

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED  
DECEMBER 31, 2005**

■ HEALTHCARE SOLUTIONS



# Management's Discussion and Analysis

For the quarter ended December 31, 2005

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Management's discussion and analysis (the "**MD&A**") of Logibec Groupe Informatique Ltd.'s ("**Logibec**" or the "**Company**") operating results and changes in financial position for the three-month period ended December 31, 2005, as well as the Company's financial position on this date, should be read in conjunction with the consolidated financial statements and the related notes for the same fiscal year.

Management has presented certain non-**GAAP** (Generally accepted accounting principles) measures in this MD&A. Although earnings before interest, taxes, depreciation and amortization ("**EBITDA**") are not a performance measure defined by Canadian GAAP, management, investors and analysts use this measure to evaluate the operating and financial performance of the Company. Moreover, the Company's definition of EBITDA may differ from the one used by other companies. EBITDA is reconciled with net income—a performance measure defined by Canadian GAAP—in the table of selected annual information included in this MD&A.

This report is dated February 10, 2006. All monetary amounts are expressed in Canadian dollars.

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## ■ Vision, Core Business and Strategy

Logibec is among the ten largest Canadian companies specializing in the development, marketing, implementation and support of information systems for the health and social services sector. Since completing its acquisition of MDI Technologies, Inc. ("**MDI**"), on June 20, 2005, Logibec now serves over 400 healthcare facilities in Canada and over 650 clients representing over 1,500 facilities throughout the U.S. Logibec's services are delivered by an experienced team of some 240 employees as at December 31, 2005. The Company has its head office in Montreal as well as offices in Quebec City, Edmonton and St. Louis, Missouri.

### MISSION STATEMENT

Our mission is to assist organizations in the health and social services sector by offering professional services and powerful and scalable solutions for managing administrative, patient and clinical information.

Our primary objective is to provide superior quality customer support and to constantly upgrade our products by drawing on the expertise and quality of our human resources and making optimal use of information technologies. In the context of the regionalization of the healthcare sector in Canada and the constantly evolving post-acute healthcare sector in the United States, our commitment to our clients is demonstrated by flexibility that enables us to anticipate and quickly respond to their new IT requirements. We have the willingness and the ability to adapt our business practices, our service offering and our product offering in order to facilitate the significant transformation of healthcare services that our customers are experiencing.

In so doing, we hope to **CREATE VALUE** for our customers, employees and shareholders and become the leading Canadian supplier in our industry.

## ■ Selected Financial Information

The table below presents selected information regarding Logibec's operating results and cash flow for the fiscal quarters ended December 31, 2004 and 2005 as well as the financial position as at September 30, 2005 and December 31, 2005.

*In thousands of dollars except per share amounts*

	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004
<b>OPERATING RESULTS</b>		
Revenue	10,350	6,967
EBITDA, <i>see calculation below</i>	4,142	2,581
Net earnings	1,635	1,008
EBITDA per share	0.47	0.38
Net earnings per share	0.18	0.15
<b>Reconciliation of EBITDA and net earnings</b>		
Net earnings	1,635	1,008
Interest on indebtedness	192	84
Other interest (revenue)	(15)	(22)
Income tax	758	432
Depreciation of property, plant and equipment	271	210
Amortization of intangible assets and other long-term assets	1,301	869
<b>EBITDA</b>	<b>4,142</b>	<b>2,581</b>
Investment in technology, net of tax credits	475	529
	December 31, 2005	September 30, 2005
<b>FINANCIAL POSITION</b>		
Cash and cash equivalents	2,224	3,192
Total assets	69,622	71,016
Indebtedness	10,702	12,345
Indebtedness, net of cash and cash equivalents	8,478	9,153
Shareholders' equity	38,035	35,444
- per common share	4.19	4.02
Working capital	(4,990)	(6,876)
Working capital ratio	0.67	0.62
Common shares outstanding, <i>weighted average, basic</i>	8,888,775	7,935,006
Common shares outstanding	9,080,224	8,806,324

### HIGHLIGHTS

- Revenue up 49% for the first quarter ended December 31, 2005, to stand at \$10.3 million compared to \$7.0 million for the same period in the previous fiscal year.
- Net earnings of \$1.6 million, up 62% for the quarter, or \$0.18 per share, compared to net earnings of \$1.0 million, or \$0.15 per share.
- Recurring revenue for the quarter up 46% to \$7.4 million or 72% of total revenue.
- Operating margin increased to 40% of total revenue, compared to 38% of total revenue for the same period in the previous fiscal year.
- Net margin increased to 16% of total revenue, compared to 14% of total revenue for the same period in the previous fiscal year.

## ■ Operating Results

### REVENUE

Revenue for the first quarter of fiscal year 2006 stood at \$10.3 million, an increase of 49% compared to \$7.0 million for the same period in the prior fiscal year. This increase is primarily due to an increase of \$2.4 million, or 46%, in recurring revenue. Growth in recurring revenue was derived from an increase, net of discounts, of 5.4% in annual right of use and maintenance revenue for our software packages marketed in Canada and from the contribution of recurring revenue at our American subsidiary, MDI.

Non-recurring revenue jumped 55% or \$1.0 million compared to the first quarter of the previous fiscal year. This is explained by MDI's newly-generated contribution to perpetual software license sales, by a strong increase in professional services revenue related to the implementation of our software packages in Canada and by an increase in sales of hardware and operating software required in the use of our software packages. In addition, professional services worth \$0.6 million and related to custom enhancements for a major customer, were performed during the quarter. The direct costs of these services were capitalized as the corresponding revenue will be recognized over the next five quarters. A significant positive impact on future recurring revenue will also be felt as a result of the completion of numerous implementations of our software packages, among which is the implementation over the quarter of Med-Echo Plus in some sixty healthcare facilities in Canada.

Management is satisfied that revenue in Canada has increased in a business context that is highly competitive in terms of pricing of products and services. In addition, the Company believes it has increased its market share following the large number of calls for tender organized by newly-formed regional Quebec agencies. These agencies have assumed a greater role in the planning, organizing and deployment activities related to software solutions for the new healthcare organizations being created in Quebec.

### OPERATING INCOME

Operating income before depreciation, amortization, income from temporary investments, financial expenses and taxes for the quarter ended December 31, 2005 stood at \$4.1 million, representing an increase of \$1.5 million or 58% over the same period last year.

## OPERATING EXPENSES

Operating expenses for the quarter, composed of service costs and selling, general and administrative expenses, stood at \$6.2 million, having increased 43% relative to the expenses recorded during the same period in the previous fiscal year. The increase is mainly a result of the inclusion of MDI's operating expenses which were even with the prior quarter's operating expenses. The effects of the reorganization of MDI's activities following the acquisition by Logibec will affect results positively beginning with the next quarter.

The main component of operating expenses, that is service costs, stood at \$3.8 million, of which \$3.2 million is attributable to Canadian activities. Canadian service costs increased 1% for the first quarter of 2006 compared to the same period in the prior fiscal year. The minor change results from two factors that had opposite effects on this item: an increase in hardware purchased for resale and a decrease in salaries related to the professional services for a major customer that were capitalized.

Selling, general and administrative expenses were \$2.4 million or 23% of revenue for the quarter, compared to \$1.2 million or 17% of revenue for the same period last year. Of the \$1.2 million increase in this item, \$1.0 million is a consequence of adding MDI's selling, general and administrative expenses. Following the acquisition of MDI, we quickly identified and implemented measures to reduce administrative expenses to a more normal level for an operation of its size. Given the management agreements that were signed at the time of the acquisition, the full effect of the cost-reduction measures will be first felt during the quarter ending March 31, 2006. The consolidated selling, general and administrative expenses for the quarter also include an expense of \$0.1 million related to 134,000 stock options granted in the third quarter of the 2005 fiscal year.

## AMORTIZATION OF FIXED ASSETS, INTANGIBLE ASSETS AND OTHER LONG-TERM ASSETS

Amortization of fixed assets, intangible assets and other long-term assets for the quarter ended December 31, 2005 rose to \$1.6 million, representing an increase of 46% compared to the same period in the previous fiscal year. Amortization of fixed assets increased to \$0.1 million for the quarter, entirely due to the amortization of MDI's fixed assets. Amortization of intangible assets also increased, up \$0.4 million to stand at \$1.3 million. The increase is also due to MDI, namely to the amortization of the acquired software and technology.

## FINANCIAL EXPENSES

Financial expenses were \$0.2 million for the quarter, representing an increase of 63% compared to financial expenses for the same period last year. Financial expenses for the first quarter are mainly composed of interest charges related to the credit facilities obtained to finance the takeover bid for MDI and the subsequent merger.

## NET EARNINGS

Net earnings for the first quarter ended December 31, 2005 increased by 62% to \$1.6 million or \$0.18 per share (\$0.18 per fully-diluted share). This compares to \$1.0 million or \$0.15 per share (\$0.14 per fully-diluted share), for the same period in the prior year. The significant increase in net earnings results from the addition of MDI's activities as well as the profitable growth of the Company's Canadian activities, despite the highly competitive context.

## ■ Liquidity and Sources of Financing

### OPERATING ACTIVITIES

For the first quarter ended December 31, 2005, operating activities generated cash flows of \$0.4 million, whereas these activities, for the same period in the prior fiscal year, used cash flows of \$2.3 million. The significant increase is mainly explained by the change in non-cash working capital items, as well as the increase in internally-generated funds following MDI's contribution to operating activities.

### INVESTING ACTIVITIES

The Company used \$0.6 million in cash for investing activities during the quarter ended December 31, 2005. Of this amount, \$0.5 million corresponds to capitalized software development costs. The difference, \$0.1 million, was used for capital expenditures for the Canadian and American operations.

### FINANCING ACTIVITIES

During the first quarter, the Company reimbursed \$1.6 million under its revolving reducing term loans. This amount includes a payment of \$0.5 million in addition to the regularly-scheduled monthly payments which totalled \$1.1 million.

In addition, the Company issued 286,000 common shares during the first quarter for cash consideration of \$1.0 million. First, in November and December 2005, 150,000 stock options were exercised by officers and key employees and the Company issued 150,000 common shares for cash consideration of \$0.5 million. Then, over the course of the month of December, 136,000 warrants were exercised by two officers and a director. The Company therefore issued 136,000 common shares for cash consideration of \$0.5 million.

Finally, on December 16, 2005, the Company announced a normal course issuer bid. Under the bid, which began December 20, 2005 and is valid for a period of one year, the Company may purchase for cancellation a maximum of 447,565 common shares. This represents approximately 5% of the issued and outstanding common shares at the time the bid was launched. During the first quarter of the 2005 fiscal year, 12,100 common shares were repurchased under the bid, for cash consideration of \$0.1 million and at an average price per share of \$12.24.

## ■ Obligations and Commitments

The Company's contractual obligations and commitments comprise mainly the leases for its office spaces situated at Cité du Multimédia and the CNNTQ in Québec City and for its office space for MDI in St. Louis, Missouri. Leases for the head office space in Montreal have been renewed until December 2012 in order for the Company to take advantage of tax credits offered by the Cité du Multimédia for the full period of eligibility. In August 2004, the lease for MDI's office space was renewed until December 2010.

## ■ Related Party Transactions

During the third quarter ended December 31, 2005, the Company entered into the following transactions with a shareholder of a company having significant influence over the Company.

Management fees – expenses	\$ <b>164,921</b>
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These transactions were in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

## ■ Risks and Uncertainties

For a description of the risks to which the Company is exposed, readers are referred to Management's Discussion and Analysis for the 2005 fiscal year. This report is available on SEDAR at [www.sedar.com](http://www.sedar.com) as well as on the Company's website at [www.logibec.com](http://www.logibec.com).

## ■ Accounting Policies

Readers are invited to refer to Note 2 to the consolidated financial statements for the first quarter of 2006 for a detailed description of changes in accounting policies.

## ■ Forward-looking Statements

The MD&A contains forward-looking statements that are subject to risks and uncertainties. Any statement in this report that is not a historical fact may be considered a forward-looking statement. In this MD&A, verbs such as "believe", "consider", "expect" and other similar expressions generally indicate forward-looking statements. Forward-looking statements do not provide a guarantee of the Company's future performance nor of the performance of its industry sector. They assume known and unknown risks as well as uncertainties that may result in the Company's outlook, its performance or its actual results or those of its industry sector differing significantly from the performance or future results expressed or implied by the forward-looking statements.

## ■ Additional Information

The reader can obtain additional information and documents by consulting the SEDAR website at [www.sedar.com](http://www.sedar.com) as well as the Company's website at [www.logibec.com](http://www.logibec.com).

## ■ Corporate Information

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### STOCK

The Company's Common Shares are traded on the Toronto Stock Exchange under the symbol "LGI".

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