

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis should be read in conjunction with the unaudited consolidated interim financial statements for the three and nine month periods ended September 30, 2006 and the accompanying notes, and with our consolidated annual financial statements and our annual MD&A for the year ended December 31, 2005. Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See 'Forward-Looking Statements' and 'Risks and Uncertainties'. This MD&A and all information therein is current as at November 8, 2006.

Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars. All references to "\$" are to U.S. dollars and all references to "C\$" are to Canadian dollars.

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

Certain statements in this report may contain "forward looking" statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this MD&A, November 8, 2006. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under 'Risks and Uncertainties'. Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Non-GAAP Measures**

This MD&A includes certain non-GAAP measures such as Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted net income margin.

The term "Adjusted EBITDA" refers to net income before deducting interest, taxes, depreciation, amortization, appreciation in common shares eligible for redemption, other expenses and foreign exchange, and before including gain on sale of short-term investments, marketable securities and other assets. The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and the other items listed above. "Adjusted EBITDA margin" refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

The term "Adjusted net income" means net income plus appreciation in common shares eligible for redemption and amortization of intangible assets. The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company's

main business activities prior to taking into consideration appreciation in common shares eligible for redemption (which will no longer be included in net income for periods following the closing of our IPO) and prior to taking into consideration amortization of intangibles as these are non-cash expenses that do not necessarily reflect the economic value of our acquisitions. “Adjusted net income margin” refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITDA and Adjusted net income are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Adjusted EBITDA and Adjusted net income should not be construed as alternatives to net income determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company’s liquidity and cash flows. The Company’s method of calculating Adjusted EBITDA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted net income may not be comparable to similar measures presented by other issuers. See “Results of Operations—Adjusted EBITDA” and “Adjusted Net Income” for a reconciliation of Adjusted EBITDA and Adjusted net income to net income.

## **Overview**

We acquire, manage and build vertical market software (“VMS”) businesses. Generally, these businesses provide mission critical software solutions that address the specific needs of our customers in particular markets. Our focus on acquiring businesses with growth potential, managing them well and then building them has allowed us to generate significant cash flow and revenue growth during the past five years.

Our revenue consists primarily of software license fees, maintenance fees, and professional service fees. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under single-year, multiple-year or perpetual arrangements in which the fair value of the license fee is separately determinable from maintenance and/or professional service fees. Maintenance revenue consists of fees charged for customer support on our software products post-delivery. Maintenance fee arrangements generally include ongoing customer support and rights to certain product updates “if and when available”. Professional service revenue consists of fees charged for product training, consulting and implementation services. Our customers typically purchase a combination of software, maintenance and professional services, although the types, mix and quantity of each solution varies by customer.

Cost of revenue consists primarily of the costs directly related to revenues including third party costs and internal costs related to the delivery of professional services and maintenance. Cost of revenue is generally expected to increase in the future as a result of increases in revenue.

Research and development expenses include personnel and related costs associated with our research and development efforts.

Sales and marketing expenses consist primarily of personnel and related costs associated with our sales and marketing functions, including advertising, commissions, trade shows and other promotional materials.

General and administration expenses include personnel and related costs associated with the administration of our business, rental of office space, legal and professional fees and insurance.

## Results of Operations

|  | Three months ended          |               | Period-Over-Period |              | Nine months ended           |                | Period-Over-Period |              |
|--|-----------------------------|---------------|--------------------|--------------|-----------------------------|----------------|--------------------|--------------|
|  | Sept. 30,                   |               | Change             |              | Sept. 30,                   |                | Change             |              |
|  | 2006                        | 2005          | \$                 | %            | 2006                        | 2005           | \$                 | %            |
|  | (\$000, except percentages) |               |                    |              | (\$000, except percentages) |                |                    |              |
| <b>Revenue</b>                               | <b>53,809</b>               | <b>42,648</b> | <b>11,161</b>      | <b>26.2%</b> | <b>157,240</b>              | <b>120,810</b> | <b>36,430</b>      | <b>30.2%</b> |
| Cost of Revenue                              | 21,060                      | 16,475        | 4,585              | 27.8%        | 61,674                      | 47,223         | 14,451             | 30.6%        |
| Gross Profit                                 | 32,749                      | 26,173        | 6,576              | 25.1%        | 95,566                      | 73,587         | 21,979             | 29.9%        |
| Expenses                                     |                             |               |                    |              |                             |                |                    |              |
| Research and development                     | 8,489                       | 6,186         | 2,303              | 37.2%        | 24,877                      | 18,739         | 6,138              | 32.8%        |
| Sales and marketing                          | 6,488                       | 5,149         | 1,339              | 26.0%        | 19,634                      | 15,778         | 3,856              | 24.4%        |
| General and administration                   | 9,848                       | 7,746         | 2,102              | 27.1%        | 28,603                      | 22,165         | 6,438              | 29.0%        |
| Total Expenses (pre amortization)            | 24,825                      | 19,081        | 5,744              | 30.1%        | 73,114                      | 56,682         | 16,432             | 29.0%        |
| <b>Adjusted EBITDA</b>                       | <b>7,924</b>                | <b>7,092</b>  | <b>832</b>         | <b>11.7%</b> | <b>22,452</b>               | <b>16,905</b>  | <b>5,547</b>       | <b>32.8%</b> |
| Amortization of capital assets               | 793                         | 662           | 131                | 19.8%        | 2,156                       | 1,829          | 327                | 17.9%        |
| Total Expenses                               | 25,618                      | 19,743        | 5,875              | 29.8%        | 75,270                      | 58,511         | 16,759             | 28.6%        |
| <b>Income before the undernoted</b>          | <b>7,131</b>                | <b>6,430</b>  | <b>701</b>         | <b>10.9%</b> | <b>20,296</b>               | <b>15,076</b>  | <b>5,220</b>       | <b>34.6%</b> |
| Common Shares eligible for redemption        | 0                           | 0             | 0                  | NA           | 10,093                      | 4,528          | 5,565              | 122.9%       |
| Amortization of intangible assets            | 4,489                       | 3,116         | 1,373              | 44.1%        | 11,947                      | 8,855          | 3,092              | 34.9%        |
| Other expenses (gain)                        | 0                           | (10)          | 10                 | -100.0%      | 1,970                       | 224            | 1,746              | 779.5%       |
| (Gain) Loss on sale of marketable securities | 0                           | 13            | (13)               | -100.0%      | (8)                         | (658)          | 650                | -98.8%       |
| Interest income                              | (3)                         | (293)         | 290                | -98.9%       | (87)                        | (674)          | 587                | -87.1%       |
| Foreign exchange (gain) loss                 | (185)                       | 272           | (457)              | -168.0%      | (111)                       | 567            | (678)              | -119.6%      |
| Income (loss) before income taxes            | 2,830                       | 3,332         | (502)              | -15.1%       | (3,508)                     | 2,234          | (5,742)            | NA           |
| Income tax expense                           | 543                         | 1,257         | (714)              | -56.8%       | 1,560                       | 2,528          | (968)              | -38.3%       |
| <b>Net income (loss)</b>                     | <b>2,287</b>                | <b>2,075</b>  | <b>212</b>         | <b>10.2%</b> | <b>(5,068)</b>              | <b>(294)</b>   | <b>(4,774)</b>     | <b>NA</b>    |
| <b>Adjusted net income</b>                   | <b>6,776</b>                | <b>5,191</b>  | <b>1,585</b>       | <b>30.5%</b> | <b>16,972</b>               | <b>13,089</b>  | <b>3,883</b>       | <b>29.7%</b> |
| Weighted avg # of shares outstanding         |                             |               |                    |              |                             |                |                    |              |
| Basic  | 21,039                      | 20,081        |                    |              | 20,726                      | 19,884         |                    |              |
| Diluted                                      | 21,192                      | 20,428        |                    |              | 21,021                      | 20,340         |                    |              |
| <b>Net income (loss) per share</b>           |                             |               |                    |              |                             |                |                    |              |
| Basic  | \$ 0.11                     | \$ 0.10       | \$ 0.01            | 5.2%         | \$ (0.24)                   | \$ (0.01)      | \$ (0.23)          | NA           |
| Diluted                                      | \$ 0.11                     | \$ 0.10       | \$ 0.01            | 6.3%         | \$ (0.24)                   | \$ (0.01)      | \$ (0.23)          | NA           |
| <b>Adjusted EBITDA per share</b>             |                             |               |                    |              |                             |                |                    |              |
| Basic  | \$ 0.38                     | \$ 0.35       | \$ 0.02            | 6.6%         | \$ 1.08                     | \$ 0.85        | \$ 0.23            | 27.4%        |
| Diluted                                      | \$ 0.37                     | \$ 0.35       | \$ 0.03            | 7.7%         | \$ 1.07                     | \$ 0.83        | \$ 0.24            | 28.5%        |
| <b>Adjusted net income per share</b>         |                             |               |                    |              |                             |                |                    |              |
| Basic  | \$ 0.32                     | \$ 0.26       | \$ 0.06            | 24.6%        | \$ 0.82                     | \$ 0.66        | \$ 0.16            | 24.4%        |
| Diluted                                      | \$ 0.32                     | \$ 0.25       | \$ 0.07            | 25.8%        | \$ 0.81                     | \$ 0.64        | \$ 0.16            | 25.5%        |

### *Comparison of the third quarter and nine months ended September 30, 2006 and 2005*

#### Revenue:

Total revenue for the third quarter of 2006 ended September 30, was \$53.8 million, an increase of 26.2%, or \$11.2 million, compared to \$42.6 million for the comparable period in 2005. For the first nine months of 2006 total revenues were \$157.2 million, an increase of 30.2%, or \$36.4 million, compared to \$120.8 million for the comparable period in 2005. The increase for both the third quarter and nine month periods compared to the same periods in the prior year, were due to a combination of organic growth and acquisitions. Organic revenue growth was estimated to be approximately 6% for the third quarter and 11% for the first nine months. The remaining 20% growth for the third quarter and 19% for the first nine months is due to acquisitions completed since the beginning of 2005.

Software license revenue for the quarter ended September 30, 2006 decreased by 4.0%, or \$0.3 million to \$6.9 million, from \$7.2 million for the same period in 2005. During the nine months ended September 30, 2006, license revenue increased by 16.6% or \$3.0 million to \$21.3 million, from \$18.3 million for the same period in 2005. Professional services and other services revenue for the quarter ended September 30, 2006 increased by 27.4%, or \$2.9 million to \$13.6 million, from \$10.6 million for the same period in 2005. During the nine months ended September 30, 2006, services revenue increased

by 26.2% or \$8.3 million to \$39.8 million, from \$31.5 million for the same period in 2005. Hardware and other revenue for the quarter ended September 30, 2006 increased by 99.6%, or \$2.1 million to \$4.1 million, from \$2.1 million for the same period in 2005. During the nine months ended September 30, 2006, hardware and other revenue increased by 75.0% or \$4.9 million to \$11.4 million, from \$6.5 million for the same period in 2005. Maintenance revenues for the quarter ended September 30, 2006 increased by 28.5%, or \$6.5 million to \$29.3 million, from \$22.8 million for the same period in 2005. During the nine months ended September 30, 2006, maintenance revenue increased by 31.4% or \$20.3 million to \$84.8 million, from \$64.5 million for the same period in 2005. The following table displays the breakdown of our revenue according to revenue type:

|                                  | Three months ended Sept. 30, |        |                      |        | Nine months ended Sept. 30, |         |                      |        |
|----------------------------------|------------------------------|--------|----------------------|--------|-----------------------------|---------|----------------------|--------|
|                                  | 2006                         | 2005   | 2006                 | 2005   | 2006                        | 2005    | 2006                 | 2005   |
|                                  | (\$000)                      |        | (% of total revenue) |        | (\$000)                     |         | (% of total revenue) |        |
| Licenses                         | 6,867                        | 7,156  | 12.8%                | 16.8%  | 21,298                      | 18,268  | 13.5%                | 15.1%  |
| Professional services and other: |                              |        |                      |        |                             |         |                      |        |
| Services                         | 13,553                       | 10,641 | 25.2%                | 25.0%  | 39,775                      | 31,518  | 25.3%                | 26.1%  |
| Hardware and other               | 4,109                        | 2,059  | 7.6%                 | 4.8%   | 11,369                      | 6,496   | 7.2%                 | 5.4%   |
| Maintenance                      | 29,280                       | 22,792 | 54.4%                | 53.4%  | 84,798                      | 64,528  | 53.9%                | 53.4%  |
|                                  | 53,809                       | 42,648 | 100.0%               | 100.0% | 157,240                     | 120,810 | 100.0%               | 100.0% |

We aggregate our business into two distinct segments for financial reporting purposes: (i) the public sector segment, which includes businesses focused on government and government-related customers, and (ii) the private sector segment, which includes businesses focused on commercial customers.

The following table displays our revenue by reporting segment and the percentage change for the three and nine months ended September 30, 2006 compared to the same periods in 2005:

|                                  | Three months ended Sept. 30, |        | Period-Over-Period Change |        | Nine months ended Sept. 30, |        | Period-Over-Period Change |        |
|----------------------------------|------------------------------|--------|---------------------------|--------|-----------------------------|--------|---------------------------|--------|
|                                  | 2006                         | 2005   | \$                        | %      | 2006                        | 2005   | \$                        | %      |
|                                  | (\$000, except percentages)  |        |                           |        | (\$000, except percentages) |        |                           |        |
| <b>Public Sector</b>             |                              |        |                           |        |                             |        |                           |        |
| Licenses                         | 4,509                        | 3,535  | 974                       | 27.6%  | 13,261                      | 9,000  | 4,261                     | 47.3%  |
| Professional services and other: |                              |        |                           |        |                             |        |                           |        |
| Services                         | 9,941                        | 7,123  | 2,818                     | 39.6%  | 27,503                      | 20,967 | 6,536                     | 31.2%  |
| Hardware and other               | 2,749                        | 1,062  | 1,687                     | 158.9% | 7,597                       | 3,211  | 4,386                     | 136.6% |
| Maintenance                      | 16,474                       | 11,308 | 5,166                     | 45.7%  | 46,895                      | 32,736 | 14,159                    | 43.3%  |
|                                  | 33,673                       | 23,028 | 10,645                    | 46.2%  | 95,256                      | 65,914 | 29,342                    | 44.5%  |
| <b>Private Sector</b>            |                              |        |                           |        |                             |        |                           |        |
| Licenses                         | 2,358                        | 3,621  | (1,263)                   | -34.9% | 8,036                       | 9,267  | (1,231)                   | -13.3% |
| Professional services and other: |                              |        |                           |        |                             |        |                           |        |
| Services                         | 3,613                        | 3,519  | 94                        | 2.7%   | 12,273                      | 10,551 | 1,722                     | 16.3%  |
| Hardware and other               | 1,359                        | 997    | 362                       | 36.3%  | 3,773                       | 3,287  | 486                       | 14.8%  |
| Maintenance                      | 12,806                       | 11,483 | 1,323                     | 11.5%  | 37,902                      | 31,791 | 6,111                     | 19.2%  |
|                                  | 20,136                       | 19,620 | 516                       | 2.6%   | 61,984                      | 54,896 | 7,088                     | 12.9%  |

## Public Sector

For the quarter ended September 30, 2006, total revenue in the public sector segment increased 46.2%, or \$10.6 million, to \$33.7 million, compared to \$23.0 million for the quarter ended September 30, 2005. For the nine months ended September 30, 2006 total revenue increased by 44.5% or \$29.3 million, to \$95.3 million, compared to \$65.9 million for the comparable period in 2005. The increases for both the three and nine month periods were significant across all revenue types. Revenue growth from acquired businesses was significant for both the three and nine month periods as we completed 15 acquisitions since the beginning of 2005 in our public sector segment. It is estimated that these acquisitions

contributed approximately \$8.4 million to our Q3 2006 revenues and \$20.1 million to our revenues in the nine months ended September 30, 2006. The remaining \$2.3 million of revenue growth for Q3 and \$8.4 million of revenue growth for the first nine months of 2006 in this sector was generated from organic sources. The organic growth was driven by the following:

- **Trapeze operating group** (approximately \$0.6 million for Q3 and \$3.1 million for the first nine months). The Trapeze organic growth was driven by our organic initiatives into intelligent transportation systems and non-emergency medical transit, sales to new customers and the continued growth in maintenance revenues from clients completing installations and moving on to maintenance.
- **Harris operating group** (approximately \$1.3 million for Q3 and \$3.3 million for the first nine months). The Harris organic growth primarily resulted from upgrades under our software for life program and the continued growth in maintenance revenues from clients completing installations and moving on to maintenance.
- **Emphasys operating group** (approximately \$0.5 million for Q3 and \$1.6 million for the first nine months). The Emphasys organic growth primarily results from continued sales back to our existing clients.

#### **Private Sector:**

For the quarter ended September 30, 2006, total revenue in the private sector segment increased 2.6%, or \$0.5 million, to \$20.1 million, compared to \$19.6 million for the quarter ended September 30, 2005. For the nine months ended September 30, 2006 total revenue increased by 12.9% or \$7.1 million, to \$62.0 million, compared to \$54.9 million for the comparable period in 2005. Increases occurred across most revenue types, with the primary drivers of growth being maintenance and professional services revenues. Revenue growth from acquired businesses was not as strong as in the public sector as we have only completed 3 acquisitions since the beginning of 2005 in our private sector segment. It is estimated that these acquisitions contributed approximately \$0.2 million of revenue growth to our Q3 2006 revenues and \$1.8 million of revenue growth to our revenues in the nine months ended September 30, 2006. The remaining \$0.4 million of revenue growth for Q3 and \$5.3 million of revenue growth for the first nine months of 2006 in this sector was generated from organic sources. The organic growth was driven by the following:

- **Homebuilder operating group** (approximately negative organic growth of \$0.4 million for Q3 and positive organic growth of \$2.2 million for the first nine months). In our Homebuilder operating group we experienced strong organic growth in the first six months of the year offset by a small decline in revenue in Q3. The strong growth in the first six months was tied to growth in our maintenance revenues as a result of sales back to existing clients, and our clients growing their businesses. The fall off in revenue in Q3 2006 vs. Q3 2005 is attributable to a decline in license revenues. In 2005 the Homebuilder operating group had an unusually large increase in license revenues as a result of a couple of very large clients contracting for a significant number of additional seats to stay in compliance with their license agreements. This added approximately \$1.0 million in license revenues to our Q3 2005 numbers that was not replicated in 2006.
- **Friedman operating group** (approximately \$0.1 million for Q3 and \$1.6 million for the first nine months). The Friedman organic growth primarily resulted from increased professional services revenue from the increased levels of demand for these services. We have also experienced growth in our maintenance revenues from clients going live and buying add on modules.

- **Jonas operating group** (approximately \$0.6 million for Q3 and \$1.5 million for the first nine months). The Jonas organic growth was primarily driven by our web product initiative for our private club customers, growth in our construction business from new client sales and our continued strength in selling back to our existing client base.

Gross Profit by Source:

The following table displays the breakdown of our gross profit by revenue source and as a percentage of total revenue:

|                                     | Three months ended Sept. 30, |       |        |        | Nine months ended Sept. 30, |       |        |        |
|-------------------------------------|------------------------------|-------|--------|--------|-----------------------------|-------|--------|--------|
|                                     | 2006                         | 2005  | 2006   | 2005   | 2006                        | 2005  | 2006   | 2005   |
|                                     | (\$000)                      |       |        |        | (\$000)                     |       |        |        |
| Gross profit licenses               | 91.8%                        | 93.1% | 6,305  | 6,664  | 92.7%                       | 92.4% | 19,741 | 16,881 |
| Gross profit services & maintenance | 60.2%                        | 58.2% | 25,795 | 19,453 | 59.7%                       | 58.5% | 74,409 | 56,224 |
| Gross profit hardware & other       | 15.8%                        | 2.7%  | 649    | 56     | 12.5%                       | 7.4%  | 1,416  | 482    |
| Gross profit on total revenue       | 60.9%                        | 61.4% | 32,749 | 26,173 | 60.8%                       | 60.9% | 95,566 | 73,587 |

Gross profit increased for the quarter ended September 30, 2006 to \$32.7 million, or 60.9% of total revenue, from \$26.2 million, or 61.4% of total revenue, for the quarter ended September 30, 2005. The increase in gross margin dollars is attributable to the overall increase in total revenue while the decrease in gross margin percentage can be attributed to the revenue mix as we experienced a decrease (as a percentage of total revenue) in our higher margin licenses in the quarter. For the first nine months of 2006 our gross profit increased to \$95.6 million or 60.8% of total revenue, from \$73.6 million or 60.9% of total revenue for the comparable period in 2005. The increase in gross margin dollars is attributable to the overall increase in total revenue, while the relatively flat gross margin percentage is consistent with the relative stability of our revenue mix for the first nine months. Our licenses, services and maintenance revenue margins experienced minimal change vs. 2005 in both the three and nine month periods. Our hardware and other revenue margins continued to fluctuate significantly, which is very common given the relatively small size of this revenue category and the numerous third party items included in hardware and other. Management believes gross margins will continue to fluctuate moderately if we see changes in our revenue mix.

Operating Expenses:

The following table displays the breakdown of our operating expenses by category:

|                                | Three months ended Sept. 30, |        | Period-Over-Period Change |       | Nine months ended Sept. 30, |        | Period-Over-Period Change |       |
|--------------------------------|------------------------------|--------|---------------------------|-------|-----------------------------|--------|---------------------------|-------|
|                                | 2006                         | 2005   | \$                        | %     | 2006                        | 2005   | \$                        | %     |
|                                | (\$000, except percentages)  |        |                           |       | (\$000, except percentages) |        |                           |       |
| Research and development       | 8,489                        | 6,186  | 2,303                     | 37.2% | 24,877                      | 18,739 | 6,138                     | 32.8% |
| Sales and marketing            | 6,488                        | 5,149  | 1,339                     | 26.0% | 19,634                      | 15,778 | 3,856                     | 24.4% |
| General and administration     | 9,848                        | 7,746  | 2,102                     | 27.1% | 28,603                      | 22,165 | 6,438                     | 29.0% |
| Amortization of capital assets | 793                          | 662    | 131                       | 19.9% | 2,156                       | 1,829  | 327                       | 17.9% |
|                                | 25,618                       | 19,743 | 5,875                     | 29.8% | 75,270                      | 58,511 | 16,759                    | 28.6% |

Overall operating expenses for the quarter ended September 30, 2006 increased 29.8%, or \$5.9 million, to \$25.6 million, compared to \$19.7 million over the same period in 2005. As a percentage of total revenue, operating expenses increased from 46.3% in the quarter ended September 30, 2005 to 47.6% in the quarter ended September 30, 2006. During the nine months ended September 30, 2006 operating expenses increased 28.6%, or \$16.8 million, to \$75.3 million, compared to \$58.5 million over the same period in 2005. As a percentage of total revenue, operating expenses decreased from 48.4% in the nine months ended September 30, 2005 to 47.9% in the nine months ended September 30, 2006. The significant growth in expenses is primarily due to the growth in the number of employees, as the vast

majority of our operating expenses are headcount-related. Our average employee count associated with operating expenses grew 20% from 573 in the quarter ended September 30, 2005 to more than 685 in the quarter ended September 30, 2006. During the nine months ended September 30, 2006 headcount was up 18% to an average headcount of 669 compared to an average of 567 during the same period in 2005. Another major contributor to the increase in expenses was the appreciation of the Canadian dollar vs. the U.S. dollar as a significant percentage of our expenses are denominated in Canadian dollars. The average exchange rate for the Canadian dollar in the third quarter of 2006 was approximately 7% higher than the comparable average rate in 2005. During the nine months ended September 30, 2006 the Canadian dollar exchange rate was on average, against the U.S. dollar, approximately 8% higher than for the same period in 2005. Management estimates that the change in the Canadian dollar accounted for approximately 3% of the growth in operating expenses for both Q3 and the first nine months of the year. Finally, general inflation, employee raises, and the decline in the US dollar vs. other currencies we transact business in have contributed to the rising expenses

**Research and development** – Research and development expenses increased 37.2%, or \$2.3 million, to \$8.5 million for the quarter ended September 30, 2006 compared to \$6.2 million for the same period in 2005. As a percentage of total revenue, research and development expense increased to 15.8% in Q3 2006 from 14.5% in Q3 2005. During the nine months ended September 30, 2006, research and development expense increased 32.8%, or \$6.1 million, to \$24.9 million, compared to \$18.7 million over the same period in 2005. As a percentage of total revenue, research and development increased from 15.5% in the nine months ended September 30, 2005 to 15.8% in the nine months ended September 30, 2006. The absolute dollar increase from the same three and nine month periods of the prior year reflects the significant growth in personnel devoted to research and development (381 in Q3 2006 vs. 316 for Q3 2005 and 366 during the nine months ended September 30, 2006 vs. 314 for the same period in 2005). Also, the impact of the strengthening Canadian dollar contributed to our growth in expenses.

We currently do not have any capitalized software development costs. All of our software development costs are expensed as incurred unless they meet Canadian generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Capitalized costs would be amortized over the estimated benefit period of the software developed. No costs were deferred in the third quarter or first nine months of 2006 as most projects did not meet the criteria for deferral and, for those projects that met these criteria, the period between achieving technological feasibility and the completion of software development was minimal, and the associated costs immaterial.

**Sales and marketing** – Sales and marketing expenses increased 26.0%, or \$1.3 million to \$6.5 million, in the quarter ended September 30, 2006 compared to \$5.1 million for the same period in 2005. As a percentage of total revenue, sales and marketing expenses held constant at 12.1% in both Q3 2006 and 2005. For the nine months ended September 30, 2006, sales and marketing expenses increased 24.4%, or \$3.9 million, to \$19.6 million, compared to \$15.8 million over the same period in 2005. As a percentage of total revenue, sales and marketing expenses decreased from 13.1% in the nine months ended September 30, 2005 to 12.5% in the nine months ended September 30, 2006. The increase in expenses during the quarter and nine months ended September 30, 2006 is largely attributable to our growth in headcount from both acquisitions and internal hiring. For Q3 2006 we averaged 159 staff compared to 136 in the same period in 2005 (159 vs. 133 for the comparable nine month periods). Sales and marketing expenses also felt the impacts of the increased Canadian dollar, but to a lesser extent than research and development or general and administration (“G&A”) as we tend to have fewer Canadian based sales employees vs. research and development and G&A employees. In the future, we expect our sales and marketing expenses as a percentage of total revenue to remain reasonably consistent as we continue to pursue organic growth initiatives.

**General and administration** – General and administration expenses increased 27.1%, or \$2.1 million, to \$9.8 million in the quarter ended September 30, 2006 from \$7.7 million for the same period in 2005. As a percentage of total revenue, G&A expenses increased to 18.3% in Q3 2006 from 18.2% in Q3

2005. For the nine months ended September 30, 2006, G&A increased 29.0%, or \$6.4 million, to \$28.6 million, compared to \$22.2 million over the same period in 2005. As a percentage of total revenue, G&A decreased from 18.3% in the nine months ended September 30, 2005 to 18.2% in the nine months ended September 30, 2006. The dollar value increase was mainly attributable to increases in headcount in 2006 as compared to the same period in 2005. Average headcount for G&A employees grew 20% from 121 staff in Q3 2005 to 145 for Q3 2006. For the nine months ended September 30, 2006, average headcount grew 19% to 143 staff from 120 staff over the same period in 2005. Also, the strengthening Canadian dollar had a larger impact on G&A expenses as we also lease a significant portion of our offices in Canada and incur a significant amount of our professional fees, travel and insurance expense in Canadian dollars. In the future we expect the trend for G&A expenses as a percentage of total revenue to remain consistent. While we expect we can continue to gain some economies of scale from spreading our generally fixed expenses in this category over a larger revenue base, we anticipate that this will be offset by the increased costs associated with being a public company.

**Amortization of capital assets** – Amortization of capital assets for the quarter and nine months ended September 30, 2006 did not change materially. As a percentage of total revenue, amortization was 1.5% in Q3 2006 compared to 1.6% in Q3 2005. For the nine month periods the percentages were 1.4% in 2006 vs. 1.5% in 2005. The overall dollar value increase in amortization is consistent with our overall headcount growth.

Non-Operating Expenses:

The following table displays the breakdown of our non-operating expenses by category.

|   | Three months ended Sept. 30, |       |       |         | Period-Over-Period Change |      |    |   | Nine months ended Sept. 30, |        |       |         | Period-Over-Period Change |      |    |   |
|---|------------------------------|-------|-------|---------|---------------------------|------|----|---|-----------------------------|--------|-------|---------|---------------------------|------|----|---|
|   | 2006                         | 2005  | \$    | %       | 2006                      | 2005 | \$ | % | 2006                        | 2005   | \$    | %       | 2006                      | 2005 | \$ | % |
|   | (\$000, except percentages)  |       |       |         |                           |      |    |   | (\$000, except percentages) |        |       |         |                           |      |    |   |
| Appreciation in common shares eligible for redemption                                 | 0                            | 0     | 0     | NA      |                           |      |    |   | 10,093                      | 4,528  | 5,565 | 122.9%  |                           |      |    |   |
| Amortization of intangibles   | 4,489                        | 3,116 | 1,373 | 44.1%   |                           |      |    |   | 11,947                      | 8,855  | 3,092 | 34.9%   |                           |      |    |   |
| Other expenses (gain)   | 0                            | (10)  | 10    | -100.0% |                           |      |    |   | 1,970                       | 224    | 1,746 | 779.5%  |                           |      |    |   |
| (Gain) Loss on sale of short term investments, marketable securities and other assets | 0                            | 13    | (13)  | -100.0% |                           |      |    |   | (8)                         | (658)  | 650   | -98.8%  |                           |      |    |   |
| Interest income   | (3)                          | (293) | 290   | -98.9%  |                           |      |    |   | (87)                        | (674)  | 587   | -87.1%  |                           |      |    |   |
| Foreign exchange (gain) loss  | (185)                        | 272   | (457) | -168.0% |                           |      |    |   | (111)                       | 567    | (678) | -119.6% |                           |      |    |   |
| Income tax expense  | 543                          | 1,257 | (714) | -56.8%  |                           |      |    |   | 1,560                       | 2,528  | (968) | -38.3%  |                           |      |    |   |
|   | 4,844                        | 4,355 | 489   | 11.2%   |                           |      |    |   | 25,364                      | 15,370 | 9,994 | 65.0%   |                           |      |    |   |

**Appreciation in Common Shares eligible for redemption** – As highlighted in our final prospectus dated May 11, 2006, with the completion of our initial public offering (IPO), the redemption rights on the common shares eligible for redemption were terminated, thus we incurred no charge in the third quarter with respect to appreciation in common shares eligible for redemption. Further we do not expect to incur these charges on a go forward basis. The historical expenses for appreciation in common shares eligible for redemption were a result of the rights of certain shareholders (contained in the shareholder agreements) to force the Company to redeem their common shares. In conjunction with pronouncements from the Canadian Institute of Chartered Accountants (‘CICA’), we were required to classify all common shares subject to such shareholder agreements as a debt obligation of the Company. As such, each time our stock was re-valued, we were required to include a charge on our income statement for the related increase in this liability. Appreciation in common shares eligible for redemption for the nine months ended September 30, 2006 was \$10.1 million compared to \$4.5 million for the nine months ended September 30, 2005. The increase vs. the amount booked in 2005 was a result of growth in the number of shares eligible for redemption (4.2 million in 2006 compared to 3.9 million in 2005) and the increase in share price from \$7.30 at the end of Q3 2005 to \$9.75 at the end of Q1 2006.

**Amortization of intangible assets** – Amortization of intangible assets was \$4.5 million for the quarter ended September 30, 2006 compared to \$3.1 million for the same period in 2005, representing an

increase of 44.1%. For the nine months ended September 30, 2006 amortization of intangibles increased 34.9%, to \$11.9 million, compared to \$8.9 million over the same period in 2005. Both the three and nine month increases are attributable to the increases in our intangible asset balance (on a cost basis) over the twelve month period ended September 30, 2006 as a result of the significant number of acquisitions that we completed during this period.

**Other expenses** – Other expenses in the quarter ended September 30, 2006 were \$0 compared to other expense of (\$10,000) for the same period in 2005. As we have stated in the past now that we have accrued all expenses with respect to the IPO and redeemed the phantom shares, we expect very little if any ‘Other expenses’ in our statements of operations for future periods. On a nine month basis the \$2.0 million in other expenses for 2006 relates to the one time costs associated with the IPO (\$1.6 million) and our phantom share plan that existed prior to our IPO (\$0.4 million), while the 2005 expense related to the phantom shares.

**Gain on sale of short-term investments, marketable securities and other assets** - Gains for the quarter and nine months ended September 30, 2006 were immaterial compared to a write off of \$13,000 for Q3 2005 and a gain of \$0.7 million for the first nine months 2005. The gains for the first nine months of 2005 are a result of selling a portion of our investment in Indus International Inc. Indus was considered a non-core investment that we intended to liquidate at some time in the future. We expect to realize gains or losses on an infrequent basis as our strategic goal is to buy VMS businesses in their entirety and hold them indefinitely. However, occasionally we will acquire an ownership interest that is less than 100% of a publicly traded VMS business and subsequently sell off these shares if we cannot acquire a controlling stake, generating either gains or losses. As of September 30, 2006 we had two investments that would have the potential to create such gains or losses. In the future, we may liquidate these holdings if we feel we have a better uses for the capital, if our outlook for the business changes, or if the market price exceeds our expectations of value.

**Interest income** – Net interest income was \$3,000 for the quarter ended September 30, 2006 compared to \$0.3 million for the same period in the previous year, representing a decrease of 98.9%. For the first nine months of the year net interest income was \$0.1 million compared to \$0.7 million in the comparable period for 2005, representing a decrease of 87.1% The decrease for both the three and nine month periods was primarily a result of lower average cash balances and utilizing the line of credit in 2006. We maintain excess cash in various bank accounts or low yield, low risk, short term debt instruments. We have in place a \$10 million operating line of credit that can be used for either acquisitions or general working capital purposes. As of September 30, 2006 there were no borrowings against this line, further we have some letters of credit outstanding which reduce our borrowing capacity under this facility. As of September 30, 2006 we had no other significant interest bearing debt outstanding.

**Foreign exchange loss (gain)** – Most of our businesses are organized geographically so that many of our expenses are incurred in the same currency as our revenue, which mitigates some of our exposure to currency fluctuations. For the quarter ended September 30, 2006 our foreign exchange gain was \$0.2 million compared to a \$0.3 million loss for the previous year. For the nine months ended September 30, 2006 the gain was 0.1 million vs. a loss of \$0.6 million during the same period in 2005. The change in the foreign exchange impact was the result of significant fluctuations in exchange rates between the U.S. dollar (our reporting currency) and the major currencies in which we deal (Canadian Dollar, British Pound, Danish Krone, Euro, and Australian Dollar).

**Income taxes** – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our tax rate is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses. For the quarter ended September 30, 2006 the provision for income taxes was \$0.5 million, compared to \$1.3 million in 2005, representing a decrease of 56.8%. For the nine months ended September 30, 2006 the provision for income taxes was \$1.6 million,

compared to \$2.5 million in 2005, representing a decrease of 38.3%. The significant decrease in tax provisions for the 3<sup>rd</sup> quarter and first nine months of 2006 vs. 2005 are the results of : a) finalization of prior period tax returns from some of our acquisitions that resulted in increased loss carryforwards available to Constellation, b) the tax deduction we can utilize on the redemption of the phantom shares and c) the ability to deduct certain portions of our IPO expenses. The effective tax rate for the quarter ended September 30, 2006 was 19.2% and for the first nine months was not meaningful given our pre tax loss. Our effective tax rates for both the quarter and nine months ended September 30<sup>th</sup> are distorted as a result of the large non tax-deductible expenses included in our statement of operations for the appreciation on common shares eligible for redemption and the amortization of certain intangibles.

**Net income (loss)** – Net income for the quarter ended September 30, 2006 was \$2.3 million compared to \$2.1 million for the same period in 2005. On a per share basis this translated into a net income per diluted share of \$0.11 in Q3 2006 vs. \$0.10 in Q3 2005. Net income in Q3 2006 was positively impacted by the growth in our operations and operating income, offset by the increase in amortization of intangibles. For the first nine months of the year, 2006 net loss was \$5.1 million or \$0.24 per diluted share compared to a loss of \$0.3 million or \$0.01 per share in the first nine months of 2005. For the first nine months of the year in both 2006 and 2005 the net loss was a result of the amortization of intangibles and the charges for appreciation in common shares eligible for redemption.

Adjusted EBITDA:

For Q3 2006, Adjusted EBITDA increased by \$0.8 million to \$7.9 million compared to \$7.1 million in Q3 2005, representing an increase of 11.7%. Adjusted EBITDA margin was 14.7% in the third quarter of 2006, compared to 16.6% of total revenue for the same period in 2005. For the first nine months of 2006, Adjusted EBITDA increased by \$5.5 million to \$22.5 million compared to \$16.9 million during the same period in 2005, representing an increase of 32.8%. Adjusted EBITDA margin was 14.3% in first nine months of 2006, compared to 14.0% of total revenue for the same period in 2005. See ‘Non-GAAP Measures’ for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

|  | Three months ended<br>Sept. 30, |               | Nine months ended<br>Sept. 30, |                |
|--|---------------------------------|---------------|--------------------------------|----------------|
|  | <u>2006</u>                     | <u>2005</u>   | <u>2006</u>                    | <u>2005</u>    |
|  | (\$000, except percentages)     |               | (\$000, except percentages)    |                |
| <b>Total revenue</b>   | <u>53,809</u>                   | <u>42,648</u> | <u>157,240</u>                 | <u>120,810</u> |
| <b>Net income (loss)</b>   | 2,287                           | 2,075         | (5,068)                        | (294)          |
| <b>Add back:</b>   |                                 |               |                                |                |
| Income tax expense   | 543                             | 1,257         | 1,560                          | 2,528          |
| Foreign exchange (gain) loss   | (185)                           | 272           | (111)                          | 567            |
| Interest income  | (3)                             | (293)         | (87)                           | (674)          |
| (Gain) Loss on sale of short-term investments,<br>marketable securities and other assets | 0                               | 13            | (8)                            | (658)          |
| Other expenses (gain)  | 0                               | (10)          | 1,970                          | 224            |
| Appreciation in common shares<br>eligible for redemption                                 | 0                               | 0             | 10,093                         | 4,528          |
| Amortization of intangible assets  | 4,489                           | 3,116         | 11,947                         | 8,855          |
| Amortization of capital assets   | 793                             | 662           | 2,156                          | 1,829          |
| Adjusted EBITDA  | 7,924                           | 7,092         | 22,452                         | 16,905         |
| Adjusted EBITDA margin   | 14.7%                           | 16.6%         | 14.3%                          | 14.0%          |

Adjusted net income:

For Q3 2006, Adjusted net income increased by \$1.6 million to \$6.8 million compared to \$5.2 million in 2005, representing an increase of 30.5%. Adjusted net income margin was 12.6% in the third quarter of 2006, compared to 12.2% of total revenue for the same period in 2005. For the first nine months of 2006, Adjusted net income increased by \$3.9 million to \$17.0 million compared to \$13.1 million during the same period in 2005, representing an increase of 29.7%. Adjusted net income margin was 10.8% in first nine months of 2006, compared to 10.8% of total revenue for the same period in 2005. See "Non-GAAP Measures" for a description of Adjusted net income and Adjusted net income margin.

The following table reconciles Adjusted net income to net income:

|  | Three months ended<br>Sept. 30, |               | Nine months ended<br>Sept. 30, |                |
|--|---------------------------------|---------------|--------------------------------|----------------|
|  | <u>2006</u>                     | <u>2005</u>   | <u>2006</u>                    | <u>2005</u>    |
|  | (\$000, except percentages)     |               | (\$000, except percentages)    |                |
| <b>Total revenue</b>                                     | <u>53,809</u>                   | <u>42,648</u> | <u>157,240</u>                 | <u>120,810</u> |
| <b>Net income (loss)</b>                                 | 2,287                           | 2,075         | (5,068)                        | (294)          |
| <b>Add back:</b>   |                                 |               |                                |                |
| Appreciation in common shares<br>eligible for redemption | 0                               | 0             | 10,093                         | 4,528          |
| Amortization of intangible assets                        | 4,489                           | 3,116         | 11,947                         | 8,855          |
| Adjusted net income                                      | 6,776                           | 5,191         | 16,972                         | 13,089         |
| Adjusted net income margin                               | 12.6%                           | 12.2%         | 10.8%                          | 10.8%          |

## Quarterly Results

|                             | Quarter Ended                     |                         |                         |                         |                         |                         |                         |
|-----------------------------|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                             | Mar. 31,<br><u>2005</u>           | June 30,<br><u>2005</u> | Sep. 30,<br><u>2005</u> | Dec. 31,<br><u>2005</u> | Mar. 31,<br><u>2006</u> | June 30,<br><u>2006</u> | Sep. 30,<br><u>2006</u> |
|                             | (\$000, except per share amounts) |                         |                         |                         |                         |                         |                         |
| Revenue                     | 37,463                            | 40,700                  | 42,648                  | 44,551                  | 51,220                  | 52,211                  | 53,809                  |
| Net Income (loss)           | 1,087                             | (3,456)                 | 2,075                   | 815                     | (8,656)                 | 1,301                   | 2,287                   |
| Net Income (loss) per share |                                   |                         |                         |                         |                         |                         |                         |
| Basic                       | 0.06                              | (0.17)                  | 0.10                    | 0.04                    | (0.43)                  | 0.06                    | 0.11                    |
| Diluted                     | 0.05                              | (0.17)                  | 0.10                    | 0.04                    | (0.43)                  | 0.06                    | 0.11                    |

We do not generally experience significant seasonality in our operating results from quarter to quarter. However, our quarterly results may fluctuate as a result of the various acquisitions which may be completed by the Company in any given quarter. We may experience variations in our net income on a quarterly basis depending upon the timing of certain one-time expenditures or gains such as: loss (gain) on the sale of short-term investments, marketable securities and other assets, and appreciation in Common Shares eligible for redemption. As noted above, we do not expect to incur appreciation in Common Shares eligible for redemption charges on a go forward basis.

## Liquidity and Capital Resources

Our cash and cash equivalents position at September 30, 2006 increased to \$16.5 million, from \$7.9 million (net of borrowing on our line of credit) at June 30, 2006 representing an increase of 108%. From December 31, 2005 the balance is down \$1.7 million.

Total assets increased \$16.7 million, from \$158.5 million at December 31, 2005 to \$175.2 million at September 30, 2006. While most asset categories were up, the largest increases came in intangible assets at \$9.1 million and accounts receivable up \$5.1 million.

Current liabilities increased by \$12.2 million from \$81.1 million as of December 31, 2005, to \$93.3 million at September 30, 2006. From an individual category perspective the biggest changes were: the increase in deferred revenue of \$8.1 million to \$53.0 million at September 30, 2006 and the increase in accounts payable and accrued liabilities of \$3.9 million. The increase in deferred revenue and accounts payable and accrued liabilities are consistent with the overall growth in revenues and headcount.

### Net Changes in Cash Flow

|  | <u>Nine months ended<br/>September 30, 2006</u><br>(in millions of \$) |
|--|--|
| Net cash provided by operating activities                    | \$15.5   |
| Net cash provided by financing activities                    | 1.3  |
| Net cash used in investing activities                        | (19.2)   |
| Effect of exchange rate changes on cash and cash equivalents | 0.7  |
| <b>Net decrease in cash and cash equivalents</b>             | <b>(\$1.7)</b>   |

The net cash flow from operating activities was \$15.5 million for the nine months ended September 30, 2006. In the first nine months of 2006 we generated free cash flow profits of

approximately \$18.8 million, however, this was offset by a net increase in our working capital of \$3.3 million most of which can be attributed to growth in inventory and the payment of the 2005 employee bonuses.

The net cash provided by financing activities in the first nine months of 2006 was primarily due to the net proceeds from the issuance of redeemable common shares during the year in conjunction with our annual employee bonus plan and our annual employee share purchase plan. During the first nine months we issued on a net basis \$6.3 million worth of redeemable common shares (including repayments of shareholder loans). Offsetting this was the distributions to shareholders in the form of dividends and returns of capital of \$2.5 million the repurchase of our phantom shares for \$1.7 million and the repayment of long term liabilities for \$0.8 million.

The net cash used in investing activities was due primarily to acquisitions completed in the first nine months of 2006 for an aggregate of \$15.0 million, further investments in our short term marketable securities of \$2.3 million and capital asset purchases of \$2.0 million.

We believe we have more than sufficient cash and cash equivalents to continue to operate for the foreseeable future. Generally our VMS businesses operate with negative working capital as a result of the collection of maintenance payments and other revenues in advance of the performance of the related services. As such, management anticipates that it can continue to grow the business organically without any additional funding, however, if we continue to acquire VMS businesses we may need additional external funding depending on the size of the acquisitions and the timing of when we acquire them.

#### *Capital Resources and Commitments*

We obtained a credit facility in the third quarter of 2004 that is collateralized by substantially all of our assets including the assets of certain of our Canadian and U.S. subsidiaries. Certain other subsidiaries also guarantee this facility. The facility is available for our working capital needs and other general corporate purposes and for the needs of our subsidiaries. As of September 30, 2006, no funds are drawn.

Commitments include operating leases for office equipment and facilities, letters of credit, bank guarantees, and performance bonds that are routinely issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with 'earn out' payments based on the future performance of the acquired VMS business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in unconsolidated companies (aside from our shareholdings in publicly traded companies included in our short term investments) that would have a significant effect on our assets and liabilities as at September 30, 2006.

#### *Foreign Currency Exposure*

We operate internationally and have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact could significantly affect future net earnings. Currently, we do not use hedging techniques to mitigate such currency risks. We cannot predict the effect of foreign exchange losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, results of operations, and financial condition.

#### **Off-Balance Sheet Arrangements**

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases, bank guarantees, letters of credit and other low probability and/or unmeasurable

contingent liabilities (not accrued in accordance with GAAP), all of our commitments are reflected on our balance sheet.

### **Transactions with Related Parties**

Aside from our Key Employee Loan Program ("KELP"), we had no material related party transactions as of September 30, 2006. The outstanding balance of loans issued under the KELP as of September 30, 2006 was \$2.6 million as compared to \$4.5 million as of December 31, 2005.

### **Proposed Transactions**

We seek potential acquisition targets on an ongoing basis and may complete several acquisitions in any given fiscal year.

### **Critical Accounting Estimates**

Details of the critical accounting estimates are available in the management's discussion and analysis for the year ended December 31, 2005 (as contained in the Company's final prospectus dated May 11, 2006).

### **Changes in Accounting Policies**

There have been no material changes in the Company's accounting policies since December 31, 2005.

### **Share Capital**

As at November 8, 2006, there were 21,191,530 total shares outstanding comprised of 16,903,530 common shares and 4,288,000 class A non-voting shares.

### **Outlook**

Although we anticipate that our annual revenue and Adjusted EBITDA will vary from year to year, management's objective is to grow each of our annual revenue and Adjusted EBITDA at an average rate, in the five year period commencing January 1, 2006 and ending December 31, 2010, of approximately 20% per annum. While the mix of organic growth and growth from acquisitions will change from year to year, we anticipate the proportionate growth attributable to each will be, on average, approximately equal over this five year period. The foregoing objectives are based on various assumptions of management, including, without limitation, that (i) there will be a sufficient number of reasonably-priced acquisitions available, (ii) we will continue to declare modest dividends, and (iii) we will not issue any additional equity. See "Forward-Looking Statements" and "Risks and Uncertainties".

### **Risks and Uncertainties**

The risks and uncertainties affecting the Company are described in the Company's final prospectus dated May 11, 2006. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.