2nd QUARTER FISCAL 2017 REPORT

TECSYS Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations dated December 1, 2016

The following discussion and analysis should be read in conjunction with the Condensed Interim Consolidated Financial Statements of TECSYS Inc. (the "Company") and Notes thereto, which are included in this document, and the annual report for the year ended April 30, 2016. The Company's second quarter of fiscal year 2017 ended on October 31, 2016. Additional information about the Company, including copies of the continuous disclosure materials such as the annual information form and the management proxy circular are available through the SEDAR Website at http://www.sedar.com.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

This document and the condensed interim consolidated financial statements are expressed in Canadian dollars unless it is otherwise indicated. The Company's functional currency is the Canadian dollar as it is the currency that represents the primary economic environment in which the Company operates.

Quarterly Selected Financial Data

(Quarterly data are unaudited)
In thousands of Canadian dollars, except per share data

	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenue	16,518	16,097	21,144	15,629	15,762	14,931	15,766	14,958
Profit	206	128	3,825	543	367	69	295	467
Comprehensive Income (Loss)	70	(597)	4,811	296	723	(514)	1,037	7
Basic and Diluted Earnings per Common Share	0.02	0.01	0.31	0.04	0.03	0.01	0.02	0.04

In the fourth quarter of fiscal 2016, the Company had significant deliveries of proprietary products which amounted to $5.9 million compared to an average of $2.6 million in the first three quarters of fiscal 2016. In addition, the Company recognized deferred tax assets of $1.4 million, arising from the expected increase in operating profits in future years. Comprehensive income was significantly higher compared to profit whereas for the previous three quarters in fiscal 2016, the opposite was true. This is attributable to the decline in the closing rate of the U.S. dollar from the end of the third quarter, which gave rise to fair value gains on designated revenue hedges attributable to fiscal 2017 due to the foreign exchange rates in revenue hedging contracts being higher than the year end closing rate.

In the fourth quarter of fiscal 2015, comprehensive income was significantly higher compared to profit whereas for the previous two quarters in fiscal 2015, the opposite was true. This is attributable to the decline in the closing rate of the U.S. dollar from the end of the third quarter, which gave rise to the recovery of fair value losses on designated revenue hedges attributable to fiscal 2016 due to the foreign exchange rates in revenue hedging contracts being higher than the year end closing rate.

Results of Operations

Three months ended October 31, 2016 compared to three months ended October 31, 2015

Revenue

Total revenue for the second quarter ended October 31, 2016 increased to $16.5 million, $756,000 or 5% higher, compared to $15.8 million for the same period of fiscal 2016. The U.S. dollar averaged CA$1.3116 in the second quarter of fiscal 2017 in comparison to CA$1.3161 in the second quarter of fiscal 2016. Approximately 72% of the Company's revenues were generated in the United States during the second quarter of fiscal 2017. The weaker U.S. dollar and the favorable variance related to the Company's partial hedging of U.S. dollar-denominated revenue gave rise to a favorable variance in comparison to the same period last year by an estimated $150,000. The weaker U.S. dollar impacted cost of sales and operating expenses favorably by approximately $25,000.

Proprietary products, defined as internally developed products including proprietary software and hardware technology, decreased to $2.9 million, $78,000 or 3% lower, in the second quarter of fiscal 2017 in comparison to the same period last year. The decrease was primarily due to lower sales of hardware technology products.

Overall total contract value bookings amounted to $10.9 million in the second quarter of fiscal 2017 in comparison to $13.4 million for the same period of the previous fiscal year. During the second quarter of fiscal 2017, the Company signed four new accounts with a total contract value of $3.9 million compared to three new accounts with a total contract value of $2.6 million in the second quarter of fiscal 2016. During the second quarter of fiscal 2016, the Company signed a contract for storage products totaling $2.3 million, which did not reoccur in fiscal 2017.

Third party products revenue decreased to $1.8 million, $261,000 or 12% lower, in the second quarter of fiscal 2017 in comparison to $2.1 million for the same period last year. The decrease in revenue is mainly attributable to lower storage products revenue and radio frequency equipment revenue partially offset by an increase in third party software license and maintenance revenue.

Services revenue increased to $11.2 million, higher by $1.0 million or 10%, in the second quarter of fiscal 2017 compared to $10.2 million for the same period in the previous fiscal year. The increase in services revenue is primarily attributable to higher support and professional services revenues.

As a percentage of total revenue, products accounted for 29% and services for 68% in the second quarter of fiscal 2017 and 32% and 65% respectively for the comparable period of fiscal 2016.

Cost of Revenue

Total cost of revenue increased to $8.2 million, higher by $255,000 or 3%, in the second quarter of fiscal 2017 in comparison to $8.0 million for the same period in fiscal 2016. The increase is attributable to higher services costs of $505,000 and higher reimbursable expenses of $86,000, partially offset by lower products costs of $336,000.

The cost of services increased to $6.1 million, higher by $505,000 or 9% in the second quarter of fiscal 2017 in comparison to $5.6 million for the same period last year. The increase is primarily attributable to higher employee salaries and benefits, consulting fees and hosting expenses offset by an increase in tax credits. In the second quarter of fiscal 2017, the average services headcount increased by sixteen in comparison to the same period last year. The cost of services includes tax credits of $580,000 for the second quarter of fiscal 2017 compared to $327,000 for the same period in the previous fiscal year. The increase in tax credits is mainly due to the non-refundable e-business tax credits introduced on March 26, 2015. In fiscal 2016, all of the non-refundable e-business tax credits were recorded in fourth quarter, whereas in fiscal 2017, the non-refundable e-business tax credits are recorded quarterly when the related expenditure is incurred.

The cost of products decreased by $336,000 or 18% to $1.6 million in comparison to the same period last year and is largely related to the decrease in storage equipment revenue and other hardware revenue partially offset by the increase in third party software license and maintenance revenue discussed earlier.

Gross Profit

Gross profit increased to $8.3 million, higher by $501,000 or 6%, in the second quarter of fiscal 2017 in comparison to $7.8 million for the same period last year. This is mainly attributable to higher services margin of $504,000. Total gross profit percentage in the second quarter of fiscal 2017 was 50% compared to 49% in the same period of fiscal 2016.

Services gross profit during the second quarter of fiscal 2017 increased by $504,000 in comparison to the same period of fiscal 2016. The increase is primarily due to the increased revenues arising mainly from higher support and professional services revenues and the increased services costs arising primarily from the increased headcount as compared to the same period in the prior year. Services gross profit margin was 46% of services revenue in the second quarter of fiscal 2017 in comparison to 45% for the comparable period last year.

The products margin stayed flat at $3.2 million when compared to the same period last year and is attributable to the revenue mix and margin on storage equipment, radio frequency equipment and third party software licenses and maintenance discussed earlier.

Operating Expenses

Total operating expenses for the second quarter of fiscal 2017 increased to $8.0 million, higher by $682,000 or 9%, compared to $7.3 million for the same three-month period last year. The Company expects to leverage its current sales, marketing, general and administrative as well as its R&D organization to support revenue growth. The most notable differences between the second quarter of fiscal 2017 in comparison with the same period in fiscal 2016 are as follows.

- Sales and marketing expenses increased to $3.8 million, higher by $266,000 or 8%, in comparison to the same period of fiscal 2016. The increase is attributable to higher salaries and benefits, higher travel and marketing program costs due to the Company's user conference taking place during the quarter partially offset by lower variable selling expenses. The average headcount was flat in comparison to the same period last year.

- General and administrative expenses increased to $1.7 million, $328,000 higher than the comparable quarter last year. The increase is mainly due to an increase in legal and related travelling expenses of $254,000 and higher salaries and incentives. During the quarter, the Company incurred approximately $416,000 in legal and related expenses for the defense of a civil action filed against the Company in the United States District Court for the District of Colorado. Trial was held from September 12, 2016 to September 23, 2016 and the Court jury ultimately returned a unanimous defense verdict in favor of the Company. Two post-trial motions are currently being reviewed by the Court; a motion for new trial filed by the plaintiff and a motion for attorney's fees and expenses filed by the Company. It is possible that the plaintiff will move for leave to appeal once the Court officially enters judgement.

- Net R&D expenses increased to $2.5 million, $88,000 higher than the comparable quarter last year primarily due to lower capitalization of deferred development costs of $253,000 partially offset by higher tax credits. Gross R&D expenses decreased by $50,000 comprising primarily of lower salaries and benefits. In the second quarter of fiscal 2017, the average R&D headcount decreased by six in comparison to the same period last year. The Company also recorded $355,000 of refundable and non-refundable R&D and e-business tax credits in the second quarter of fiscal 2017 in comparison to $262,000 for the same period in fiscal 2016. In addition, the Company capitalized $27,000 of deferred development costs in the second quarter of fiscal 2017 as compared to $280,000 in the second quarter of fiscal 2016 due to the substantial completion of the migration of the Company's flagship product, ***Elite****Series*, from 4GL to the Java platform. Also, the Company amortized deferred development costs of $335,000 in the second quarter of fiscal 2017 in comparison to $357,000 for the same quarter a year earlier.

Profit from Operations

The Company recorded profit from operations of $320,000 in the second quarter of fiscal 2017 in comparison to $501,000 for the comparable quarter of the previous year primarily as a result of higher operating expenses offset by an increase in services gross profit.

Net Finance Costs

In the second quarter of fiscal 2017, the Company recorded net finance costs of $55,000 in comparison to $32,000 for the comparable quarter last year. The increase in net finance costs is primarily attributable to the higher exchange loss offset by a decrease in net interest expense.

Profit

The Company recorded a profit of $206,000 or $0.02 per share in the second quarter of fiscal 2017 in comparison to a profit of $367,000 or $0.03 per share in the second quarter of fiscal 2016.

Results of Operations

Six months ended October 31, 2016 compared to six months ended October 31, 2015

Revenue

Total revenue for the first half ended October 31, 2016 increased to $32.6 million, $1.9 million or 6% higher, compared to $30.7 million for the same period of fiscal 2016. The U.S. dollar averaged CA$1.3037 in the first half of fiscal 2017 in comparison to CA$1.2813 in the first half of fiscal 2016. Approximately 69% of the Company"s revenues were generated in the United States during the first half of fiscal 2017. As a result of the stronger U.S. dollar, and the favorable impact of the Company's designated hedging of highly probable U.S. revenue, the impact to revenue was favorable by an estimated $1.1 million in comparison to the first half of fiscal 2016. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately $125,000.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology, increased to $5.3 million, $130,000 or 3% higher, in the first half of fiscal 2017 in comparison to $5.1 million for the same period last year.

Overall total contract value bookings amounted to $16.9 million in the first half of fiscal 2017 in comparison to $20.1 million for the same period of the previous fiscal year. During the first half of fiscal 2017, the Company signed six new accounts with a total contract value of $5.6 million compared to seven new accounts with a total contract value of $4.3 million in the first half of fiscal 2016. During the second quarter of fiscal 2016, the Company signed a contract for storage products totaling $2.3 million, which did not reoccur in fiscal 2017.

Third party products revenue decreased to $4.0 million, $155,000 or 4% lower, in the first half of fiscal 2017 in comparison to $4.2 million for the same period last year. The lower revenue is primarily attributable to lower radio frequency equipment revenue partially offset by an increase in storage equipment revenue and third party license and maintenance revenue.

Services revenue increased to $22.2 million, higher by $1.7 million or 8%, in the first half of fiscal 2017 compared to $20.5 million for the same period in the previous fiscal year. The increase in service revenue is primarily attributable to higher support, hosting and professional services revenue and the favorable impact of the stronger U.S. dollar.

As a percentage of total revenue, products accounted for 28% and services for 68% in the first half of fiscal 2017 and 30% and 67% respectively for fiscal 2016.

Cost of Revenue

Total cost of revenue increased to $16.7 million, higher by $1.2 million or 8%, in the first half of fiscal 2017 in comparison to $15.5 million for the same period in fiscal 2016. The increase is attributable to higher services costs of $1.2 million and higher reimbursable expenses of $235,000 offset by lower products costs of $246,000.

The cost of services increased to $12.3 million, higher by $1.2 million or 11% in the first half of fiscal 2017 in comparison to $11.1 million for the same period last year. The increase is primarily attributable to higher employee remuneration, recruiting costs, consulting fees, hosting expenses, partially offset by higher tax credits. In the first half of fiscal 2017, the average services headcount increased by nineteen in comparison to the same period last year. The cost of services includes tax credits of $1.0 million for the first half of fiscal 2017 compared to $662,000 for the same period in the previous fiscal year. The increase in tax credits is mainly due to the non-refundable e-business tax credits introduced on March 26, 2015. In fiscal 2016, all of the non-refundable e-business tax credits were recorded in fourth quarter, whereas in fiscal 2017, the non-refundable e-business tax credits are recorded quarterly when the related expenditure is incurred.

The cost of products decreased by $246,000 or 7% to $3.3 million in comparison to the same period last year and is largely related to the decrease of radio-frequency equipment revenue discussed earlier partially offset by the increase in storage equipment revenue and third party license and maintenance revenue already discussed.

Gross Profit

Gross profit increased to $15.9 million, higher by $687,000 or 5%, in the first half of fiscal 2017 in comparison to $15.2 million for the same period last year. This is mainly attributable to higher services margin of $466,000 and products margin of $221,000. Total gross profit percentage in the first half of fiscal 2017 was 49% compared to 50% in the same period of fiscal 2016.

Services gross profit during the first half of fiscal 2017 increased by $466,000 to $9.9 million in comparison to $9.4 million in the same period of fiscal 2016 primarily due to the increased support, hosting and professional services revenue discussed earlier as well as the favorable impact on revenue from the stronger U.S. dollar partially offset by increased services costs mentioned earlier. Services gross profit was 45% of services revenue in the first half of fiscal 2017 in comparison to 46% for the comparable period last year.

The products margin increased to $6.0 million, $221,000 higher than the same period last year and is attributable to the revenue mix and margin on storage equipment, radio frequency equipment and third party software licenses and maintenance discussed earlier.

Operating Expenses

Total operating expenses for the first half of fiscal 2017 increased to $15.3 million, higher by $832,000 or 6%, compared to $14.5 million for the same six-month period last year. The most notable differences between the first half of fiscal 2017 in comparison with the same period in fiscal 2016 are as follows.

- Sales and marketing expenses amounted to $7.4 million, $260,000 higher than the comparable period last year. Expenses were higher primarily due to higher travel expense and marketing programs, legal costs and salaries and benefits partially offset by lower commissions compared to the same period last year.

- General and administrative expenses increased to $3.1 million, $299,000 higher than the comparable period last year primarily as a result of higher employee related expenses, incentives, and legal expenses.

- Net R&D expenses increased to $4.9 million, $273,000 higher than the comparable period last year. Gross R&D expenses decreased by $256,000 comprising primarily of lower consulting and certification fees. The Company also recorded $713,000 of R&D refundable and non-refundable tax credits and e-business tax credits in the first half of fiscal 2017 in comparison to $601,000 for the same period in fiscal 2016. In addition, the Company capitalized deferred development costs of $27,000 in the first half of fiscal 2017 compared to $679,000 for the same period of the last fiscal year due to the substantial completion of the migration of the Company's flagship product, ***Elite****Series*, from 4GL to the Java platform. The Company amortizing deferred development costs of $683,000 in the first half of fiscal 2017 in comparison to $694,000 for the same period a year earlier.

Profit from Operations

The Company recorded profit from operations of $563,000 in the first half of fiscal 2017 in comparison to $708,000 for the comparable period of the previous year primarily as a result of higher operating costs offset by a higher services margin and product margin.

Net Finance Costs

In the first half of fiscal 2017, the Company recorded net finance costs of $151,000 in comparison to $72,000 for the comparable period last year. The increase in net finance costs is primarily attributable to a higher exchange loss offset by a lower net interest expense.

Profit

The Company recorded a profit of $334,000 or $0.03 per share in the first half of fiscal 2017 in comparison to a profit of $436,000 or $0.04 per share in the first half of fiscal 2016.

Income Taxes

As at April 30, 2016, the Company had recognized net deferred tax assets of $2.2 million and unrecognized net deferred tax assets of $6.3 million covering various jurisdictions and Canadian federal non-refundable SRED tax credits totaling approximately $6.6 million which may be used only to reduce future Canadian federal income taxes otherwise payable. As such, the Company does not expect to pay any significant cash taxes in the foreseeable future. Refer to note 15 of the annual consolidated financial statements for further detail.

Liquidity and Capital Resources

On October 31, 2016, current assets totaled $34.3 million compared to $37.1 million at the end of fiscal 2016. Cash and cash equivalents increased to $11.5 million compared to $9.7 million as at April 30, 2016 primarily due to cash generated from operations and non-cash working capital partially offset by the repayment of long term debt and dividends. Accounts receivable and work in progress totaled $15.3 million on October 31, 2016 compared to $18.8 million as at April 30, 2016. The decrease in accounts receivable and work in progress is due to a heavy focus on cash collections during the first half of fiscal 2017 on accounts receivable generated during the record quarter for revenues that occurred in the fourth quarter of fiscal 2016.

The Company's DSO (days sales outstanding) stood at 84 days at the end the second quarter of fiscal 2017 compared to 80 days at the end of fiscal 2016 and 85 days at the end of the second quarter of fiscal 2016.

Current liabilities on October 31, 2016 totaled $21.4 million compared to $23.1 million at the end of fiscal 2016. The movement in the current liabilities is largely characterized by the decrease of accounts payable and accrued liabilities of $1.3 million primarily due to the payment of incentives for fiscal year 2016 performance as well as payment to suppliers of third party products. Working capital decreased to $12.9 million at the end of October 31, 2016 in comparison to $14.0 million at the end of fiscal year 2016.

The Company's banking and credit facilities require adherence to financial covenants. The Company was in compliance with these covenants as at October 31, 2016 and April 30, 2016.

Operating activities generated funds of $3.6 million in the first half of fiscal 2017 in comparison to $592,000 in the corresponding half of fiscal 2016. Operating activities excluding changes in non-cash working capital items generated $2.0 million in the first half of fiscal 2017 in comparison to $1.9 million in the same period in fiscal 2016 mainly due to higher unrealized foreign exchange losses partially offset by higher non-refundable tax credits that do not contribute to cash.

Non-cash working capital items generated funds of $1.5 million in the first half of fiscal 2017 primarily due to decreases in accounts receivable of $4.7 million and tax credits receivable of $934,000 offset partially by a decrease in accounts payable and accrued liabilities of $1.8 million, a decrease in deferred revenues of $395,000, an increase in work in progress of $1.3 million and an increase in other accounts receivable of $598,000. The accounts receivable as at October 31, 2016 are lower as compared to April 30, 2016 due to significant cash collections on accounts receivable generated during the record quarter for revenues that occurred in the fourth quarter of fiscal 2016. During the first quarter of fiscal 2017, the Company received $2.3 million of refundable tax credits pertaining to fiscal year 2015.

Non-cash working capital items used funds of $1.3 million in the first half of fiscal 2016 primarily due to increases in accounts receivable of $1.1 million, work in progress of $505,000, other accounts receivable of $479,000, and the reduction of accounts payable of $643,000 and offset partially by the reduction of tax credits receivable of $1.5 million.

The Company believes that funds on hand at October 31, 2016 combined with cash flow from operations and its accessibility to its banking facilities will be sufficient to meet its needs for working capital, R&D, capital expenditures, debt repayment, and dividends for at least the next twelve months.

Financing activities used funds of $1.5 million in the first half of fiscal 2017 in comparison to $1.4 million in the same period in fiscal 2016. During the first half of fiscal 2017, the Company repaid $717,000 of long-term debt in comparison to $727,000 repaid in the first half of fiscal 2016. The Company paid dividends of $739,000 and $616,000 during the first half of fiscal 2017 and fiscal 2016, respectively, as it increased its quarterly dividend to $0.03 per share in fiscal 2017 compared to $0.025 per share in fiscal 2016. The Company paid interest of $49,000 and $74,000 during the first half of fiscal 2017 and fiscal 2016, respectively.

During the first half of fiscal 2017, investing activities used funds of $295,000 in comparison to $882,000 in the comparable period last year. The Company used funds of $323,000 and $251,000 for the acquisition of property and equipment, and intangible assets in the first half of fiscal 2017 and fiscal 2016 respectively. Additionally, the Company invested in its proprietary software products with the capitalization of $27,000 and $679,000 reflected as deferred development costs in the first half of fiscal 2017 and fiscal 2016, respectively. The Company received interest of $55,000 and $36,000 in the first half of fiscal 2017 and fiscal 2016, respectively.

Related Party Transactions

Under the provisions of the current share purchase plan for key management and other management employees, the Company extended interest-free loans of $187,000 to key management and other management employees to facilitate their purchase of Company shares during the first quarter ended July 31, 2016. These loans will be fully repaid before the end of the fiscal year, April 30, 2017. The outstanding loans as at October 31, 2016 amounted to $93,000.

Subsequent Event

On December 1, 2016, the Company's Board of Directors approved a 50% increase of the quarterly dividend from $0.03 per share to $0.045 per share. To this effect, the Company declared a dividend of $0.045 per share, to be paid on January 12, 2017 to shareholders of record at the close of business on December 22, 2016.

Current and Anticipated Impacts of Current Economic Conditions

The current overall economic condition, together with the market uncertainty and volatility that exists today, may have an adverse impact on the demand for the Company's products and services as industry may adjust quickly to exercise caution on capital spending.

Fiscal 2016 was a very robust period with bookings amounting to $42.2 million, and this continued the trend from fiscal year 2015 where bookings totaled $47.0 million, with a substantial amount of the bookings being in the healthcare sector. During each of the fiscal 2014 and 2013, the Company generated approximately $24 million in new total contract value bookings. The magnitude of the growth trend will depend on the strength and sustainability of the economic recovery, growth, and the demand for supply chain management software.

Given the current backlog of $43.7 million, comprised primarily of services, the Company's management believes that the services revenue ranging between $10.8 million and $11.3 million per quarter can be sustained in the short term if no significant new agreements are completed.

Strategically, the Company continues to focus its efforts on the most likely opportunities within its existing vertical markets and customer base. The Company also currently offers subscription-based licensing, hosting services, modular sales and implementations, and enhanced payment terms to promote revenue growth.

The exchange rate of the U.S. dollar in comparison to the Canadian dollar continues to be an important factor affecting revenues and profitability as the Company generally derives 65% to 75% of its business from U.S. customers while the majority of its cost base is in Canadian dollars.

The Company will continue to adjust its business model to ensure that costs are aligned to its revenue expectations and the economic reality. The Company has increased its headcount over the past several years to meet the higher demand for its services and to capture pipeline opportunities. The Company will focus its attention on rendering this investment profitable while addressing the services backlog contributing to revenue generation. Other cost areas under continuous scrutiny are traveling, consulting and communications.

The Company believes that funds on hand together with anticipated cash flows from operations, and its accessibility to the operating line of credit will be sufficient to meet all its needs for at least the next twelve months. The Company can further manage its capital structure by adjusting its dividend policy.

Outstanding Share Data

On December 1, 2016, the Company has 12,315,326 common shares as there has been no activity since the end of the Company's second quarter.

Change in Accounting Policies

No new accounting standards adopted in 2017

The Company has not adopted any new standards, amendments and interpretations to existing standards in fiscal 2017 which commenced May 1, 2016. The preparation of financial data is based on the accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at April 30, 2016.

New accounting standards and interpretations issued but not yet adopted

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Standards Interpretations Committee ('IFRS IC") that are mandatory but not yet effective for the period ended October 31, 2016, and have not been applied in preparing these condensed interim consolidated financial statements. None are expected to have an impact on the consolidated financial statements of the Company except for the following:

IFRS 9, *Financial Instruments* ("IFRS 9"):

In July 2014, the IASB issued the complete version of IFRS 9 (2014), *Financial Instruments*. IFRS 9 (2014) differs in some regards from IFRS 9 (2013) which the Company early adopted effective May 1, 2014. IFRS 9 (2014) includes updated guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment, and new general hedge accounting requirements. The final version of IFRS 9 supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted, however an entity may elect to apply earlier versions of IFRS 9 if the entity's relevant date of initial application is before February 1, 2015. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"):

In May 2014, the IASB issued IFRS 15 which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers.

IFRS 15 supersedes the following standards: IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Service*.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

This standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16"):

In January 2016, the IASB issued IFRS 16, which specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, *Leases*. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019, with earlier application permitted only if IFRS 15 has also been applied. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

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 accompanying financial statements and the financial statements for the year ended April 30, 2016.

Use of estimates, assumptions and judgments

The preparation of the consolidated financial statements requires management to make estimates, assumptions, and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and the anticipated measures that management intends to take. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about areas requiring the use of judgment, management assumptions and estimates, and key sources of estimation uncertainty that the Company believes could have the most significant impact on reported amounts is noted below:

(i) Revenue recognition:

A portion of the Company's revenue is recognized on a percentage-of-completion basis. In this regard, estimates are required in determining the level of advancement and in determining the costs to complete the deliverables.

Revenue recognition is subject to critical judgment, particularly in multiple-element arrangements where judgment is required in allocating revenue to each component, including licenses, professional services and maintenance services, based on the relative fair value of each component. As certain of these components have a term of more than one year, the identification of each deliverable and the allocation of the consideration received to the components impacts the timing of revenue recognition.

(ii) Government assistance:

Management uses judgment in estimating amounts receivable for various tax credits and in assessing the eligibility of research and development and other expenses which give rise to these credits.

(iii) Income taxes:

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and available tax planning strategies in making this assessment.

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

(iv) Impairment of assets:

Impairment assessments may require the Company to determine the recoverable amount of a cash generating unit ("CGU"), defined as the smallest identifiable group of assets that generates cash inflows independent of other assets. This determination requires significant estimates in a variety of areas including: expected sales, gross margins, selling costs, timing and size of cash flows, and discount and interest rates. The Company documents and supports all assumptions made in the above estimates and updates such assumptions to reflect the best information available to the Company if and when an impairment assessment requires the recoverable amount of a CGU to be determined.

(v) Allowance for doubtful accounts:

The Company makes an assessment of whether accounts receivable are collectable, which considers credit loss insurance and the credit-worthiness of each customer, taking into account each customer's financial condition and payment history in order to estimate an appropriate allowance for doubtful accounts. Furthermore, these estimates must be continuously evaluated and updated. The Company is not able to predict changes in the financial condition of its customers, and if circumstances related to its customers' financial conditions deteriorate, the estimates of the recoverability of trade accounts receivable could be materially affected and the Company may be required to record additional allowances. Alternatively, if the Company provides more allowances than needed, a reversal of a portion of such allowances in future periods may be required based on actual collection experience.

(vi) Business combinations:

Business combinations are accounted for in accordance with the acquisition method. On the date that control is obtained, the identifiable assets, liabilities and contingent liabilities of the acquired company are measured at their fair value. Depending on the complexity of determining these valuations, the Company uses appropriate valuation techniques which are generally based on a forecast of the total expected future net discounted cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of October 31, 2016.

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its consolidated financial statements. The control framework that was designed by the Company's ICFR is in accordance with the

framework criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013)(COSO).
No changes to internal controls over financial reporting have come to management's attention during the six-month period ending on October 31, 2016 that have materially affected, or are reasonably likely to materially affect internal controls over financial reporting.

Forward-Looking Information

This management's discussion and analysis contains "forward-looking information" within the meaning of applicable securities legislation. Although the forward-looking information is based on what the Company believes are reasonable assumptions, current expectations, and estimates, investors are cautioned from placing undue reliance on this information since actual results may vary from the forward-looking information. Forward-looking information may be identified by the use of forward-looking terminology such as "believe", "intend", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms, and the use of the conditional tense as well as similar expressions.

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

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this management discussion and analysis. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) competitive environment; (ii) operating risks; (iii) the Company's management and employees; (iv) capital investment by the Company's customers; (v) customer project implementations; (vi) liquidity; (vii) current global financial conditions; (viii) implementation of the Company's commercial strategic plan; (ix) credit; (x) potential product liabilities and other lawsuits to which the Company may be subject; (xi) additional financing and dilution; (xii) market liquidity of the Company's common shares; (xiii) development of new products; (xiv) intellectual property and other proprietary rights; (xv) acquisition and expansion; (xvi) foreign currency; (xvii) interest rate; (xviii) technology and regulatory changes; (xix) internal information technology infrastructure and applications, (xx) and cyber security.

Non-IFRS Performance Measures

The Company uses certain non-IFRS financial performance measures in its MD&A and other communications which are described in the following section. Many of these non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these metrics is meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses both IFRS and non-IFRS measures when planning, monitoring and evaluating the Company's performance.

EBITDA

EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization. The Company believes that this measure is commonly used by investors and analysts to measure a company's performance, its ability to service debt and to meet other payment obligations, or as a common valuation measurement.

The EBITDA calculation for the first half of fiscal 2017 and 2016, derived from IFRS measures in the Company's condensed interim consolidated financial statements, is as follows:

	Six-months ended October 31, 2016	Six-months ended October 31, 2015
Profit for the period	$ 334	$ 436
Adjustments for:		
Depreciation of property and equipment	413	373
Depreciation of deferred development costs	683	694
Depreciation of other intangible assets	247	243
Interest expense	49	74
Interest income	(55)	(36)
Income taxes	78	200
EBITDA	$ 1,749	$ 1,984

Recurring Revenue

Recurring revenue is defined as the contractually committed purchase of services, generally comprising proprietary and third-party maintenance and hosting services, over the next twelve months. The quantification assumes that the customer will renew the contractual commitment on a periodic basis as they come up for renewal. This portion of the Company's revenue is predictable and stable.

Bookings

Broadly speaking, bookings refers to the total value of accepted contracts, including software licenses and other proprietary products and related support services, third-party hardware and software and related support services, contracted work or services, and changes to such contracts recorded during a specified period. The Total Contract Value (TCV) is not typically limited to the first

year, nor would it typically exclude certain transaction types. The Company believes that this metric is a primary indicator of the general state of the business performance. Bookings typically include all items with a revenue implication, such as new contracts, renewals, upgrades, downgrades, add-ons, early terminations and refunds. Bookings are typically segmented into classifications, such as new account bookings or base account bookings, and performance in these bookings classes is frequently used in various sales and other compensation plans.

Backlog

Generally, backlog refers to something unfulfilled. In a traditional software company, this term is used largely within finance. Backlog refers to the value of contracted orders that have not shipped and services not yet delivered. Backlog could refer to the value of contracted or committed revenue that is not yet recognizable due to acceptance criteria or the delivery of professional services. The quantification of backlog is not limited to the first year, nor would it typically exclude certain transaction types. In this context, backlog is really "revenue backlog" and is the total unrecognized future revenue from existing signed contracts. Backlog includes recurring revenue as discussed earlier.

Days Sales Outstanding (DSO)

Days sales outstanding (DSO) is a measure of the average number of days that a company takes to collect revenue after a sale has been made. The Company’s DSO is determined on a quarterly basis and can be calculated by dividing the amount of accounts receivable and work in progress at the end of a quarter by the total value of sales during the same quarter, and multiplying the result by 90 days.

Condensed Interim Consolidated Financial Statements of
(Unaudited)

TECSYS INC.

For the three and six-month periods ended October 31, 2016 and 2015

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX-MONTH PERIODS ENDED OCTOBER 31, 2016 and 2015

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's Management.

The Company's independent auditors, KPMG LLP, have not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Dated this 1st day of December, 2016.

TECSYS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and six-month periods ended October 31, 2016 and 2015

Financial Statements

Condensed Interim Consolidated Statements of Financial Position 1

Condensed Interim Consolidated Statements of Income and Comprehensive Income 2

Condensed Interim Consolidated Statements of Cash Flows 3

Condensed Interim Consolidated Statements of Changes in Equity 4

Notes to the Condensed Interim Consolidated Financial Statements 5

TECSYS Inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
As at October 31, 2016 and April 30, 2016
(in thousands of Canadian dollars)

	Note	October 31, 2016	April 30, 2016
Assets			
Current assets			
Cash and cash equivalents		$ 11,474	$ 9,704
Accounts receivable		13,504	18,239
Work in progress		1,844	513
Other accounts receivable		935	1,393
Tax credits		4,188	4,893
Inventory		908	744
Prepaid expenses		1,418	1,622
Total current assets		34,271	37,108
Non-current assets			
Tax credits		1,633	1,483
Property and equipment		2,453	2,633
Deferred development costs		3,161	3,817
Other intangible assets		1,674	1,831
Goodwill		3,596	3,596
Deferred tax assets		2,229	2,222
Total non-current assets		14,746	15,582
Total assets		$ 49,017	$ 52,690
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 9,109	$ 10,399
Current portion of long-term debt		1,474	1,455
Deferred revenue		10,810	11,205
Total current liabilities		21,393	23,059
Non-current liabilities			
Long-term debt		1,153	1,889
Other non-current liabilities		291	296
Total non-current liabilities		1,444	2,185
Total liabilities		22,837	25,244
Equity			
Share capital		8,349	8,349
Contributed surplus		9,577	9,577
Retained earnings		8,508	8,913
Accumulated other comprehensive (loss) income	8	(254)	607
Total equity attributable to the owners of the Company		26,180	27,446
Subsequent event	11		
Total liabilities and equity		$ 49,017	$ 52,690

See accompanying notes to the unaudited condensed interim consolidated financial statements.

TECSYS Inc.

Condensed Interim Consolidated Statements of Income and Comprehensive Income

(Unaudited)

Three and six-month periods ended October 31, 2016 and 2015

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

	Note	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
Revenue:					
Proprietary products		$ 2,922	$ 3,000	$ 5,278	$ 5,148
Third-party hardware and software products		1,831	2,092	4,001	4,156
Services	5	11,181	10,172	22,200	20,488
Reimbursable expenses		584	498	1,136	901
Total revenue		16,518	15,762	32,615	30,693
Cost of revenue:					
Products		1,578	1,914	3,276	3,522
Services	6	6,065	5,560	12,306	11,060
Reimbursable expenses		584	498	1,136	901
Total cost of revenue		8,227	7,972	16,718	15,483
Gross profit		8,291	7,790	15,897	15,210
Operating expenses:					
Sales and marketing		3,769	3,503	7,355	7,095
General and administration		1,719	1,391	3,059	2,760
Research and development, net of tax credits		2,483	2,395	4,920	4,647
Total operating expenses		7,971	7,289	15,334	14,502
Profit from operations		320	501	563	708
Net finance costs	7	55	32	151	72
Profit before income taxes		265	469	412	636
Income taxes		59	102	78	200
Profit attributable to the owners of the Company		$ 206	$ 367	$ 334	$ 436
Other comprehensive (loss) income:					
Effective portion of changes in fair value on designated revenue hedges	8	(136)	356	(861)	(227)
Comprehensive income (loss) attributable to the owners of the Company		$ 70	$ 723	$ (527)	$ 209
Basic and diluted earnings per common share	4	$ 0.02	0.03	$ 0.03	$ 0.04

See accompanying notes to the unaudited condensed interim consolidated financial statements.

TECSYS Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Six-month periods ended October 31, 2016 and 2015
(in thousands of Canadian dollars)

	Note	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
Cash flows from (used in) operating activities:			
Profit for the period		$ 334	$ 436
Adjustments for:			
Depreciation of property and equipment		413	373
Depreciation of deferred development costs		683	694
Depreciation of other intangible assets		247	243
Gain on disposal of property and equipment		-	(12)
Net finance costs	7	151	72
Unrealized foreign exchange and others		575	111
Non-refundable tax credits		(457)	(150)
Income taxes		78	150
Operating activities excluding changes in non-cash working capital items related to operations		2,024	1,917
Accounts receivable		4,735	(1,094)
Work in progress		(1,331)	(505)
Other accounts receivable		(598)	(479)
Tax credits		934	1,472
Inventory		(164)	180
Prepaid expenses		204	(32)
Accounts payable and accrued liabilities		(1,839)	(643)
Deferred revenue		(395)	(224)
Changes in non-cash working capital items related to operations		1,546	(1,325)
Net cash from operating activities		3,570	592
Cash flows used in financing activities:			
Repayment of long-term debt		(717)	(727)
Purchase of share options for cancellation		-	(4)
Payment of dividends		(739)	(616)
Interest paid	7	(49)	(74)
Net cash used in financing activities		(1,505)	(1,421)
Cash flows (used in) from investing activities:			
Interest received	7	55	36
Acquisitions of property and equipment		(233)	(204)
Proceeds on disposal of property and equipment		-	12
Acquisitions of other intangible assets		(90)	(47)
Deferred development costs		(27)	(679)
Net cash used in investing activities		(295)	(882)
Net increase (decrease) in cash and cash equivalents during the period		1,770	(1,711)
Cash and cash equivalents - beginning of period		9,704	10,815
Cash and cash equivalents - end of period		$ 11,474	$ 9,104

See accompanying notes to the unaudited condensed interim consolidated financial statements.

TECSYS Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

Six-month periods ended October 31, 2016 and 2015

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

	Note	Share capital Number	Share capital Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance, April 30, 2016		12,315,326	$ 8,349	$ 9,577	$ 607	$ 8,913	$ 27,446
Profit for the period		-	-	-	-	334	334
Other comprehensive loss for the period:							
Effective portion of changes in fair value on designated revenue hedges	8	-	-	-	(861)	-	(861)
Total comprehensive income (loss) for the period		-	-	-	(861)	334	(527)
Dividends to equity owners	4	-	-	-	-	(739)	(739)
Total transactions with owners of the Company		-	-	-	-	(739)	(739)
Balance, October 31, 2016		12,315,326	$ 8,349	$ 9,577	$ (254)	$ 8,508	$ 26,180
Balance, April 30, 2015		12,315,326	$ 8,349	$ 9,577	$ 95	$ 5,341	$ 23,362
Profit for the period		-	-	-	-	436	436
Other comprehensive loss for the period:							
Effective portion of changes in fair value on designated revenue hedges	8	-	-	-	(227)	-	(227)
Total comprehensive income (loss) for the period		-	-	-	(227)	436	209
Dividends to equity owners	4	-	-	-	-	(616)	(616)
Total transactions with owners of the Company		-	-	-	-	(616)	(616)
Balance, October 31, 2015		12,315,326	$ 8,349	$ 9,577	$ (132)	$ 5,161	$ 22,955

See accompanying notes to the unaudited condensed interim consolidated financial statements.

1. Description of business:

TECSYS Inc. (the “Company”) was incorporated under the Canada Business Corporations Act in 1983. The Company’s principal business activity is the development, marketing and sale of enterprise-wide supply chain management software for distribution, warehousing, transportation logistics and point-of-use. The Company also provides related consulting, education and support services. The Company is headquartered at 1, Place Alexis Nihon, Montréal, Canada, and derives substantially all of its revenue from customers located in the United States and Canada. The Company’s customers consist primarily of healthcare systems and high-volume distributors of discrete goods. The consolidated financial statements comprise the Company and its wholly-owned subsidiaries. The Company is a publicly listed entity and its shares are traded on the Toronto Stock Exchange under the symbol TCS.

2. Statement of compliance:

These condensed interim consolidated financial statements and the notes thereto have been prepared in accordance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). They do not include all of the information required in the full annual financial statements. Certain information and footnote disclosures normally included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Company’s interim financial information. As such, they should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended April 30, 2016.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on December 1, 2016.

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at April 30, 2016.

3. New accounting standards and interpretations issued but not yet adopted:

A number of new standards, interpretations and amendments to existing standards were issued by the IASB or the International Financial Reporting Standards Interpretations Committee (“IFRS IC”) that are mandatory but not yet effective for the period ended October 31, 2016, and have not been applied in preparing these condensed interim consolidated financial statements. None are expected to have an impact on the consolidated financial statements of the Company except for the following:

IFRS 9, *Financial Instruments* (“IFRS 9”):

In July 2014, the IASB issued the complete version of IFRS 9 (2014), *Financial Instruments.* IFRS 9 (2014) differs in some regards from IFRS 9 (2013) which the Company early adopted effective May 1, 2014. IFRS 9 (2014) includes updated guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment, and new general hedge accounting requirements. The final version of IFRS 9 supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted, however an entity may elect to apply earlier versions of IFRS 9 if the entity’s relevant date of initial application is before February 1, 2015. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”):

In May 2014, the IASB issued IFRS 15 which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers.

IFRS 15 supersedes the following standards: IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Service.*

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

This standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16"):

In January 2016, the IASB issued IFRS 16, which specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, *Leases*. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019, with earlier application permitted only if IFRS 15 has also been applied. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

4. Share capital:

(a) On July 6, 2016, the Company's Board of Directors approved a 20% increase of the quarterly dividend from $0.025 per share to $0.03 per share. To this effect, the Company declared a dividend of $0.03 per share, paid on August 4, 2016 to shareholders of record on July 21, 2016. On September 8, 2016, the Company declared another dividend of $0.03 per share, paid on October 7, 2016 to shareholders of record at the close of business on September 23, 2016.

On July 8, 2015, the Company declared a dividend of $0.025 per share, paid on August 6, 2015 to shareholders of record on July 22, 2015. On September 10, 2015, the Company declared another dividend of $0.025 per share, paid on October 9, 2015 to shareholders of record at the close of business on September 25, 2015.

(b) Earnings per share:

Basic earnings per share:

The calculation of basic earnings per share is based on the profit attributable to common shareholders and the weighted average number of common shares outstanding calculated as follows:

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
Profit attributable to common shareholders	$ 206	$ 367	$ 334	$ 436
Weighted average number of common shares outstanding (basic)	12,315,326	12,315,326	12,315,326	12,315,326
Basic earnings per common share	$ 0.02	$ 0.03	$ 0.03	$ 0.04

Diluted earnings per share:

The calculation of diluted earnings per share is based on the profit attributable to common shareholders and the weighted average number of common shares outstanding after adjustment for the effects of all dilutive share options. The impact of dilutive share options is not significant and therefore diluted earnings per share equals basic earnings per share for the three and six-month periods ended October 31, 2016 and 2015.

5. Revenue:

Services revenue is broken down as follows:

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
Professional services	$ 6,658	$ 6,287	$ 13,046	$ 12,768
Maintenance	3,951	3,403	7,970	6,779
Others	572	482	1,184	941
	$ 11,181	$ 10,172	$ 22,200	$ 20,488

6. Cost of revenue:

The following table provides details of the cost of services presented in cost of revenue:

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
Gross expenses	$ 6,645	$ 5,887	$ 13,330	$ 11,722
E-business tax credits	(580)	(327)	(1,024)	(662)
	$ 6,065	$ 5,560	$ 12,306	$ 11,060

7. Net finance costs:

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
Interest expense on financial liabilities measured at amortized cost	$ 23	$ 34	$ 49	$ 74
Decrease in fair value of share options liability	-	(1)	-	-
Foreign exchange loss	54	17	157	34
Interest income on bank deposits	(22)	(18)	(55)	(36)
Net finance costs recognized in profit or loss	$ 55	$ 32	$ 151	$ 72

8. Derivative instruments and risk management:

The Company is exposed to currency risk as a certain portion of the Company's revenues and expenses are incurred in U.S. dollars resulting in U.S. dollar denominated accounts receivable and accounts payable and accrued liabilities. In addition, certain of the Company's cash and cash equivalents are denominated in U.S. dollars. These balances are therefore subject to gains or losses due to fluctuations in that currency. The Company may enter into foreign exchange contracts in order to offset the impact of the fluctuation of the U.S. dollar regarding the revaluation of its U.S. net monetary assets and to hedge highly probable future revenue denominated in U.S. dollars. The Company uses derivative financial instruments only for risk management purposes, not for generating trading profits. As such, any change in cash flows associated with derivative

instruments is expected to be offset by changes in cash flows related to the net monetary position in the foreign currency and the recognition of highly probable future U.S. denominated revenue and related accounts receivable.

Non-hedge designated derivative instruments

On October 31, 2016, the Company held outstanding foreign exchange contracts with various maturities to March 2017 to sell US$3,750,000 into Canadian dollars at a rate of CA$1.3178 to yield CA$4,942,000. On October 31, 2016, the Company had recorded an unrealized exchange loss of $84,000 included in accounts payable and accrued liabilities representing the change in fair value of these contracts since inception and their initial measurement.

On October 31, 2015, the Company held outstanding foreign exchange contracts with various maturities to March 2016 to sell US$3,150,000 into Canadian dollars at a rate of CA$1.3044 to yield CA$4,109,000. On October 31, 2015 the Company had recorded an unrealized exchange loss of $11,000 included in accounts payable and accrued liabilities representing the change in fair value of these contracts since inception and their initial measurement.

Additionally, on October 31, 2015, the Company held outstanding foreign exchange contracts with various maturities to January 2016 to buy €300,000 in exchange for $435,000 Canadian dollars at an average rate of CA$1.4486. On October 31, 2015 the Company had recorded an unrealized exchange loss of $3,000.

Revenue hedge designated derivative instruments

On October 31, 2016, the Company held outstanding foreign exchange contracts with various maturities to June 2017 to sell US$10,000,000 into Canadian dollars at rates averaging CA$1.2918 to yield CA$12,918,000. Of the outstanding US$10,000,000 hedge designated foreign exchange contracts, US$6,000,000 pertains to highly probable future revenue denominated in U.S. dollars expected over the next five months while US$4,000,000 relates to realized U.S. dollar denominated revenue. On October 31, 2016, the Company had recorded an unrealized exchange loss of $478,000 included in accounts payable and accrued liabilities representing the change in fair value of these contracts since inception and their initial measurement.

On October 31, 2015, the Company held outstanding foreign exchange contracts with various maturities to June 30, 2016 to sell US$10,000,000 into Canadian dollars at rates averaging CA$1.2618 to yield CA$12,618,000. Of the outstanding US$10,000,000 hedge designated foreign exchange contracts, US$6,000,000 pertains to highly probable future revenue denominated in U.S. dollars expected over the next five months while US$4,000,000 relates to realized U.S. dollar denominated revenue. On October 31, 2015, the Company had recorded an unrealized loss of $463,000 included in accounts payable and accrued liabilities representing the change in fair value of these outstanding contracts since inception and their initial measurement.

The following table represent the movement in accumulated other comprehensive income (loss) since the designation of hedging derivative instruments.

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
Accumulated other comprehensive (loss) income at the beginning of the fiscal period	$ (118)	$ (488)	$ 607	$ 95
Net loss on derivatives designated as cash flow hedges	(382)	(36)	(956)	(1,107)
Amounts reclassified from accumulated other comprehensive (loss) income to net earnings, and included in:				
Revenue (decrease) increase	(168)	(365)	121	(621)
Exchange loss in net finance costs	(78)	(27)	(216)	(259)
Accumulated other comprehensive loss	$ (254)	$ (132)	$ (254)	$ (132)

As at October 31, 2016, all of the net loss presented in accumulated other comprehensive loss is expected to be classified to net earnings within the next five months.

The fair value of derivative financial instruments is based on forward rates considering the market price, rate of interest and volatility and takes into account the credit risk of the financial instrument. The fair value hierarchy related to the outstanding foreign exchange contracts is categorized as level 2.

9. Related party transactions:

Key management includes the Board of Directors (executive and non-executive) and members of the Executive Committee that report directly to the President and Chief Executive Officer of the Company.

Key management and their spouses control 41.0% of the issued common shares of the Company.

The compensation paid or payable to key management for employee services is as follows:

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
Salaries	$ 777	$ 752	$ 1,414	$ 1,424
Other short-term benefits	39	43	102	95
Payments to defined contribution plans	14	14	28	27
	$ 830	$ 809	$ 1,544	$ 1,546

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans of $187,000 ($220,000 – fiscal 2016) to key management and other management employees to facilitate their purchase of Company shares during the three months ended July 31, 2016. The outstanding loans as at October 31, 2016 amounted to $93,000 ($110,000 – October 31, 2015). These loans will be fully repaid before the end of the fiscal year, April 30, 2017.

10. Operating segments:

Management has organized the Company under one reportable segment: the development and marketing of enterprise-wide distribution software and related services. Substantially all of the Company's property and equipment, goodwill and other intangible assets are located in Canada. The Company's subsidiaries in the U.S. and the U.K. comprise sales and service operations offering implementation and maintenance services only.

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

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Six Months Ended October 31, 2016	Six Months Ended October 31, 2015
Canada	$ 4,178	$ 5,058	$ 9,261	$ 8,887
United States	11,835	10,519	22,442	21,464
Other	505	185	912	342
	$ 16,518	$ 15,762	$ 32,615	$ 30,693

11. Subsequent event:

On December 1, 2016, the Company's Board of Directors approved a 50% increase of the quarterly dividend from $0.03 per share to $0.045 per share. To this effect, the Company declared a dividend of $0.045 per share, to be paid on January 12, 2017 to shareholders of record at the close of business on December 22, 2016.

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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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