

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED  
MARCH 31, 2006**

■ HEALTHCARE SOLUTIONS



# Management's Discussion and Analysis

For the quarter ended March 31, 2006

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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 March 31, 2006, 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 financial information included in this MD&A.

This report is dated May 9, 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, and Monette Information Systems Corporation ("**Monette**"), on March 23, 2006, Logibec now serves over 400 healthcare facilities in Canada and over 750 clients representing over 1,800 facilities throughout the United States. Logibec's services are delivered by an experienced team of over 250 employees as at March 31, 2006. The Company has its head office in Montreal as well as offices in Quebec City, Edmonton, St. Louis, Missouri, and Smithfield, Virginia.

### 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 North American 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 March 31, 2005 and 2006 as well as the financial position as at September 30, 2005 and March 31, 2006.

*In thousands of dollars except per share amounts*

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
<b>OPERATING RESULTS</b>		
Revenue	10,790	8,165
EBITDA, <i>see calculation below</i>	4,490	3,211
Net earnings	1,805	1,329
EBITDA per share	0.50	0.45
Net earnings per share	0.20	0.18
<b>Reconciliation of EBITDA and net earnings</b>		
Net earnings	1,805	1,329
Interest on indebtedness	196	40
Other interest (revenue)	(27)	(5)
Income tax	912	569
Depreciation of property, plant and equipment	269	217
Amortization of intangible assets and other long-term assets	1,335	1,061
<b>EBITDA</b>	<b>4,490</b>	<b>3,211</b>
Investment in technology, net of tax credits	464	356
	March 31, 2006	September 30, 2005
<b>FINANCIAL POSITION</b>		
Cash and cash equivalents	2,186	3,192
Total assets	73,321	71,016
Indebtedness	12,671	12,345
Indebtedness, net of cash and cash equivalents	10,485	9,153
Shareholders' equity	39,401	35,444
- per common share	4.36	4.02
Working capital	(3,768)	(6,876)
Working capital ratio	0.76	0.62
Common shares outstanding, <i>weighted average, basic</i>	9,032,335	7,435,006
Common shares outstanding	9,028,224	8,806,324

### HIGHLIGHTS

- Acquisition on March 23, 2006, of Monette Information Systems Corporation, by our American subsidiary MDI, increased the number of facilities served by MDI to over 1,800, representing an increase of 20%.
- Revenue up 32% for the second quarter ended March 31, 2006, to stand at \$10.8 million, compared to \$8.2 million for the same period in the previous fiscal year. Revenue of \$21.1 million for the last six months, representing an increase of 40%, compared to \$15.1 million for the same period in the previous fiscal year.
- Net earnings of \$1.8 million, up 36% for the quarter, compared to net earnings of \$1.3 million for the same period in the previous fiscal year. Net earnings for the six months ended March 31, 2006 were \$3.4 million, up 47% from \$2.3 million for the same period in the previous fiscal year.
- Net earnings per share for the quarter reached \$0.20 per share, compared to \$0.18 per share for the same quarter in the previous fiscal year, despite an increase of 26% in the average number of outstanding shares. Net earnings per share for the six months ended March 31, 2006 stand at \$0.38 per share ((\$0.38 per fully-diluted share), compared to \$0.34 (\$0.32 per fully-diluted share) for the same period in the previous fiscal year.
- Recurring revenue for the quarter up 35% to \$7.8 million or 72% of total revenue.
- Operating margin for the six months ended March 31, 2006 increased to 42% of total revenue, compared to 40% of total revenue for the same period in the previous fiscal year, and this despite a very competitive market in Quebec.
- Net margin for the quarter increased to 17% of total revenue, compared to 16% of total revenue for the same period in the previous fiscal year. The net margin for the six months ended March 31, increased from 15% in 2005 to 16% in 2006.

## ■ Operating Results

### REVENUE

Revenue for the second quarter of fiscal year 2006 stood at \$10.8 million, an increase of 32% compared to \$8.2 million for the same period in the previous fiscal year.

Revenue for the six months ended March 31, 2006 stands at \$21.1 million, representing an increase of 40%, compared to \$15.1 million for the same period in the previous fiscal year. This increase is primarily due to the activities of our American subsidiary MDI whereas our Canadian activities increased by 7%. The acquisition, on March 23, 2006, of Monette by MDI had a negligible impact on the financial results of the second quarter. The Company believes that this acquisition will have a favourable impact on our revenue and earnings during the current fiscal year.

The weak growth generated by Canadian activities can be explained in part by an increase of \$0.5 million of discounts granted for the large number of calls for tenders organized following the restructuring of the Quebec health and social services network. Aggressive pricing of products and services allowed us to substantially increase our market share in our various business sectors. Furthermore, \$0.8 million of invoicing for professional services provided during the last six months were posted as deferred revenue and costs were recorded as work in progress. A significant amount of this deferred revenue will be

recognized as of May 2006 when a regional version of our Clinibase software is launched by one of our clients. This situation temporarily decreased the growth of our products and operating margin.

### **OPERATING INCOME**

Operating income before depreciation, amortization, loss on disposal of fixed assets, income from temporary investments, financial expenses and taxes for the quarter ended March 31, 2006 stood at \$4.5 million, representing an increase of \$1.3 million or 39% over the same period last year. Operating income before depreciation, amortization, loss on disposal of fixed assets, income from temporary investments, financial expenses and taxes for the six months ended March 31, 2006 stood at \$8.6 million, representing an increase of \$2.8 million or 48% 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 \$6.3 million or 58% of revenue, a decrease of 2% compared to the operating expenses ratio for the same period of the previous fiscal year. Operating expenses for the six months ended March 31, 2006 stood at \$12.5 million, compared to \$9.3 million for the same period of the previous fiscal year.

The main component of operating expenses, that is service costs, stood at \$4.2 million, of which \$3.5 million is attributable to Canadian activities. Canadian service costs decreased by \$0.1 million for the second quarter of 2006 compared to the same period in the previous fiscal year. This is mainly a result of a decrease in salaries related to the professional services for a major client that were capitalized.

Selling, general and administrative expenses were \$2.1 million or 19% of revenue for the quarter, compared to \$1.3 million or 17% of revenue for the same period last year. The \$0.7 million increase is mainly a consequence of including MDI's expenses. However, MDI's selling, general and administrative expenses for the second quarter of fiscal year 2006 decreased by \$0.4 million, compared to the previous quarter. This is due to the expiry on December 31, 2005, of the management contracts of two former MDI executives. The consolidated selling, general and administrative expenses also include an expense of \$0.1 million related to 134,000 stock options granted in the third quarter of the 2005 fiscal year.

For the six months ended March 31, 2006, service costs stood at \$8.0 million and selling, general and administrative expenses stood at \$4.5 million, representing an increase of 19% and 75% respectively compared to the same period in the previous fiscal year. Of the \$3.2 million increase for these two items, \$2.9 million is a consequence of adding MDI's operating expenses.

### **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 March 31, 2006 rose to \$1.6 million, representing an increase of 26% compared to the same period in the previous fiscal year. Amortization of fixed assets increased \$0.1 million for the quarter, entirely due to the amortization of MDI's fixed assets. Amortization of intangible assets also increased, up \$0.3 million to stand at \$1.3 million. This increase is also due to MDI, namely to the amortization of acquired software and technology.

### **FINANCIAL EXPENSES**

Financial expenses were \$0.2 million for the quarter, representing a significant increase of 215% compared to financial expenses for the same period last year. Financial expenses for the second quarter are mainly composed of interest charges related to the credit facilities obtained to finance the takeover bid for MDI and the subsequent merger. For the same period in the previous fiscal year, the Company had no borrowings under its credit facilities.

### NET EARNINGS

Net earnings for the second quarter ended March 31, 2006 increased by 36% to \$1.8 million or \$0.20 per share (\$0.20 per fully-diluted share), compared to \$1.3 million or \$0.18 per share (\$0.18 per fully-diluted share) for the same period in the previous year.

Net earnings for the six-month period ended March 31, 2006 increased by 47% or \$1.1 million to stand at \$3.4 million or \$0.38 per share (\$0.38 per fully-diluted share), compared to \$2.3 million or \$0.34 per share (\$0.32 per fully-diluted share) for the same period in the previous year. The increase in net earnings results from the addition of MDI's activities as well as from profitable growth of the Company's Canadian activities, despite the highly competitive context.

## ■ Liquidity and Sources of Financing

### OPERATING ACTIVITIES

For the second quarter ended March 31, 2006, operating activities generated cash flows of \$0.8 million, compared to cash flows of \$0.1 million generated by these activities in the same period of the previous fiscal year. The increase is mainly explained by the increase in internally-generated funds following MDI's contribution to operating activities.

### INVESTING ACTIVITIES

The Company used \$2.1 million for investing activities during the quarter ended March 31, 2006. The main investing activity was the acquisition of all the shares of Monette for cash consideration of US\$1.3 million, or CA\$1.5 million, and a promissory note of US\$1.2 million or CA\$1.4 million. The cash consideration of US\$1.3 million was generated entirely by MDI operations. The cash flow statement for the three months ended March 31, 2006, presents the cash consideration net of acquired cash.

The amount of promissory note is subject to certain adjustments and becomes due once an audited balance sheet is finalized for Monette and dated March 22, 2006. As of the preparation of this MD&A, the promissory note is estimated at US\$1.1 million or CA\$1.2 million.

During the second quarter of fiscal year 2006, the Company invested \$0.2 million in fixed assets, and \$0.5 million in intangible assets, which were mainly capitalized software development costs.

### FINANCING ACTIVITIES

The Company's primary debt financing objective is to use this method of financing to facilitate acquisitions and other major projects while ensuring that borrowed amounts are promptly repaid from the significant cash flow generated by its operations and from the proceeds of from issued shares. All excess cash flow generated by the Company in Canada between June and December 2005 was applied against the bank loan of \$28.3 million used to acquire MDI. The quarter from January to March is the quarter during which the Canadian operating unit generates the least cash flow since most of the recurring revenue is billed annually on April 1<sup>st</sup>. These two facts contributed to the Company's need to borrow \$3.1 million under its credit facilities during the second quarter in order to finance its operations and stock repurchases.

During the second quarter, the Company repurchased 52,000 common shares through a normal course issuer bid announced on December 16, 2005. These shares were repurchased for cash consideration of \$0.7 million at the average price per share of \$12.72. Since the bid began, 64,100 shares have been repurchased.

The Company also made monthly payments under its revolving reducing term loans which totalled \$1.1 million. Management believes that the revolving reducing term loans will be repaid in full during the current fiscal year.

## ■ 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, and for Monette in Smithfield, Virginia. 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. The lease for Monette's office space expires in March 2007.

## ■ Related Party Transactions

During the second quarter ended March 31, 2006, the Company entered into the following transactions with a shareholder of a company having significant influence over the Company.

	\$
<u>Management fees – expenses</u>	<u>166,219</u>

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 second 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

### HEAD OFFICE

700 Wellington Street, Suite 1500  
Montréal, Quebec H3C 3S4  
www.logibec.com  
Telephone: 514 766-0134  
Fax: 514 766-9237

### QUEBEC

420 Charest Blvd. East, Suite 310  
Québec, Quebec G1K 8M4

### EDMONTON

P.O. Box 43041  
10405 Jasper Avenue  
Edmonton, Alberta T5J 4M8

### ST. LOUIS, MISSOURI

MDI Technologies, Inc.  
940 West Port Plaza Drive, Suite 100  
St. Louis, Missouri 63146  
www.mditech.com

### SMITHFIELD, VIRGINIA

Monette Information Systems  
1 Monette Parkway  
Smithfield, VA 23430  
www.monette.com

### BOARD OF DIRECTORS

**André Paiement** <sup>(1)</sup>  
Chairman of the Board  
Lawyer

**Claude Roy, Eng. M.B.A.**  
President and Chief Executive Officer  
LOGIBEC GROUPE INFORMATIQUE LTD.

**Jocelyn Boucher** <sup>(1) (2)</sup>  
Vice-President Finance and Economic Affairs  
CENTRE HOSPITALIER DE L'UNIVERSITÉ DE MONTRÉAL (CHUM)

**André Gauthier** <sup>(2)</sup>  
President  
ANDRE GAUTHIER HOLDING INC.

**Marc M. Malouin, CA, CPA** <sup>(1) (2)</sup>  
Financial Vice-President  
GROUPE ALGO INC.

**Robert Roy**  
President  
LOTEC INC.

<sup>(1)</sup> Members of the Human Resources Committee

<sup>(2)</sup> Members of the Audit Committee

### STOCK

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

### TRANSFER AGENT AND REGISTRAR

Computershare  
(514) 871-7240  
www.bnc.ca

### BANKS

National Bank of Canada  
Scotiabank

### AUDITORS

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.  
www.deloitte.com

### LEGAL ADVISORS

Heenan Blaikie  
www.heenanblaikie.com