RISING MOMENTUM

2nd QUARTER FISCAL 2015

REPORT

TECSYS®

TECSYS Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations dated November 25, 2014

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, 2014. The Company's second quarter for fiscal year 2015 ended on October 31, 2014. 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

	2015		2014				2013	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenue	13,548	13,012	12,451	11,849	11,656	10,602	11,117	10,384
Profit (Loss)	410	343	640	467	605	83	181	(543)
Comprehensive Income (Loss)	291	275	640	467	605	83	181	(543)
Basic and Diluted Earnings (Loss) per Common Share	0.04	0.03	0.06	0.04	0.05	0.01	0.02	(0.05)

Business Combination

On May 31, 2014, the Company acquired 100% of the issued and outstanding shares of LOGI D HOLDING INC. ("Logi-D"), a leading provider of point-of-use technology for supply chain automation servicing hospitals and healthcare organizations as well as the pioneering inventor behind the internationally recognized RFID-enabled two-bin replenishment concept known under the 2BIN-iD brand. For more than a decade, Logi-D has been helping customers to optimize logistics processes and increase supply chain operational efficiency. This acquisition brings two technology-based companies together with complementary product lines, and extends the Company's footprint in the healthcare supply chain space, a key targeted vertical market for TECSYS. Logi-D is based in Laval, Québec and has approximately 27 employees. The results of its operations have been included in the accompanying condensed interim consolidated financial statements commencing June 1, 2014. Logi-D contributed $2.4 million in revenue and $135,000 loss in the first half of fiscal 2015. The loss excludes $160,000 of acquisition costs and $105,000 of amortization of acquisition-related identified intangible assets. Please refer to note 5 of the condensed interim consolidated financial statements for further information.

Results of Operations

Three months ended October 31, 2014 compared to three months ended October 31, 2013

Revenue

Total revenue for the second quarter ended October 31, 2014 increased to $13.5 million, $1.9 million or 16% higher, compared to $11.7 million for the same period of fiscal 2014. The U.S. dollar averaged CA$1.1051 in the second quarter of fiscal 2015 in comparison to CA$1.0371 in the second quarter of fiscal 2014. Approximately 65% of the Company's revenues were generated in the United States during the second quarter of fiscal 2015, hence as a result of the stronger U.S. dollar and the Company's designated hedging of highly probable U.S. revenue, revenue was impacted favorably by an estimated $360,000. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately $180,000.

Proprietary products, defined as internally developed products including proprietary software and technology hardware, increased to $3.2 million, $719,000 or 29% higher, in the second quarter of fiscal 2015 in comparison to $2.5 million for the same period last year primarily as a result of the inclusion of $781,000 of Logi-D's proprietary products.

Overall total contract value bookings amounted to $9.3 million in the second quarter of fiscal 2015 in comparison to $7.1 million for the same period of the previous fiscal year. During the second quarter, the Company signed three new accounts with a total contract value of $1.9 million in the second quarter of fiscal 2015 compared to seven new accounts with a total contract value of $4.2 million in the second quarter of fiscal 2014.

Third party products revenue increased to $1.7 million, $294,000 or 21% higher, in the second quarter of fiscal 2015 in comparison to $1.4 million for the same period last year. Logi-D's revenue for third-party products accounted for $622,000, otherwise third-party product revenue decreased by $328,000, characterized mainly by lower radio-frequency equipment and other hardware of $142,000 and lower third-party software of $186,000.

Services revenue increased to $8.1 million, higher by $751,000 or 10%, in second quarter of fiscal 2015 compared to $7.3 million for the same period in the previous fiscal year. The increase is primarily attributable to higher implementation consulting services due to increased activity derived mainly from a higher professional services backlog at the beginning of the quarter and higher support services. Logi-D's services revenue was $240,000 for the quarter.

As a percentage of total revenue, products accounted for 37% and services for 60% in the second quarter of fiscal 2015 and 34% and 63% respectively for fiscal 2014.

Cost of Revenue

Total cost of revenue increased to $6.9 million, higher by $644,000 or 10%, in the second quarter of fiscal 2015 in comparison to $6.3 million for the same period in fiscal 2014. The increase is attributable to higher services costs of $259,000, higher products costs of $257,000, and higher reimbursable expenses of $128,000.

The cost of services increased to $5.1 million, higher by $259,000 in the second quarter of fiscal 2015 in comparison to the same period last year. Logi-D's services cost accounted for $168,000. Excluding Logi-D, higher employee salary, benefits, incentives and hosting infrastructure expenses, offset in part by higher tax credit were the principle elements accounting for the remaining increase of $91,000. The average services headcount, excluding Logi-D, in the second quarter of fiscal 2015 was approximately two resources higher compared to the same period of fiscal 2014. The cost of services includes tax credits of $442,000 for the second quarter of fiscal 2015 compared to $365,000 for the same period in the previous fiscal year. The increase is largely attributable to favorable adjustments related to prior periods. The tax credits relate to the e-business tax credit introduced by the Quebec government in March 2008. On June 4, 2014, the Quebec government announced a reduction in the rate of this tax credit from 30% to 24% of salaries paid to eligible employees, effective June 5, 2014, while maintaining the maximum annual tax credit at $20,000 per eligible employee.

The cost of products increased by $257,000 or 25% to $1.3 million in comparison to the same period last year and is largely related to Logi-D's products, proprietary and third-party, as discussed earlier. Logi-D's total cost of product was $558,000, otherwise, excluding Logi-D, cost of products decreased by $301,000 related to the reduction of hardware and third-party software products discussed earlier.

Gross Profit

Gross profit increased to $6.6 million, higher by $1.2 million or 23%, in the second quarter of fiscal 2015 in comparison to $5.4 million for the same period last year. This is mainly attributable to higher services margin of $492,000, higher proprietary products margin of $497,000 and higher third-party products margin of $259,000. Total gross profit percentage in the second quarter of fiscal 2015 was 49% compared to 46% in the same period of fiscal 2014.

Services gross profit during the second quarter of fiscal 2015 increased to $3.0 million, higher by $492,000, in comparison to $2.5 million in the same period of fiscal 2014. Services gross profit was 37% of services revenue in the second quarter of fiscal 2015 in comparison to 34% for the comparable period last year. The improvement in the services gross profit margin and percentage is a reflection of the improved organization structure, the new management and focus that has occurred over the course of the past year, and the growing maturity and proficiency in contributing to the revenue stream of a significant number of employees hired in prior fiscal years to address the growing backlog.

The third-party products margin increased to $656,000, $259,000 higher than the same period last year. The third-party products margin was 38% of revenue in the second quarter of fiscal 2015 in comparison to 28% for the same period last year. The increase in margin and margin percentage is attributable to Logi-D's integration as it contributed a third-party margin of $287,000 and a third-party products gross margin percentage of 46% during the second quarter.

Operating Expenses

Total operating expenses for the second quarter of fiscal 2015 increased to $6.1 million, higher by $1.5 million or 32%, compared to $4.6 million for the same three-month period last year. Excluding Logi-D's operating expenses, the cost related to acquisition and amortization of intangible technology assets of Logi-D, operating expenses are higher by $503,000 or 11%. The most notable differences between the second quarter of fiscal 2015 in comparison with the same period in fiscal 2014 are as follows.

- Sales and marketing expenses amounted to $2.9 million, $629,000 higher than the comparable quarter last year. Logi-D's sales and marketing expenses amounted to $460,000 for the second quarter. Excluding Logi-D, expenses were higher by $169,000 due primarily to higher employee related expenses compared to the same period last year. Excluding Logi-D, the salesforce headcount increased by three in comparison to the same period last year. The Company has reorganized its sales organization structure to focus attention amongst key verticals and new and base accounts to promote revenue growth.

- General and administrative expenses increased to $1.5 million, $555,000 higher than the comparable quarter last year. Logi-D's general and administrative expenses amounted to $323,000 including additional accrued acquisition costs of $26,000. Excluding Logi-D and acquisition costs, expenses were higher by $232,000 primarily as a result of higher management incentives, legal fees, consulting and investor relations expenses.

- Net R&D expenses increased to $1.6 million, $280,000 higher than the comparable quarter last year. Logi-D net R&D expenses amounted to $178,000 including $41,000 of amortization related to identified intangible technology assets arising from the acquisition. Excluding Logi-D's expenses, gross R&D expenses increased by $58,000 comprising primarily of higher employee related costs including incentives. The Company also recorded $317,000 of R&D refundable and non-refundable tax credits and e-business tax credits in the second quarter of fiscal 2015 and fiscal 2014. In addition, the Company capitalized deferred development costs of $412,000 in the second quarter of fiscal 2015 compared to $382,000 for the same period of the last fiscal year while amortizing deferred development costs of $311,000 in the second quarter of fiscal 2015 in comparison to $237,000 for the same quarter a year earlier.

Profit from Operations

The Company recorded profit from operations of $532,000 representing 4% of revenue in the second quarter of fiscal 2015 in comparison to $748,000 representing 6% of revenue for the comparable quarter of the previous year primarily as a result of higher operating expenses offset by higher proprietary products margin, higher services margin and third-party products margin.

Net Finance Costs

In the second quarter of fiscal 2015, the Company recorded net finance costs of $22,000 in comparison to $68,000 for the comparable quarter last year. The decrease in net finance costs is largely attributable to the lower increase in the fair value of outstanding share options as compared to last year as there are only 3,400 share options outstanding, and lower interest expense.. Please see note 9 to the condensed interim consolidated financial statements for an overview of the components comprising net finance costs.

Net Profit

The Company recorded a profit of $410,000 or $0.04 per share in the second quarter of fiscal 2015 compared to $605,000 or $0.05 per share for the same period last year.

Results of Operations

Six months ended October 31, 2014 compared to six months ended October 31, 2013

Revenue

Total revenue for the first half ended October 31, 2014 increased to $26.6 million, $4.3 million or 19% higher, compared to $22.3 million for the same period of fiscal 2014. The U.S. dollar averaged CA$1.0936 in the first half of fiscal 2015 in comparison to CA$1.0338 in the first half of fiscal 2014. Approximately 65% of the Company's revenues were generated in the United States during the first half of fiscal 2015, hence as a result of the stronger U.S. dollar and the Company's designated hedging of highly probable U.S. revenue, revenue was impacted favorably by an estimated $707,000. The stronger U.S. dollar impacted cost of sales and operating expenses unfavorably by approximately $250,000.

Proprietary products, including proprietary software and technology hardware, increased to $5.3 million, $1.3 million or 34% higher, in the first half of fiscal 2015 in comparison to $4.0 million for the same period last year primarily as a result of the inclusion of $970,000 of Logi-D's proprietary products and higher licenses from base accounts. The Company signed nine new accounts with a total contract value of $6.6 million in the first half of fiscal 2015 compared to twelve new accounts with a total contract value of $5.9 million in the first half of fiscal 2014. Overall total contract value bookings amounted to $19.0 million in the first half of fiscal 2015 in comparison to $10.8 million for the same period of the previous fiscal year. Logi-D contributed $2.1 million of the total contract value bookings.

Third party products revenue increased to $3.5 million, $318,000 or 10% higher, in the first half of fiscal 2015 in comparison to $3.2 million for the same period last year. Logi-D's revenue for third-party products accounted for $960,000, otherwise third-party product revenue decreased by $642,000, characterized mainly by lower radio-frequency equipment and other hardware of $288,000 and lower third-party software of $354,000.

Services revenue increased to $16.8 million, higher by $2.4 million or 17%, in first half of fiscal 2015 compared to $14.4 million for the same period in the previous fiscal year. Logi-D's services revenue was $414,000 for the five-month operating period. Excluding Logi-D's contribution, the increase of $2.0 million is primarily attributable to higher implementation consulting services due to increased activity derived mainly from a higher professional services backlog at the beginning of the year and continued strong bookings in the first half and further bolstered by smaller revenue increases for hosting and support services.

As a percentage of total revenue, products accounted for 33% and services for 63% in the first half of fiscal 2015 and 32% and 65% respectively for fiscal 2014.

Cost of Revenue

Total cost of revenue increased to $13.9 million, higher by $1.3 million or 10%, in the first half of fiscal 2015 in comparison to $12.6 million for the same period in fiscal 2014. The increase is attributable to higher services costs of $693,000, higher products costs of $327,000 related primarily to the introduction of Logi-D's proprietary products and third-party products, and higher reimbursable expenses of $261,000.

The cost of services increased to $10.3 million, higher by $693,000 in the first half of fiscal 2015 in comparison to the same period last year. Logi-D's services cost accounted for $296,000. Excluding Logi-D, higher employee incentives, third-party consulting, and hosting infrastructure expenses, as well as lower e-business tax credits were the principle elements accounting for the remaining increase of $397,000. The average services headcount, excluding Logi-D, in the first half of fiscal 2015 was approximately the same compared to the same period of fiscal 2014. The cost of services includes tax credits of $727,000 for the first half of fiscal 2015 compared to $744,000 for the same period in the previous fiscal year.

The cost of products increased by $327,000 or 14% to $2.6 million for the first half of fiscal 2015 in comparison to the same period last year and is largely related to Logi-D's products revenues. Logi-D's total cost of product was $816,000, otherwise, excluding Logi-D, cost of products decreased by $489,000 mainly related to the reduction of $642,000 in revenue of hardware and third-party software products.

Gross Profit

Gross profit increased to $12.7 million, higher by $3.0 million or 31%, in the first half of fiscal 2015 in comparison to $9.7 million for the same period last year. This is mainly attributable to higher services margin of $1.7 million, higher proprietary products margin of $1.0 million and higher third-party products margin of $290,000. Total gross profit percentage in the first half of fiscal 2015 was 48% compared to 44% in the same period of fiscal 2014.

Services gross profit during the first half of fiscal 2015 increased to $6.5 million, higher by $1.7 million, in comparison to $4.8 million in the same period of fiscal 2014. Services gross profit was 39% of services revenue in the first half of fiscal 2015 in comparison to 33% for the comparable period last year. The improvement in the services gross profit margin and percentage is a reflection of the improved organization structure, the new management and focus that has occurred over the course of the past year, and the growing maturity and proficiency in contributing to the revenue stream of a significant number of employees hired in prior fiscal years to address the growing backlog.

The third-party products margin increased to $1.2 million, $290,000 higher than the same period last year. The third-party products margin was 34% of revenue in the first half of fiscal 2015 in comparison to 28% for the same period last year. The increase in margin and margin percentage is attributable to Logi-D's integration as it contributed a third-party margin of $443,000 and a third-party products gross margin percentage of 46%. Excluding Logi-D, third-party products margin decreased $153,000 in the first half of fiscal 2015 in comparison to the same period last year.

Operating Expenses

Total operating expenses for the first half of fiscal 2015 increased to $11.7 million, higher by $2.9 million or 33%, compared to $8.8 million for the same six-month period last year. Excluding Logi-D's operating expenses of $1.6 million, including the costs related to acquisition and amortization of intangible technology assets of Logi-D, operating expenses are higher by $1.3 million or 15%. The most notable differences between the first half of fiscal 2015 in comparison with the same period in fiscal 2014 are as follows.

- Sales and marketing expenses amounted to $5.5 million, $1.3 million higher than the comparable first half last year. Logi-D's sales and marketing expenses amounted to $704,000 for the five-month operating period. Excluding Logi-D, expenses were higher by $593,000 due primarily to higher employee related expenses, incentives, commissions and travel compared to the same period last year. Excluding Logi-D, the sales and marketing headcount increased by four in comparison to the same period last year.

- General and administrative expenses increased to $2.9 million, $984,000 higher than the comparable first half last year. Logi-D's general and administrative expenses amounted to $461,000. In addition the Company incurred $160,000 of acquisition related expenses. Excluding Logi-D and acquisition costs, expenses were higher by $363,000 primarily as a result of higher management incentives, legal fees, consulting and investor relations expenses.

- Net R&D expenses increased to $3.2 million, $653,000 higher than the comparable first half last year. Logi-D net R&D expenses amounted to $292,000 including $69,000 of amortization related to identified intangible technology assets arising from the acquisition. Excluding Logi-D's expenses, gross R&D expenses increased by $127,000 comprising primarily of higher employee related costs, incentives, and travel expenses. The Company also recorded $634,000 of R&D refundable and non-refundable tax credits and e-business tax credits in the first half of fiscal 2015 compared to $640,000 for the same period of the last fiscal year. In addition, the Company capitalized deferred development costs of $805,000 in the first half of fiscal 2015 compared to $905,000 for the same period of the last fiscal year while amortizing deferred development costs of $603,000 in the first half of fiscal 2015 in comparison to $475,000 for the same period a year earlier.

Profit from Operations

The Company recorded profit from operations of $1.0 million representing 4% of revenue in the first half of fiscal 2015 in comparison to $919,000 representing 4% of revenue for the comparable period of the previous year primarily as a result of higher proprietary products margin, higher services margin and third-party products margin and offset partially by higher operating expenses.

Net Finance Costs

In the first half of fiscal 2015, the Company recorded net finance costs of $78,000 in comparison to $156,000 for the comparable period last year. The decrease in net finance costs is largely attributable to the lower increase in the fair value of outstanding share options as compared to last year as there are only 3,400 share options outstanding, and for which the fair value liability is at a relatively immaterial amount of $20,000. Please see note 9 to the condensed interim consolidated financial statements for an overview of the components comprising net finance costs.

Net Profit

The Company recorded a profit of $753,000 or $0.07 per share in the first half of fiscal 2015 compared to $688,000 or $0.06 per share for the same period last year.

Income Taxes

As at April 30, 2014, the Company had recognized net deferred tax assets of $714,000 and unrecognized net deferred tax assets of $6.5 million covering various jurisdictions and Canadian federal non-refundable SRED tax credits totaling approximately $7.0 million which may be used only to reduce future current Canadian federal income taxes otherwise payable. Refer to note 14 of the annual consolidated financial statements for further detail.

On May 31, 2014, TECSYS' acquisition of Logi-D provides an additional $7.0 million of tax losses for Canadian federal and provincial tax purposes, which the Company estimates can result in potential net deferred tax assets of approximately $1.9 million, currently unrecognized.

The Company believes that all these deferred tax assets and Canadian federal non-refundable tax credits are not significantly different as at October 31, 2014. As such, the Company does not expect to pay any significant cash taxes in the foreseeable future.

Liquidity and Capital Resources

On October 31, 2014, current assets totaled $21.1 million compared to $22.5 million at the end of fiscal 2014. Cash and cash equivalents decreased to $5.1 million compared to $8.8 million as at April 30, 2014. This decrease is primarily due to the acquisition of Logi-D, the repayment of long-term debt and Logi-D bank loans, the distribution of dividends, as well as investment in the Company's flagship product, EliteSeries. Accounts receivable and work in progress totaled $10.0 million on October 31, 2014 compared to $9.6 million as at April 30, 2014. The Company's DSO (days sales outstanding) stood at 66 days at the end the second quarter of fiscal 2015 compared to 69 days at the end of fiscal 2014 and 84 days at the end of the second quarter of fiscal 2014.

Current liabilities on October 31, 2014 totaled $16.5 million compared to $14.7 million at the end of fiscal 2014. The increase in current liabilities is mainly due to the acquisition of Logi-D accounting for $1.3 million in current liabilities at the end of the second quarter. Working capital decreased to $4.6 million at the end of October 31, 2014 in comparison to $7.8 million at the end of fiscal year 2014 largely due to the acquisition of Logi-D as the cash portion of the purchase price was paid with cash on hand. Please refer to note 5 of the condensed interim consolidated financial statements for further information.

The Company's banking and credit facilities require adherence to financial covenants. The Company is in compliance with these covenants as at October 31, 2014 and April 30, 2014.

Operating activities generated funds of $1.5 million in the first half of fiscal 2015 in comparison to $1.0 million in the same period of fiscal 2014. Operating activities excluding changes in non-cash working capital items generated $2.1 million in the first half of fiscal 2015 in comparison to $1.7 million in the same period in fiscal 2014 mainly due to higher net profit and depreciation. Non-cash working capital items used funds of $630,000 in the first half of fiscal 2015 primarily due to increases in tax credits receivable, work in progress, and other accounts receivable and offset partially by a decrease in accounts receivable. Non-cash working capital items used funds of $697,000 in the first half of fiscal 2014 primarily due to the increase of accounts receivable and offset by the reduction in tax credits receivable and work in progress, and higher accounts payable. In the first half of fiscal 2014, the Company recorded the receipt of 2012 tax credits of $1.9 million that had been delayed as a result of a Quebec government audit.

The Company believes that funds on hand at October 31, 2014 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 and debt repayment for at least the next twelve months.

Financing activities used funds of $1.3 million in the first half of fiscal 2015 in comparison to $1.0 million in the same period in fiscal 2014. During the first half of fiscal 2015, the Company repaid $529,000 of long-term debt in comparison to $500,000 repaid in the first half of fiscal 2014. Shortly after the acquisition of Logi-D, during the first quarter of fiscal 2015, the Company repaid $140,000 of outstanding bank loans held by Logi-D. During the first half of fiscal 2015, the Company disbursed dividends of $519,000 in comparison to $402,000 disbursed a year earlier. Additionally, during the first quarter of fiscal 2014, 25,000 share options were exercised at an average exercise price of $1.59 to purchase common shares generating cash of $40,000. Lastly, the Company paid interest of $71,000 and $87,000 during the first half of fiscal 2015 and fiscal 2014, respectively.

During the first half of fiscal 2015, investing activities used funds of $3.9 million in comparison to $1.2 million in the comparable period last year. The Company used funds of $2.9 million for the acquisition of Logi-D. Please refer to note 5 to the condensed interim consolidated financial statements for further information. The Company used funds of $237,000 and $381,000 for the acquisition of property and equipment, and intangible assets in the first half of fiscal 2015 and fiscal 2014 respectively. Additionally, the Company invested in its proprietary software products with the capitalization of $805,000 and $905,000 reflected as deferred development costs in the first half of fiscal 2015 and fiscal 2014, respectively. The Company received interest of $14,000 and $25,000 in the first half of fiscal 2015 and fiscal 2014, respectively. Lastly, the Company generated funds of $40,000 during the first half of fiscal 2015 and 2014 by reductions in restricted cash equivalents related to a landlord guarantee.

Related Party Transactions

Under the provisions of the current share purchase plan for key management, the Company extended interest-free loans of $216,000 to key management to facilitate their purchase of Company shares during the first quarter ended July 31, 2014. These loans will be fully repaid before the end of the fiscal year, April 30, 2015. The outstanding loans as at October 31, 2014 amounted to $108,000.

Subsequent Event

On November 25, 2014, the Company declared a dividend of $0.0225 per share, to be paid on January 6, 2015 to shareholders of record at the close of business on December 16, 2014.

Current and Anticipated Impacts of Current Economic Conditions

The current overall economic condition has improved relative to the uncertainty and volatility that existed only a few years ago. 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. During each of the past two complete fiscal years, the Company generated approximately $24 million in new total contract value bookings. The Company observed generally positive signs over the past several years of prospects and customers ramping up investment in supply chain management software. During the last ten quarters ending April 30, 2014, the Company booked significant increases in business volume with total contract values averaging $6.4 million per quarter, whereas for the previous fourteen quarters since the beginning of fiscal 2009, bookings averaged approximately $4.8 million per quarter. The first half of fiscal 2015 was another strong half with bookings amounting to $19.0 million, including Logi-D. The Company's pipeline reflecting potential new deals remains strong. 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 $34.7 million, comprised primarily of services, the Company's management believes that the services revenue level ranging between $8.0 million and $8.5 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 approximately 65% 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 significantly during fiscal 2012 and 2013 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 a least the next twelve months. The Company can further manage its capital structure by adjusting its dividend policy.

Outstanding Share Data

On November 25, 2014, the Company has 11,540,046 common shares as there has been no activity since the end of the Company's second quarter.

Similarly, on November 25, 2014, outstanding share options to purchase common shares numbered 3,400 as there has been no activity since the end of the second quarter.

Change in Accounting Policies

New accounting standards adopted in 2015

The Company has adopted the following new standards, amendments and interpretations to existing standards in the first quarter of 2015 commencing May 1, 2014.

IFRIC 21, *Levies* ("IFRIC 21"):
This interpretation provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.* It defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. Based on the Company's review, there was no material impact on the Company's condensed interim consolidated financial statements upon the adoption of IFRIC 21 on May 1, 2014.

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

On May 1, 2014, the Company has early adopted IFRS 9, *Financial Instruments* (2013). This standard establishes principles for the financial reporting classification of financial assets and financial liabilities. This standard also incorporates a new hedging model which increases the scope of hedged items eligible for hedge accounting and removes the requirements for quantitative thresholds when calculating hedge effectiveness, allowing flexibility in how an economic relationship is demonstrated. This new standard also increases required disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the consolidated financial statements.

IFRS 9 (2013) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39, *Financial Instruments: Recognition and Measurement*. The approach in IFRS 9 (2013) is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 (2013).

On July 24, 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. The final version of IFRS 9 supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January 1, 2018, 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 adoption of IFRS 9 (2013) did not result in any measurement adjustments to our financial assets and financial liabilities, including the fair value of derivatives, that existed as at April 30, 2014. These financial assets and financial liabilities are also included in the same line items in the statement of financial position as at May 1, 2014. During the first half of fiscal 2015, the Company executed three designated hedge transactions to sell U.S. dollars forward via foreign exchange contracts to hedge highly probable future revenue denominated in U.S. dollars commencing on July 1, 2014. As such, the Company has analysed its eligibility for hedge accounting and the accounting for the derivative financial instruments designated as effective hedging instruments at the transition date. Please refer to note 10 for a more elaborate discussion on derivatives. The Company has reviewed its significant accounting policies for financial instruments and derivative financial instruments and hedging relationships to align them with IFRS 9 (2013).

The following summarizes the classification and measurement changes for the Company's non-derivative financial assets and financial liabilities as a result of the adoption of IFRS 9 (2013).

	Category under IAS 39	Category under IFRS 9
Financial assets:		
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Other accounts receivable	Loans and receivables	Amortized cost
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

As at October 31, 2014, the Company had derivative financial liabilities measured at fair value, included in accounts payable and accrued liabilities.

Update to significant accounting policies:

As a result of the initial adoption of IFRS 9 (2013), as described above, the Company has updated its significant accounting policies as follows:

Financial instruments:
The Company initially recognizes financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

(i) Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:
•The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
•The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The Company's policy on impairment of financial assets measured at amortized cost is the same as that applied in its consolidated financial statements as at and for the year ended April 30, 2014 for loans and receivables. The Company currently classifies its cash and cash equivalents, restricted cash equivalents, accounts receivable, and other accounts receivable as financial assets measured at amortized cost.

(ii) Financial assets measured at fair value

These assets are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.

However, for investments in equity instruments that are not held for trading, the Company may elect at initial recognition to present gains and losses in other comprehensive income. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss, and no impairment is recognized in profit or loss. Dividends earned from such investments are recognized in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment. The Company currently has no significant financial assets measured at fair value.

(iii) Financial liabilities measured at amortized cost

A financial liability is subsequently measured at amortized cost, using the effective interest method. The Company currently classifies accounts payable and accrued liabilities (excluding derivative financial instruments designated as effective hedging instruments, non-hedge derivative financial instruments, and the fair value liability of share options), and long-term debt as financial liabilities measured at amortized cost.

(iv) Non-hedge derivative financial instruments measured at fair value

Non-hedge derivative financial instruments, including forward foreign exchange contracts, are recorded as either assets or liabilities measured initially at their fair value. Attributable transaction costs are recognized in profit or loss as incurred. The Company may hold derivative financial instruments to offset its risk exposure to fluctuations of other currencies compared to the Canadian dollar. All derivative financial instruments not designated in a hedge relationship are classified as financial instruments at fair value through profit and loss. 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 net fair value of outstanding forward foreign exchange contracts are included as part of the accounts designated “other accounts receivable” or “accounts payable and accrued liabilities” as appropriate. Any subsequent change in the fair value of non-hedge designated outstanding forward foreign exchange contracts are accounted for in finance income or finance cost in profit or loss for the period in which it arises. The foreign currency gains and losses on these contracts are recognized in the period in which they are generated and offset the exchange losses or gains recognized on the revaluation of the foreign currency net monetary assets. Cash flows from foreign exchange contract settlements are classified as cash flows from operating activities along with the corresponding cash flows from the monetary assets being economically hedged.

(v) Derivative financial instruments and designated hedging relationships measured at fair value

The Company uses derivative financial instruments to hedge its exposure to exchange rate fluctuations on highly probable future foreign currency denominated revenues.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. This process includes linking all derivative hedging instruments to forecasted transactions. Hedge effectiveness is assessed based on the degree to which the cash flows from the derivative contracts are expected to offset the cash flows of the underlying transaction being hedged.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value is recognized in other comprehensive income. The amounts accumulated in other comprehensive income are classified to the consolidated statements of earnings when the underlying hedged transaction, identified at contract inception, affects profit or loss. Any ineffective portion of a hedge relationship is recognized immediately in the consolidated statements of earnings. Ineffectiveness is mainly caused by the differences in discount rates between the actual derivative instrument and the perfectively effective hypothetical derivative.

When derivative contracts designated as cash flow hedges are terminated, expired, sold or no longer qualify for hedge accounting, hedge accounting is discontinued prospectively. Any amounts recorded in other comprehensive income up until the time the contracts do not qualify for hedge accounting remain in other comprehensive income until the hedged future cash flows occur if they are still expected to occur, however, if the amount in other comprehensive income is a loss and the Company expects that all or a portion of that loss will not be recovered in future periods, then it shall immediately reclassify the amount that is not expected to be recovered into profit and loss. Additionally, if the hedged future cash flows are no longer expected to occur, then the amount in other comprehensive income shall be immediately reclassified to profit and loss. Amounts recognized in other comprehensive income are recognized in the consolidated statement of earnings in the period in which the underlying hedged transaction is completed. Gains or losses arising subsequent to the derivative contracts not qualifying for hedge accounting are recognized in the period incurred in the consolidated statements of earnings.

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 IFRS IC that are mandatory but not yet effective for the period ended October 31, 2014, 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 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, 2017 with earlier adoption permitted. The Company has not yet assessed 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, 2014.

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: 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, 2014.

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 (1992)(COSO).

No changes to internal controls over financial reporting have come to management's attention during the six-month period ending on October 31, 2014 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 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 2015 and 2014 is as follows:

	Six-months ended October 31, 2014	Six-months ended October 31, 2013
Profit for the period	$ 753	$ 688
Adjustments for:		
Depreciation of property and equipment	385	365
Depreciation of deferred development costs	603	475
Depreciation of other intangible assets	187	95
Interest expense	71	87
Interest income	(14)	(25)
Income taxes	175	75
EBITDA	$ 2,160	$ 1,760

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, delivery of professional services, or some accounting rule. 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.

Condensed Interim Consolidated Financial Statements of
(Unaudited)

TECSYS INC.

For the three and six-month periods ended October 31, 2014 and 2013

MANAGEMENT'S COMMENTS ON THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX-MONTH PERIODS ENDED OCTOBER 31, 2014 and 2013

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 25th day of November, 2014.

TECSYS INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and six-month periods ended October 31, 2014 and 2013

Financial Statements

TECSYS Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
As at October 31, 2014 and April 30, 2014
(in thousands of Canadian dollars)

	Note	October 31, 2014	April 30, 2014
Assets			
Current assets			
Cash and cash equivalents		$ 5,134	$ 8,839
Accounts receivable		8,582	9,076
Work in progress		1,382	524
Other accounts receivable		168	46
Tax credits		4,198	2,704
Inventory		592	293
Prepaid expenses		1,020	1,037
Total current assets		21,076	22,519
Non-current assets			
Restricted cash equivalents		40	80
Tax credits		1,500	1,350
Property and equipment		2,537	2,627
Deferred development costs		4,290	4,088
Other intangible assets	5	2,193	508
Goodwill	5	3,594	2,239
Deferred tax assets		564	714
Total non-current assets		14,718	11,606
Total assets		$ 35,794	$ 34,125
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 6,738	$ 5,406
Current portion of long-term debt		1,079	1,000
Deferred revenue		8,685	8,326
Total current liabilities		16,502	14,732
Non-current liabilities			
Long-term debt		2,195	2,500
Other non-current liabilities		356	299
Total non-current liabilities		2,551	2,799
Total liabilities		19,053	17,531
Equity			
Share capital		2,253	2,153
Contributed surplus		9,577	9,577
Retained earnings		5,098	4,864
Accumulated other comprehensive loss	10	(187)	-
Total equity attributable to the owners of the Company		16,741	16,594
Subsequent event	14		
Total liabilities and equity		$ 35,794	$ 34,125

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, 2014 and 2013

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

	Note	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Revenue:					
Proprietary products		$ 3,226	$ 2,507	$ 5,305	$ 3,973
Third-party hardware and software products		1,727	1,433	3,505	3,187
Services	7	8,096	7,345	16,839	14,448
Reimbursable expenses		499	371	911	650
Total revenue		13,548	11,656	26,560	22,258
Cost of revenue:					
Products		1,293	1,036	2,622	2,295
Services	8	5,138	4,879	10,323	9,630
Reimbursable expenses		499	371	911	650
Total cost of revenue		6,930	6,286	13,856	12,575
Gross profit		6,618	5,370	12,704	9,683
Operating expenses:					
Sales and marketing		2,935	2,306	5,546	4,249
General and administration		1,521	966	2,948	1,964
Research and development, net of tax credits		1,630	1,350	3,204	2,551
Total operating expenses		6,086	4,622	11,698	8,764
Profit from operations		532	748	1,006	919
Net finance costs	9	22	68	78	156
Profit before income taxes		510	680	928	763
Income taxes		100	75	175	75
Profit attributable to the owners of the Company		$ 410	$ 605	$ 753	$ 688
Other comprehensive loss:					
Effective portion of changes in fair value on designated revenue hedges	10	(119)	-	(187)	-
Comprehensive income attributable to the owners of the Company		$ 291	$ 605	$ 566	$ 688
Basic and diluted earnings per common share	6	$ 0.04	$ 0.05	$ 0.07	$ 0.06

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, 2014 and 2013
(in thousands of Canadian dollars)

	Note	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Cash flows from (used in) operating activities:			
Profit for the period		$ 753	$ 688
Adjustments for:			
Depreciation of property and equipment		385	365
Depreciation of deferred development costs		603	475
Depreciation of other intangible assets		187	95
Net finance costs		78	156
Unrealized foreign exchange losses, realized foreign exchange gains and other		100	7
Federal non-refundable research and development tax credits		(150)	(150)
Income taxes		150	75
Operating activities excluding changes in non-cash working capital items related to operations		2,106	1,711
Accounts receivable		1,306	(1,880)
Work in progress		(454)	256
Other accounts receivable		(125)	(102)
Tax credits		(1,284)	586
Inventory		169	176
Prepaid expenses		39	211
Accounts payable and accrued liabilities		(103)	282
Deferred revenue		(178)	(226)
Changes in non-cash working capital items related to operations		(630)	(697)
Net cash from operating activities		1,476	1,014
Cash flows (used in) from financing activities:			
Repayment of bank loans		(140)	-
Repayment of loan to related party		-	(9)
Repayment of long-term debt		(529)	(500)
Issuance of common shares		-	40
Purchase of common shares for cancellation and related fees		-	(11)
Purchase of share options for cancellation		(13)	(7)
Payment of dividends		(519)	(402)
Interest paid		(71)	(87)
Net cash used in financing activities		(1,272)	(976)
Cash flows (used in) from investing activities:			
Restricted cash equivalents		40	40
Interest received		14	25
Acquisitions of property and equipment		(101)	(258)
Acquisitions of other intangible assets		(136)	(123)
Deferred development costs		(805)	(905)
Current and non-current receivables from TECSYS Latin America Inc.		28	42
Business combination, net of cash and cash equivalents acquired	5	(2,949)	-
Net cash used in investing activities		(3,909)	(1,179)
Net decrease in cash and cash equivalents during the period		(3,705)	(1,141)
Cash and cash equivalents - beginning of period		8,839	5,348
Cash and cash equivalents - end of period		$ 5,134	$ 4,207

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, 2014 and 2013

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

	Note	Share capital Number	Share capital Amount	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance, April 30, 2014		11,524,421	$ 2,153	$ 9,577	$ -	$ 4,864	$ 16,594
Profit for the period		-	-	-	-	753	753
Other comprehensive loss for the period:							
Effective portion of changes in fair value on designated revenue hedges	10	-	-	-	(187)	-	(187)
Total comprehensive income for the period		-	-	-	(187)	753	566
Common shares issued related to purchase of Logi D Holding Inc.	5	15,625	100	-	-	-	100
Dividends to equity owners	6	-	-	-	-	(519)	(519)
Total transactions with owners of the Company		15,625	100	-	-	(519)	(419)
Balance, October 31, 2014		11,540,046	$ 2,253	$ 9,577	$ (187)	$ 5,098	$ 16,741
Balance, April 30, 2013		11,449,421	$ 1,748	$ 9,588	$ -	$ 3,930	$ 15,266
Profit and comprehensive income for the period		-	-	-	-	688	688
Total comprehensive income for the period		-	-	-	-	688	688
Normal course issuer bid fees for repurchase of common shares		-	-	(11)	-	-	(11)
Share options exercised		25,000	40	-	-	-	40
Fair value associated with options exercised		-	64	-	-	-	64
Dividends to equity owners		-	-	-	-	(402)	(402)
Total transactions with owners of the Company		25,000	104	(11)	-	(402)	(309)
Balance, October 31, 2013		11,474,421	$ 1,852	$ 9,577	$ -	$ 4,216	$ 15,645

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 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. 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, 2014.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 25, 2014.

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, 2014 with the exception of the following new standards, amendments and interpretations to existing standards, as discussed below, which the Company adopted and which are effective for the Company's interim and annual consolidated financial statements commencing on May 1, 2014.

3. New accounting standards adopted in fiscal 2015:

The Company has adopted the following new standards, amendments and interpretations to existing standards in the first quarter of 2015 commencing May 1, 2014.

IFRIC 21, *Levies* ("IFRIC 21"):

This interpretation provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. It defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. Based on the Company's review, there was no material impact on the Company's condensed interim consolidated financial statements upon the adoption of IFRIC 21 on May 1, 2014.

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

On May 1, 2014, the Company has early adopted IFRS 9, *Financial Instruments* (2013). This standard establishes principles for the financial reporting classification of financial assets and financial liabilities. This standard also incorporates a new hedging model which increases the scope of hedged items eligible for hedge accounting and removes the requirements for quantitative thresholds when calculating hedge effectiveness, allowing flexibility in how an economic relationship is demonstrated. This new standard also increases required disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the consolidated financial statements.

IFRS 9 (2013) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39, *Financial Instruments: Recognition and Measurement*. The approach in IFRS 9 (2013) is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 (2013).

On July 24, 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. The final version of IFRS 9 supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January 1, 2018, 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 adoption of IFRS 9 (2013) did not result in any measurement adjustments to our financial assets and financial liabilities, including the fair value of derivatives, that existed as at April 30, 2014. These financial assets and financial liabilities are also included in the same line items in the statement of financial position as at May 1, 2014. During the first half of fiscal 2015, the Company executed three designated hedge transactions to sell U.S. dollars forward via foreign exchange contracts to hedge highly probable future revenue denominated in U.S. dollars commencing on July 1, 2014. As such, the Company has analysed its eligibility for hedge accounting and the accounting for the derivative financial instruments designated as effective hedging instruments at the transition date. Please refer to note 10 for a more elaborate discussion on derivatives. The Company has reviewed its significant accounting policies for financial instruments and derivative financial instruments and hedging relationships to align them with IFRS 9 (2013).

The following summarizes the classification and measurement changes for the Company's non-derivative financial assets and financial liabilities as a result of the adoption of IFRS 9 (2013).

	Category under IAS 39	Category under IFRS 9
Financial assets:		
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Other accounts receivable	Loans and receivables	Amortized cost
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

As at October 31, 2014, the Company had derivative financial liabilities measured at fair value, included in accounts payable and accrued liabilities.

Update to significant accounting policies:

As a result of the initial adoption of IFRS 9 (2013), as described above, the Company has updated its significant accounting policies as follows:

Financial instruments:

The Company initially recognizes financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

(i) Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The Company's policy on impairment of financial assets measured at amortized cost is the same as that applied in its consolidated financial statements as at and for the year ended April 30, 2014 for loans and receivables. The Company currently classifies its cash and cash equivalents, restricted cash equivalents, accounts receivable, and other accounts receivable as financial assets measured at amortized cost.

(ii) Financial assets measured at fair value

These assets are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.

However, for investments in equity instruments that are not held for trading, the Company may elect at initial recognition to present gains and losses in other comprehensive income. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss, and no impairment is recognized in profit or loss. Dividends earned from such investments are recognized in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment. The Company currently has no significant financial assets measured at fair value.

(iii) Financial liabilities measured at amortized cost

A financial liability is subsequently measured at amortized cost, using the effective interest method. The Company currently classifies accounts payable and accrued liabilities (excluding derivative financial instruments designated as effective hedging instruments, non-hedge derivative financial instruments, and the fair value liability of share options), and long-term debt as financial liabilities measured at amortized cost.

(iv) Non-hedge derivative financial instruments measured at fair value

Non-hedge derivative financial instruments, including forward foreign exchange contracts, are recorded as either assets or liabilities measured initially at their fair value. Attributable transaction costs are recognized in profit or loss as incurred. The Company may hold derivative financial instruments to offset its risk exposure to fluctuations of other currencies compared to the Canadian dollar. All derivative financial instruments not designated in a hedge relationship are classified as financial instruments at fair value through profit and loss. 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 net fair value of outstanding forward foreign exchange contracts are included as part of the accounts designated "other accounts receivable" or "accounts payable and accrued liabilities" as appropriate. Any subsequent change in the fair value of non-hedge designated outstanding forward foreign exchange contracts are accounted for in finance income or finance cost in profit or loss for the period in which it arises. The foreign currency gains and losses on these contracts are recognized in the period in which they are generated and offset the exchange losses or gains recognized on the revaluation of the foreign currency net monetary assets. Cash flows from foreign exchange contract settlements are classified as cash flows from operating activities along with the corresponding cash flows from the monetary assets being economically hedged.

(v) Derivative financial instruments and designated hedging relationships measured at fair value

The Company uses derivative financial instruments to hedge its exposure to exchange rate fluctuations on highly probable future foreign currency denominated revenues.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. This process includes linking all derivative hedging instruments to forecasted transactions. Hedge effectiveness is assessed based on the degree to which the cash flows from the derivative contracts are expected to offset the cash flows of the underlying transaction being hedged.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value is recognized in other comprehensive income. The amounts accumulated in other comprehensive income are classified to the consolidated statements of earnings when the underlying hedged transaction, identified at contract inception, affects profit or loss. Any ineffective portion of a hedge relationship is recognized immediately in the consolidated statements of earnings. Ineffectiveness is mainly caused by differences in discount rates between the actual derivative instrument and the perfectively effective hypothetical derivative.

When derivative contracts designated as cash flow hedges are terminated, expired, sold or no longer qualify for hedge accounting, hedge accounting is discontinued prospectively. Any amounts recorded in other comprehensive income up until the time the contracts do not qualify for hedge accounting remain in other comprehensive income until the hedged future cash flows occur if they are still expected to occur, however, if the amount in other comprehensive income is a loss and the Company expects that all or a portion of that loss will not be recovered in future periods, then it shall immediately reclassify the amount that is not expected to be recovered into profit and loss. Additionally, if the hedged future cash flows are no longer expected to occur, then the amount in other comprehensive income shall be immediately reclassified to profit and loss. Amounts recognized in other comprehensive income are recognized in the consolidated statement of earnings in the period in which the underlying hedged transaction is completed. Gains or losses arising subsequent to the derivative contracts not qualifying for hedge accounting are recognized in the period incurred in the consolidated statements of earnings.

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 IFRS IC that are mandatory but not yet effective for the period ended October 31, 2014, 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 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, 2017 with earlier adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

5. Business combination:

Effective May 31, 2014, the Company acquired 100% of the issued and outstanding shares of LOGI D HOLDING INC. (“Logi-D”), a leading provider of point-of-use technology for supply chain automation servicing hospitals and healthcare organizations as well as the pioneering inventor behind the internationally recognized RFID-enabled two-bin replenishment concept known under the 2BIN-iD brand. This acquisition brings two technology-based companies together with complementary product lines, and extends the Company’s footprint in the healthcare supply chain space, a key targeted vertical market for TECSYS. The results of its operations have been included in these interim consolidated financial statements commencing June 1, 2014.

The total purchase price of CA$3,050,000, consisted of $2,950,000 in cash and was subject to adjustment, and $100,000 in common shares of TECSYS. The acquisition closed on May 31, 2014 and payment for the cash component was funded from existing cash balances.

The potential adjustment to the purchase price was to be based on the shareholders' equity of the audited balance sheet of Logi-D as at May 31, 2014, subject to certain principles agreed to in the share purchase agreement. If the shareholders' equity was less than the shareholders' equity in the February 28, 2014 balance sheet, then the purchase price would have been reduced by such deficiency on a dollar for dollar basis. Additionally, if on the ninetieth (90th) day following the closing date, any accounts receivable remain uncollected, then the purchase price would have been reduced by the amount of such uncollected receivables. The Company would have paid any uncollected receivables that were ultimately collected between the ninety-first (91st) day and one year following the closing date back to the former preferred shareholders of Logi-D. On August 29, 2014, TECSYS advised the former shareholders of Logi-D that there would be no purchase price adjustment as defined in the share purchase agreement.

This business combination was accounted for using the acquisition method of accounting in accordance with IFRS 3, *Business Combinations* and resulted in goodwill of $1,355,000, based on the following preliminary allocation of the purchase price to identifiable assets acquired and liabilities assumed based on management's best estimate of their fair values taking into account all relevant information available at that time. The Company may make adjustments to these preliminary estimates related to the application of the acquisition method up to April 30, 2015. Acquisition costs, estimated at $160,000, have been expensed and are classified under general and administration expenses.

The goodwill comprises the assembled workforce and the synergy expected from the market penetration within the healthcare sector. As Logi-D's product line addresses a niche in the healthcare market and complements the Company's existing product line, this business acquisition is expected to give rise to new business opportunities from existing customers of both entities as well as new customers resulting in revenue growth. Additionally, the sales growth of the Logi-D product line may be enhanced as a result of the offer coming from a far larger and financially credible entity capable of offering complete supply chain solutions. Lastly, the Company expects certain cost synergies and efficiencies as the services employees will be cross-trained to serve healthcare clients originating from either entity, as well as the cost synergies and efficiencies from the amalgamation of various general and administrative functions.

The following table presents the estimated fair value of the assets purchased and liabilities assumed at the date of acquisition.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

Assets Acquired		
Accounts receivable	$	812
Work in progress		404
Tax credits		210
Inventory		468
Prepaid expenses and other receivables		47
Property and equipment		194
Other intangible assets		41
Identified intangible assets:		
Technology assets		827
Customer assets		868
		3,871
Liabilities Assumed		
Bank indebtedness	$	140
Accounts payable and accrued liabilities		1,162
Current portion of long-term debt		93
Deferred revenue		537
Long-term debt		210
Future income taxes		35
		2,177
Net Assets Acquired		1,694
Goodwill		1,355
Purchase Price, net of cash and cash equivalents acquired	**$**	**3,049**
Issuance of common shares		**(100)**
Cash paid, net of cash and cash equivalents acquired	**$**	**2,949**

Goodwill recorded in connection with the transaction is not expected to be deductible for tax purposes. Identified acquired intangible assets comprising technology assets and customer assets are being amortized over five and ten years, respectively.

On May 31, 2014, the acquired receivables comprise accounts receivable, tax credits receivable and other receivables of $812,000, $210,000, and $9,000 respectively representing the gross contractual amount receivable and the fair value of each. There were no allowances for doubtful accounts receivable.

As at May 31, 2014, Logi-D had income tax losses of approximately $7,032,000 for federal income tax purposes and $6,979,000 for provincial income tax purposes in Canada and US$806,000 in the United States, which may be used to reduce future years' taxable income. The tax benefits resulting from these tax losses have not been recognized in these condensed interim consolidated financial statements. These losses expire from the year 2031 through 2034.

Additionally, as at May 31, 2014, Logi-D had undeducted scientific research and experimental development expenses of $226,000 for federal income tax purposes and $871,000 for provincial income tax purposes without time expiration limitations. The tax benefits resulting from these expenses have not been recognized in these condensed interim consolidated financial statements.

The results of Logi-D's operations have been included in the Company's results of operations commencing June 1, 2014. Logi-D contributed $2,383,000 in revenue and a $135,000 loss for the five months ended October 31, 2014. The loss excludes $160,000 of acquisition costs and $105,000 of amortization of acquisition-related identified intangible assets.

If Logi-D's operations would have commenced at the start of the Company's fiscal year, May 1, 2014, then on a pro forma basis the Company's revenue for the first half ended October 31, 2014 would have been $26,977,000, $417,000 higher and profit would have been $777,000, $24,000 higher. The pro forma profit excludes $160,000 of acquisition related costs incurred by the Company primarily in the first quarter and $83,000 of legal and financial expenses incurred by Logi-D in the month of May 2014 related to the sale, both of which normally precede the acquisition.

6. Share capital:

(a) On July 8, 2014, the Company's Board of Directors approved changing the dividend policy from a semi-annual basis to a quarterly basis. To this effect, the Company declared a quarterly dividend of $0.0225 per share, an increase of 12.5%, paid on August 6, 2014 to shareholders of record on July 22, 2014. On September 11, 2014, the Company declared another dividend of $0.0225 per share, paid on October 10, 2014 to shareholders of record at the close of business on September 26, 2014.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

(b) Earnings per share:

Reconciliation between basic and diluted earnings per share is as follows:

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Profit attributable to common shareholders	$ 410	$ 605	$ 753	$ 688
Basic earnings per share:				
Weighted average number of common shares outstanding (basic)	11,540,046	11,474,421	11,537,498	11,464,774
Basic earnings per common share	$ 0.04	$ 0.05	$ 0.07	$ 0.06

Diluted earnings per share:

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Profit attributable to common shareholders	$ 410	$ 605	$ 753	$ 688
Weighted average number of common shares outstanding (basic)	11,540,046	11,474,421	11,537,498	11,464,774
Effect of dilutive share options	2,946	34,207	3,464	39,491
Weighted average number of common shares outstanding (diluted)	11,542,992	11,508,628	11,540,962	11,504,265
Diluted earnings per common share	$ 0.04	$ 0.05	$ 0.07	$ 0.06

For the three and six-month periods ended October 31, 2014 and 2013, 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.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

7. Revenue:

Services revenue is broken down as follows:

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Professional services	$ 4,783	$ 4,494	$ 10,271	$ 8,674
Maintenance	2,947	2,587	5,855	5,243
Others	366	264	713	531
	$ 8,096	$ 7,345	$ 16,839	$ 14,448

8. Cost of revenue:

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

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Gross expenses	$ 5,580	$ 5,244	$ 11,050	$ 10,374
E-business tax credits	(442)	(365)	(727)	(744)
	$ 5,138	$ 4,879	$ 10,323	$ 9,630

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

9. Net finance costs:

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Interest expense on financial liabilities measured at amortized cost	$ (34)	$ (44)	$ (71)	$ (87)
Increase in fair value of share options liability	(6)	(43)	(9)	(94)
Foreign exchange gain (loss)	13	10	(12)	-
Interest income on bank deposits	5	9	14	25
Net finance costs recognized in profit	$ (22)	$ (68)	$ (78)	$ (156)

10. 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. 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.

Non-hedge designated derivative instruments

On October 31, 2014, the Company held outstanding foreign exchange contracts with various maturities to December 31, 2014 to sell US$1,250,000 (US$8,900,000 – April 30, 2014) into Canadian dollars at rates averaging CA$1.1015 (CA$1.0875 – April 30, 2014) to yield CA$1,377,000 (CA$9,679,000 – April 30, 2014). The Company accrued cumulative unrealized exchange losses of $33,000 ($18,000 – October 31, 2013) representing the change in fair value of these contracts since inception and their initial measurement.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

Hedge designated derivative instruments

During fiscal 2014, the Company did not have derivative financial instruments designated as hedging instruments and the Company did not practice hedge accounting.

During the first half of fiscal 2015, for the first time, the Company executed three designated hedging transactions to sell US$13,000,000 forward via foreign exchange contracts at rates averaging CA$1.0828 to yield CA$14,077,000 to hedge highly probable future revenue denominated in U.S. dollars commencing on July 1, 2014. On October 31, 2014, the Company held outstanding foreign exchange contracts with various maturities to May 31, 2015 to sell US$9,700,000 into Canadian dollars at rates averaging CA$1.0894 to yield CA$10,567,000. The accrued unrealized exchange loss on these outstanding foreign exchange contracts is $370,000 as at October 31, 2014.

The Company recorded losses of $539,000 representing the change in fair value of these designated hedging contracts since inception and their initial measurement with the attribution of a $187,000 charge to accumulated other comprehensive income on the statement of financial position representing the effective part of the hedge related to future revenue, $243,000 as a reduction of revenue, and $109,000 exchange loss in net finance costs in the condensed interim consolidated statement of income. The following table represent the movement in other comprehensive loss since the designation of hedging derivative instruments.

	Three Months Ended October 31, 2014	Six Months Ended October 31, 2014
Net loss on derivatives designated as cash flow hedges	$ (418)	$ (539)
Amounts reclassified from accumulated other comprehensive income to net earnings, and included in:		
Revenue	(190)	(243)
Exchange loss in net finance costs	(109)	(109)
Accumulated Other comprehensive loss	$ (119)	$ (187)

All derivatives

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. The accrued unrealized net fair value loss of $403,000 on all outstanding forward foreign exchange contracts is included in accounts payable and accrued liabilities.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

11. Related party transactions:

Transactions with key management personnel:

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

Key management and their spouses control 48.2% 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, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Salaries	$ 1,109	$ 784	$ 2,115	$ 1,521
Other short-term benefits	60	52	130	112
Payments to defined contribution plans	16	15	33	28
	$ 1,185	$ 851	$ 2,278	$ 1,661

Under the provisions of the share purchase plan for key management, the Company provided interest-free loans of $216,000 ($206,000 – fiscal 2014) to key management to facilitate their purchase of Company shares during the three months ended July 31, 2014. The outstanding loans as at October 31, 2014 amounted to $108,000 ($103,000 – October 31, 2013). These loans will be fully repaid before the end of the fiscal year, April 30, 2015.

12. 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. comprise sales and service operations offering implementation services only.

(in Canadian dollars, tabular amounts in thousands, except as otherwise noted)

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

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Six Months Ended October 31, 2014	Six Months Ended October 31, 2013
Canada	$ 4,564	$ 4,935	$ 8,598	$ 9,128
United States	8,801	6,461	17,298	12,505
Other	183	260	664	625
	$ 13,548	$ 11,656	$ 26,560	$ 22,258

13. Comparative figures

Certain comparative figures have been reclassified to conform with the basis of presentation used in the current year.

14. Subsequent event:

On November 25, 2014, the Company declared a dividend of $0.0225 per share, to be paid on January 6, 2015 to shareholders of record at the close of business on December 16, 2014.

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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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