

# 3rd Quarter Fiscal 2007 Report

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

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Dear Shareholder,

Our third quarter can certainly be characterized as one of solid progress. Our refined market focus and cost reduction program clearly began to show results as our operating income improved substantially and we became profitable. We generated cash and brought down our DSO (Days Sales Outstanding) significantly. Our customers continued to invest in our products and services and we made remarkable headway in a new market by signing additional accounts in the gas distribution industry. Allow me to run through some of the key highlights of the quarter.

## **Financial highlights:**

- Total Gross Margin increased to 40% compared to 35% in the same quarter of last fiscal year.
- Earnings from operations for the reporting quarter were \$256,000 compared to net loss from operations of \$6,000 for the same period in the previous fiscal year.
- EBITDA was \$679,000, up from \$41,000 in the comparable quarter of last fiscal year.
- Net earnings for the quarter were \$436,000 or \$0.03 per share compared to net loss of \$222,000 or \$0.02 per share for the same period in the prior fiscal year.
- Cash generated from operations was \$730,000, bringing our cash position to \$4.6M after eliminating our long term debt with a final repayment of \$412,000, and reducing our DSO substantially to 74 days in this quarter from 88 days at the end of this fiscal year's second quarter.
- Revenue was \$7.9M, down from \$9.5M in the comparable quarter of last year, due mainly to lower hardware sales, but up by 4% over the prior quarter.
- At the end of the third quarter, our backlog was \$14.2M up from 13.9M at the end of the second quarter.

## **Business development highlights:**

The Company signed four new customers:

- As a result of referrals by two of our existing customers, we signed a contract with Wagner Equipment, one of the largest Caterpillar dealers and the exclusive provider of Caterpillar products and services in Colorado, New Mexico and far-west Texas.
- A mid-size import-to-retail distributor based in New York.
- In the industrial gases and equipment market sector, a vertical we entered in the fall of 2006, we signed Cee Kay, the largest independent supplier of industrial gases, welding equipment and supplies in the State of Missouri, as well as TechAir in Connecticut and New York, a key provider to the bio-tech and high-tech industries, including major customers such as Harvard, Yale, University of Connecticut and New York University.

Our customer base continued to invest in our products and services. We signed a number of product upgrades in our SMB Division, the majority of which are in the import-to-retail sector. We also signed an additional agreement with one of our largest healthcare customers in the U.S. This agreement demonstrates our continued strength in the healthcare market and the confidence our customers place in our people, products and services.

We had a number of "go lives" in the quarter, most notably the deployment of Floors-2-Go, the largest floor covering retailer in the U.K. The Floors-2-Go relationship is enabling us to leverage our investment in the U.K. and Europe by increasing our profile in that market as we pursue the growing logistics business opportunities there.

In summary, we have made significant progress on a number of fronts and all key performance indicators are moving in the right direction. There is certainly more work to do and we remain committed to the continued transformation of TECSYS with a focus on profitability, growth and equitable returns for our shareholders.

Thank you for your continued support.

Yours Truly,



Peter Brereton  
President and CEO

## **TECSYS Inc.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations dated February 27, 2007**

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of TECSYS Inc. ("Company") and Notes thereto, which are included in this document. This discussion and analysis should also be read in conjunction with the annual report for fiscal year 2006. The Company's third quarter for fiscal year 2007 ended on January 31, 2007. Additional information about the Company, including copies of the continuous disclosure materials such as the annual information form, is available through the SEDAR website at <http://www.sedar.com>.

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, 2007 and January 31, 2006 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.

#### **Restatement of Prior Years' Financial Statements**

The Company has restated the consolidated balance sheets, statements of operations, statements of deficit, and statements of cash flows, including the applicable notes thereto for the years ended April 30, 2005 and 2004, and for the first three quarters of fiscal 2006 in order to be fully compliant with Statement of Position (SOP) 97-2, "Software Revenue Recognition".

Historically, the Company generally recognized license revenue from perpetual software licenses sold under multiple element arrangements upon delivery of the software product, provided that a non-cancellable agreement exists, the fees are fixed and determinable, and collection is deemed probable. Based on the general framework of Statement of Position (SOP) 97-2, the fees associated with such agreements are allocated to the various revenue elements based on the vendor specific objective evidence (VSOE) of the fair value of each element. The revenue is recognized at the earlier point at which either sufficient vendor specific objective evidence of fair value exists or all the elements of the agreement have been delivered.

In the course of preparing the financial statements for the year ended April 30, 2006, it was determined that certain software license agreements signed during fiscal 2006 and prior years, which included a contractual provision requiring the customers to renew annual support agreements in order to maintain the right to use the software, had not been accounted for appropriately. This provision has the effect of transforming a perpetual license into a renewable annual license. The VSOE of fair value cannot be established for annual support contracts under these circumstances since the customer is considered not to be renewing the annual support on a standalone basis, but rather is essentially making a decision to renew both the software license and the support agreement. Hence, the license revenue cannot be recognized upon delivery. Under generally accepted accounting principles for software revenue recognition as specified in Statement of Position (SOP) 97-2, a license fee from such agreements representing a significant and incremental premium over subsequent year renewal fees should be deferred and recognized as revenue over the period in which support is expected to be provided, which is generally considered to be the estimated useful life of the software license. Where the up-front license fee is not considered to represent a significant and incremental premium over subsequent year renewal fees, the license fee is recognized ratably over the initial contractual support period, which is generally one year.

The Company's objective for promoting this contractual provision with its customers is to ensure that they are well supported and to maximize the occurrence of annual support renewals representing recurring revenue. The Company's approach regarding these license agreements requiring the annual support renewal is essentially the same as those without the mandatory support renewals. From an economic perspective, there are no discernible and distinct policy differences regarding pricing for licenses, annual support, services, and the related payment terms. Additionally, the Company's outstanding future support obligations do not differ in any respects between the agreements with and without mandatory support.

The Company has restated its financial statements to fully comply with generally accepted accounting principles. The restatement of revenue for each period represents the difference between the revenue originally reported as recognized but now deferred and the amortization of such deferred revenue over the initial contractual support period. Accordingly, the reported revenue and net earnings have been restated unfavorably by \$184,000 and \$436,000 for fiscal 2004 and fiscal 2005 respectively. Additionally, the application of the revenue recognition principles discussed above has adversely affected revenue and net earnings of the first three quarters of 2006 by \$238,000. At the end of the fiscal year 2006, total license revenue deferred as a result of this restatement was \$946,000. This will be recognized in fiscal year 2007. The restatement has no impact on cash flow from operating activities.

The impact of this restatement on the quarterly consolidated statements of operations is presented in the table below. The relevant figures for fiscal 2006 included in this management discussion and analysis have been restated to reflect the restatement principles discussed above.

**Quarterly Selected Financial Data (Restated)**  
**(Quarterly data are unaudited)**  
**In thousands of U.S. dollars, except per share data**

	Fiscal Year 2006					Fiscal Year 2005					Fiscal Year 2004				
	Q1	Q2	Q3	Q4*	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
<b>Total Revenue</b>															
As previously reported	8,005	8,968	9,713	7,363	34,049	5,345	5,495	5,303	8,129	24,272	3,766	4,147	4,175	5,462	17,550
Adjustment	(204)	193	(227)	-	(238)	(170)	(150)	154	(270)	(436)	(474)	90	139	61	(184)
As restated	7,801	9,161	9,486	7,363	33,811	5,175	5,345	5,457	7,859	23,836	3,292	4,237	4,314	5,523	17,366
<b>Net Earnings ( Loss )</b>															
As previously reported	225	(166)	5	(1,431)	(1,367)	136	(316)	180	334	334	10	24	20	361	415
Adjustment	(204)	193	(227)	-	(238)	(170)	(150)	154	(270)	(436)	(474)	90	139	61	(184)
As restated	21	27	(222)	(1,431)	(1,605)	(34)	(466)	334	64	(102)	(464)	114	159	422	231
<b>Basic &amp; Diluted Net Earnings (Loss) per Common Share (In U.S. dollars)</b>															
As previously reported	0.02	(0.02)	-	(0.10)	(0.10)	0.01	(0.02)	0.01	0.02	0.02	-	-	-	0.03	0.03
Adjustment	(0.02)	0.02	(0.02)	-	(0.02)	(0.01)	(0.01)	0.01	(0.02)	(0.03)	(0.03)	0.01	0.01	-	(0.01)
As restated	-	-	(0.02)	(0.10)	(0.12)	-	(0.03)	0.02	-	(0.01)	(0.03)	0.01	0.01	0.03	0.02

\* Q4 of fiscal 2006 is not a restatement, however it is included in the table to reflect the impact of the appropriate application of generally accepted accounting principles as discussed earlier.

## Results of Operations

**Three and nine months ended January 31, 2007 compared to three and nine months ended January 31, 2006 (as restated for periods ended January 31, 2006 only)**

### Revenue

Total revenue for the three months ended January 31, 2007 decreased by \$1.6 million or 17% to \$7.9 million compared to \$9.5 million for the same period of fiscal 2006.

Products revenue decreased by \$981,000 or 23% to \$3.3 million in the third quarter of fiscal 2007 compared to \$4.3 million for the same period in the previous fiscal year. Services revenue decreased by 11% or \$565,000 to \$4.4 million during the third quarter of fiscal 2007 compared to \$4.9 million for the same fiscal period last year. The decrease in products revenue comprises a reduction of 32% in third-party products accounting for \$1.0 million. This reduction is mainly due to lower revenue generated from IBM servers and radio-frequency (RF) equipment during the third quarter of fiscal 2007. The decrease in services revenue is primarily the result of lower professional and training services in our Transportation and Logistics Management (TLM) group. This is largely due to the wrap-up of existing accounts not being replaced by new ones.

As a percentage of total revenue, products accounted for 42% and services 55% in the third quarter of fiscal 2007 compared to 45% and 52%, respectively, in the third quarter of fiscal 2006.

The Canadian dollar strengthened approximately 1% against the U.S. dollar for the third quarter of fiscal 2007 as compared to the same period in fiscal 2006. The Canadian dollar to U.S. dollar exchange rates for the three-month period ended January 31, 2007 averaged \$0.866 US in comparison to \$0.857 US for the same period last year. Consequently, the strengthened Canadian dollar has not affected the reported revenues and costs materially in comparing the third quarter of fiscal 2007 to the same quarter of the previous fiscal year.

During the first nine months of fiscal 2007, total revenue decreased by \$3.2 million or 12% to \$23.3 million in comparison to \$26.4 million for the same period in fiscal 2006.

Products revenue decreased by \$1.8 million or 16% to \$9.3 million in the first nine months of fiscal 2007 compared to \$11.0 million for the same period in the previous fiscal year. The decrease in products revenue comprises mainly of a reduction of \$1.5 million or 20% in third party products. The decrease in third party products revenue is in large part explained by the fact that the first nine months of fiscal 2006 included several large orders for RF equipment, third-party software and IBM servers from a few customers that did not reoccur in fiscal 2007. Services revenue decreased by 10% or \$1.5 million to \$13.3 million during the first nine months of fiscal 2007 compared to \$14.8 million for the same fiscal period last year. The decrease in services revenue is primarily the result of lower professional and training services. This downturn in professional services revenue is explained exclusively by lower activity from the Company's latest acquisitions, ASI and Symplistech, both of which had a shortfall in signing new accounts. The SAP practice, which was the result of the Symplistech acquisition, was implementing a major project which ended during the last quarter of fiscal 2006. No such major project was implemented in the first nine months of fiscal 2007. This issue has been addressed at the end of the second quarter of fiscal 2007 and the Company is anticipating a recovery in this area.

As a percentage of total revenue, products accounted for 40% and services 57% in the first nine months of fiscal 2007 compared to 42% and 56%, respectively, in the first nine months of fiscal 2006.

The Canadian dollar strengthened approximately 6% against the U.S. dollar for the first nine months of fiscal 2007 as compared to the same period in fiscal 2006. The Canadian dollar to U.S. dollar exchange rates for the nine-month period ended January 31, 2007 averaged \$0.884 US in comparison to \$0.835 US for the same period last year. Consequently, the strengthened Canadian dollar has affected the reported revenues favorably by approximately \$717,000 in the first nine months of fiscal 2007 in comparison to the same period last year. On the other hand, the strengthened Canadian dollar has affected cost of revenue and operating expenses adversely by approximately \$592,000 and \$505,000 respectively. Hence, earnings from operations has been affected unfavorably by \$380,000, as a result of the stronger Canadian dollar.

## Cost of Revenue

Total cost of revenue decreased 23% or \$1.4 million to \$4.7 million in the third quarter of fiscal 2007 compared to \$6.2 million for the same three-month period in fiscal 2006. The decrease is mainly due to reduction of third-party product costs of \$910,000 or 37% to \$1.6 million in comparison to \$2.5 million for the same three-month period last year. This reduction of third-party product costs is primarily attributable to the \$1.0 million or 32% reduction on third-party product revenues mentioned earlier.

Services costs decreased by \$456,000 or 13% to 3.0 million for the third quarter of fiscal 2007 in comparison to \$3.4 million for the same period of the previous fiscal year. The total cost of services also includes multimedia tax credits of \$94,000 for the third quarter of fiscal 2007 compared to \$161,000 for the same period in the previous fiscal year. The reduction of services costs is primarily attributable to a lower average employee headcount of twenty-nine as well as fewer consultants. This decrease of resources was effected to mitigate the reduced professional services and training activity that accounts for the reduction in services revenues.

The total cost of revenue for the first nine months of fiscal 2007 decreased \$1.9 million or 12% to \$14.3 million in comparison to \$16.2 million for the same nine-month period in fiscal 2006. The decrease comprises a decrease of \$1.3 million or 23% in products' cost and is primarily related to the decrease of 20% or \$1.5 million in third-party products revenue. Additionally, services costs decreased by \$781,000 or 8% to \$9.1 million in comparison to \$9.9 million for the first nine months of fiscal 2006. Services cost is net of multimedia tax credits of \$338,000 and \$457,000 for the first nine months of fiscal 2007 and 2006 respectively. The reduction of services cost is primarily the result of the Company's continuing efforts to right-size its workforce and is primarily attributable to fewer employees as well as consultants to mitigate the reduced professional services and training revenues mentioned earlier.

## Gross Margin

Gross margin decreased by \$180,000 or 5% to \$3.1 million for the third quarter of fiscal 2007 in comparison to \$3.3 million for the same fiscal period last year. Total gross margin percentage in the third quarter of fiscal 2007 was 40% compared to 35% in the same period of fiscal 2006. The gross margin increase of 5% is attributable to the larger proportion of proprietary licenses within the revenue mix and the increased gross margin on third-party products and services.

Products margin decreased \$71,000 to \$1.8 million and represented 53% of products revenue in the third quarter of fiscal 2007 compared to a 43% products margin for the same three-month period last year. The large increase of 10% in the products margin is attributable to the larger proportion of proprietary product within the products revenue mix that carries a far greater gross margin than third-party products, as well as better margin on third-party products. Services gross margin decreased \$109,000 to \$1.4 million representing 31% of services revenue in the third quarter of fiscal 2007 compared to 30% or \$1.5 million for the same period last year. The improved services margin percentage is largely attributed to the recent restructuring efforts to reduce resources and costs to be in-line with revenue expectations.

For the first nine months of fiscal 2007, gross margin decreased by \$1.2 million or 12% to \$9.0 million in comparison to \$10.2 million for the same nine-month period in fiscal 2006. The gross margin percentage remained flat at 39% of revenues for the first nine months of fiscal 2007 in comparison to the same fiscal period a year earlier.

Products margin decreased 9% or \$460,000 to \$4.8 million representing 52% of products revenues for the first nine months of fiscal 2007 compared to \$5.3 million representing 48% of products revenue for the comparable period in fiscal 2006. The improved products margin percentage is attributable to the larger proportion of proprietary licenses revenues within the products revenue mix, as well as the improved margin on third-party products. Services gross margin decreased \$763,000 and was 31% of services revenue or \$4.2 million for the first nine months of fiscal 2007 compared to 33% or \$4.9 in the same period last year. The reduced services margin percentage is due primarily to the decrease in professional services revenue that was offset partially by the reduction in services expenses.

## Operating Expenses

Total operating expenses decreased by \$442,000 or 13% to \$2.9 million in the third quarter of fiscal 2007 compared to \$3.3 million in the third quarter of fiscal 2006.

The most significant variances and transactions differentiating the third quarter of fiscal 2007 in comparison with fiscal 2006 are as follows.

- Sales and marketing expenses were lower by \$468,000 or 29% in the third quarter of fiscal 2007 compared to the same fiscal period of 2006 due primarily to reductions of resources and lower variable commission expense as a result of the lower revenue.
- Gross research and development costs were lower by \$205,000 or 17% for the third quarter of fiscal 2007 compared to the same period last year. This reduction is explained by a lower number of headcount involved in this activity, as well as a temporary transfer of resources to services. The research and development reduced costs are partially offset by \$47,000 for lower tax credits.
- In the third quarter of fiscal 2006, the Company recorded a reduction of a provision and the recovery of \$366,000 of restructuring charges associated with the extended sub-lease of one floor at one of its facilities. The extension included more favorable terms in comparison to initial estimates for unrecoverable costs. During the same quarter, the Company recorded \$75,000 of restructuring charges for termination costs associated with the merger and restructuring of two of its business units. In fiscal 2006, therefore, the Company recorded a net restructuring recovery of \$291,000. There was no comparable amount in fiscal 2007.
- The reduction of general and administration expenses, stock-based compensation, and amortization accounted for another reduction of \$95,000.

For the first nine months of fiscal 2007, total operating expenses decreased \$464,000 or 5% to \$9.6 million in comparison to the same fiscal period a year earlier. Operating expenses were affected unfavorably by approximately \$505,000 due to the strengthened Canadian dollar in the first nine months of fiscal 2007 in comparison to the same period in fiscal 2006.

The most significant variances and transactions differentiating the first nine months of fiscal 2007 in comparison with fiscal 2006 are as follows.

- Sales and marketing expenses were lower by \$647,000 or 14% in the first nine months of fiscal 2007 compared to the same fiscal period of 2006 due primarily to fewer resources and variable commission expense due to lower revenue.
- General and administration expenses were lower by \$225,000 or 10% in the first nine months of fiscal 2007 as compared to fiscal 2006 primarily because a significant bad debt was realized on a single account in fiscal 2006. The differential in bad debt expense in the first nine months between the two fiscal years accounts for \$187,000.
- Research and development tax credits were significantly lower by \$295,000 in the first nine months of fiscal 2007 as compared to the same period a year earlier. The difference arises because a favorable adjustment was realized in fiscal 2006 for \$88,000 related to a recovery of prior periods' credits while in the first nine months of fiscal 2007 the company recorded an unfavorable write down of approximately \$60,000 as a result of a disallowed claim for prior years. Additionally, the Company has not accrued any tax credits in fiscal 2007 for certain research and development activity outside the Province of Quebec where there is too much uncertainty regarding its qualification.
- In the first nine months of fiscal 2007, \$301,000 of deferred development costs were capitalized in comparison to \$60,000 for the comparable period of the prior fiscal year accounting for \$241,000 in lower operating costs in the current fiscal year. Qualifying activity and the related deferred development costs started in the third quarter of fiscal 2006 explaining the differential in the comparison of the periods.
- In the first nine months of fiscal 2007, the Company recorded \$234,000 of restructuring charges associated with employee termination costs and redundant facilities, while the first nine months of fiscal 2006 included a recovery of \$291,000 as described earlier, hence accounting for an increase of \$525,000 in operating expenses in the current fiscal year.

- Stock-based compensation costs were \$86,000 lower for the first nine months of fiscal 2007 as compared to the same period of the previous fiscal year. The amortization of stock-based compensation costs is more heavily weighted in the periods immediately following the granting of options as opposed to subsequent periods. The options and warrants granted for the two years preceding fiscal 2006 were significantly higher than the options and warrants granted for the two years preceding fiscal 2007 representing the main reason for the reduction in the expense.

## Other Income and Expenses

During the third quarter of fiscal 2007, the Company recorded an exchange gain of \$193,000 compared to an exchange loss of \$230,000 for the third quarter of fiscal 2006. The exchange gains or losses arise because the Company carries net monetary assets, primarily cash and accounts receivable, denominated in U.S. dollars. The U.S. dollar exchange rate moved from \$1 US = \$1.1227 CA, at the beginning of the third quarter of fiscal 2007, to \$1.1792 CA as at January 31, 2007, representing an appreciation of 5% for U.S. monetary assets. During the third quarter of fiscal 2006, the U.S. dollar exchange rate moved from \$1 US = \$1.1801 CA, at the beginning, to \$1.1439 CA as at January 31, 2006, representing a depreciation of 3% for U.S. monetary assets.

During the third quarter of fiscal 2007, the Company hedged a portion of its U.S. net monetary assets by means of a forward exchange contracts selling \$2.0 million U.S. forward at 1.1380 for maturity before the end of the quarter. As a result, the Company recorded an exchange loss of \$70,000 on this transaction. A similar transaction occurred for the third quarter of fiscal 2006, where the Company sold \$2.0 million U.S. forward for maturity before the end of that quarter at a rate of 1.1706. As a result, the Company recorded an exchange gain of \$46,000 on this transaction in the third quarter of fiscal 2006.

During the first nine months of fiscal 2007, the Company recorded an exchange gain of \$163,000 compared to an exchange loss of \$357,000 for the same period in the previous fiscal year. The exchange rate at April 30, 2006, the beginning of the year, was \$1 US = \$1.1203 CA. The exchange rate at January 31, 2007 was \$1 US = \$1.1792 CA representing an appreciation of 5% for U.S. monetary assets for the first nine months of fiscal 2007. The exchange rate at April 30, 2005 was \$1 US = \$1.2569 CA and at January 31, 2006 the rate was \$1 US = \$1.1439 CA representing a 9% depreciation of U.S. monetary assets in the first nine months of the last fiscal year.

During the first nine months of fiscal 2007, the Company protected a portion of its U.S. net monetary assets by means of a forward exchange contracts selling \$2.0 million U.S. forward at the beginning of each quarter for settlement before the end of each quarter. There were no foreign exchange contracts outstanding at the end of any the quarters. The hedging strategy yielded an exchange loss of US \$146,000 for the first nine months of fiscal 2007. Similar transactions for the hedging strategy in the first nine months of fiscal 2006 yielded an exchange gain of US \$140,000.

Subsequent to the current quarter ended January 31, 2007, the Company undertook another foreign exchange contract to sell \$2.0 million U.S. dollars forward at a rate of 1.1751 on April 30, 2007.

The consolidated financial statements for the three and nine-month periods ended January 31, 2007 and January 31, 2006 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 a decrease in the cumulative translation adjustment (CTA) account within the shareholder's equity of \$643,000 for the first nine months of fiscal 2007 compared to an increase of \$1.4 million for the first nine months of fiscal 2006. The increase or decrease to the CTA account represents exchange gains or losses arising on the translation of the Canadian dollar financial statements into U.S. dollar financial statements where such exchange gains or losses are posted directly into the shareholders' equity section rather than flowing through the statement of operations.

## Net Earnings / Loss

The Company recorded net earnings of \$436,000 or \$0.03 per share in the third quarter of fiscal 2007 compared to a net loss of \$222,000 or \$0.02 per share for the same period last year. For the nine months ended January 31, 2007, the Company recorded a net loss of \$429,000 or \$0.03 per share compared to a net loss of \$174,000 or \$0.01 per share for the same nine-month period in the previous fiscal year.

Note 5 to the consolidated financial statements reflects a small difference of \$9,000 between the Company's reported net earnings / loss and no difference between the basic and diluted net earnings /loss per share under Canadian GAAP as compared to U.S. GAAP for the nine-month periods ended January 31, 2007 and 2006. However, under U.S. GAAP, the cumulative translation adjustment (CTA) is an integral part of arriving at the comprehensive income. The comprehensive loss for the first nine months of fiscal 2007 under U.S. GAAP was \$1.1 million compared to a comprehensive income of \$1.2 million for the corresponding period in fiscal 2006.

## Liquidity and Capital Resources

As of January 31, 2007, current assets totaled \$13.2 million compared to \$15.7 million at the end of fiscal 2006. Cash, restricted cash equivalents, and short-term and other investment securities decreased to \$4.6 million compared to \$6.9 million as at April 30, 2006. Accounts receivable totaled \$6.5 million at the end of January 31, 2007 compared to \$7.1 million as at April 30, 2006. The Company's DSO (days sales outstanding) decreased to 74 days at the end the third quarter of fiscal 2007 in comparison to 87 days at the end of fiscal 2006 and 78 days at the end of the third quarter of fiscal 2006.

Current liabilities as at January 31, 2007 totaled \$6.7 million compared to \$8.7 million at the end of fiscal 2006. Working capital decreased to \$6.5 million at the end of the third quarter of fiscal 2007 compared to \$7.0 million at the end of fiscal year 2006.

During the first nine months of fiscal 2007, operating activities used funds of \$1.7 million compared to generating \$256,000 for the same period last year. During the first nine months of fiscal 2007, operating activities excluding non-cash working capital items generated \$97,000 and net non-cash working capital used funds of \$1.8 million, represented primarily by the increase of tax credits receivable and the decrease in accounts payable and deferred revenue. During the first nine months of fiscal 2006, operating activities excluding non-cash working capital items generated \$419,000 and were offset by increases in net non-cash working capital using funds of \$163,000.

The Company believes that funds on hand at January 31, 2007, 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 \$426,000 for the first nine months of fiscal 2007 and \$351,000 for the same nine-month period in fiscal 2006. The repayment of long-term debt and capital lease obligations amounted to \$425,000 in the first nine months of fiscal 2007 compared to \$43,000 for the comparable period in fiscal 2006. In the third quarter of fiscal 2007, the Company repaid \$412,000 in loans to Investissement Québec. During the first nine months of fiscal 2007, 97,600 options were exercised to purchase common shares generating \$86,000. Additionally, during the first nine months of fiscal 2007, the Company purchased 70,000 of its outstanding common shares for cancellation at an average price of CA \$1.37 (US \$1.22) per share under a Normal Course Issuer Bid (NCIB). The total cost related to the purchasing of these shares, including other related costs, was \$87,000. The excess of the net book value over the purchase price of the shares of \$110,000 was credited to contributed surplus. As per note 2 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, 2007. In the first nine months of fiscal 2006, the Company purchased 242,300 shares at an average price of CA \$1.50 (US \$1.26) per share. The total cost related to the purchasing of these shares, including related costs, was \$308,000. The excess of the net book value over the purchase price of the shares of \$371,000 was credited to contributed surplus.

During the first nine months of fiscal 2007, investing activities generated funds amounting to \$1.7 million as compared to using funds of \$955,000 for the comparable period of fiscal 2006. The Company generated funds of \$1.8 million by decreasing short-term investments in the first nine months of fiscal 2007 and used funds of \$336,000 to increase short-term investments for the first nine months of fiscal 2006. Funds of \$184,000 and \$243,000 were used for the first nine months of fiscal 2007 and 2006 respectively for the acquisition of property, plant, and equipment, and computer software for internal use (intangible assets). During the third quarter of fiscal 2006, the Company acquired an equity interest in TECSYS Latin America Inc. for a total consideration of \$376,000.

## 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, 2006.

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

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

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

- **Support Agreements**

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

- **Consulting and Education Services**

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

## **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 January 31, 2007 and January 31, 2006.

Pursuant to the equity investments in TECSYS Latin America Inc (TLA) as described in note 9 of the annual report of fiscal year 2006, the Company has provided loans in the amount of \$50,000 to TLA in July 2006, \$50,000 in August 2006, and another \$50,000 in January 2007. These amounts are repayable over four years commencing six months following each advance. The loans bear interest at 5% per annum.

For the nine-month period ended January 31, 2007, the Company has invoiced TLA for \$54,000 for licenses, third-party products and support.

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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 January 31, 2007 and the Consolidated Statements of Deficit, Operations, and Cash Flows for the three and nine-month periods ended January 31, 2007 and January 31, 2006. 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>January 31, 2007 (unaudited)</b>	<b>April 30, 2006</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	609	1,180
Short-term and other investments	3,434	5,159
Accounts receivable	6,501	7,134
Other accounts receivable	93	88
Tax credits receivable	1,815	1,362
Inventory	179	147
Prepaid expenses	572	599
	<u>13,203</u>	<u>15,669</u>
<b>Restricted cash equivalents and other investments</b>	572	602
<b>Long-term receivable</b>	120	-
<b>Property, plant and equipment, net</b>	1,690	2,010
<b>Intangible assets</b>	1,445	1,945
<b>Long-term investments</b>	245	321
<b>Goodwill</b>	1,941	2,042
<b>Deferred development costs</b>	543	265
	<u>19,759</u>	<u>22,854</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,898	4,910
Current portion of long-term debt	91	527
Deferred revenue	2,754	3,247
	<u>6,743</u>	<u>8,684</u>
<b>Other long-term liabilities</b>	-	100
	<u>6,743</u>	<u>8,784</u>
<b>Shareholders' Equity</b>		
<b>Capital stock ( note 2 )</b>	38,188	38,256
<b>Contributed surplus ( notes 2 and 3 )</b>	7,255	7,169
<b>Cumulative translation adjustment</b>	2,442	3,085
<b>Deficit</b>	(34,869)	(34,440)
	<u>13,016</u>	<u>14,070</u>
	<u>19,759</u>	<u>22,854</u>

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

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

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(in thousands of U.S. dollars)

	<b>Nine Months Ended January 31, 2007  (unaudited)</b>	<b>Nine Months Ended January 31, 2006  (restated - note 1) (unaudited)</b>
<b>Balance - Beginning of period</b>	(34,440)	(32,835)
Net loss for the period	(429)	(174)
<b>Balance - End of period</b>	<u>(34,869)</u>	<u>(33,009)</u>

**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 January 31, 2007 (unaudited)</b>	<b>Three Months Ended January 31, 2006 (restated - note 1) (unaudited)</b>	<b>Nine Months Ended January 31, 2007 (unaudited)</b>	<b>Nine Months Ended January 31, 2006 (restated - note 1) (unaudited)</b>
<b>Revenue</b>				
Products ( note 4a )	3,335	4,316	9,261	11,021
Services	4,350	4,915	13,271	14,815
Reimbursable expenses	205	255	749	612
	<u>7,890</u>	<u>9,486</u>	<u>23,281</u>	<u>26,448</u>
<b>Cost of revenue</b>				
Products	1,561	2,471	4,438	5,738
Services ( note 4b )	2,983	3,439	9,108	9,889
Reimbursable expenses	205	255	749	612
	<u>4,749</u>	<u>6,165</u>	<u>14,295</u>	<u>16,239</u>
<b>Gross margin</b>	<u>3,141</u>	<u>3,321</u>	<u>8,986</u>	<u>10,209</u>
<b>Operating expenses</b>				
Sales and marketing	1,137	1,605	3,926	4,573
General and administration	672	708	1,961	2,186
Gross research and development	972	1,177	3,208	3,276
Research and development tax credits	(97)	(144)	(249)	(544)
Deferred development costs	(72)	(60)	(301)	(60)
Stock-based compensation	-	36	19	105
Amortization of property, plant and equipment	134	151	404	427
Amortization of intangible assets	139	145	428	422
Restructuring charges	-	(291)	234	(291)
	<u>2,885</u>	<u>3,327</u>	<u>9,630</u>	<u>10,094</u>
<b>Earnings (loss) from operations</b>	256	(6)	(644)	115
Interest income	45	44	147	129
Interest expense	(5)	(11)	(34)	(42)
Foreign exchange gains (losses)	193	(230)	163	(357)
Share of net loss and amortization of intangible assets of a company subject to significant influence	(53)	(19)	(61)	(19)
<b>Net earnings (loss) for the period</b>	<u>436</u>	<u>(222)</u>	<u>(429)</u>	<u>(174)</u>
<b>Weighted average number of common shares outstanding</b>				
- basic	<u>13,686,798</u>	<u>13,762,084</u>	<u>13,646,652</u>	<u>13,820,843</u>
- diluted	<u>13,687,568</u>	<u>13,762,084</u>	<u>13,646,652</u>	<u>13,820,843</u>
<b>Basic and diluted net earnings (loss) per common share ( in US dollars )</b>	<u>\$ 0.03</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>

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

Prepared in Accordance with Canadian Generally Accepted Accounting Principle:

(in thousands of U.S. dollars)

	Three Months Ended January 31, 2007  (unaudited)	Three Months Ended January 31, 2006  (restated - note 1) (unaudited)	Nine Months Ended January 31, 2007  (unaudited)	Nine Months Ended January 31, 2006  (restated - note 1) (unaudited)
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net earnings (loss) for the period	436	(222)	(429)	(174)
Adjustments for				
Amortization of property, plant and equipment	134	151	404	427
Amortization of intangible assets	139	145	428	422
Stock-based compensation	-	36	19	105
Unrealized foreign exchange losses (gains)	(72)	24	(85)	46
Restructuring charges	-	(366)	-	(366)
Deferred development costs	(72)	(60)	(301)	(60)
Share of net loss and amortization of intangible assets of a company subject to significant influence	53	19	61	19
Changes in non-cash working capital items related to operations				
Decrease ( increase ) in accounts receivable	537	161	205	(341)
Increase in other accounts receivable	(2)	(40)	(9)	(30)
Increase in tax credits receivable	(201)	(313)	(544)	(675)
Increase in inventory	-	(140)	(44)	(57)
Decrease ( increase ) in prepaid expenses	(65)	135	2	279
Increase in long-term receivable	(42)	-	(124)	-
Increase ( decrease ) in accounts payable and accrued liabilities	(10)	877	(934)	498
Increase (decrease) in deferred revenue	(105)	125	(307)	163
	730	532	(1,658)	256
<b>Financing activities</b>				
Repayment of long-term debt and capital lease obligations	(412)	(6)	(425)	(43)
Issuance of common shares	-	-	86	-
Purchase of common shares for cancellation	(21)	(120)	(87)	(308)
	(433)	(126)	(426)	(351)
<b>Investing activities</b>				
Decrease ( increase ) in short-term and other investments	(813)	(792)	1,834	(336)
Acquisitions of property, plant and equipment	(34)	(89)	(176)	(214)
Acquisitions of intangible assets	(6)	(10)	(8)	(29)
Long-term investments	-	(376)	-	(376)
	(853)	(1,267)	1,650	(955)
<b>Effect of foreign exchange rate fluctuations on cash and cash equivalents</b>	(127)	(6)	(137)	5
<b>Change in cash and cash equivalents</b>	(683)	(867)	(571)	(1,045)
<b>Cash and cash equivalents - Beginning of Period</b>	1,292	876	1,180	1,054
<b>Cash and cash equivalents - End of Period</b>	609	9	609	9

## **Interim financial information**

The interim financial statements for the three and nine-month periods ended January 31, 2007 and January 31, 2006 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 nine-month periods ended January 31, 2007 and 2006 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, 2006. 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, 2006.

### **1. Restatement of Prior Years' Financial Statements**

Historically, the Company generally recognized license revenues from perpetual software licenses sold under multiple element arrangements upon delivery of the software product. In the course of preparing the financial statements for the year ended April 30, 2006, it was determined that certain software license agreements signed during fiscal 2006 and prior years which included a contractual provision requiring the customers to renew annual support agreements in order to maintain the right to use the software, had not been accounted for appropriately. This provision has the effect of transforming a perpetual license into a renewable annual license. Under generally accepted accounting principles for software revenue recognition as specified in Statement of Position (SOP) 97-2, license revenues from such agreements should be deferred and recognized ratably over the initial support period.

Accordingly, the Company has restated the financial statements for the years ended April 30, 2005 and 2004 and the interim financial statements for the first three quarters of fiscal 2006. The restatement has no impact on cash flows from operating activities.

### **2. Capital stock and contributed surplus**

On July 17, 2006, the Company renewed its Notice of Intention to Make a Normal Course Issuer Bid (NCIB) 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 680,000 of its common shares, being approximately 5% of the 13,600,697 common shares outstanding as of July 5, 2006, but not more than 2% of such outstanding common shares 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, 2006 to July 18, 2007. The common shares will be purchased for cancellation.

During the nine-month period ended January 31, 2007, the Company purchased 70,000 of its outstanding common shares at an average price of CA \$1.37 (US \$1.22) under the Normal Course Issuer Bid. The total cost related to the purchasing of these shares, including other related costs, was \$87,000. The excess of the net book value over the purchase price of these shares of US \$110,000 has been credited to contributed surplus. Additionally, during this period 97,600 options were exercised to purchase shares generating \$86,000.

During the nine-month period ended January 31, 2006, the Company purchased 242,300 of its outstanding common shares at an average price of CA \$1.50 (US \$1.26) under the Normal Course Issuer Bid. The total cost related to the purchasing of these shares, including other related costs, was \$308,000. The excess of the net book value over the purchase price of these shares of \$371,000 has been credited to contributed surplus.

The total number of common shares outstanding at January 31, 2007 is 13,678,297.

**TECSYS Inc.****Notes to Consolidated Financial Statements for the nine months ended January 31, 2007****(Unaudited)**

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

The following table summarizes the capital stock activity since April 30, 2005:

	<b>Common shares</b>	
	<b>Number of shares</b>	<b>Amount</b>
Balance - April 30, 2005	13,923,297	39,019
Repurchase of common shares	(272,600)	(763)
Balance - April 30, 2006	13,650,697	38,256
Repurchase of common shares	(70,000)	(197)
Stock options exercised	97,600	86
Fair value associated with 97,600 options exercised	-	43
Balance - January 31, 2007	13,678,297	38,188

The following table summarizes the contributed surplus activity since April 30, 2005:

	<b>Amount</b>
Balance - April 30, 2005	6,624
Repurchase of 272,600 common shares - excess of net book value over the purchase price and related costs	414
Fiscal 2006 stock-based compensation	131
Balance - April 30, 2006	7,169
Repurchase of 70,000 common shares - excess of net book value over the purchase price and related costs	110
Fair value associated with 97,600 options exercised	(43)
Current year's stock-based compensation for nine months	19
Balance - January 31, 2007	7,255

As at January 31, 2007, options to purchase 1,009,889 common shares at exercise prices ranging between CA \$1.15 and CA \$2.65 and warrants to purchase 45,000 common shares at exercise prices ranging between CA \$1.64 and CA \$1.73 were outstanding. During the nine months ended January 31, 2007, the Company granted options to purchase 402,750 common shares with exercise prices ranging from CA \$1.15 to CA \$1.65, while options to purchase 192,380 common shares at exercise prices ranging from CA \$0.99 to CA \$2.65 were either forfeited or expired. During this nine-month period 97,600 options with an exercise of CA \$0.99 were exercised. No warrants were issued or exercised during the period, although 5,000 warrants with an exercise price of CA \$1.64 were forfeited.

As at January 31, 2006, options to purchase 896,838 common shares at exercise prices ranging between CA \$0.99 and CA \$2.65 and warrants to purchase 55,000 common shares at exercise prices ranging between CA \$1.64 and CA \$1.73 were outstanding. During the nine months ended January 31, 2006, the Company granted options to purchase 49,000 common shares with exercise prices ranging from CA \$1.50 to CA \$1.62, while options to purchase 162,082 common shares at exercise prices ranging from CA \$1.50 to CA \$5.92 were either forfeited or expired. No warrants were issued during the period, although 30,000 warrants with an exercise price of CA \$2.03 were forfeited. No options or warrants to purchase common shares were exercised during the nine-month period ended January 31, 2006.

### 3. Stock-based compensation costs

The Company maintains a stock-based compensation plan ("Option Plan"), which is described in note 13(d) in the audited financial statements for the year ended April 30, 2006. 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. No compensation cost is recognized for this plan when shares are issued to employees and directors upon the exercise of the options. Any consideration received from 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. Forfeitures are accounted for as they occur, with any previously recognized compensation cost related to unvested options being reversed in the period of forfeiture.

The fair value of options and warrants granted in the three and nine-month periods ended January 31, 2007 and January 31, 2006 was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

	<b>Three months ended January 31, 2007</b>	<b>Three months ended January 31, 2006</b>	<b>Nine months ended January 31, 2007</b>	<b>Nine months ended January 31, 2006</b>
Volatility	48.0%	62.5%	49.5%	62.5%
Risk-free interest rate	4.0%	3.7%	4.0%	3.7%
Dividend yield	nil	nil	nil	nil
Expected lives (in years)	4	4	4	4

Following is a summary of the weighted average grant date fair value of options granted during the three and nine-month periods ended January 31, 2007 and 2006:

	<b>Three months ended January 31, 2007</b>	<b>Three months ended January 31, 2006</b>	<b>Nine months ended January 31, 2007</b>	<b>Nine months ended January 31, 2006</b>
Number of options	239,000	4,000	402,750	49,000
Weighted average exercise price US \$	1.23	1.30	1.23	1.27
Weighted average grant date FV US \$	0.52	0.66	0.53	0.64

#### 4. Other Information

##### a) Products revenue

Products revenue is broken down as follows:

	Three months ended January 31, 2007	Three months ended January 31, 2006 (restated— note 1)	Nine months ended January 31, 2007	Nine months ended January 31, 2006 (restated— note 1)
Software products	1,145	1,106	3,148	3,411
Third-party hardware and software	2,190	3,210	6,113	7,610
	<u>3,335</u>	<u>4,316</u>	<u>9,261</u>	<u>11,021</u>

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

	Three months ended January 31, 2007	Three months ended January 31, 2006 (restated— note 1)	Nine months ended January 31, 2007	Nine months ended January 31, 2006 (restated— note 1)
Gross expenses	3,077	3,600	9,446	10,346
Refundable tax credits	(94)	(161)	(338)	(457)
	<u>2,983</u>	<u>3,439</u>	<u>9,108</u>	<u>9,889</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:

	Three months ended January 31, 2007	Three months ended January 31, 2006 (restated— note 1)	Nine months ended January 31, 2007	Nine months ended January 31, 2006 (restated— note 1)
Weighted average number of shares - basic	13,686,798	13,762,084	13,646,652	13,820,843
Additions to reflect the impacts of:				
Exercise of employee stock options and warrants	770	-	-	-
Weighted average number of shares-diluted	<u>13,687,568</u>	<u>13,762,084</u>	<u>13,646,652</u>	<u>13,820,843</u>

Options and warrants to purchase 1,054,889 common shares for the nine-month period ended January 31, 2007 (1,042,214 – three month period ended January 31, 2007, 951,838 – three and nine-month periods ended January 31, 2006) 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.

## 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

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

	<b>Three months ended January 31, 2007</b>	<b>Three months ended January 31, 2006 (restated— note 1)</b>	<b>Nine months ended January 31, 2007</b>	<b>Nine months ended January 31, 2006 (restated— note 1)</b>
Net earnings (loss) for the period in accordance with Canadian GAAP	436	(222)	(429)	(174)
Amortization of in-process research & development relating to the ASI acquisition	3	3	9	9
Net earnings (loss) for the period in accordance with U.S. GAAP	439	(219)	(420)	(165)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(638)	466	(643)	1,360
Comprehensive income (loss)	(199)	247	(1,063)	1,195

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The statements in this report relating to matters that are not historical fact are forward looking statements that are based on management's beliefs and assumptions. Such statements are not guarantees of future performance, and are subject to a number of uncertainties, including but not limited to future economic conditions, the markets that TECSYS Inc. serves, the actions of competitors, major new technological trends and other factors beyond the control of TECSYS Inc., which could cause actual results to differ materially from such statements. Additional information about the Company, including copies of the continuous disclosure materials such as the annual information form, is available through the SEDAR website at <http://www.sedar.com>.

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