange losses of \$94,000 in comparison to \$108,000 for the first half of fiscal 2005.

Subsequent to the current quarter ended October 31, 2005, the Company undertook another foreign exchange contract to sell \$2.0 million U.S. dollars forward at a rate of 1.1706 on January 31, 2006.

The consolidated financial statements for the three and six-month periods ended October 31, 2005 and October 31, 2004 are translated into U.S. dollars using the current rate method. All gains and losses resulting from the translation of the Canadian dollar consolidated financial statements into U.S. dollars are reflected in the cumulative translation adjustment in shareholders' equity.

The Company has recorded increases in the cumulative translation adjustment (CTA) account within the shareholder's equity of \$587,000 for the second quarter of fiscal 2006 (\$948,000 for the first half of fiscal 2006) compared to \$1.2 million for the second quarter of fiscal 2005 (\$1.6 million for the first half of fiscal 2005). The increases to CTA account represent exchange gains arising on the translation of the Canadian dollar financial statements into U.S. dollar financial statements where such exchange gains are posted directly into the shareholder's equity section rather than flowing through the statement of operations.

## Net Earnings

The Company recorded net losses of \$166,000 or \$0.01 per share in the second quarter of fiscal 2006 compared to net losses of \$316,000 or \$0.02 per share for the same period last year. For the six months ended October 31, 2005, the Company recorded net earnings of \$59,000 or \$0.00 per share compared to net losses of \$180,000 or \$0.01 per share for the same six-month period in the previous fiscal year.

Note 4 to the consolidated financial statements reflects that there is only a very small difference of \$6,000 between the Company's reported net earnings and no difference between the basic and diluted net earnings per share under Canadian GAAP as compared to U.S. GAAP for the six-month periods ended October 31, 2005 and 2004. However, under U.S. GAAP, the cumulative translation adjustment (CTA) is an integral part of arriving at the comprehensive income. The comprehensive income for the first half of fiscal 2006 under U.S. GAAP was \$1.0 million compared to \$1.4 million for the corresponding period in fiscal 2005.

## Liquidity and Capital Resources

As of October 31, 2005, current assets totaled \$17.1 million compared to \$15.8 million at the end of fiscal 2005. Cash, restricted cash equivalents, and short-term and other investment securities decreased to \$7.0 million compared to \$7.3 million as at April 30, 2005. Trade accounts receivable totaled \$8.1 million at the end of October 31, 2005 compared to \$7.0 million as at April 30, 2005. The Company's DSO (days sales outstanding) increased to 81 days at the end the second quarter of fiscal 2006 in comparison to 70 days at the end of fiscal 2005 and 78 days at the end of the second quarter of fiscal 2005.

Current liabilities as at October 31, 2005 totaled \$7.5 million compared to \$6.9 million at the end of fiscal 2005. The increase is due primarily to the shifting of long-term debt for \$396,000 to the current liabilities, as it is due in October 2006. Working capital increased to \$9.6 million at the end of the second quarter of fiscal 2006 compared to \$9.0 million at the end of fiscal year 2005.

During the first six months of fiscal 2006, operating activities used funds of \$243,000 compared to generating \$74,000 for the same period last year. During the first half of fiscal 2006, positive results in operating activities generated \$703,000 and were offset by increases in net non-cash working capital by \$946,000, represented primarily by the increase of accounts receivable and investment tax credits receivable and the decrease of accounts payable and accrued liabilities. During the first half of fiscal 2005, operations generated \$438,000 and were offset by increases in net non-cash working capital by \$364,000, represented primarily by the reduction of accounts payable.

The Company believes that funds on hand at October 31, 2005, together with short term investments and 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 used funds of \$225,000 and \$98,000 respectively for the first six months of fiscal 2006 and 2005. The repayment of long-term debt and capital lease obligations amounted to \$37,000 in the first half fiscal 2006 compared to \$95,000 for the comparable period in fiscal 2005. During the first half of fiscal 2006, the Company purchased 145,500 of its outstanding common shares for cancellation at an average price of CA \$1.55 (US \$1.28) per share under a Normal Course Issuer Bid (NCIB). The total cost related to the purchasing of these shares, including other related costs, was CA \$227,000 (US \$188,000). The excess of the net book value over the purchase price of the shares of US \$220,000 has been credited to contributed surplus. No shares were purchased under the NCIB in the first half of fiscal 2005, however the Company did incur \$3,000 for fees related to filing the notice for the NCIB. As per note 1 to the consolidated financial statements, the Company may purchase common shares under the NCIB, if it considers it advisable, at any time, and from time to time, to July 18, 2006.

During the first half of fiscal 2006, investing activities generated funds amounting to \$279,000 as compared to using \$1.5 million for the comparable period of fiscal 2005. The Company generated funds of \$456,000 by decreasing short-term investments in the first half of fiscal 2006 in comparison to using funds of \$1.8 million to increase short-term investments in the first half of fiscal 2005. Funds of \$144,000 and \$102,000 were used for the first half of fiscal 2006 and 2005 respectively for the acquisition of property, plant, and equipment, and computer software for internal use (intangible assets). In the first half of fiscal 2006, the Company recorded an additional investment in LMG of \$33,000 representing acquisition costs. In the first quarter of fiscal 2005, the company received funds of \$368,000 representing the purchase price adjustment from former PointForce shareholders pursuant to the acquisition of PointForce.

Strategically, the Company will continue to consider growth opportunities through acquisition. Funding for these potential acquisitions will be determined as the opportunities and circumstances are identified.

## 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, 2005.

### 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 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.

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, 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.

## Related Party Transactions

The company has a subordinated loan for CA\$107,000 (US\$91,000) 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 October 31, 2005 and October 31, 2004.

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Management has compiled the unaudited interim consolidated financial information of TECSYS Inc. consisting of the interim Consolidated Balance Sheet as at October 31, 2005 and the Consolidated Statements of Deficit, Operations, and Cash Flows for the three and six-month periods ended October 31, 2005 and October 31, 2004. An accounting firm has not reviewed or audited these interim consolidated financial statements.

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**TECSYS Inc.****Consolidated Balance Sheets**

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of U.S. dollars)

	<b>October 31, 2005 (unaudited)</b>	<b>April 30, 2005</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	876	1,054
Short-term and other investments	5,557	5,435
Accounts receivable	8,059	7,000
Other accounts receivable	180	177
Tax credits receivable	1,691	1,241
Inventory	88	162
Prepaid expenses	646	749
	<u>17,097</u>	<u>15,818</u>
<b>Restricted cash equivalents and other investments</b>	571	815
<b>Property, plant and equipment</b>	2,021	2,044
<b>Intangible assets</b>	2,120	2,239
<b>Goodwill</b>	<u>1,979</u>	<u>1,827</u>
	<u>23,788</u>	<u>22,743</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	4,871	4,890
Current portion of long-term debt	509	106
Deferred revenue	2,076	1,868
	<u>7,456</u>	<u>6,864</u>
<b>Long-term debt</b>	3	410
<b>Other long-term liabilities</b>	519	548
	<u>7,978</u>	<u>7,822</u>
<b>Shareholders' Equity</b>		
<b>Capital stock ( note 1 )</b>	38,612	39,019
<b>Contributed surplus ( notes 1 and 2 )</b>	6,913	6,624
<b>Cumulative translation adjustment</b>	2,441	1,493
<b>Deficit</b>	<u>(32,156)</u>	<u>(32,215)</u>
	<u>15,810</u>	<u>14,921</u>
	<u>23,788</u>	<u>22,743</u>

**TECSYS Inc.****Consolidated Statements of Deficit**

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of U.S. dollars)

	<b>Six Months Ended October 31, 2005 (unaudited)</b>	<b>Six Months Ended October 31, 2004 (unaudited)</b>
<b>Balance - Beginning of period as originally stated</b>	(32,215)	(27,764)
Adjustment resulting from a change in accounting policy regarding stock-based compensation ( note 2 )	-	(4,785)
<b>Beginning balance as restated</b>	(32,215)	(32,549)
Net earnings (loss) for the period	59	(180)
<b>Balance - End of period</b>	(32,156)	(32,729)

**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)

	<b>Three Months Ended October 31, 2005 (unaudited)</b>	<b>Three Months Ended October 31, 2004 (unaudited)</b>	<b>Six Months Ended October 31, 2005 (unaudited)</b>	<b>Six Months Ended October 31, 2004 (unaudited)</b>
<b>Revenue</b>				
Products ( note 3a )	3,720	1,838	6,716	3,591
Services	5,046	3,445	9,900	6,851
Reimbursable expenses	202	212	357	398
	<u>8,968</u>	<u>5,495</u>	<u>16,973</u>	<u>10,840</u>
<b>Cost of revenue</b>				
Products	1,935	660	3,267	1,164
Services ( note 3b )	3,425	1,772	6,450	3,514
Reimbursable expenses	202	212	357	398
	<u>5,562</u>	<u>2,644</u>	<u>10,074</u>	<u>5,076</u>
<b>Gross margin</b>	<u>3,406</u>	<u>2,851</u>	<u>6,899</u>	<u>5,764</u>
<b>Operating expenses</b>				
Sales & marketing	1,514	1,142	2,968	2,320
General & administration	839	527	1,478	1,066
Gross research & development	1,108	933	2,099	1,842
Research & development tax credits	(243)	(74)	(400)	(175)
Stock-based compensation	36	62	69	113
Amortization of property, plant and equipment	141	140	276	270
Amortization of intangible assets	142	77	277	149
	<u>3,537</u>	<u>2,807</u>	<u>6,767</u>	<u>5,585</u>
<b>Earnings (loss) from operations</b>	(131)	44	132	179
Interest income	38	48	85	91
Interest expense	(11)	(8)	(31)	(17)
Foreign exchange losses	(62)	(400)	(127)	(433)
<b>Net earnings (loss) for the period</b>	<u>(166)</u>	<u>(316)</u>	<u>59</u>	<u>(180)</u>
<b>Weighted average number of common shares outstanding</b>				
- basic	<u>13,816,997</u>	<u>14,158,797</u>	<u>13,850,223</u>	<u>14,158,797</u>
- diluted	<u>13,816,997</u>	<u>14,158,797</u>	<u>13,901,725</u>	<u>14,158,797</u>
<b>Basic and diluted net earnings (loss) per common share ( in US dollars )</b>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ 0.00</u>	<u>\$ (0.01)</u>

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

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of U.S. dollars)

	<b>Three Months Ended October 31, 2005 (unaudited)</b>	<b>Three Months Ended October 31, 2004 (unaudited)</b>	<b>Six Months Ended October 31, 2005 (unaudited)</b>	<b>Six Months Ended October 31, 2004 (unaudited)</b>
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net earnings (loss) for the period	(166)	(316)	59	(180)
Adjustments for				
Amortization of property, plant and equipment	141	140	276	270
Amortization of intangible assets	142	77	277	149
Stock-based compensation	36	62	69	113
Unrealized foreign exchange losses	16	76	22	86
Changes in non-cash working capital items related to operations				
Decrease ( increase ) in accounts receivable	181	335	(502)	627
Decrease in other accounts receivable	33	41	10	150
Increase in tax credits receivable	(226)	(195)	(362)	(432)
Decrease in inventory	48	-	83	-
Decrease in prepaid expenses	46	27	144	92
Decrease ( increase ) in long-term accounts receivable	-	28	-	(6)
Increase ( decrease ) in accounts payable and accrued liabilities	192	(110)	(346)	(617)
Increase ( decrease ) in deferred revenue	(174)	8	27	(178)
	<u>269</u>	<u>173</u>	<u>(243)</u>	<u>74</u>
<b>Financing activities</b>				
Repayment of long-term debt and capital lease obligations	(32)	(20)	(37)	(95)
Purchase of common shares for cancellation	(108)	(3)	(188)	(3)
	<u>(140)</u>	<u>(23)</u>	<u>(225)</u>	<u>(98)</u>
<b>Investing activities</b>				
Decrease ( increase ) in short-term and other investments	(247)	(2,083)	456	(1,810)
Acquisitions of property, plant and equipment	(54)	(48)	(125)	(93)
Acquisitions of intangible assets	(19)	14	(19)	(9)
Business combinations and purchase price adjustment	(33)	-	(33)	368
	<u>(353)</u>	<u>(2,117)</u>	<u>279</u>	<u>(1,544)</u>
<b>Effect of foreign exchange rate fluctuations on cash and cash equivalents</b>	<u>25</u>	<u>76</u>	<u>11</u>	<u>63</u>
<b>Change in cash and cash equivalents</b>	(199)	(1,891)	(178)	(1,505)
<b>Cash and cash equivalents - Beginning of Period</b>	1,075	2,774	1,054	2,388
<b>Cash and cash equivalents - End of Period</b>	<u>876</u>	<u>883</u>	<u>876</u>	<u>883</u>

## Interim financial information

The interim financial statements for the three and six-month periods ended October 31, 2005 and October 31, 2004 are unaudited and have not been reviewed the Company's auditors. In the opinion of management, all necessary adjustments were made to present fairly the results of these periods. The adjustments made were of a normal recurring nature. The results of operations for the three and six-month periods ended October 31, 2005 and 2004 are not necessarily indicative of the trends for the operating results for the full year.

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, 2005. These interim financial statements follow the same accounting policies and methods of their application as the annual financial statements for the year ended April 30, 2005.

### 1. Capital stock

a) On July 14, 2005, the Company renewed its Notice of Intention to Make a Normal Course Issuer Bid (the "Notice") with the Toronto Stock Exchange. The Notice stated the Company's intention to purchase on the open market at prevailing prices, through the facilities of the Toronto Stock Exchange, up to a maximum of 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 as at June 30, 2005 in any 30-day period. Under the renewal, the Company may purchase common shares, if it considers it advisable, at any time, and from time to time during the period of July 19, 2005 to July 18, 2006. The common shares will be purchased for cancellation.

During the six-month period ended October 31, 2005, the Company purchased 145,500 of its outstanding common shares at an average price of CA \$1.55 (US \$1.28) under the Normal Course Issuer Bid. The total cost related to the purchasing of these shares, including other related costs, was CA \$227,000 (US \$188,000). The excess of the net book value over the purchase price of these shares of US \$220,000 has been credited to contributed surplus. The Company did not purchase any of its outstanding common shares for cancellation during the six-month period ended October 31, 2004, however did incur \$3,000 for fees related to the filing of the Notice.

The total number of common shares outstanding at October 31, 2005 is 13,777,797.

b) The following table summarizes the capital stock activity since April 30, 2004:

	<b>Common shares</b>	
	<b>Number of shares</b>	<b>Amount</b>
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 2)	-	353
Balance - April 30, 2005	<u>13,923,297</u>	<u>39,019</u>
Repurchase of common shares	(145,500)	(407)
Balance - October 31, 2005	<u>13,777,797</u>	<u>38,612</u>

The following table summarizes the contributed surplus activity since April 30, 2004:

	<b>Amount</b>
Balance - April 30, 2004	1,606
Repurchase of 235,500 common shares - excess of net book value over the purchase price and related costs	365
Change in accounting policy regarding prior years' stock-based compensation (note 2)	4,785
Change in accounting policy regarding prior years' stock-based compensation related to options exercised (note 2)	(353)
Fiscal 2005 stock-based compensation	174
Fair value of warrants issued regarding ASI acquisition	20
Fair value of warrants issued regarding Symplystech acquisition	27
Balance - April 30, 2005	<u>6,624</u>
Repurchase of 145,500 common shares - excess of net book value over the purchase price and related costs	220
Current year's stock-based compensation for six months	69
Balance - October 31, 2005	<u>6,913</u>

c) As at October 31, 2005, options to purchase 995,714 common shares at exercise prices ranging between CA \$0.99 and CA \$5.92 and warrants to purchase 62,500 common shares at exercise prices ranging between CA \$1.64 and CA \$2.03 were outstanding. During the six months ended October 31, 2005, the Company granted options to purchase 45,000 common shares with exercise prices ranging from CA \$1.50 to CA \$1.62 (during three-month period ended October 31, 2005, 18,000 options were granted with exercise prices ranging from CA \$1.50 to CA \$1.56). No warrants were issued during the period. During the six-month period ended October 31, 2004, the Company granted options to purchase 4,000 common shares with exercise prices ranging from CA \$1.70 to CA \$1.76 (during the three-month period ended October 31, 2004, the Company granted options to purchase 3,000 common shares with exercise prices ranging from CA \$1.75 to CA \$1.76).

During the six months ended October 31, 2005, options to purchase 59,206 common shares at exercise prices ranging from CA \$1.50 to CA \$5.92 and warrants to purchase 22,500 common shares with an exercise price of CA \$2.03 were forfeited or expired. During the six-month period ended October 31, 2004, options to purchase 41,691 common shares at exercise prices ranging from CA \$0.99 to CA \$27.64 were either forfeited or expired.

No options or warrants to purchase common shares were exercised during the six-month periods ended October 31, 2005 or October 31, 2004.

## 2. Stock-based compensation and other stock-based payments

The Company maintains a stock-based compensation plan ("Option Plan"), which is described in note 11(d) in the audited financial statements for the year ended April 30, 2005. The Option Plan was amended on September 8, 2005 to increase the maximum number of common shares which may be issued under the Option Plan to 10% of the issued and outstanding common shares at any time (the "Evergreen Maximum"). The Option Plan will also be amended to add a reloading feature which will permit any common shares issued upon the partial or full exercise of an option to become automatically available to be made the subject of a new option, provided that the total number of common shares reserved for issuance under options does not exceed the Evergreen Maximum.

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 the 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 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. Stock-based compensation expense is recorded in the statement of operations commencing May 1, 2004.

For periods prior to May 1, 2004, 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 stock options and warrants granted to employees and directors.

No compensation cost is recognized when shares are issued to employees. Any consideration received from the stock-option plan participants is credited 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.

The change in accounting policy for stock-based compensation became effective May 1, 2004 and resulted in a restatement of the opening balance of deficit for the 2005 fiscal year of \$4.8 million, with corresponding credits to contributed surplus of \$4.4 million, reflecting the cost of unexercised options and warrants granted since the inception of the plan in the 1998 fiscal year, and to capital stock of \$353,000, representing the fair value of stock options exercised in prior years.

The fair value of options and warrants granted in the three and six-month periods ended October 31, 2005 and October 31, 2004 was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

	<b>Three months ended October 31, 2005</b>	<b>Three months ended October 31, 2004</b>	<b>Six months ended October 31, 2005</b>	<b>Six months ended October 31, 2004</b>
Volatility	62.5%	75%	62.5%	75%
Risk-free interest rate	3.7%	3.00%	3.7%	3.00%
Dividend yield	nil	nil	nil	nil
Expected lives (in years)	4	3	4	3

Following is a summary of the weighted average grant date fair value of options granted during the three and six-month periods ended October 31, 2005 and 2004:

	<b>Three months ended October 31, 2005</b>	<b>Three months ended October 31, 2004</b>	<b>Six months ended October 31, 2005</b>	<b>Six months ended October 31, 2004</b>
Number of options	18,000	3,000	45,000	4,000
Weighted avg. exercise price US \$	1.28	1.36	1.26	1.32
Weighted avg. grant date FV US \$	0.65	0.69	0.63	0.67

### 3. Other Information

#### a) Products revenue

Products revenue is broken down as follows:

	<b>Three months ended October 31, 2005</b>	<b>Three months ended October 31, 2004</b>	<b>Six months ended October 31, 2005</b>	<b>Six months ended October 31, 2004</b>
Software products	1,111	960	2,316	2,051
Third-party hardware and software	2,609	878	4,400	1,540
	<u>3,720</u>	<u>1,838</u>	<u>6,716</u>	<u>3,591</u>

**b) Cost of services consist of the following:**

	<b>Three months ended October 31, 2005</b>	<b>Three months ended October 31, 2004</b>	<b>Six months ended October 31, 2005</b>	<b>Six months ended October 31, 2004</b>
Gross expenses	3,578	1,892	6,746	3,766
Refundable tax credits	(153)	(120)	(296)	(252)
	<u>3,425</u>	<u>1,772</u>	<u>6,450</u>	<u>3,514</u>

**c) Earnings (loss) per share**

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

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 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:

	<b>Three months ended October 31, 2005</b>	<b>Three months ended October 31, 2004</b>	<b>Six months ended October 31, 2005</b>	<b>Six months ended October 31, 2004</b>
Weighted average number of shares - basic	13,816,997	14,158,797	13,850,223	14,158,797
Additions to reflect the impacts of:				
Exercise of employee stock options and warrants	-	-	51,502	-
Weighted average number of shares-diluted	<u>13,816,997</u>	<u>14,158,797</u>	<u>13,901,725</u>	<u>14,158,797</u>

Options and warrants to purchase 745,514 common shares for the six-month period ended October 31, 2005 (three-month period ended October 31, 2005 - 1,058,214, three and six-month periods ended October 31, 2004 - 952,163) have been excluded from the above calculations since they would have an anti-dilutive effect. There are no differences between basic and diluted net earnings per common share figures.

#### 4. Significant differences between Canadian and United States GAAP

The Company's financial statements are 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:

##### Statement of Operations

The following summary sets out the material differences between the Company's net earnings (loss) under Canadian GAAP as compared to U.S. GAAP for each period presented.

	<b>Three months ended October 31, 2005</b>	<b>Three months ended October 31, 2004</b>	<b>Six months ended October 31, 2005</b>	<b>Six months ended October 31, 2004</b>
Net earnings (loss) for the period in accordance with Canadian GAAP	(166)	(316)	59	(180)
Amortization of in-process research & development relating to the ASI acquisition	3	-	6	-
Net earnings (loss) for the period in accordance with U.S. GAAP	(163)	(316)	65	(180)
Other comprehensive income (loss):				
Foreign currency translation adjustments	587	1,220	948	1,622
Comprehensive income	424	904	1,013	1,442

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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.

TECSYS Inc.  
Investor Relations  
87 Prince Street, 5th Floor  
Montreal, Quebec  
Canada H3C 2M7  
Tel.: (800) 922-8649  
(514) 866-0001  
Fax: (514) 866-3878  
E-mail: [investor@tecsys.com](mailto:investor@tecsys.com)  
[www.tecsys.com](http://www.tecsys.com)

Transfer Agent & Registrars  
Computershare Trust Company of  
Canada  
Shareholder Services  
1800 McGill College Avenue  
Montreal, Quebec  
Canada H3A 3K9  
Tel.: (514) 982-7000  
Fax: (514) 982-7635  
[www.computershare.com](http://www.computershare.com)

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