

3rd Quarter Fiscal 2005 Report

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

Dear Shareholder,

This was another solid quarter. We won some great new business, shipped a major new release, significantly increased our revenue, and managed our cost line to deal with the stronger Canadian dollar. We also announced our intent to acquire Application Solutions Inc. (ASI).

Let me give you some of the details of these accomplishments:

Revenues in the third quarter of fiscal 2005 increased 27% to \$5.3M compared to the third quarter of fiscal 2004 of \$4.2M. Earnings from operations for the reporting quarter were \$112,000, compared to a loss from operations of \$110,000 in the corresponding quarter of last year. After accounting for an exchange gain of \$30,000 and net interest income of \$38,000, the company had net earnings of \$180,000 or \$0.01 per share compared to net earnings of \$20,000 or \$0.00 per share in the corresponding quarter of the prior year.

For the nine months ending January 31, 2005, revenues increased 34% to \$16.1M compared to \$12.1M in the same period of the prior fiscal year. Earnings from operations for the reporting nine months was \$291,000 compared to \$217,000, in the corresponding period of fiscal 2004 representing a 34% increase. After accounting for an exchange loss of \$403,000 and net interest income of \$112,000, the company had a net break even or \$0.00 per share compared to net earnings of \$54,000 or \$0.00 per share in the corresponding period of the prior year. Last but not least, our cash balance rose to \$10.0M, up from \$8.8M at the start of the current fiscal year after spending \$280,000 to fund our stock BuyBack Program under the NCIB.

On the operational side, we introduced the latest version of our suite of enterprise distribution applications – **EliteSeries** Release 7.3. This new release capitalizes on our Services-Oriented-Architecture (SOA) application development environment and delivers leading edge capabilities such as “anywhere, anytime” distribution management. This release also strengthens our international appeal with improved multilingual and multi-currency support.

We signed a letter of intent (LOI) to acquire Application Solutions Inc. (ASI), a leading Canadian provider of warehouse management systems (WMS), RFID solutions, and systems integration services on the IBM iSeries platform. Completion of this acquisition, which occurred on February 28th, 2005, marks further execution of TECSYS’ “Enabling Supply Chain Excellence” strategy. ASI is currently a Canadian leader in the RFID space with several significant deployments under way.

We continued to close significant new business in the quarter. We reached an agreement with a previously signed large multinational company to extend the prior agreement and implement our **EliteSeries** software in an additional subsidiary. We also added a distributor of musical instruments; an office products distributor, an importer and distributor of crafts essentials; a 3PL business; and a hospital, physician, and nursing home supplier.

TECSYS has one of the highest successful implementation rates in the industry, and this continued with go-lives with quite a number of accounts including a large oil processing and distribution business; a restaurant equipment supplier; an importer of fine wines; a distributor of gift products; an importer and distributor of home furniture; a distributor of educational supplies; and a distributor of toys, to name just a few.

The competitive situation is getting interesting as the market continues to consolidate, and prospective customers are finding fewer options to choose from. The Oracle/PeopleSoft story has certainly consolidated the upper end of the market, and the last twelve months have seen massive consolidation in the middle market. Our pipeline continues to be healthy, and we believe these market dynamics will prove to be good for us.

In summary, it was a good quarter, and we will continue our bottom line focus to adapt the business to the new currency environment. We will also continue to invest prudently in our existing business and in strategic acquisitions to take advantage of the opportunities in this rapidly changing market.

Yours truly,

A handwritten signature in black ink, appearing to be '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 February 18, 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 2004. The Company's third quarter for fiscal year 2005 ended on January 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 nine-month periods ended January 31, 2005 and January 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 specific measurement differences between Canadian and United States generally accepted accounting principles as they relate to the Company.

Business Combination

On December 31, 2003, the Company acquired 100% of the issued and outstanding shares of PointForce Inc. ("PointForce"), a company which develops, markets, and sells Supply Chain Management ("SCM") software for the giftware distribution, office products distribution, and high-growth import-to-retail distribution market segments. PointForce was wound-up into TECSYS Inc. on January 1, 2004 and the results of its operations have been included in the consolidated financial statements commencing January 1, 2004.

Results of Operations

Three and nine months ended January 31, 2005 compared to three and nine months ended January 31, 2004

Revenue

Total revenue for the three months ended January 31, 2005 increased by \$1.1 million or 27% to \$5.3 million compared to \$4.2 million for the same period of fiscal 2004. PointForce's third quarter revenues of \$1.4 million compared to \$446,000, representing January 2004 revenues in fiscal 2004, accounted for \$943,000 of the \$1.1 million increase.

Products revenue increased by 22% to \$1.6 million compared to \$1.3 million in the third quarter of fiscal 2005 compared to the same period in the previous fiscal year. Excluding PointForce, products revenue increased \$133,000 or 11% representing increases of proprietary licenses of \$388,000 while third-party products decreased \$255,000 due primarily to more significant activity for license revenues to existing customers.

Services revenue increased 31% or \$840,000 to \$3.6 million during the third quarter of fiscal 2005 compared to \$2.7 million for the same fiscal period last year. PointForce's service revenues accounted for \$761,000 of the increase. Excluding PointForce, services revenues increased by \$79,000 or 3% in comparison to the same three-month period last year representing primarily increased activity for product adaptations.

As a percentage of total revenue, products accounted for 31% and services 67% in the third quarter of fiscal 2005 compared to 32% and 65%, respectively, in the third quarter of fiscal 2004. The increased percentage of services revenue is influenced by the PointForce revenue mix, which was 22% for products and 77% for services.

The Canadian dollar has strengthened approximately 8% against the U.S. dollar for the third quarter of fiscal 2005 as compared to the same period in fiscal 2004. The U.S. dollar to Canadian dollar exchange rates for the three-month period ended January 31, 2005 have averaged 1.2135 in comparison to 1.3071 for the same period last year. Consequently, excluding PointForce, the strengthening Canadian dollar exchange rate affected the reported revenues favorably by approximately \$70,000 in the third quarter of fiscal 2005 in comparison to the same period last year.

During the first nine months of fiscal 2005 total revenue increased by \$4.1 million or 34% to \$16.1 million compared to \$12.1 million in the first nine months of fiscal 2004. PointForce's nine-month revenues of \$4.2 million compared to \$446,000, representing January 2004 revenues in fiscal 2004, accounted for \$3.7 million of the total increase.

Products revenue increased by 10% or \$468,000 to \$5.2 million during the first nine months of fiscal 2005 compared to the same period in the previous fiscal year. Excluding PointForce, products revenue decreased \$357,000 or 8% due exclusively to decreases of third-party products revenue amounting to \$892,000 while proprietary license revenues increased \$535,000. In the first nine months of fiscal 2004 several large orders of third-party products were shipped to significant customers.

Services revenue increased 52% or \$3.6 million to \$10.4 million during the first nine of fiscal 2005 compared to \$6.8 million for the same fiscal period last year. PointForce's nine-month service revenue contribution for fiscal 2005 exceeded the one-month service revenue contribution in fiscal 2004 by \$2.8 million, accounting for most of the increase. Excluding PointForce, services revenues increased by \$722,000 or 11% in comparison to the same nine-month period last year representing increased activity in all service areas including consulting, product adaptations, and support for a number of significant customers under implementation.

As a percentage of total revenue, products accounted for 32% and services 65% in the first nine months of fiscal 2005 compared to 39% and 57%, respectively, in the corresponding period of fiscal 2004. The increased percentage of services revenue is strongly influenced by the PointForce revenue mix, which was 23% for products and 75% for services for the first nine months, as well as the reduced activity in third-party products revenue.

The Canadian dollar has strengthened approximately 5% against the U.S. dollar for the first nine months of fiscal 2005 as compared to the same period in fiscal 2004. The U.S. dollar to Canadian dollar exchange rates for the nine-month period ended January 31, 2005 have averaged 1.2828 in comparison to 1.3467 for same period last year. Consequently, excluding PointForce, the strengthening Canadian dollar exchange rate affected the reported revenues favorably by approximately \$141,000 in the first nine months of fiscal 2005 in comparison to the same period last year.

Cost of Revenue

Total cost of revenue in the third quarter of fiscal 2005 was \$2.4 million representing an increase of \$475,000 or 24% compared to \$2.0 million for the same period last year. PointForce's increase of cost of revenue for the three-month period ended January 31, 2005 accounted for \$466,000 over the comparable period in the previous fiscal year representing the complete quarter's operations in fiscal 2005 compared to just one month in fiscal 2004.

Services costs increased by \$529,000 or 40% to \$1.9 million for the third quarter of fiscal 2005 compared to \$1.3 million for the comparable period of the previous fiscal year, reflecting primarily the impacts of the PointForce acquisition. Excluding PointForce and tax credits, gross services expenses increased by 11% or \$139,000 for the third quarter of fiscal 2005 compared to the previous fiscal year. Gross service expenses, excluding PointForce, have been affected unfavorably by approximately \$86,000 due to the strengthened Canadian dollar. The total cost of services also includes multimedia tax credits of \$147,000 for the third quarter of fiscal 2005 compared to \$119,000 for the same period in the previous fiscal year.

The cost of third-party products decreased by \$45,000 or 9% to \$471,000 for the third quarter of fiscal 2005 in comparison to the same three-month period for the previous fiscal year. Excluding PointForce, fiscal 2005 costs decreased 18% or \$82,000 for the third quarter of fiscal 2005 in comparison to fiscal 2004 reflecting the lower volumes of third-party product sold.

Total cost of revenue in the first nine months of fiscal 2005 was \$7.5 million representing an increase of \$2.0 million or 36% compared to \$5.5 million for the same period last year. PointForce's cost of revenue for the nine-month period ended January 31, 2005 was \$2.1 million compared to \$261,000 for the one-month period ended January 31, 2004 accounting for 94% or \$1.9 million of the increase. PointForce's increased revenues for the first nine months accounted for 92% of the total revenue increase.

Services costs increased by \$1.7 million or 47% to \$5.4 million for the first nine months of fiscal 2005 compared to \$3.6 million for the comparable period of the previous fiscal year, reflecting primarily the impacts of the PointForce addition to the TECSYS group. Excluding PointForce, gross services expenses increased slightly by 4% or \$142,000 for the first nine months of fiscal 2005 compared to the previous fiscal year primarily as a result of the strengthening Canadian dollar's adverse effect of approximately \$261,000 offset by a slight reduction in average headcount. The total cost of services also includes multimedia tax credits of \$399,000 for the first nine of fiscal 2005 compared to \$422,000 for the same period in the previous fiscal year.

The cost of third-party products increased by \$229,000 or 16% to \$1.6 million for the first nine months of fiscal 2005 in comparison to the same nine-month period for the previous fiscal year, with PointForce accounting for 93% of the increase.

Gross Margin

The gross margin increased by \$653,000 or 30% to \$2.9 million for the third quarter of fiscal 2005 in comparison to \$2.2 million for the same fiscal period last year. PointForce contributed \$466,000 to the increased margin. Total gross margin percentage in the third quarter of fiscal 2005 was 54% compared to 53% in the same period of fiscal 2004 mainly due to higher revenue on proprietary products amounting to 18% of the revenue mix against 10% for the previous fiscal year.

Services gross margin was 48% in the third quarter of fiscal 2005 compared to 51% in the same period last year. Excluding PointForce, the services gross margin decreased to 50% in comparison to 53% for the same three-month period last year primarily as a result of the unfavorable impact of the strengthening Canadian dollar. PointForce's service margin came in at 43% for the third quarter of fiscal 2005 compared to 38% for the one-month period ended January 31, 2004. Product margins increased to 71% for the third quarter of fiscal 2005 compared to 61% for the same period last year primarily due to the increased proportion of proprietary products to the total products revenue.

The gross margin increased by \$2.1 million or 32% to \$8.6 million for the first nine months of fiscal 2005 in comparison to \$6.5 million for the same fiscal period last year. PointForce gross margin contribution for the nine-month period ended January 31, 2005 exceeded its gross margin contribution for the one-month period ended January 31, 2004 by \$1.9 million accounting for 91% of the increase. Total gross margin percentage in the first nine months of fiscal 2005 was 53% compared to 54% in the same period of fiscal 2004. This decline in overall gross margin is primarily due to a higher ratio of revenue derived from services (65% in the first nine months of fiscal 2005 in comparison to 52% in the first nine months of fiscal 2004) which carry a lower margin compared to products.

Services gross margin was higher at 48% in the first nine months of fiscal 2005 compared to 47% in the same period last year. Excluding PointForce, the services gross margin increased to 50% in comparison to 47% for the same nine-month period last year as a result of the increased revenues in all service areas of 11% while costs increased only 5%. The increase in costs is due primarily to the adverse effect of the strengthening Canadian dollar. PointForce's service margin came in at 45% for the first nine months of fiscal 2005.

Operating Expenses

Total operating expenses increased by \$431,000 or 19% to \$2.7 million in the third quarter of fiscal 2005 compared to \$2.3 million in the third quarter of fiscal 2004.

PointForce's operating expenses increased \$495,000 to \$694,000 in the third quarter of fiscal 2005 compared to \$199,000 for the one month ended January 31, 2004.

The Company's adoption of the new stock-based compensation standards without restatement (see note 1) effective May 1, 2004 accounts for an additional \$42,000 of expenses in the third quarter of fiscal 2005.

During the third quarter of fiscal 2005, the Company recorded two transactions reducing general and administrative expenses by \$120,000. The two uncommon items are as follows:

- During the third quarter of fiscal 2005, the Company received a unanimous favorable judgment from a panel of three judges at the Quebec Court of Appeal in connection with a lawsuit brought forth by one of the Company's landlords regarding the disputed allocation of common area space. The landlord has since taken steps to request a leave to appeal to the Supreme Court of Canada. In consideration of the opinions of the Company's legal counsel, management's best estimate at this time considers that it is highly unlikely that the Supreme Court of Canada would grant the landlord's request for a leave to appeal. If a leave to appeal is granted, the Company's legal counsel and management believe that it is very unlikely that the landlord's position will prevail and that no amount will ever become payable regarding this claim. Since inception of the dispute with the landlord, the Company has been establishing accruals for the amounts claimed by the landlord. In consideration of the above, in the third quarter of 2005, the Company reversed the accumulated accruals of \$276,000, related to the dispute and reduced general and administrative expenses.
- During the third quarter of fiscal 2005, the company provided for \$156,000 of bad debt expense for a customer that it believes will renege on its commitment to pay overdue amounts.

Total operating expenses, excluding Pointforce, the stock-based compensation expense, and the two items discussed above, increased \$14,000 in the third quarter of fiscal 2005 compared to the same period in fiscal 2004.

Due to the strengthened Canadian dollar in the third quarter of fiscal 2005 in comparison to the same period in fiscal 2004, excluding PointForce and the stock-based compensation expense, operating expenses have been affected unfavorably by approximately \$131,000.

Total operating expenses increased by \$2.0 million or 32% to \$8.3 million in the first nine months of fiscal 2005 compared to \$6.3 million for the comparable period of fiscal 2004. PointForce's operating expenses increased \$1.9 million to \$2.1 million for the nine months ended January 31, 2005 compared to \$199,000 for the one month ended January 31, 2004.

The Company's adoption of the new stock-based compensation standards without restatement (see note 1) effective May 1, 2004 account for an additional \$155,000 of expenses in the first nine months of fiscal 2005. Total operating expenses, excluding PointForce, the stock-based compensation expense, and the two uncommon items discussed above, increased by \$118,000 in the first nine months of fiscal 2005 compared to the same period in fiscal 2004. The major variances for this increase are due primarily to an unfavorable variance of \$191,000 for investment tax credits offset by \$94,000 of favorable variances for the amortization of property, plant and equipment and intangible assets.

The decrease of \$191,000 of investment tax credits for the first nine months of fiscal 2005 in comparison to the same period of fiscal 2004 is due mainly to a \$60,000 adjustment relating to a prior year as a result of a government audit. Additionally, the fiscal 2005 reduced credits reflect the changes reducing research and development investment tax credit rates from 40% to 35% of the first \$2 million of eligible expenditures and the amendments to tax legislation which specified that an expenditure related to an activity for a given period may not give rise to more than one refundable tax credit.

Due to the strengthened Canadian dollar in the first nine months of fiscal 2005 in comparison to the same period in fiscal 2004, excluding PointForce and the stock-based compensation expense, operating expenses have been affected unfavorably by approximately \$262,000.

Other Income and Expenses

Interest income decreased 21% to \$50,000 in the third quarter of fiscal 2005 compared to \$63,000 for the same period in the previous fiscal year and also decreased 38% to \$141,000 for the first nine months of fiscal 2005 in comparison to \$228,000 for the first nine months of fiscal 2004 primarily due to lower short-term interest rates and less funds available for investment principally as a result of the purchase of PointForce and the repayment of a term loan and capital lease obligations.

Interest expense decreased 29% to \$12,000 in the third quarter of fiscal 2005 compared to \$17,000 for the same period last year and also decreased 54% to \$29,000 for the first nine months of fiscal 2005 compared to \$63,000 for the same period of fiscal 2004. The reduction in interest expense is attributable to the reduction of long-term debt including the repayment of a term loan and capital lease obligations during the 2004 fiscal year.

During the third quarter of fiscal 2005, the Company recorded an exchange gain of \$30,000 compared to an exchange gain of \$84,000 for the same period in the previous fiscal year. For the first nine months of fiscal 2005, exchange losses amounted to \$403,000 compared to \$328,000 for the first nine months of fiscal 2004. The exchange loss arises because the Company carries net monetary assets, primarily cash and accounts receivable, denominated in US dollars. The net US monetary assets are devalued due to the strengthened Canadian dollar against the US dollar. The exchange rate at October 31, 2004, the beginning of the quarter, was \$1 US = \$1.2207 CA. The exchange rate at January 31, 2005 was \$1 US = \$1.2380 CA representing a 1.4% appreciation of US monetary assets for the quarter. The exchange rate at October 31, 2003 was \$1 US = \$1.3197 CA and at January 31, 2004 the rate was \$1 US = \$1.3248 CA representing a 0.4% appreciation of US monetary assets in the third quarter of the last fiscal year. In the first nine months of the current fiscal year US monetary assets have been devalued 9.7% as the rate on April 30, 2004, the beginning of the current fiscal year was \$1 US = \$1.3707 CA in comparison to a 7.6% devaluation for the first nine months of fiscal 2004 as the rate on April 30, 2003 was \$1 US = \$1.4335 CA.

During the third quarter of fiscal 2005, the Company protected a portion of its net monetary assets by means of a forward exchange contract selling \$1.5 million US dollars forward at an average rate of \$1.2042. 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 third quarter of fiscal 2005 resulted in an exchange loss for US\$41,000. The Company followed a similar strategy of selling US dollars forward in the first half of the current fiscal year yielding cumulative reduced exchange losses of US\$67,000 for the nine-month period. No hedging strategy or foreign exchange contracts were in effect in the first nine months of fiscal 2004.

Subsequent to the current quarter ended January 31, 2005, the Company undertook another foreign exchange contract to sell \$2.0 million US dollars forward at a rate of 1.2531 on April 29, 2005.

The consolidated financial statements for the three and nine-month periods ended January 31, 2005 and January 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 decreases in the cumulative translation adjustment (CTA) account within the shareholder's equity of \$198,000 for the third quarter of fiscal 2005 (\$1.4 million increase for the first nine months of fiscal 2005) compared to decreases of \$61,000 for the third quarter of fiscal 2004 (\$1.0 million increase for the first nine months of fiscal 2004). The increases to CTA account represent exchange gains arising on the translation of the Canadian dollar financial statements into US 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 earnings of \$180,000 or \$0.01 per share in the third quarter of fiscal 2005 compared to net earnings of \$20,000 or \$0.00 per share for the same period last year. For the nine-month period ended January 31, 2005, the Company recorded net earnings of \$0 or \$0.00 per share in comparison to net earnings of \$54,000 or \$0.00 per share for the same nine-month period in the previous fiscal year.

Note 5 to the financial statements reflects that there are no material differences between the Company's reported net earnings (loss) and basic and diluted net earnings (loss) per share under Canadian GAAP as compared to U.S. GAAP for the three and nine-month periods ended January 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 nine months of fiscal 2005 under U.S. GAAP was \$1.4 million compared to the comprehensive income of \$1.0 million for the corresponding period in fiscal 2004 (\$18,000 comprehensive loss for the third quarter of fiscal 2005 compared to \$41,000 comprehensive loss for the third quarter of fiscal 2004).

Liquidity and Capital Resources

As of January 31, 2005, current assets totaled \$15.1 million compared to \$14.9 million at the end of fiscal 2004. Cash, restricted cash equivalents, and short-term and other investment securities increased to \$10.0 million compared to \$8.8 million as at April 30, 2004. Accounts receivable totaled \$4.6 million at the end of January 31, 2005, basically unchanged from the amount at the end of fiscal 2004. The Company's DSO (days sales outstanding) remained flat at 78 days at the end the third quarter of fiscal 2005 in comparison to the end of fiscal 2004.

Current liabilities as at January 31, 2005 totaled \$4.7 million compared to \$5.7 million at the end of fiscal 2004. Working capital increased to \$10.4 million at the end of the third quarter of fiscal 2005 compared to \$9.2 million at the end of fiscal year 2004.

During the first nine months of fiscal 2005, operating activities generated funds of \$608,000 compared to using funds of \$33,000 for the same period last year. During the nine months of fiscal 2005, positive results in operating activities generated \$900,000 and were partially offset by used funds to increase net non-cash working capital by \$292,000. During the first nine months of fiscal 2004, positive results in operating activities generated \$777,000 and were offset by used funds to increase net non-cash working capital by \$810,000.

The Company believes that funds on hand at January 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 \$381,000 and \$1.0 million respectively for the first nine months of fiscal 2005 and 2004. The repayment of long-term debt and capital lease obligations amounted to \$101,000 in the first nine months of fiscal 2005 compared to \$648,000 for the comparable period in fiscal 2004. During the third quarter of fiscal 2005, the Company purchased 225,000 of its outstanding common shares for cancellation at an average price of CA \$1.50 (US \$1.22) per share under a Normal Course Issuer Bid. The total cost related to the purchasing of these shares, including other related costs, was CA \$344,000 (US \$280,000). During the first nine months of fiscal 2004, the Company purchased 327,700 of its outstanding common shares for cancellation at an average price of CA \$1.44 (US \$1.05) per share under a Normal Course Issuer Bid. The total cost related to purchasing these shares, including other related costs, was CA \$495,000 (US \$360,000). As per note 24 of the 2004 annual report, the Company may purchase common shares under the NCIB, if it considers it advisable, at any time, and from time to time, for one year from the date of filing.

During the first nine months of fiscal 2005, investing activities generated funds amounting to \$12,000 as compared to \$1.1 million for the first nine months of fiscal 2004. The Company used funds of \$172,000 to increase short-term investments in the first nine months of fiscal 2005 compared to generating \$4.4 million in funds by the reduction of short-term investments for the corresponding period of fiscal 2004. Funds of \$184,000 and \$236,000 were used for the first nine months of fiscal 2005 and 2004 respectively for the acquisition of property, plant, and equipment, and computer software for internal use (intangible assets). In the third quarter of fiscal 2004, the Company used funds of \$3.2 million for the acquisition of PointForce. In the first quarter of fiscal 2005, the company received funds of \$368,000 representing the purchase price adjustment from the 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.

Change in Accounting Policy

Stock-based compensation and other stock-based payments

The Company maintains a stock-based compensation plan, which is described in note 11(d) in the audited financial statements for the year ended April 30, 2004. Effective May 1, 2004, the Company has adopted the fair value based method of accounting for stock options and warrants granted to employees and directors and has 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 fair value at the date of grant and is expensed over the award's vesting period with a corresponding credit to contributed surplus. The stock-based compensation expense is recorded in the financial statements for the three and nine months ended January 31, 2005. Accordingly, for the three and nine-month periods ended January 31, 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 upon the exercise of the options. Any consideration received from plan participants is credited to capital stock. Any stock-based compensation costs related to awards to individuals other than employees and directors are accounted for at fair value.

The change in accounting for the stock-based compensation has resulted in an adjustment of the opening balance of the consolidated statement of deficit for the current fiscal year of \$4.8 million, with a corresponding credit to contributed surplus, reflecting the prior periods' cost of options and warrants granted since inception, which occurred in the 1998 fiscal year. Additionally, the capital stock account has been increased by \$353,000 with a corresponding reduction in contributed surplus representing the value of compensation cost associated with the options exercised since inception.

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 year ended April 30, 2004.

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.

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, as well as supplementary tax credits (multimedia tax credits). 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.

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.

Revenue Recognition

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

- **License Fees**

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

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

- **Support Agreements**

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

- **Consulting and Education Services**

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

Related Party Transactions

The company has a subordinated loan for CA\$107,000 (US\$86,000) 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 January 31, 2005 and January 31, 2004.

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

Consolidated Balance Sheets

Prepared in Accordance with Canadian Generally Accepted Accounting Principles
(in thousands of U.S. dollars)

	January 31, 2005 (unaudited)	April 30, 2004
Assets		
Current assets		
Cash and cash equivalents	2,669	2,388
Short-term investments	6,473	5,665
Accounts receivable	4,555	4,705
Other accounts receivable	72	579
Tax credits receivable	851	1,056
Prepaid expenses	472	501
	<u>15,092</u>	<u>14,894</u>
Restricted cash equivalents and other investments	827	747
Long-term trade account receivable	50	-
Property, plant and equipment	2,020	2,059
Intangible assets	1,124	1,215
Goodwill	1,376	1,242
	<u>20,489</u>	<u>20,157</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,953	3,691
Current portion of long-term debt	106	175
Deferred revenue	1,657	1,809
	<u>4,716</u>	<u>5,675</u>
Long-term debt	422	401
Other long-term liabilities	585	613
	<u>5,723</u>	<u>6,689</u>
Shareholders' Equity		
Capital stock (notes 1 and 2)	39,049	39,326
Contributed surplus (notes 1 and 3)	6,542	1,606
Cumulative translation adjustment	1,724	300
Deficit	(32,549)	(27,764)
	<u>14,766</u>	<u>13,468</u>
	<u>20,489</u>	<u>20,157</u>

Consolidated Statements of Deficit

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of U.S. dollars)

	Nine Months Ended January 31, 2005 (unaudited)	Nine Months Ended January 31, 2004 (unaudited)
Balance - Beginning of period	(27,764)	(28,179)
Adjustment resulting from a change in accounting policy re: stock-based compensation (note 1)	(4,785)	-
Restated balance - Beginning of period	(32,549)	(28,179)
Net earnings for the period	-	54
Balance - End of period	(32,549)	(28,125)

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)

	Three Months Ended January 31, 2005 (unaudited)	Three Months Ended January 31, 2004 (unaudited)	Nine Months Ended January 31, 2005 (unaudited)	Nine Months Ended January 31, 2004 (unaudited)
Revenue				
Products (note 4a)	1,632	1,335	5,223	4,755
Services	3,552	2,712	10,403	6,837
Reimbursable expenses	119	128	517	496
	<u>5,303</u>	<u>4,175</u>	<u>16,143</u>	<u>12,088</u>
Cost of revenue				
Products	471	516	1,635	1,406
Services (note 4b)	1,855	1,326	5,369	3,646
Reimbursable expenses	119	128	517	496
	<u>2,445</u>	<u>1,970</u>	<u>7,521</u>	<u>5,548</u>
Gross margin	<u>2,858</u>	<u>2,205</u>	<u>8,622</u>	<u>6,540</u>
Operating expenses				
Sales & marketing	1,156	953	3,476	2,711
General & administration	445	399	1,511	1,113
Gross research & development	996	887	2,838	2,425
Research & development tax credits	(124)	(129)	(299)	(490)
Stock-based compensation	42	-	155	-
Amortization of property, plant and equipment	150	155	420	450
Amortization of intangible assets	81	50	230	114
	<u>2,746</u>	<u>2,315</u>	<u>8,331</u>	<u>6,323</u>
Earnings (loss) from operations	112	(110)	291	217
Interest income	50	63	141	228
Interest expense	(12)	(17)	(29)	(63)
Foreign exchange gains (losses)	30	84	(403)	(328)
Net earnings for the period	<u>180</u>	<u>20</u>	<u>-</u>	<u>54</u>
Weighted average number of common shares outstanding				
- basic	<u>14,110,177</u>	<u>14,161,789</u>	<u>14,142,590</u>	<u>14,229,344</u>
- diluted	<u>14,153,445</u>	<u>14,387,577</u>	<u>14,226,766</u>	<u>14,432,886</u>
Basic and diluted net earnings per common share (in U.S. dollars)	<u>\$ 0.01</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Consolidated Statements of Cash Flows

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

(in thousands of U.S. dollars)

	Three Months Ended January 31, 2005 (unaudited)	Three Months Ended January 31, 2004 (unaudited)	Nine Months Ended January 31, 2005 (unaudited)	Nine Months Ended January 31, 2004 (unaudited)
Cash flows from				
Operating activities				
Net earnings for the period	180	20	-	54
Adjustments for				
Amortization of property, plant and equipment	150	155	420	450
Amortization of intangible assets	81	50	230	114
Stock-based compensation costs	42	-	155	-
Unrealized foreign exchange (gains) losses	9	(23)	95	159
Changes in non-cash working capital items related to operations				
Decrease (increase) in accounts receivable	89	(174)	716	17
Decrease (increase) in other accounts receivable	7	33	157	(199)
Decrease (increase) in tax credits receivable	808	(248)	376	784
Decrease (increase) in prepaid expenses	(15)	138	77	135
Increase in long-term accounts receivable	(42)	-	(48)	-
Decrease in accounts payable and accrued liabilities	(556)	(414)	(1,173)	(980)
Decrease in deferred revenue	(219)	(11)	(397)	(567)
	534	(474)	608	(33)
Financing activities				
Repayment of long-term debt and capital lease obligations	(6)	(30)	(101)	(648)
Issuance of common shares	-	5	-	5
Purchase of common shares for cancellation	(277)	(25)	(280)	(360)
	(283)	(50)	(381)	(1,003)
Investing activities				
Decrease (increase) in short-term and other investments	1,638	4,459	(172)	4,442
Acquisitions of property, plant and equipment	(75)	(69)	(168)	(236)
Acquisitions of intangible assets	(7)	-	(16)	-
Business combination and purchase price adjustment	-	(3,151)	368	(3,151)
	1,556	1,239	12	1,055
Effect of foreign exchange rate fluctuations on cash and cash equivalents				
	(21)	43	42	105
Change in cash and cash equivalents	1,786	758	281	124
Cash and cash equivalents - Beginning of Period	883	69	2,388	703
Cash and cash equivalents - End of Period	2,669	827	2,669	827

1. Interim financial information

The interim financial statements for the three and nine-month periods ended January 31, 2005 and January 31, 2004 are unaudited and have not been reviewed by 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 nine-month periods ended January 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, 2004. 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, 2004, except for the change in accounting policy outlined below.

Change in Accounting Policy

Stock-based compensation and other stock-based payments

The Company maintains a stock-based compensation plan, which is described in note 11(d) in the audited financial statements for the year ended April 30, 2004. 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 fair value at the date of grant and is expensed over the award's vesting period with a corresponding credit to contributed surplus. The stock-based compensation expense is recorded in the financial statements for the three and nine-month periods ended January 31, 2005. For the three and nine-month periods ended January 31, 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 upon the exercise of the options. Any consideration received from plan participants is credited to capital stock. Any stock-based compensation costs related to awards to individuals other than employees and directors are accounted for at fair value.

The change in accounting for the stock-based compensation resulted in an adjustment of the opening balance of the consolidated statement of deficit for the current fiscal year of \$4.8 million, with a corresponding credit to contributed surplus, reflecting the prior periods' cost of options and warrants granted since inception, which occurred in the 1998 fiscal year. Additionally, the capital stock account has been increased by \$353,000 with a corresponding reduction in contributed surplus representing the value of compensation cost associated with the options exercised since inception.

2. Capital stock

As at January 31, 2005, options to purchase 913,369 common shares at exercise prices ranging between CA \$0.99 and CA \$27.64 and warrants to purchase 30,000 common shares at an exercise price of CA \$2.03 were outstanding. During the nine-month period ended January 31, 2005, the Company granted options to purchase 13,000 common shares with exercise prices ranging from CA \$1.53 to CA \$1.76 (during the three months ended January 31, 2005, the Company granted options to purchase 9,000 common shares with exercise prices ranging from CA \$1.53 to CA \$1.60). During the nine months ended January 31, 2005, options to purchase 59,485 common shares at exercise prices ranging from CA \$0.99 to CA \$27.64 were either forfeited or expired (during the three months ended January 31, 2005, options to purchase 17,794 common shares with exercise prices from CA \$1.53 to CA \$13.07 were either forfeited or expired). No options to purchase common shares were exercised during the nine-month period ended January 31, 2005.

Notes to Consolidated Financial Statements for the nine months ended January 31, 2005
(Unaudited)

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

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

During the three and nine-month period ended January 31, 2005, the Company purchased 225,000 of its outstanding common shares at an average price of CA \$1.50 (US \$1.22) under the Normal Course Issuer Bid. The total cost related to the purchasing of these shares, including other related costs, was CA \$344,000 (US \$280,000). The excess of the net book value over the purchase price of these shares of CA \$583,000 has been credited to contributed surplus. For the previous year's nine-month period ended January 31, 2004, the Company purchased 327,700 of its outstanding common shares for cancellation at an average price of CA \$1.44 (US \$1.05) per share under a Normal Course Issuer Bid. The total cost related to purchasing these shares, including other related costs, was CA \$495,000 (US \$360,000).

The total number of common shares outstanding at January 31, 2005 is 13,933,797.

3. Stock-based compensation costs

Commencing May 1, 2004, the company uses the fair value based method to record within its financial statements the stock-based compensation costs related to stock options and warrants granted to employees and directors for all stock options and warrants granted. The stock-based compensation expense recorded for the nine months ended January 31, 2005 was CA \$198,000 (US \$155,000). The stock-based compensation expense for the three months ended January 31, 2005 was CA \$52,000 (US \$42,000).

Stock-based compensation costs related to options and warrants are not reflected in the statement of operations for the three and nine months ended January 31, 2004. Had the fair value based method been used to account for such stock-based compensation costs, the net earnings (loss) and related net earnings (loss) per common share figures would be as follows:

	Three months ended January 31, 2004	Nine months ended January 31, 2004
Net earnings for the period	20	54
Stock-based compensation costs	(79)	(229)
Pro forma net loss for the period	<u>(59)</u>	<u>(175)</u>
Pro forma basic and diluted loss per common share	<u>(\$0.00)</u>	<u>(\$0.01)</u>

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

	Three months ended January 31, 2005	Three months ended January 31, 2004	Nine months ended January 31, 2005	Nine months ended January 31, 2004
Volatility	75%	75%	75%	75%
Risk-free interest rate	3.00%	3.00%	3.00%	3.00%
Dividend yield	nil	nil	nil	nil
Expected lives (in years)	3	3	3	3

Notes to Consolidated Financial Statements for the nine months ended January 31, 2005
(Unaudited)

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

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

	Three months ended January 31, 2005	Three months ended January 31, 2004	Nine months ended January 31, 2005	Nine months ended January 31, 2004
Number of options & warrants	9,000	31,000	13,000	398,800
Weighted avg. exercise price US \$	1.30	1.55	1.27	1.23
Weighted avg. grant date FV US \$	0.66	0.88	0.64	0.63

4. Other Information

a) Products revenue

Products revenue is broken down as follows:

	Three months ended January 31, 2005	Three months ended January 31, 2004	Nine months ended January 31, 2005	Nine months ended January 31, 2004
Software products	946	421	2,997	1,823
Third-party hardware and software	686	914	2,226	2,932
	<u>1,632</u>	<u>1,335</u>	<u>5,223</u>	<u>4,755</u>

b) Cost of services consist of the following:

	Three months ended January 31, 2005	Three months ended January 31, 2004	Nine months ended January 31, 2005	Nine months ended January 31, 2004
Gross expenses	2,002	1,445	5,768	4,068
Refundable tax credits	(147)	(119)	(399)	(422)
	<u>1,855</u>	<u>1,326</u>	<u>5,369</u>	<u>3,646</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.

Notes to Consolidated Financial Statements for the nine months ended January 31, 2005
(Unaudited)

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

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

	Three months ended January 31, 2005	Three months ended January 31, 2004	Nine months ended January 31, 2005	Nine months ended January 31, 2004
Weighted average number of shares - basic	14,110,177	14,161,789	14,142,590	14,229,344
Additions to reflect the impacts of: Exercise of employee stock options and warrants	43,268	225,788	84,176	203,542
Weighted average number of shares-diluted	<u>14,153,445</u>	<u>14,387,577</u>	<u>14,226,766</u>	<u>14,432,886</u>

Options and warrants to purchase 339,137 common shares for the nine months ended January 31, 2005 (three months ended January 31, 2005 – 665,044, nine months ended January 31, 2004 – 398,821, three months ended January 31, 2004 – 295,833) have been excluded from the above calculations since they would have an anti-dilutive effect. There are no differences between basic and diluted per share figures.

5. 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:

a) Statement of Operations

There are no differences between Canadian GAAP and U.S. GAAP affecting the net earnings or the basic and diluted net earnings per share for the three and nine months ended January 31, 2005 and 2004. The following summary is a reconciliation of the net earnings to the comprehensive income (loss) for each period presented.

	Three months ended January 31, 2005	Three months ended January 31, 2004	Nine months ended January 31, 2005	Nine months ended January 31, 2004
Net earnings for the period in accordance with Canadian GAAP and U.S. GAAP	180	20	-	54
Other comprehensive income (loss): Foreign currency translation adjustments	(198)	(61)	1,424	994
Comprehensive income (loss)	<u>(18)</u>	<u>(41)</u>	<u>1,424</u>	<u>1,048</u>

Notes to Consolidated Financial Statements for the nine months ended January 31, 2005
(Unaudited)

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

6. Contingencies

During fiscal 2003, the Company received a claim from a customer alleging breach of contract (See note 17 in the 2004 annual report). During the three-month period ended January 31, 2005, the Company and the customer reached a negotiated settlement resulting in immaterial additional charges for fiscal 2005.

During the third quarter of fiscal 2005, the Company received a unanimous favorable judgment from a panel of three judges at the Quebec Court of Appeal in connection with a lawsuit brought forth by one of the Company's landlords regarding the disputed allocation of common area space. The landlord has since taken steps to request a leave to appeal to the Supreme Court of Canada. In consideration of the opinions of the Company's legal counsel, management's best estimate at this time considers that it is highly unlikely that the Supreme Court of Canada would grant the landlord's request for a leave to appeal. If a leave to appeal is granted, the Company's legal counsel and management believe that it is very unlikely that the landlord's position will prevail and that no amount will ever become payable regarding this claim. Since inception of the dispute with the landlord, the Company has been establishing accruals for the amounts claimed by the landlord. In consideration of the above, in the third quarter of 2005, the Company reversed the accumulated accruals of \$276,000, related to the dispute and reduced general and administrative expenses.

7. Subsequent Event

On February 28, 2005, the Company acquired 100% of the issued and outstanding shares of Application Solutions Inc. ("ASI"), a full service integrator of barcode-based solutions, warehouse management systems, managed network, and wireless services for manufacturing, warehousing, and distribution operations. The total purchase consideration of approximately CA \$2.7 million (US \$2.2 million) consisted of cash and costs related to the acquisition.

ASI was wound-up into TECSYS Inc. on March 1, 2005 and the results of its operations will be included in the Company's financial statements commencing on March 1, 2005.

www.tecsys.com

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.

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