

TECSYS Inc. 1st Quarter Fiscal 2013 Report

Dear Shareholder:

I am very pleased to report that the first quarter of fiscal 2013 was a model of outstanding achievements in all key performance indicators. We were able to achieve significant growth and profitability, reflecting our leadership in the supply chain execution space and our strong ability to compete and win business from our current and prospective customers.

In Q1 of fiscal 2013, the momentum from Q3 and Q4 of fiscal 2012 continued. A substantial number of contracts from new and existing customers, combined with the accelerating delivery of services, helped us achieve one of the greatest revenue increases in our history.

Below are the key financial highlights of the quarter:

- Revenue increased by 28% to \$11.5M in Q1 of fiscal 2013 compared to \$9.0M in Q1 of fiscal 2012.
- Gross profit increased by 38% to \$5.4M in Q1, 2013 compared to \$3.9M in Q1, 2012.
- Profit from operations increased substantially to \$1,048K in Q1, 2013 compared to \$172K in Q1, 2012.
- EBITDA for Q1, 2013 increased to \$1,633K compared to \$530K for Q1 of last fiscal year.
- Net profit also increased substantially in Q1, 2013 reaching \$1,125K or \$0.10 per share, compared to \$146K or \$0.01 per share for the first quarter of last fiscal year.
- Annualized recurring revenue grew to \$15.6M at the end of Q1, 2013, up from \$13.8M at the end of Q1, 2012. Recurring revenue for Q1, 2013 represented 37% of revenue for the last twelve months and is principally made up of annual maintenance services and hosting contracts.
- Backlog at the end of Q1, 2013, increased to \$26.2M compared to \$20.4M at the end of Q1, 2012.
- Cash, cash equivalents and short-term investments amounted to \$5.1M at the end of Q1, 2013 compared to \$5.2M at the end of Q4, 2012 with no long-term debt.

As a result of this performance and our continued ability to generate cash, the Board of Directors increased the semi-annual dividend by 16.7% to three and a half cents and has declared a semi-annual dividend to be paid on October 5, 2012 to shareholders of record on September 21, 2012.

Our ability to win major accounts, particularly in the past five years, has significantly improved our base account opportunities and our recurring revenue stream. Between the end of fiscal 2008 and the end of fiscal 2012, our recurring revenue stream has grown by 30% from \$11.4 million in 2008 to \$14.8 million at the end of fiscal 2012 in spite of the economic climate. Among the many agreements, this quarter included the signing of a major contract with an existing customer, a Fortune 500 manufacturer and distributor, which contributed significantly to this quarter's growth and profitability. Furthermore, our investment in our services infrastructure is beginning to pay off; we were able to increase delivery to our clients and complete the deployment of nineteen customer sites contributing to a 12% increase in services revenue in Q1.

In summary, with a solid and growing backlog, a strong sales pipeline and improved market and economic climates, we feel very positive about the opportunities ahead. Thank you for your continued support.

Sincerely,



Peter Brereton
President and CEO

TECSYS Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations dated September 6, 2012

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of TECSYS Inc. (the "Company") and Notes thereto, which are included in this document. The Company's first quarter for fiscal year 2013 ended on July 31, 2012. 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.

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.

The Company prepares its financial statements in accordance with generally accepted accounting principles in Canada as set out in the Handbook of the Canadian Institute of Chartered Accountants - Part 1 ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These condensed interim consolidated financial statements and the notes thereto have been prepared in accordance with IAS 34 - Interim Financial Reporting. 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 audited annual consolidated financial statements of the Company as at and for the year ended April 30, 2012.

This document and financial statements are expressed in Canadian dollars unless it is otherwise indicated.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 6, 2012.

Quarterly Selected Financial Data

(Quarterly data are unaudited)

In thousands of Canadian dollars, except per share data

	2013		2012			2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total Revenue	11,510	10,805	10,595	9,099	9,003	8,490	9,299	9,447
Profit and Comprehensive Income	1,125	473	305	133	146	491	778	657
Basic and Diluted Earnings per Common Share	0.10	0.04	0.03	0.01	0.01	0.04	0.07	0.05

Results of Operations

Three months ended July 31, 2012 compared to three months ended July 31, 2011

Revenue

Total revenue for the first quarter ended July 31, 2012 increased to \$11.5 million, \$2.5 million or 28% higher, compared to \$9.0 million for the same period of fiscal 2012. The U.S. dollar averaged CA\$1.0173 in the first quarter of fiscal 2013 in comparison to CA\$0.9667 in the first quarter of fiscal 2012. Approximately 64% of the Company's revenues were generated in the United States during the first quarter of fiscal 2013, hence the stronger U.S. dollar impacted revenues favorably by an estimated \$367,000.

Products revenue increased to \$4.5 million, \$1.6 million or 57% higher, in the first quarter of fiscal 2013 in comparison to \$2.9 million for the same period last year. Proprietary products revenue accounted for \$1.9 million of the increase while third-party products decreased by \$292,000. The increase in proprietary products revenue is largely attributable to a very significant sale of a proprietary license to an existing customer. Overall bookings amounted to \$5.0 million in the first quarter of fiscal 2013 in comparison to \$2.9 million for the same period of the previous fiscal year.

Services revenue increased to \$6.7 million, higher by \$725,000 or 12%, in first quarter of fiscal 2013 compared to \$6.0 million for the same period in the previous fiscal year. The increase is attributable primarily to higher implementation consulting and product adaptation services relating to intensified implementation activity, however other service operations including support and hosting were also higher.

As a percentage of total revenue, products accounted for 39% and services for 58% in the first quarter of fiscal 2013 compared to 32% and 66% for the same quarter of fiscal 2012, respectively.

Cost of Revenue

Total cost of revenue increased to \$6.1 million, higher by \$1.0 million or 20%, in the first quarter of fiscal 2013 in comparison to \$5.1 million for the same three-month period in fiscal 2012. The increase is primarily attributable to higher services costs.

The cost of services increased to \$4.8 million, higher by \$987,000 or 26% in the first quarter of fiscal 2013 in comparison to \$3.8 million for the same period last year mainly due to higher employee-related expenses of \$858,000 offset by higher tax credits of \$93,000 as well as higher travel, facilities and other overhead costs. The average services headcount in the first quarter of fiscal 2013 increased by thirty-three compared to the same period of fiscal 2012. The cost of services includes tax credits of \$313,000 for the first quarter of fiscal 2013 compared to \$220,000 for the same period in the previous fiscal year, largely due to the increased headcount. The tax credits relate to the e-business tax credit introduced by the Quebec government in March 2008.

Gross Profit

The gross profit increased to \$5.4 million, higher by \$1.5 million or 38%, for the first quarter of fiscal 2013 in comparison to \$3.9 million for the same period last year. Total gross profit percentage in the first quarter of fiscal 2013 was 47% compared to 44% in the same period of fiscal 2012 mainly due to higher gross profit realization on proprietary products.

The overall products gross profit increased by \$1.7 million to \$3.6 million in the first quarter of fiscal 2013 representing 79% of products revenue in comparison to \$1.8 million representing 64% of product revenue for the same period last year. This increase in gross profit percentage is mainly due to higher revenue of proprietary products and offset partially by lower margins and gross profit percentage on third-party products.

Services gross profit during the first quarter of fiscal 2013 decreased to \$1.9 million, lower by \$262,000 or 12% in comparison to the same period of fiscal 2012. Services gross profit was 28% of services revenue in the first quarter of fiscal 2013 in comparison to 36% for the comparable period last year. The increase in services revenue was offset by even higher services expenses. This phenomenon was discussed within the fiscal 2012 annual report and is attributable to the Company's significant recruitment of new services personnel within the last nine months to address the business growth and backlog. The Company anticipates improvement in the services gross profit percentage as the integration of the new employees is achieved.

Operating Expenses

Total operating expenses for the first quarter of fiscal 2013 increased to \$4.4 million, higher by \$609,000 or 16%, compared to \$3.8 million the same three-month period last year.

The most notable differences between the first quarter of fiscal 2013 in comparison with the same period in fiscal 2012 are as follows.

- Sales and marketing expenses amounted to \$1.9 million, \$440,000 higher than the comparable quarter last year. Expenses were higher primarily due to higher salaries and benefits of \$133,000, commissions and incentives of \$201,000, and higher travel expenses of \$69,000. The increase to the salaries and benefits is attributable to the addition of two headcount, whereas the increase to commissions and incentives is due to the increased revenue.
- General and administrative expenses increased to \$1.1 million, \$180,000 higher than the comparable quarter last year primarily as a result of higher salaries, benefits, and incentives of \$142,000, and donations of \$17,000.
- Net R&D expenses decreased slightly to \$1.3 million, \$11,000 lower than the comparable quarter last year. Gross R&D expenses increased by \$333,000 comprising primarily of higher employee costs and allocated overhead. The average headcount during the first quarter of fiscal 2013 was ten higher than comparable period of a year earlier. The Company also recorded \$312,000 of R&D and e-business tax credits in the first quarter of fiscal 2013 compared to \$198,000 for the same period of the last fiscal year. The difference is made up of higher e-business tax credits of \$39,000 related to the higher number of R&D resources and \$75,000 of federal non-refundable tax credits. In addition, the Company capitalized deferred development costs of \$404,000 in the first quarter of fiscal 2013 compared to \$140,000 for the same period of the last fiscal year while amortizing deferred development costs of \$215,000 in the first quarter of fiscal 2013 in comparison to \$181,000 for the same quarter a year earlier.

Profit from Operations

The Company recorded profit from operations of \$1.0 million representing 9% of revenue in the first quarter of fiscal 2013 in comparison to \$172,000 representing 2% of revenue for the comparable quarter of the previous year primarily as a result of the higher gross profit being offset partially by the increase in operating expenses.

Net finance income and costs

In the first quarter of fiscal 2013, the Company recorded net finance income of \$89,000 in comparison to \$12,000 of finance costs for the comparable quarter last year. Finance income in the first quarter of fiscal 2013 includes \$80,000 of income related to the revaluation of the fair value of the share options liability. During the second quarter of fiscal 2012, the Company passed a resolution allowing share option holders the privilege to cash-settle their share options at their option, no longer subject to the Company's approval. As such, the Company reclassified the fair value of the share options from contributed surplus to accounts payable and accrued liabilities. The Company revalues the share option liability at each reporting date and any change in the liability is reflected as finance income or finance costs in the consolidated statement of comprehensive income, as appropriate. Please see note 5 to the consolidated financial statements for a more elaborate discussion on share options. Additionally, finance income includes net foreign exchange gains of \$5,000 in the first quarter of fiscal 2013 in comparison to net foreign exchange losses of \$11,000 for the same period last year and net interest income of \$4,000 versus net interest expense of \$1,000, respectively.

During the first quarter of fiscal 2012, the Company recognized its 30% share of the net loss on its investment in TECSYS Latin America (TLA) of \$14,000. The Company sold its full equity position in TLA in April 2012.

Income taxes

In the first quarter of fiscal 2013, the Company recorded an income tax expense comprising \$272,000 of current income taxes offset by \$260,000 of deferred income taxes. No tax expense was recorded in the first quarter of fiscal 2012.

Net Profit

The Company recorded net profit of \$1.1 million or \$0.10 per share in the first quarter of fiscal 2013 compared to \$146,000 or \$0.01 per share for the same period last year.

Liquidity and Capital Resources

On July 31, 2012, current assets totaled \$18.0 million compared to \$18.2 million at the end of fiscal 2012. Cash and cash equivalents decreased to \$5.1 million compared to \$5.2 million as at April 30, 2012. This is primarily due to the repurchase of common shares through the normal course issuer bid, the investment in property and equipment and the Company's flagship product, EliteSeries, and offset to a large extent by the cash generated from operations. Accounts receivable and work in progress totaled \$8.2 million on July 31, 2012 compared to \$8.9 million as at April 30, 2012. The Company's DSO (days sales outstanding) stood at 64 days at the end the first quarter of fiscal 2013 compared to 74 days at the end of fiscal 2012 and 72 days at the end of the first quarter of fiscal 2012. The decrease was due to a significant sale and cash collection of a proprietary license in the first quarter of fiscal 2013.

Current liabilities on July 31, 2012 totaled \$12.2 million compared to \$12.6 million at the end of fiscal 2012 mainly due to the reduction in accounts payable. Working capital increased to \$5.8 million at the end of July 31, 2012 in comparison to \$5.6 million at the end of fiscal year 2012.

Operating activities generated funds of \$903,000 for the first quarter of fiscal 2013 in comparison to using funds of \$98,000 for the first quarter of fiscal 2012. Operating activities excluding changes in non-cash working capital items generated \$1.5 million in the first quarter of fiscal 2013 in comparison to \$665,000 for the same period in fiscal 2012 as a result of the significant increase in net profit. Working capital items used funds of \$569,000 in the first quarter of fiscal 2013 primarily due to decreases in accounts payable and increases to work in progress and tax credits receivable and offset partially by decreases to accounts receivable. Working capital items used funds of \$763,000 in the first quarter of fiscal 2012 primarily due to increases of tax credits receivable, accounts receivable, and prepaid expenses.

The Company believes that funds on hand at July 31, 2012 combined with cash flow from operations and its accessibility to potential lines of credit and term loans 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 \$206,000 for the first quarter of fiscal 2013 and \$4.0 million for the same three-month period in fiscal 2012. During the first quarter of fiscal 2013, the Company purchased 91,800 of its outstanding common shares for cancellation at an average price of \$2.48 per share under a Normal Course Issuer Bid (NCIB). The total cost related to the purchasing of these shares including other related costs, was \$231,000. During the first quarter of fiscal 2012, the Company purchased 4,400 of its outstanding common shares for cancellation at an average price of \$2.02 per share. The total cost related to the purchasing of these shares, including related costs, was \$9,000. During the first quarter of the current fiscal year the Company repaid \$3,000 of an outstanding loan, whereas during the same period last year the Company repaid \$3.7 million of bank advances and terminated the credit facility that was partially secured by the asset-backed commercial paper, which was also sold for cash during the period. Additionally, during the first quarter of fiscal 2012, 276,044 share options were exercised by employees at an average price of \$1.41 and cash-settled for a total disbursement of \$279,000. The weighted average trading price of the Company's shares during the period of five trading days preceding the date of exercise for these share options was \$2.42. During the first quarter of fiscal 2013, 16,350 share options were exercised at an average price of \$1.90 to purchase common shares generating cash for \$31,000. The Company paid interest of \$3,000 and \$7,000 for the first quarter of fiscal 2013 and fiscal 2012, respectively.

During the first quarter of fiscal 2013, investing activities used funds of \$810,000 in comparison to generating funds of \$3.6 million for the comparable period last year. The Company generated cash with the reduction of short-term investments and restricted cash equivalents and other investments of \$40,000 and \$325,000 for the first quarter of fiscal 2013 and fiscal 2012, respectively. Additionally, during the first quarter of fiscal 2012, the Company sold the asset-backed commercial paper to a third-party for proceeds of \$3.6 million. The Company used funds of \$467,000 and \$210,000 for the acquisition of property and equipment, and intangible assets for the first quarter of fiscal 2013 and fiscal 2012 respectively. The larger capital expenditures for property and equipment for the current fiscal year relate primarily to the Company's expansion of its Montreal head office. The new property and equipment comprises primarily of leasehold improvements, new furniture, and computer infrastructure. Additionally, the Company invested in its proprietary software products with the capitalization of \$404,000 and \$140,000 reflected as deferred development costs in the first quarter of fiscal 2013 and fiscal 2012, respectively. The Company collected monies from TLA on previously advanced loans and the scheduled payment relating to the divestiture of the equity interest in TLA of \$14,000 and \$11,000 during the first quarter of fiscal 2013 and 2012, respectively. Lastly, the Company received interest of \$7,000 and \$6,000 for the first quarter of fiscal 2013 and fiscal 2012, respectively.

Related Party Transactions

The company has a subordinated loan of \$82,000 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. During the quarter ended July 31, 2012, the Company repaid \$3,000. The amount outstanding at July 31, 2011 and at April 30, 2012 was \$107,000 and \$85,000, respectively.

Under the provisions of the current share purchase plan for key management, the Company extended interest-free loans of \$152,000 to key management to facilitate their purchase of Company shares during the first quarter ended July 31, 2012. These loans will be fully repaid before the end of the fiscal year, April 30, 2013. The outstanding loans as at July 31, 2012 amounted to \$107,000.

Subsequent Event

On September 6, 2012, the Company declared a dividend of \$0.035 per share, to be paid on October 5, 2012 to shareholders of record at the close of business on September 21, 2012.

Current and Anticipated Impacts of Current Economic Conditions

The current overall economic uncertainty and volatility 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. The Company is seeing some positive signs, over the last nine months, of prospects and customers starting to invest in supply chain management software. During the last two quarters of fiscal 2012, the Company booked record-level contracts within the last decade with total contract values of greater than \$8.0 million in each quarter and a reasonably favorable trend continued into the first quarter of fiscal 2013 with bookings of \$5.0 million, whereas for the previous fourteen quarters since the beginning of fiscal 2009, bookings averaged approximately \$4.8 million per quarter. The magnitude of the growth trend will depend on the strength and sustainability of the economic recovery and the demand for supply chain management software.

Given the current backlog of \$26.2 million, comprised primarily of services, the Company's management believes that the current services revenue level ranging between \$6.5 million and \$7.0 million per quarter can be sustained in the short term if no significant new agreements are completed. If the positive business signs continue to manifest themselves, as the Company is anticipating, services revenue should continue to rise. As such, the Company is maintaining its current recruiting strategy focusing primarily on new services resources. The Company anticipates that its services gross profit margin, which has been under pressure in the early part of fiscal 2013 as it continued to integrate new resources, to improve particularly in the latter half as the year progresses.

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 approximately 50% of its business from U.S. customers while the majority of its cost base is in Canadian dollars.

The Company will continue to adjust its business model to ensure that costs are aligned to its revenue expectations and the economic reality. The Company has increased its headcount during fiscal 2012 and anticipates further investment in new resources in fiscal 2013 to meet the higher demand for its services and to capture pipeline opportunities. The Company's recruitment initiative focuses on resources required to address the services backlog while contributing to revenue generation. Other cost areas under continuous scrutiny are traveling, consulting and communications.

Due to the anticipated expansion of its working capital due to business growth, its investment in the integration and training of new resources, and the expansion of its Montreal head office, the Company is currently pursuing the negotiation of new credit facilities to ensure that the growth trends can be nurtured and sustained. The Company believes that funds on hand, together with anticipated cash flows from operations, and its accessibility to potential new lines of credit and term loans will be sufficient to meet all its needs for a least the next twelve months. The Company can further manage its capital structure by adjusting its purchases of shares for cancellation pursuant to the normal course issuer bid and adjusting its dividend policy.

Outstanding Share Data

On September 6, 2012, the Company has 11,517,721 common shares outstanding as an additional 10,100 common shares were purchased for cancellation under the normal course issuer bid since the end of the Company's first quarter.

Similarly, on September 6, 2012, outstanding share options to purchase common shares numbered 309,720 as 1,000 share options were cancelled since the end of the first quarter.

Change in Accounting Policies

New accounting standards adopted in 2013

On October 7, 2010, the IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures*, which increase the disclosure requirements for transactions involving the transfers of financial assets to help users of financial statements evaluate the risk exposures related to such transfers and the effect of those risks on an entity's financial position. These amendments are effective and have been adopted in the first quarter of 2013 commencing May 1, 2012. The Company has determined that the amendments to IFRS 7 do not have a material impact on the Company's consolidated financial statements.

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 International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the period ended July 31, 2012, 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:

International Financial Reporting Standards	Effective for annual periods starting on or after
IFRS 9, <i>Financial Instruments</i>	January 1, 2015
IFRS 10, <i>Consolidated Financial Statements</i>	January 1, 2013
IFRS 12, <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
IFRS 13, <i>Fair Value Measurement</i>	January 1, 2013

IFRS 9, *Financial Instruments* ("IFRS 9"), will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 was the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning May 1, 2015.

IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12, *Consolidation - Special Purpose Entities* and IAS 27, *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its consolidated financial statements for the annual period beginning May 1, 2013.

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company intends to adopt IFRS 12 in its consolidated financial statements for the annual period beginning May 1, 2013.

IFRS 13, *Fair Value Measurement* ("IFRS 13"), provides new guidance on fair value measurement and disclosure requirements. The Company intends to adopt IFRS 13 in its consolidated financial statements for the annual period beginning May 1, 2013.

The Company is in the process of determining the extent of the impact of these standards on the Company's 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 these financial statements.

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.

In addition, revenue recognition is also 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 expenses.

(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: the determination of fair value, 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) Fair value of derivative instruments:

The fair value of a derivative instrument is estimated using inputs, including forward prices, foreign exchange rates, interest rates and volatilities. These inputs are subject to change on a regular basis based on the interplay of various market forces.

Consequently, the fair value of each of the Company's derivative instruments is subject to assumptions and estimation uncertainties and can vary significantly in each reporting period.

Revenue Recognition

The Company derives its revenues under non-cancellable license agreements from the sale of proprietary software licenses, third-party software, support, and hardware and provides software-related services including training, installation, consulting and maintenance, which include product support services and periodic updates. Software licenses sold by the Company are generally perpetual in nature and the arrangements generally comprise various services.

Revenues generated by the Company include the following:

(i) License fees and hardware products:

Revenues from perpetual licenses sold separately are recognized when a non-cancellable agreement has been signed, the product has been delivered, there are no uncertainties surrounding product acceptance, the fees are fixed or determinable and the amount of revenue and costs can be measured reliably, and collection is considered probable such that economic benefits associated with the transaction will flow to the Company. Delivery generally occurs at the point where title and risk of loss have passed to the customer and the Company no longer retains continuing managerial involvement or effective control over the products sold. However, some arrangements require evidence of customer acceptance of the hardware and software products that have been sold. In such cases, delivery of the hardware, software and services is not considered to have occurred until evidence of acceptance is received from the customer or the Company has completed its contractual obligations.

Certain of the Company's license agreements require the customer to renew their annual support agreement in order to maintain their right to continue to use the software. In such cases, the perpetual license is effectively transformed into a renewable annual 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. 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. For long-term contracts 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 contracts in progress are recognized when known. Work in progress is established for revenue based on the percentage completed in excess of progress billings as of the reporting 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, and the delivery performance of any undelivered product or service is uncertain and not substantially within the Company's control, then the percentage of completion up to those milestones is recognized upon acceptance.

(ii) Support agreements:

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

Third-party support revenues related to third-party software and the related cost are generally recognized upon the delivery of the third-party products as the support fee is included with the initial licensing fee, the support included with the initial license is for one year or less, and the estimated cost of providing support during the arrangement is insignificant. In addition, unspecified upgrades for third party support agreements historically have been and are expected to continue to be minimal and infrequent.

(iii) Consulting and training services:

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

(iv) Reimbursable expenses:

The Company records revenue and the associated cost of revenue on a gross basis in its statements of comprehensive income for reimbursable expenses such as airfare, hotel lodging, meals, automobile rental and other charges related to providing services to its customers.

(v) Multiple-element arrangements:

Some of the Company's sales involve multiple-element arrangements that include product (software and/or hardware), maintenance and various professional services. The Company evaluates each deliverable in an arrangement to determine whether such deliverable would represent a separate component. Most of the Company's products and services qualify as separate components and revenue is recognized when the applicable revenue recognition criteria, as described above, are met.

In multiple-element arrangements, the Company separately accounts for each product or service according to the methods described when the following conditions are met:

- the delivered product or service has value to the customer on a stand-alone basis;
- there is objective and reliable evidence of fair value of any undelivered product or service;
- if the sale includes a general right of return relating to a delivered product or service, the delivery performance of any undelivered product or service is probable and substantially in the Company's control.

If there is objective and reliable evidence of fair value for all products and services in a sale, the total price of the arrangements is allocated to each product and service based on relative fair value. Otherwise, the Company first allocates a portion of the total price to any undelivered products and services based on their fair value and the remainder to the products and services that have been delivered.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of July 31, 2012.

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 (COSO).

No changes to internal controls over financial reporting have come to management's attention during the three-month period ending on July 31, 2012 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.

Condensed Interim Consolidated Financial Statements of
(Unaudited)

TECSYS INC.

For the three-month periods ended July 31, 2012 and 2011

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED JULY 31, 2012 and 2011

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 6th day of September, 2012.

TECSYS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three-month periods ended July 31, 2012 and 2011

Financial Statements

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TECSYS Inc.Condensed Interim Consolidated Statements of Financial Position
(Unaudited)As at July 31, 2012 and April 30, 2012
(in thousands of Canadian dollars)

	Note	July 31, 2012	April 30, 2012
Assets			
Current assets			
Cash and cash equivalents	\$	5,104	\$ 5,217
Accounts receivable		7,110	8,207
Work in progress		1,067	645
Other accounts receivable and derivatives		276	190
Tax credits		2,509	2,070
Inventory		691	696
Prepaid expenses		1,221	1,177
Total current assets		17,978	18,202
Non-current assets			
Restricted cash equivalents and other investments		120	160
Non-current receivables		85	99
Tax credits		1,070	1,076
Property and equipment		3,284	2,911
Deferred development costs		2,703	2,514
Other intangible assets		410	362
Goodwill		2,239	2,239
Deferred tax assets		826	587
Total non-current assets		10,737	9,948
Total assets	\$	28,715	\$ 28,150
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	\$	5,177	\$ 5,844
Loans payable		82	85
Deferred revenue		6,968	6,665
Total current liabilities		12,227	12,594
Equity			
Share capital	5	1,713	1,688
Contributed surplus	5	9,805	10,023
Retained earnings		4,970	3,845
Total equity attributable to the owners of the Company		16,488	15,556
Subsequent event	14		
Total liabilities and equity	\$	28,715	\$ 28,150

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

TECSYS Inc.Condensed Interim Consolidated Statements of Comprehensive Income
(Unaudited)Three-month periods ended July 31, 2012 and 2011
(in thousands of Canadian dollars, except per share data)

	Note	July 31, 2012	July 31, 2011
Revenue:			
Products	7	\$ 4,487	\$ 2,853
Services		6,680	5,955
Reimbursable expenses		343	195
Total revenue		11,510	9,003
Cost of revenue:			
Products		928	1,041
Services	8	4,819	3,832
Reimbursable expenses		343	195
Total cost of revenue		6,090	5,068
Gross profit		5,420	3,935
Operating expenses:			
Sales and marketing		1,918	1,478
General and administration		1,114	934
Research and development, net of tax credits		1,340	1,351
Total operating expenses		4,372	3,763
Profit from operations		1,048	172
Finance income	10	92	6
Finance costs	10	(3)	(18)
Net finance income (costs)		89	(12)
Share of net loss of equity-accounted associate		-	(14)
Profit before income taxes		1,137	146
Income taxes	6	12	-
Profit attributable to the owners of the Company and comprehensive income for the period		\$ 1,125	\$ 146
Basic and diluted earnings per common share		\$ 0.10	\$ 0.01

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

TECSYS Inc.Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)Three-month periods ended July 31, 2012 and 2011
(in thousands of Canadian dollars)

	Note	July 31, 2012	July 31, 2011
Cash flows from (used in) operating activities:			
Profit for the period	\$	1,125	\$ 146
Adjustments for:			
Depreciation of property and equipment		248	169
Depreciation of other intangible assets		37	29
Depreciation of deferred development costs		215	181
Share-based compensation		-	8
Net finance (income) costs		(89)	12
Realized foreign exchange gains and others		49	106
Share of net loss of equity-accounted associate		-	14
Federal non-refundable research and development tax credits		(75)	-
Income taxes		(38)	-
Operating activities excluding changes in non-cash working capital items related to operations		1,472	665
Accounts receivable		1,097	(196)
Work in progress		(422)	(98)
Other accounts receivable		(130)	67
Tax credits		(559)	(432)
Inventory		5	35
Prepaid expenses		(44)	(218)
Accounts payable and accrued liabilities		(819)	57
Deferred revenue		303	22
Changes in non-cash working capital items related to operations		(569)	(763)
Net cash from (used in) operating activities		903	(98)
Cash flows used in financing activities:			
Repayment of bank advances		-	(3,720)
Repayment of loans		(3)	-
Issuance of common shares	5	31	-
Purchase of common shares for cancellation	5	(231)	(9)
Purchase of share options for cancellation	5	-	(279)
Interest paid		(3)	(7)
Net cash used in financing activities		(206)	(4,015)
Cash flows (used in) from investing activities:			
Short-term and other investments and restricted cash equivalents and other investments		40	325
Interest received		7	6
Proceeds from asset-backed commercial paper		-	3,584
Acquisitions of property and equipment		(378)	(146)
Acquisitions of other intangible assets		(89)	(64)
Deferred development costs		(404)	(140)
Non-current receivables including the current portion from a related party		14	11
Net cash (used in) from investing activities		(810)	3,576
Net decrease in cash and cash equivalents during the period		(113)	(537)
Cash and cash equivalents - beginning of period		5,217	6,404
Cash and cash equivalents - end of period	\$	5,104	\$ 5,867

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

TECSYS Inc.Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)Three-month periods ended July 31, 2012 and 2011
(in thousands of Canadian dollars, except number of shares)

	Note	Share capital Number	Share capital Amount	Contributed surplus	Retained earnings	Total
Balance, April 30, 2012		11,603,271	\$ 1,688	\$ 10,023	3,845	\$ 15,556
Profit and comprehensive income for the period		-	-	-	1,125	1,125
Total comprehensive income for the period		-	-	-	1,125	1,125
Repurchase of common shares	5	(91,800)	(13)	(218)	-	(231)
Share options exercised	5	16,350	31	-	-	31
Fair value associated with options exercised		-	7	-	-	7
Total transactions with owners of the Company		(75,450)	25	(218)	-	(193)
Balance, July 31, 2012		11,527,821	\$ 1,713	\$ 9,805	4,970	\$ 16,488
Balance, April 30, 2011		11,678,671	\$ 1,467	\$ 10,993	\$ 3,486	\$ 15,946
Profit and comprehensive income for the period		-	-	-	146	146
Total comprehensive income for the period		-	-	-	146	146
Repurchase of common shares	5	(4,400)	(1)	(8)	-	(9)
Repurchase of share options	5	-	-	(279)	-	(279)
Share-based compensation		-	-	8	-	8
Total transactions with owners of the Company		(4,400)	(1)	(279)	-	(280)
Balance, July 31, 2011		11,674,271	\$ 1,466	\$ 10,714	\$ 3,632	\$ 15,812

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

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

Three-month periods ended July 31, 2012 and 2011
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

1. Description of business:

TECSYS Inc. (the “Company”) develops, markets and sells enterprise-wide supply chain management software for distribution, warehousing, and transportation logistics. 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 high-volume distributors of discrete goods operating in such industries as health care, gas and welding distribution, office products, hardware, spare parts for heavy equipment, third-party logistics, industrial products, giftware and home decor, and consumer goods.

2. Basis of preparation:

The Company prepares its financial statements in accordance with generally accepted accounting principles in Canada as set out in the Handbook of the Canadian Institute of Chartered Accountants - Part 1 (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

(a) Statement of compliance:

These condensed interim consolidated financial statements and the notes thereto have been prepared in accordance with IAS 34, - *Interim Financial Reporting*. 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, 2012.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 6, 2012.

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

Three-month periods ended July 31, 2012 and 2011
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

(b) Summary of accounting policies:

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, 2012.

Other new or amended accounting standards had no impact on the Company's accounting methods.

(c) Basis of measurement:

The condensed interim consolidated financial statements have been prepared on a going concern basis using historical cost except for derivative instruments and the share option liability which are measured at fair value.

(d) Functional and presentation currency:

The condensed interim consolidated financial statements are presented in Canadian dollars, the functional currency of the Company and its entities.

(e) 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.

In addition, revenue recognition is also subject to critical judgment, particularly in multiple-element arrangements where judgment is required in allocating revenue to each

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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Three-month periods ended July 31, 2012 and 2011
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

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 expenses.

(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: the determination of fair value, 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) Fair value of derivative instruments:

The fair value of a derivative instrument is estimated using inputs, including forward prices, foreign exchange rates, interest rates and volatilities. These inputs are subject to change on a regular basis based on the interplay of various market forces.

Consequently, the fair value of each of the Company's derivative instruments is subject to assumptions and estimation uncertainties and can vary significantly in each reporting period.

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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Three-month periods ended July 31, 2012 and 2011
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3. New accounting standards adopted in 2013:

On October 7, 2010, the IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures*, which increase the disclosure requirements for transactions involving the transfers of financial assets to help users of financial statements evaluate the risk exposures related to such transfers and the effect of those risks on an entity's financial position. These amendments are effective and have been adopted in the first quarter of 2013 commencing May 1, 2012. The Company has determined that the amendments to IFRS 7 did not have a material impact on the Company's consolidated financial statements.

4. 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 International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the period ended July 31, 2012, 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:

International Financial Reporting Standards	Effective for annual periods starting on or after
IFRS 9, <i>Financial Instruments</i>	January 1, 2015
IFRS 10, <i>Consolidated Financial Statements</i>	January 1, 2013
IFRS 12, <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
IFRS 13, <i>Fair Value Measurement</i>	January 1, 2013

IFRS 9, *Financial Instruments* ("IFRS 9"), will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 was the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning May 1, 2015.

IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12, *Consolidation - Special Purpose Entities* and IAS 27, *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its consolidated financial statements for the annual period beginning May 1, 2013.

TECSYS INC.

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IFRS 12, *Disclosure of Interests in Other Entities* (“IFRS 12”), is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company intends to adopt IFRS 12 in its consolidated financial statements for the annual period beginning May 1, 2013.

IFRS 13, *Fair Value Measurement* (“IFRS 13”), provides new guidance on fair value measurement and disclosure requirements. The Company intends to adopt IFRS 13 in its consolidated financial statements for the annual period beginning May 1, 2013.

The Company is in the process of determining the extent of the impact of these standards on the Company’s consolidated financial statements.

5. Share capital:

(a) Share capital:

Authorized - unlimited as to number and without par value

Common shares

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

All outstanding shares issued are fully paid.

Class A preferred shares

Class A preferred shares are issuable in series, having such attributes as the Board of Directors may determine. Holders of Class A preferred shares do not carry the right to vote. No preferred shares are outstanding as at July 31, 2012 and April 30, 2012.

On July 19, 2012, the Company renewed its Notice of Intention to Make a Normal Course Issuer Bid (the “Notice”) with the Toronto Stock Exchange (TSX). The Notice stated the Company’s intention to purchase on the open market at prevailing market prices, through the facilities of the TSX, the greater of 25% of the average daily trading volume of the common shares on the TSX for the six complete months prior to the date of acceptance by the TSX of the Notice (the “ADTV”) or 1,000 common shares on any trading day. The ADTV over the last six completed months was 1,643 shares. Once a week, the Company may make a block purchase from a person who is not an insider exceeding the daily repurchase limit of (i) common shares having a price of at least \$200,000 (ii) at least 5,000 common shares for at least \$50,000 or (iii) at least 20 board lots of the common shares which total at least 150% of the ADTV. The maximum number of common shares, which may be purchased under the bid, is 575,858 or 5% of the 11,517,171 issued and outstanding common shares on July 3, 2012. The Company may purchase common shares under the bid, if it considers it advisable,

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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Three-month periods ended July 31, 2012 and 2011
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at any time, and from time to time during the period of July 23, 2012 to July 22, 2013. The common shares are purchased for cancellation.

During the three-month period ended July 31, 2012, the Company purchased 91,800 (July 31, 2011 – 4,400) of its outstanding common shares for cancellation at an average price of \$2.48 per share (July 31, 2011 – \$2.02). The total cost related to purchasing these shares, including other related costs, was \$231,000 (July 31, 2011 – \$9,000). The excess of the purchase price over the net book value of these shares of \$218,000 (July 31, 2011 – \$8,000) was charged to contributed surplus.

Additionally, during this period, 16,350 share options (July 31, 2011 – nil) were exercised at an average exercise price of \$1.90 to purchase common shares generating cash and increasing share capital by \$31,000.

(b) Share-based payments:

On July 7, 2011, the Board of Directors closed the share option plan. No share options have been issued under the share option plan since March 3, 2011 and no additional options will be issued under the plan.

On September 8, 2011, the Company passed a resolution to vest all outstanding unvested options and to allow share option holders the privilege to cash settle their share options at their option, no longer subject to the Company's approval. The outstanding options will continue to be governed by the share option plan.

The following table summarizes the share option activity under this plan:

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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Three-month periods ended July 31, 2012 and 2011
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

	Number of options	Weighted average exercise price
Balance, April 30, 2011	819,016	\$ 1.54
Exercised	(487,540)	1.48
Cancelled	(876)	1.73
Forfeited	(3,030)	1.43
Balance, April 30, 2012	327,570	1.64
Exercised	(16,850)	1.90
Balance, July 31, 2012	310,720	\$ 1.62
Exercisable, July 31, 2012	310,720	\$ 1.62

During the three months ended July 31, 2012, 500 share options (July 31, 2011 – 276,044) were exercised at a weighted average price of \$1.70 (July 31, 2011 – \$1.41) and cash settled for a total cash disbursement of \$400 (July 31, 2011 – \$279,000 charged to contributed surplus).

As mentioned earlier, during the three months ended July 31, 2012, 16,350 (July 31, 2011 – nil) share options were exercised at a weighted average exercise price of \$1.90 to purchase common shares generating cash and increasing share capital for \$31,000.

The weighted average share price at the date of exercise for all share options exercised in the three-month period ended July 31, 2012 was \$2.33 (July 31, 2011 – \$2.42).

The Company's decision to grant the share option holder the privilege to cash settle their share options effectively transforms the share options into compound financial instruments. As such, on September 8, 2011, the Company reclassified \$319,000 from contributed surplus to accounts payable and accrued liabilities, representing the fair value of 540,941 outstanding share options at that time. The fair value of the outstanding share options was determined based on the Company's closing share price on September 8, 2011 which was \$2.20.

The Company revalues the share option liability at each reporting date and any change in the liability is reflected as finance income or finance costs in the consolidated statement of comprehensive income, as appropriate.

On July 31, 2012, the Company reassessed the fair value of 310,720 (April 30, 2012 – 327,570) outstanding share options at \$180,000 (April 30, 2012 – \$267,000). The fair value was determined based on the Company's closing share price on July 31, 2012, which was \$2.20 (April 30, 2012 – \$2.45). For the three-month period ended July 31, 2012, the

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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Three-month periods ended July 31, 2012 and 2011
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Company has recorded a gain of \$80,000 representing the decrease in the fair value of the share options since April 30, 2012.

The following table summarizes information about share options outstanding as at July 31, 2012:

Exercise price	Number outstanding	Options outstanding	
		Weighted average remaining contractual life (years)	Weighted average exercise price
\$ 1.22 - 1.32	3,500	1.26	\$ 1.26
1.40 - 1.50	159,470	0.57	1.50
1.55 - 1.59	30,000	0.87	1.59
1.70 - 1.80	109,850	2.10	1.79
1.89 - 1.90	1,000	3.45	1.90
2.01 - 2.06	6,900	2.68	2.02
	310,720	1.20	\$ 1.62

As at April 30, 2012, there were 327,570 share options outstanding and exercisable at a weighted average exercise price of \$1.64.

(c) Earnings per share:

Basic earnings per share:

The calculation of basic earnings per share at July 31, 2012 and 2011 was based on the profit attributable to common shareholders and a weighted average number of common shares outstanding calculated as follows:

TECSYS INC.

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Three-month periods ended July 31, 2012 and 2011
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Profit attributable to common shareholders	\$ 1,125	\$ 146
Issued common shares at the beginning of the period	11,603,271	11,678,671
Effect of share options exercised	3,250	-
Effect of share buyback through the normal course issuer bid	(75,046)	(3,098)
Weighted average number of common shares outstanding (basic)	11,531,475	11,675,573

Diluted earnings per share:

The calculation of diluted earnings per share at July 31, 2012 and 2011 was based on the profit attributable to common shareholders and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive common shares, calculated as follows:

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Profit attributable to common shareholders	\$ 1,125	\$ 146
Weighted average number of common shares outstanding (basic)	11,531,475	11,675,573
Effect of share options on issue	109,561	157,157
Weighted average number of common shares outstanding (diluted)	11,641,036	11,832,730

TECSYS INC.

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Three-month periods ended July 31, 2012 and 2011
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

For the three-month periods ended July 31, 2012 and 2011, all options that could have an effect on the calculation of diluted earnings per share in the future were included in the above calculations since these options had exercise prices less than the average price of common shares during the period.

6. Income taxes:

Income tax expense is recognized based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Company's consolidated effective tax rate in respect of continuing operations for the three-month period ended July 31, 2012 is expected to be consistent with the effective tax rate for the year ended April 30, 2012.

Income taxes for the three months ended July 31, 2012 and 2011 recognized in the consolidated statements of comprehensive income comprised the following components:

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Current income taxes	\$ 272	\$ -
Deferred income taxes	(260)	-
Income Taxes	\$ 12	\$ -

TECSYS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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Three-month periods ended July 31, 2012 and 2011
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

7. Revenue:

Product revenue is broken down as follows:

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Software products	\$ 3,283	\$ 1,357
Third-party hardware and software products	1,204	1,496
	<u>\$ 4,487</u>	<u>\$ 2,853</u>

8. Cost of revenue:

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

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Gross expenses	\$ 5,132	\$ 4,052
E-business tax credits	(313)	(220)
	<u>\$ 4,819</u>	<u>\$ 3,832</u>

9. Personnel expenses:

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Salaries	\$ 7,020	\$ 5,574
Other short-term benefits	427	322
Payments to defined contribution plans	321	177
Share-based payments	-	8
Termination benefits	74	8
	<u>\$ 7,842</u>	<u>\$ 6,089</u>

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(Unaudited)

Three-month periods ended July 31, 2012 and 2011
(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

10. Finance income and finance costs:

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Interest expense on financial liabilities measured at amortized cost	\$ (3)	\$ (7)
Foreign exchange loss	-	(12)
Net increase in fair value of foreign exchange contracts	-	1
Subtotal – net foreign exchange loss	-	(11)
Finance costs	(3)	(18)
Interest income on loans and receivables	1	1
Interest income on bank deposits	6	5
Foreign exchange gain	9	-
Net decrease in fair value of foreign exchange contracts	(4)	-
Subtotal – net foreign exchange gain	5	-
Decrease in fair value of share options liability	80	-
Finance income	92	6
Net finance income (costs) recognized in profit or loss	\$ 89	\$ (12)

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Three-month periods ended July 31, 2012 and 2011
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11. Related party transactions:

(a) Transactions with key management personnel:

Key management includes the Board of Directors (executive and non-executive) and members of the Executive Committee.

Key management of the Company participates in the share option plan. Key management and their spouses control 51.9% of the issued common shares of the Company and as such are the ultimate controlling party.

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

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Salaries	\$ 822	\$ 583
Other short-term benefits	55	44
Payments to defined contribution plans	11	2
Share-based payments	-	7
	<hr/>	<hr/>
	\$ 888	\$ 636

Under the provisions of the share purchase plan for key management, the Company provided interest-free loans of \$152,000 to key management to facilitate their purchase of Company shares during the quarter ended July 31, 2012. These loans will be fully repaid before the end of the fiscal year, April 30, 2013. The outstanding loans as at July 31, 2012 amounted to \$107,000.

(b) Transactions with other related parties:

The loans payable comprises an unsecured subordinated loan from a person related to certain shareholders. The loan bears interest at 12.67% per annum and is payable on demand or upon the death of the lender. The Company repaid \$3,000 during the three-month period ended July 31, 2012 (July 31, 2011 – nil).

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	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Interest expense on loan from a person related to certain shareholders	\$ 3	\$ 3
	July 31, 2012	April 30, 2012
Subordinated loan payable	\$ 82	\$ 85

These transactions occurred in the normal course of operations.

12. Capital disclosures:

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

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

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

In recent years, the Company's policy was to maintain a minimum level of debt. Recent trends in the past year are indicative of a resurgence of the supply chain management market, which has translated to higher bookings for the Company's products and services and a higher backlog greater than \$26 million at the start of fiscal 2013 representing an increase of 25% in comparison to a year earlier. The Company has increased its headcount during fiscal 2012 and anticipates further investment in resources during fiscal 2013 to meet the higher demand for its services and

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to capture pipeline opportunities. Due to the anticipated expansion of its working capital due to business growth, its investment in the integration and training of new resources, and the expansion of its Montreal head office, the Company is currently pursuing the negotiation of new credit facilities to ensure that the growth trends can be nurtured and sustained.

The Company manages its capital structure by adjusting purchased shares for cancellation pursuant to the normal course issuer bids, adjusting the amount of dividends to shareholders, paying off existing debt and extending or amending its banking and credit facilities. The Company's banking and credit facilities require adherence to financial covenants. The Company is in compliance with these covenants as at July 31, 2012 and April 30, 2012.

13. 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 subsidiary in the U.S. comprises sales and service operations offering implementation services only.

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

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
Canada	\$ 4,067	\$ 4,773
United States	7,386	4,203
Other	57	27
	<u>\$ 11,510</u>	<u>\$ 9,003</u>

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14. Subsequent event:

On September 6, 2012, the Company declared a dividend of \$0.035 per share, to be paid on October 5, 2012 to shareholders of record at the close of business on September 21, 2012.

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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>.

TECSYS Inc.
Investor Relations
1 Place Alexis Nihon,
Suite 800
Montreal, Quebec
Canada H3Z 3B8
Tel.: (800) 922-8649
(514) 866-0001
Fax: (514) 866-1805
E-mail: investor@tecsys.com
www.tecsys.com

Transfer Agent and Registrar
Computershare Investor Services Inc.
1500 University Street
Suite 700
Montreal, Quebec
Canada H3A 3S8
Tel: (514) 982-7555 or 1-800-564-6253
Fax: (514) 982-7635
service@computershare.com

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