

## **Management's Discussion and Analysis of Financial Position and Results of Operations**

### **Scope of Report**

This management's report is designed to assist the reader in better understanding the business of Amadeus International Inc. and its key financial results. It notably explains the Company's financial position for the quarter and the six-month period ended December 31, 2006 by comparing them with those for the prior-year corresponding quarter results. It also provides a comparison of its balance sheets as at December 31, 2006 and June 30, 2006.

Prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations, this management's discussion should be read in conjunction with the Company's audited financial statements and accompanying notes for the fiscal year ended June 30, 2006. Unless otherwise indicated, the terms "Company" and "Amadeus" refer to Amadeus International Inc., and the term "M3K Solutions" refers to a former subsidiary of the Company, of which most of the intangible assets were sold in the past fiscal year.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). These financial statements and this *Management's Discussion and Analysis of Financial Position and Results of Operations* have been reviewed by the Company's Audit Committee and approved by its Board of Directors. Unless otherwise indicated, all amounts in this *Management's Discussion and Analysis of Financial Position and Results of Operations* are expressed in Canadian dollars.

### **Business Overview**

Founded in 1994, Amadeus International Inc. develops and implements compliance process control solutions for highly regulated companies engaged especially in the life sciences, financial and manufacturing industries. Organizations subject to stringent controls in regard to quality and compliance are also targeted. Finally, it is in the interest of public companies having to comply with various corporate governance regulations to benefit from Amadeus' expertise.

The Company's revenues are derived first from the marketing of two proven software solutions: eQRP<sup>®</sup> (Enterprise Quality Resource Planning—on a client/server platform) and eQCM<sup>®</sup> (Enterprise Quality and Compliance Management—on a Web platform). These applications offer an integrated approach to automating compliance management processes. Their functions include the organization of audits, information gathering, identification and treatment of non-compliance, monitoring of corrective and preventive actions, complaint management, monitoring of performance indicators and others. The Company's application suites offer concrete advantages. These solutions reduce compliance management costs, paper record handling costs, and access time to operational and strategic content. They also provide better control of information and allow more informed decision-making by enabling users to visualize the organization's general state of compliance. Finally, they favour the use of best practices and continuous improvement, while considerably lowering business risks, and, therefore, potential penalties.

Secondly, the Company's revenues are derived from professional consulting, planning, implementation, technical support and training services for its software solutions.

Headquartered in Quebec City (Canada), Amadeus is represented abroad by a network of partners, notably in Germany, Italy, France, United States, Portugal and Morocco. Its applications are used by more than 140 companies around the world, including Baxter, Schering-Plough, L'Oréal and Siemens. Amadeus employs over 30 people and its shares are listed on the TSX Venture Exchange under the trading symbol AII.

### **Business Context**

Today more than ever, companies are required to comply with various standards and legislative measures such as FDA 21 CFR, ISO, Sarbanes-Oxley Act, Canadian Bill 198, Basel II Agreement, Patriot Act, and others. In addition, in order to satisfy their customers and remain profitable, many companies set their own quality standards and implement continuous improvement systems. For most companies, meeting those standards while achieving their earnings objectives represents a challenge at all times. This awareness of compliance management has truly exploded in light of financial scandals, the implementation of stringent regulations, the globalization of markets, increased environmental protection and the respect of public safety.

Several studies have shown that compliance-related products and services represent a huge, growing and recurring market. According to AMR Research, a well-known US-based research firm, companies will spend more than US \$80 billion to set up and improve their compliance management between 2005 and 2009. According to the same study, the three industry sectors targeted by the Company represent more than US \$3 billions in technology investments in North America solely. Within the pharmaceutical industry alone, it is estimated that compliance management accounts for 40% of all information technology spending.

### **Discontinued Operations**

Amadeus has ceased its corporate governance consulting services and sold, on April 28, 2006, some of its intangible assets to Fujitsu Services Canada. Consequently, all revenues, expenditures, assets and liabilities related to the said unit were reclassified as discontinued operations in the quarters and semesters ended December 31, 2006 and 2005.

## Results of Operations

Management believes that the financial information has been prepared in the same way as the quarterly financial statement for the period ended December 31, 2005, and this, except for the reclassification of results related to the discontinued operation. It should be mentioned that significant variances between quarters may be noted—in terms of revenues and of gross margin. This volatility is the result of a very random pattern of sales throughout the fiscal year. It is thus difficult for the Company to specifically identify trends and underlying factors of these variances. Such an important sales volatility invariably impacts gross margin and makes it fastidious for the Company to assess trends.

	(In Canadian dollars, except the number of shares)			
	Three-month period ended December 31		Six-month period ended December 31	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues	447,678	630,073	1,037,813	967,748
Net lost from continuing operations	(431,675)	(629,767)	(805,658)	(1,369,869)
Net earnings (loss) from discontinued operation	47,490	228,432	42,875	502,732
Net loss	(384,185)	(400,913)	(762,783)	(866,715)
EBITDA*	(302,335)	(407 625)	(479,242)	(973,030)
Basic and diluted loss per share from continuing operations	(0.01)	(0.02)	(0.02)	(0.04)
Basic and diluted loss per share from discontinued operation	0.00	0.01	0.00	(0.02)
Basic and diluted loss per share	(0.01)	(0.01)	(0.02)	(0.02)
Basic and diluted weighted average number of shares outstanding	35 055 848	34 831 379	35 055 848	34 831 379

\* Definition of EBITDA: Earnings (loss) before financial expenses, income tax on earning and amortization. EBITDA is presented as an additional measurement of earnings in order to assist the reader in establishing the Company's ability to generate cash from activities and to acquit its financial charges. It is also an indicator generally used for purposes of evaluation. Canadian generally accepted accounting principles give no standard interpretation to this measurement and it cannot therefore be compared to similar measurements used by other enterprises. For the quarter ended December 31, 2006, we have the \$393,503 loss before financial expense subtract of the amortization totaling \$75,429 and stock base compensation of \$15,739, which gives us an EBITDA of \$302,335.

## Revenues

Amadeus' revenues decreased by 28.9% to \$447,678 for the three-month period ended December 31, 2006, versus \$630,073 for the three-month period ended December 31, 2005. The Company's revenues are derived first from software licencing revenues, which decreased by 32.8% to settle at \$195,576 for the first quarter of fiscal 2007, as opposed to \$290,889 a year earlier. Professional consulting, implementation, technical support and training services revenues decreased by 36.9% to reach \$110,070 for the second quarter of fiscal 2007, compared with \$174,300 for the same period the previous year. The decrease in revenue is mostly due to a non-recurring and important development contract during the quarter ended December 31, 2005. The decrease in maintenance revenue is due to the non-renewal of some eQRP<sup>®</sup> clients during the current year. For the first six months, Amadeus' revenues increased by 7.2% to \$1,037,813, versus \$967,748 for the first six months of fiscal 2006. The increase in revenue is mostly due to the exhaustive review of the Company's activities, and to the several initiatives that were undertaken by management regarding the development and distribution of the eQCM<sup>®</sup> software suite. These initiatives aimed at reaffirming the Company's positioning, and at tracking the different elements on which it must focus to increase sales velocity and recurring revenue streams from software and related

professional services. This increase in revenue is also attributable to the strengthening and channelling of the Company's marketing efforts throughout fiscal 2006 to better penetrate the US market. Revenue in the United States stood at \$534,464 for the first six months of fiscal 2007, as opposed to \$93,963 for the same period a year earlier.

### **Cost of Sales**

Cost of sales include the human resources expenses assigned to the provision of professional consulting, implementation, technical support and training services, as well as the cost of third-party softwares licences acquired to complete and complement the Amadeus software suite. Cost of sales rose to \$127,454 for the second quarter of fiscal 2007, versus \$114,443 for the corresponding period of fiscal 2006. This variation arises from the increase in services revenues attributable to the addition of a new resource to the Professional Services team. For the six-month period ended December 31, 2006, cost of sales rose to \$304,064, versus \$260,610 for the corresponding period of fiscal 2006.

### **Research and Development Expenses**

Research and development expenses decreased by 58.2% to reach \$156,251 for the second quarter of 2007, as opposed to \$373,958 for the same quarter of 2006. For the six-month period ended December 31, 2006, R&D expenses decreased by 50.1% to reach \$288,525, as opposed to \$578,371 for the same quarter of 2006. This significant decrease is in part due to the reduction of manpower allocated to the development of M3K Solutions' technology—which does not figure in the Company's sales plan—and to the dismissal of several employees dedicated to R&D activities as a result of parental leave during the summer of 2006. Moreover, given the maturity of the eQCM<sup>®</sup> software suite, fewer resources were allocated to R&D and quality assurance.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses decreased to \$482,047 for the second quarter of fiscal 2007, compared with \$567,659 for the same quarter a year earlier. For the first six months, selling, general and administrative expenses decreased by 18.9% to \$962,988, compared with \$1,942,089 for the same period the previous year. This downturn is for the most part attributable to the closing of the Chicago office, and to the centralization of the Sales and Marketing management functions to the Company's head office. Prospection expenses on the European market have gone down pursuant to the signature of an agreement with a full-service provider of solutions for the life sciences industry, who was thus granted responsibility for covering this territory. In addition, the US sales team is now fully oriented towards the life sciences industry sector, one of the fastest growing market in terms of compliance nowadays in the United States.

### **Depreciation and Amortization**

Depreciation and amortization expenses decreased by 43.8% to \$75,429 for the second three-month period of fiscal year 2007, compared with \$134,133 for the same period in 2006. This decrease results from the amortization in the second quarter of fiscal 2006 of a technology that was part of the acquisition of M3K Solutions; this technology was entirely written-off at the end of the last fiscal year.

### **Net Interest**

Net interest expenses stood at \$21,908 for the second quarter ended December 31, 2006, versus \$65,215 for the quarter ended December 31, 2005. Such a decrease is mostly attributable to the cancellation of accrued interests since July 1, 2006 as a result of the resignation of these interests

payable on January 1, 2007 by debenture holders. Moreover, during the third quarter, convertible debenture holders have agreed to convert their debentures in equity.

#### **Net Loss from Continuing Operations**

Given the business reorganization it underwent, the restructuring of its Sales and Marketing Department, and the turnover of its eQCM<sup>®</sup> licenses sales, Amadeus reported a net loss from continuing operations of \$431,675, or \$0.01 per share, for the quarter ended December 31, 2006, versus a net loss from continuing operations of \$629,767, or \$0.02 per share, for the corresponding quarter last year. For the first six-month period of current fiscal year, the net loss from continuing operations stood at \$805,658, compared with \$1,369,869 for the same period a year ago. This represents a decrease of 41.2%.

#### **Net Income from Discontinued Operation**

Amadeus reported net income from discontinued operation totaling \$47,490, or \$0.00 per share, as opposed to a net profit of \$228,432, or \$0.01 per share, for the equivalent period the previous year. The profit reported for the quarter ended December 31, 2006 is mainly attributable to the fact that the sales price balance is non-interest bearing, a discount has been calculated at an implicit interest rate of 11% in accordance with chapter 3860 of the CICA Handbook related to financial instrument. The profit is reduced by the loss on the anticipated cashing of the balance of sales price receivable.

#### **Net Loss**

As a result of the restructuring the executive management team underwent, Amadeus incurred a net loss for the second quarter of fiscal 2007 of \$384,185, or \$0.01 per share, compared with a net loss of \$400,913, or \$0.01 per share, for the corresponding quarter of fiscal 2006. The loss before financial expenses, income tax on earning and amortization (EBITDA) decreased by \$105,290 to \$302,335 for the quarter ended December 31, 2006, as opposed to \$407,625 for the corresponding quarter a year earlier. The weighted average number of common shares issued and outstanding rose from 34,831,379 in December 2005 to 35,055,848 in December 2006 further to the issuance of 583,561 common shares to pay off debentures interests. For the six-month period, the net loss stood at \$762,783, compared with \$866,715 for the first six months of fiscal 2006.

#### **Quarterly Information**

Operating results for each of the last eight quarters are presented in the following table. Management believes that the information related to these quarters has been prepared using the same procedure as the audited financial statements for the fiscal year ended June 30, 2006. The unaudited quarterly financial statements have not been reviewed by the Company's external Auditors.

	2006-2007					2005			
	Q2-2007	Q1-2007	Q4-2007	Q3-2007		Q2-2007	Q1-2006	Q4-2005	Q3-2005
Revenues	\$447,678	\$590,135	\$256,066	\$423,082		\$630,073	\$337,675	\$307,550	\$459,581
Gross profit	\$320,224	\$413,525	\$125,219	\$312,494		\$515,630	\$191,508	\$159,188	\$413,634
Operating expenses	\$715,327	\$688,648	\$1,796,845	\$1,185,037		\$1,075,750	\$866,339	\$1,051,596	\$1,023,907
Net loss from continuing operations	(\$431,675)	(\$373,983)	(\$1,837,318)	(\$954,754)		(\$629,345)	(\$740,102)	(\$958,030)	(\$668,011)
Net income from discontinued operation	\$47,490	\$(4,615)	\$1 716 784	\$196,416		\$228,432	\$274,300	\$70,798	-
Net earnings	(\$384,185)	(\$120 534)	(\$758,338)	(\$390,925)		(\$400,913)	(\$465,802)	(\$887,232)	(\$668,011)
Net loss per share from continuing operations	(\$0.01)	(\$0.05)	(\$0.03)	(\$0.02)		(\$0.02)	(\$0.03)	(\$0.02)	-
Net income per share from discontinued operation	\$0.00	\$0.05	\$0.01	\$0.01		\$0.01	\$0.00	\$0.00	-
Net earnings per share	(\$0.01)	(\$0.00)	(\$0.02)	(\$0.01)		(\$0.01)	(\$0.03)	(\$0.02)	(\$0.03)
Weighted average number of common shares issued and outstanding	35 055 848	34 381 630	34 381 378	34 381 378		34 381 378	30 742 446	29 040 685	20 193 913

### Financial Position and Cash Flows

(In Canadian dollars)	As at December 31, 2006	As at June 30, 2006
	\$	\$
Net cash	74,105	37,037
Current assets	1,494,218	2,261,461
Total assets	2,179,007	3,698,739
Current liabilities	1,523,586	2,105,532
Long term liabilities	2,482,522	2,754,404

As at December 31, 2006, current assets totaled \$1,494,218, compared with \$2,261,461 as at June 30, 2006. Current liabilities stood at \$1,523,586 as at December 31, 2006, versus \$2,105,532 as at June 30, 2006. The working capital decreased by \$185,297 to stand at a deficiency of \$29,368 as at December 31, 2006, as opposed to a deficiency \$155,929 as at June 30, 2006. The decrease in total assets is attributable to the cashing of the balance of sales price receivable, to the reimbursement of the bank loan, and to cashflows that were used to finance the Company's operating activities. As at December 31, 2006, the Company had \$74,105 in cash.

**Operating Activities**

Operating activities used cashflows of \$283,780 in the quarter ended December 31, 2006, compared with \$291,986 in the corresponding quarter ended December 31, 2005. The net loss and non-cash items used cash flows of \$324,243, versus \$464,916 the previous year. Changes in non-cash working capital items provided cash flows of \$40,463 in the second quarter of fiscal 2007, as opposed to a total of \$172,930 for fiscal 2006. For the first six months of fiscal 2007, operating activities used cashflows of \$658,702, compared with \$1,439,639 in the corresponding period ended December 31, 2005. The net loss and non-cash items used cash flows of \$583,989 during the first six-month period, versus \$1,081,414 for the same period last year. Changes in non-cash working capital items provided cash flows of \$74,713, as opposed to a total of used cash flows of \$358,2225 in fiscal 2006.

**Financing Activities**

Financing activities used cash flows of \$466,434 for the quarter ended December 31, 2006, down from cash flows of \$164,518 in the corresponding quarter of fiscal 2006. The Company paid down its line of credit of \$430,000, which was unused as at December 31, 2006. Moreover, the Company had an authorized line of credit to finance tax credit receivable. This line of credit had a balance of \$251,508 as at December 31, 2006, compared with \$185,781 as at June 30, 2006. Globally, financing activities used cash flows of \$217,952 for the six-month period ended December 31, 2006, down from cash flows of \$773,435 in the corresponding quarter of fiscal 2006.

It should be noted that the Company is at present negotiating renewal of its credit facilities with its financial institution.

**Investing Activities**

Investing activities did not require any cash flows in the quarter ended December 31, 2006, compared with \$78,458 for the quarter ended December 31, 2005. The latter were entirely injected in property, plant and equipment—totaling \$49,053; intangible assets—totaling \$24,905; and other assets—totaling \$4,500.

In upcoming quarters, Amadeus plans to further increase its eQCM<sup>®</sup> licenses and professional services sales. The Company also remains on the lookout for business opportunities to strengthen its position in the compliance management industry. The cash resources required to finance its various projects will come from its financial restructuring. It should be pointed out that Amadeus did not attain certain financial ratios associated with its line of credit.

**Contractual Obligations**

The Company has entered into long-term lease agreements, which expire between June 2007 and April 2010. Future minimum lease payments totaled \$229,679 as at December 31, 2006. Minimum annual payments required over the next four years under these agreements amount to \$77,652 in 2007, \$74,040 in 2008, \$59,686 in 2009 and \$18,300 in 2010.

## Share Capital

	December 31 2006	June 30 2006
	\$	\$
35,055,848 common shares (34,472,287 as at June 30, 2006)	4,296,008	4,237,651
Warrants and stock options (Number)	<b>December 31 2006</b>	<b>June 30 2006</b>
Warrants	2,200,000	2,668,183
Stock options	2,747,252	2,753,376

Amadeus did not pay any dividends on its common shares in the first quarter of fiscal 2007, and does not plan to pay any in the near future, preferring to retain its cash resources to finance its growth.

## Risks and Uncertainties

Amadeus specializes in an industry subject to various risks and uncertainties. Its operating results and financial position could be adversely affected by each of the following factors, along with the financial risks described above, which are detailed in the Company's *Management's Discussion and Analysis of financial Position and Results of Operations* and annual report for fiscal year ended June 30, 2006.

- Capital requirements
- Cashflows risk
- Exclusive intellectual property rights
- Competition and technological obsolescence
- Conflicts of interest
- Qualified labour
- Acquisitions
- Market uncertainty
- Exchange rates
- Tax credit related risk

The risk factors and uncertainties listed here are not the only factors likely to affect the Company. Other risks and uncertainties currently unknown to the Company or regarded as negligible could also impact its business.

### **Forward-Looking Statements**

Certain statements set forth in this management's report may be forward-looking. Forward-looking statements involve known and unknown risks, uncertainties and other factors (see *Risks and Uncertainties* section) that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such statements. Amadeus disclaims any intention or obligation to update or revise any forward-looking statements in order to account for any new information or any other event unless Amadeus has to in regards of any applicable securities laws. The reader is warned against the risk of attributing excessive credibility to these forward-looking statements.

### **Outlook**

Fiscal 2006 and the first quarter of fiscal 2007 were marked by many achievements—which temporarily had an adverse impact on the Company's sales—that will yield benefits as of the current fiscal year. On the strength of a targeted strategy, a services offering that is more comprehensive and competitive than ever, and skilled human resources driving its success, Amadeus is on a firm footing to consolidate its positioning in the compliance management and corporate governance sector, one of the most promising sectors in the information technology industry.

Finally, management has reviewed the capital requirements and structure of the Company with the aim of presenting clients with a much better capitalized organization, able to support them in years to come. In addition, management is in the process of finalizing the restructuring of its balance sheet and an additional equity financing operation announced by press release on February 26, 2007. Management believes that these actions, in conjunction with the expected sales growth and exploitation of existing technologies in fiscal 2007, make the use of the going concern basis appropriate. However, it is not possible at this time to predict the outcome of these matters and there is no assurance that management will be successful in these actions.

### **Additional Information and Continuous Disclosure**

This management's report was prepared as of February 26, 2006. Additional information is available on SEDAR's website at [www.sedar.com](http://www.sedar.com).

*(S) Frédéric Garand*

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**Frédéric Garand, CA**

**Chief Financial Officer**

**Amadeus International Inc.**