

Interim Consolidated Financial Statements
(In U.S. dollars)

**CONSTELLATION
SOFTWARE INC.**

For the three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

CONSTELLATION SOFTWARE INC.

Interim Consolidated Balance Sheets
(In thousands of U.S. dollars)

	September 30, 2008	December 31, 2007
	(Unaudited)	
Assets		
Current assets:		
Cash	\$ 11,914	\$ 19,796
Restricted cash	1,658	750
Short-term investments and marketable securities available for sale (note 4)	11,327	1,217
Accounts receivable	59,588	47,177
Work in progress	18,083	10,839
Inventory	2,491	2,069
Prepaid expenses and other current assets	9,702	7,608
Investment tax credit recoverable	975	661
Future income taxes (note 9)	1,233	1,096
	<u>116,971</u>	<u>91,213</u>
Property and equipment	9,895	8,025
Future income taxes (note 9)	3,377	3,890
Notes receivable	3,611	3,490
Share purchase warrants	487	571
Investment tax credit recoverable	2,108	1,779
Other long-term assets	2,083	643
Intangible assets (note 6)	181,429	128,942
Goodwill	40,908	28,594
	<u>\$ 360,869</u>	<u>\$ 267,147</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	\$ 54,700	\$ 19,342
Accounts payable and accrued liabilities	51,675	43,892
Acquisition holdback payments	17,029	10,442
Deferred revenue	114,478	78,870
Income taxes payable	2,778	3,426
Future income taxes (note 9)	327	347
	<u>240,987</u>	<u>156,319</u>
Future income taxes (note 9)	22,802	21,238
Acquisition holdback payments	928	1,000
Other long-term liabilities	3,295	1,708
Shareholders equity:		
Capital stock	99,283	99,283
Shareholder loans (note 8)	(1,055)	(1,915)
Accumulated other comprehensive loss	(5,332)	(3,237)
Deficit	(39)	(7,249)
	<u>92,857</u>	<u>86,882</u>
Subsequent events (note 15)		
	<u>\$ 360,869</u>	<u>\$ 267,147</u>

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

Interim Consolidated Statements of Operations

(In thousands of U.S. dollars, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Revenue	\$ 80,790	\$ 60,574	\$ 232,135	\$ 176,955
Cost of revenue	29,722	22,368	86,974	66,904
	51,068	38,206	145,161	110,051
Research and development	11,856	9,127	34,813	26,899
Sales and marketing	8,930	6,727	26,812	21,093
General and administration	14,539	10,994	41,389	31,440
Depreciation	883	863	2,509	2,411
	36,208	27,711	105,523	81,843
Income before the undernoted	14,860	10,495	39,638	28,208
Amortization of intangible assets	9,709	5,302	27,006	14,945
Other expenses	-	70	-	70
(Gain) loss on sale of short-term investments, marketable securities and other assets	15	-	(9)	(1,354)
Loss on held for trading investments related to mark to market adjustments	134	-	134	-
Interest expense (income), net	120	(249)	517	(398)
Foreign exchange (gain) loss	176	690	(487)	2,042
Income before income taxes	4,706	4,682	12,477	12,903
Income taxes (recovery) (note 9):				
Current	2,083	1,471	4,035	4,050
Future	(670)	(115)	(2,582)	(617)
	1,413	1,356	1,453	3,433
Net Income	\$ 3,293	\$ 3,326	\$ 11,024	\$ 9,470
Income per share (note 10):				
Basic	\$ 0.16	\$ 0.16	\$ 0.52	\$ 0.45
Diluted	0.16	0.16	0.52	0.45
Weighted average number of shares outstanding (note 10):				
Basic	21,153	21,119	21,130	21,107
Diluted	21,192	21,192	21,192	21,192
Outstanding at the end of the period	21,192	21,192	21,192	21,192

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

Interim Consolidated Statements of Deficit
(In thousands of U.S. dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Deficit, beginning of period	\$ (3,332)	\$ (12,215)	\$ (7,249)	\$ (15,180)
Net income	3,293	3,326	11,024	9,470
Dividends	-	-	(3,814)	(3,179)
Deficit, end of period	\$ (39)	\$ (8,889)	\$ (39)	\$ (8,889)

Interim Consolidated Statements of Comprehensive Income
(In thousands of U.S. dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Net Income	\$ 3,293	\$ 3,326	\$ 11,024	\$ 9,470
Other comprehensive income (loss), net of tax:				
Net unrealized mark-to-market adjustment gain (loss) on available-for-sale financial assets during the period	438	(121)	(1,401)	(42)
Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period	(646)	5	(740)	12
Transfer of unrealized gain from prior periods upon derecognition of available-for-sale investments	-	-	(39)	-
Comprehensive income	\$ 3,085	\$ 3,210	\$ 8,844	\$ 9,440

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

Interim Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Cash flows from operating activities:				
Net income	\$ 3,293	\$ 3,326	\$ 11,024	\$ 9,470
Adjustments to reconcile net income to net cash flows from operations:				
Decrease (increase) in investment tax credit recoverable	158	(35)	(870)	(193)
Depreciation	883	863	2,509	2,411
Amortization of intangible assets	9,709	5,302	27,006	14,945
Accretion interest	(29)	-	(86)	-
Interest on shareholder loans	(14)	(25)	(51)	(74)
Future income taxes	(670)	(115)	(2,582)	(617)
(Gain) loss on sale of short-term investments, marketable securities, and other assets	15	-	(9)	(1,354)
Loss on held for trading investments related to mark to market adjustments	134	-	134	-
Unrealized foreign exchange loss	307	713	(66)	1,996
Change in non-cash operating working capital (note 14)	10,070	5,474	2,149	(6,567)
Cash flows from operating activities	23,856	15,503	39,158	20,017
Cash flows from financing activities:				
Increase in long-term liabilities	172	310	395	101
Increase (decrease) in bank indebtedness	26,500	(1,881)	35,358	1,712
Credit facility financing fees	-	-	(354)	-
Dividends	-	-	(3,814)	(3,179)
Issuance of shareholder loans	-	-	-	(447)
Repayment of shareholder loans, net	-	-	885	869
Cash flows from (used in) financing activities	26,672	(1,571)	32,470	(944)
Cash flows from investing activities:				
Acquisition of businesses, net of cash acquired (note 5)	(43,590)	(2,783)	(59,679)	(18,190)
Acquisition holdback payments	(1,831)	(320)	(2,571)	(3,728)
Investment in VCG Inc.	(85)	-	(85)	(4,000)
Reduction (additions) to short-term investments, marketable securities and other assets	-	(869)	(12,158)	3,082
Decrease (increase) in restricted cash	89	-	(908)	858
Increase in other assets	(1,096)	(25)	(1,291)	(249)
Property and equipment purchased	(874)	(544)	(2,385)	(1,829)
Cash flows used in investing activities	(47,387)	(4,541)	(79,077)	(24,056)
Effect of currency translation adjustment on cash and cash equivalents	(543)	(1,038)	(433)	(1,847)
Increase (decrease) in cash and cash equivalents	2,598	8,353	(7,882)	(6,830)
Cash, beginning of period	9,316	10,624	19,796	25,807
Cash, end of period	\$ 11,914	\$ 18,977	\$ 11,914	\$ 18,977

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

1. Basis of presentation:

The accompanying unaudited condensed interim consolidated financial statements (the "Interim Consolidated Financial Statements") include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant inter-company transactions and balances have been eliminated. During the nine months ended September 30, 2008, the Company completed certain acquisitions as described in note 5 to the Interim Consolidated Financial Statements. The results of operations of these acquired companies have been included in these Interim Consolidated Financial Statements from the dates of acquisition.

These Interim Consolidated Financial Statements are expressed in U.S. dollars and are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reflect all adjustments consisting only of normal adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods presented. These Interim Consolidated Financial Statements are based upon accounting policies and methods of their application that are consistent with those used and described in the Company's annual consolidated financial statements, except as described in note 2. The Interim Consolidated Financial Statements do not include all of the financial statement disclosures included in the annual financial statements prepared in accordance with Canadian GAAP and, therefore, should be read in conjunction with the 2007 consolidated financial statements and notes.

2. Changes in accounting policies:

(a) Capital disclosures:

Effective January 1, 2008, the Company adopted the recommendations included in the Canadian Institute of Chartered Accountants ("CICA") Handbook, Section 1535, Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

2. Changes in accounting policies (continued):

(b) Financial instruments - disclosures:

On January 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation.

Section 3862 requires disclosure about the significance of financial instruments for an entity's financial position, the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

Section 3862 and 3863 replace Section 3861, Financial Instruments - Disclosure and Presentation.

The additional disclosures, required as a result of adoption of these standards, have been included in Note 11, Capital risk management and Note 12, Financial risk management and financial instruments.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

3. Changes in accounting policies not yet adopted:

The following accounting pronouncements have been released but have not yet been adopted by the Company.

(a) International Financial Reporting Standards:

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact on the transition to IFRS on the Company's financial statements is not yet determinable.

(b) Goodwill and Intangible Assets:

In 2008, the CICA issued Handbook Section 3064 "Goodwill and Intangible Assets". Section 3064 replaces Section 3062 "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company has assessed that the new standard will have no impact on its financial statements.

4. Short-term investments and marketable securities:

At September 30, 2008, the Company held investments in three public companies listed in the U.K. and U.S., all of which develop and sell software solutions.

	September 30, 2008		December 31, 2007	
	Cost	Market Value	Cost	Market Value
Common shares	\$ 13,507	\$ 11,327	\$ 1,303	\$ 1,217

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

5. Business acquisitions:

2008

- (a) On September 30, 2008, the Company acquired substantially all of the assets of MAXIMUS Inc.'s Justice, Education, and Asset Solutions businesses for aggregate net cash consideration of \$35,000 plus cash holdbacks of \$5,000 resulting in total consideration of \$40,000. The holdbacks are payable over a one-year period and are adjusted for any claims under the representations and warranties of the agreement. Transaction costs associated with this acquisition incurred to date are estimated to be \$200. The acquisition has been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:	
Current assets	\$ 19,626
Property and equipment	1,172
Intangibles	50,121
	<hr/> 70,919
Liabilities assumed:	
Current liabilities	7,332
Deferred revenue	23,387
	<hr/> 30,719
<hr/> Total purchase price consideration	<hr/> \$ 40,200 <hr/>

The Company is in the process of determining the fair value of the intangible assets, long-term contracts and acquired deferred revenue.

This acquisition has been allocated to the Public Sector.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

- (b) During the nine months ended September 30, 2008, the Company made fifteen acquisitions for aggregate net cash consideration of \$24,479 plus cash holdbacks of \$4,909 and earnout arrangements of \$960 resulting in total consideration of \$30,348. The holdbacks are payable over a two-year period and are adjusted for any claims under the representations and warranties of the agreements. The acquisitions have been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of each acquisition:

Assets acquired:	
Current assets	\$ 9,182
Property and equipment	887
Future income taxes	176
Technology assets	25,984
Customer assets	8,928
Non-compete agreements	1,000
Backlog	735
Goodwill	3,540
	<hr/>
	50,432
Liabilities assumed:	
Current liabilities	2,879
Deferred revenue	11,769
Future income taxes	5,204
Long-term liabilities	232
	<hr/>
	20,084
	<hr/>
Total purchase price consideration	\$ 30,348

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

5. Business acquisitions (continued):

2007

(b) PG Govern QC Inc. ("PG"):

On March 1, 2007, the Company acquired the assets and shares of PG for net cash consideration of \$13,112 on closing plus a holdback of \$2,228 resulting in total consideration of \$15,340. The holdback is expected to be paid out as assets are converted into cash, subject to no claims under the representations and warranties of the agreement. The acquisition has been accounted for by the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:	
Current assets	\$ 8,115
Property and equipment	1,030
Other long-term assets	2,212
Technology assets	16,694
Customer assets	4,346
Backlog	767
	<hr/> 33,164
Liabilities assumed:	
Current liabilities	8,441
Deferred revenue	7,068
Future income tax liability	1,533
Other long-term liabilities	782
	<hr/> 17,824
Total purchase price consideration	<hr/> \$ 15,340 <hr/>

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

5. Business acquisitions (continued):

(c) Other acquisitions:

During the nine months ended September 30, 2007, the Company made seven other acquisitions for aggregate net initial cash consideration of \$4,928 plus holdbacks of \$1,216 resulting in total consideration of \$6,144. Holdbacks of \$816 have subsequently been paid (\$497 during the nine months ended September 30, 2008). The acquisitions have been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of each acquisition:

Assets acquired:	
Current assets	\$ 2,390
Property and equipment	219
Technology assets	6,401
Customer assets	2,236
Goodwill	33
	<hr/> 11,279
Liabilities assumed:	
Current liabilities	1,518
Deferred revenue	2,193
Future income taxes	1,424
	<hr/> 5,135
<hr/> Total purchase price consideration	<hr/> \$ 6,144 <hr/>

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

6. Intangible assets:

			September 30, 2008	December 31, 2007
	Cost	Accumulated amortization	Net book value	Net book value
Technology assets	\$ 173,545	\$ 71,959	\$ 101,586	\$ 71,866
Non-compete agreements	2,680	1,747	933	91
Customer assets	39,463	12,625	26,838	15,175
Trademarks	133	100	33	40
Backlog	2,643	1,448	1,195	128
Contract related assets	903	180	723	549
Other	50,121	-	50,121	41,093
	\$ 269,488	\$ 88,059	\$ 181,429	\$ 128,942

Note: At December 31, 2007, the purchase price allocation of certain intangible amounts was not determinable and recorded as "Other". During the six months ended June 30, 2008, the preliminary purchase price allocation was determined and the amounts were allocated as follows: \$24,210 to technology assets, \$8,275 to customer assets, \$732 to backlog, and \$7,876 to goodwill. At September 30, 2008 "Other" includes intangibles assets relating to the preliminary purchase price allocation for the acquisition of Maximus Inc.'s Justice, Education, and Asset Solutions businesses. The allocations will be finalized over the next four quarters.

7. Credit facilities:

The Company has an operating line-of-credit with a Canadian chartered bank in the amount of \$105,000 (December 31, 2007 - \$50,000). The line-of-credit bears a variable interest rate and is due in full on April 28, 2011. It is secured by a general security agreement covering the majority of the assets of the Company and its subsidiaries, and is subject to various standard debt covenants. As at September 30, 2008, \$54,700 (December 31, 2007 - \$19,342) had been drawn from this credit facility, and letters of credit totalling \$12,000 (December 31, 2007 - \$7,186) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Interest expense paid on the line-of-credit for the nine months ended September 30, 2008 totalled \$1,190.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

8. Shareholder loans:

Share purchase loans receivable of \$1,055 (December 31, 2007 - \$1,915) under the Company's share purchase plan are included as a reduction of shareholders' equity. Interest rates on these loans range from 5.0% to 6.5% depending on the year the loan was advanced. The balances outstanding are secured by the shares for which they were used to purchase.

The following table summarizes the shareholder loan activity for the period:

Balance at December 31, 2007	\$	1,915
Repayment of shareholder loans		(885)
Interest		51
Currency translation adjustment		(26)
<hr/>		
Balance, September 30, 2008	\$	1,055

9. Income taxes:

The Company operates in various tax jurisdictions, and accordingly, the Company's income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another. The Company's ability to use income tax losses and future income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise. As of September 30, 2008, the Company had total net future tax assets of \$4,610 (December 31, 2007 - \$4,986) and total future tax liabilities of \$23,129 (December 31, 2007 - \$21,585).

In assessing the valuation of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax assets, and tax planning strategies in making this assessment. To the extent that management believes that the realization of the future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

10. Income per share:

	Three months ended September, 30		Nine months ended September, 30	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Numerator:				
Net income	\$ 3,293	\$ 3,326	\$ 11,024	\$ 9,470
Denominator:				
Weighted average number of shares:				
Basic	21,153	21,119	21,130	21,107
Effect of dilutive securities:				
Shares secured by shareholder loans	39	73	62	85
Diluted	21,192	21,192	21,192	21,192
Net income per share:				
Basic	\$ 0.16	\$ 0.16	\$ 0.52	\$ 0.45
Diluted	0.16	0.16	0.52	0.45

11. Capital risk management:

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company manages its capital with the objective of ensuring that there are adequate capital resources while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Company consists of cash, credit facilities and components of shareholders' equity including deficit and capital stock.

The Company is subject to certain covenants on its credit facilities. The covenants include a leverage ratio and an interest coverage ratio, as well as a minimum net worth requirement. The Company monitors the ratios on a monthly basis. As at September 30, 2008, the Company is in compliance with the covenants on its credit facilities. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

11. Capital risk management (continued):

The Company's policy is to pay annual dividends, subject to Board approval, based on the Company's financial results. The Board of Directors will determine if and when dividends should be declared and paid based on all relevant circumstances, including the desirability of financing further growth of the Company and its financial position at the relevant time. There is no guarantee that dividends will continue to be paid in the future. In addition, the Company is restricted, pursuant to financial covenants under its operating line of credit, from paying dividends of more than 20% of its consolidated adjusted net income as defined in the agreement.

The Company makes adjustments to its capital structure in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may pay dividends, increase or decrease the line of credit or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions not in the ordinary course of business, including significant acquisitions or other major investments.

12. Financial risk management and financial instruments:

(a) Overview:

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

12. Financial risk management and financial instruments (continued):

(b) Market risk:

Market risk is the risk that changes in market prices, such as fluctuations in the market prices of the Company's publicly traded investments, foreign exchange rates and interest rates, will affect the Company's income or the value of its financial instruments.

The Company manages risk related to fluctuations in the market prices of its publicly traded investments by regularly conducting financial reviews of publicly available information to ensure that any risks are within established levels of risk tolerance. The Company does not routinely engage in risk management practices such as hedging, derivatives or short selling with respect to its publicly traded investments.

The following table details the Company's sensitivity to a 1% strengthening in the market price of the marketable securities it currently holds. For a 1% weakening in the market price, there would be an equal and opposite impact on net income and comprehensive income.

Net income	\$	-
Comprehensive income		113

The Company is exposed to interest rate risk on the utilized portion of its credit facilities and does not currently hold any financial instruments that mitigate this risk. Management does not believe that the impact of interest rate fluctuations on the current level of borrowings will be significant and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net income and comprehensive income. A breakdown of the components of interest expense (income) amount recorded on the financial statements is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Interest expense on credit facilities (Other financial liability)	\$ 324	\$ 22	\$ 1,190	\$ 113
Interest income on notes receivable (Loans and receivables)	(149)	(168)	(446)	(168)
Bank interest (Held for trading)	(41)	(78)	(176)	(269)
Interest income on shareholder loans	(14)	(25)	(51)	(74)
	120	(249)	517	(398)

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company currently does not use derivative instruments to hedge its exposure to those risks. Most of the Company's businesses are organized geographically so that many of its expenses are incurred in the same currency as its revenues thus mitigating some of its exposure to currency fluctuations.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

12. Financial risk management and financial instruments (continued):

Foreign currency sensitivity analysis:

The Company is mainly exposed to fluctuations in the Canadian dollar and British pound. The major currency exposures, as of September 30, 2008, are summarized in USD equivalents in the following table. The local currency amounts have been converted to USD equivalents using the period end exchange rates.

	Canadian Dollar	British Pound
Cash	\$ 895	\$ 3,040
Restricted cash	-	-
Short-term investments and marketable securities available for sale	-	5,368
Accounts receivable	6,876	5,973
Other financial assets	4,844	4,415
Accounts payable and accrued liabilities	(15,585)	(4,183)
Other financial liabilities	(5,801)	(5,053)
Shareholder loans	219	35
Net financial assets	\$ (8,551)	\$ 9,595

The following table details the Company's sensitivity to a 1% strengthening of the Canadian dollar and British pound on net income and comprehensive income against the U.S. dollar. The sensitivity analysis includes foreign currency denominated monetary assets and liabilities and adjusts their translation at period end for a 1% change in foreign currency rates. For a 1% weakening against the U.S. dollar, there would be an equal and opposite impact on net income and comprehensive income.

	Canadian Dollar Impact	British Pound Impact
Net income	\$ (86)	\$ 42
Comprehensive income	(86)	96

(c) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 11 to the unaudited interim consolidated financial statements. The Company's growth is financed through a combination of the cash flows from operations and borrowing under the existing credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. The Company's credit facilities are disclosed in note 7 to the unaudited interim consolidated financial statements. As at September 30, 2008, the undrawn portion of the Company's bank credit facility was \$38,300. Utilizations include advances borrowed under the bank credit facility and issuances of letters of credits.

The majority of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days. Holdbacks payable are due within two years.

Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

12. Financial risk management and financial instruments (continued):

(d) Credit risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument, in which the Company has an amount owing from the counterparty failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company. The carrying amount of the Company's financial assets represents the Company's maximum credit exposure.

The Company manages credit risk related to accounts receivable by maintaining reserves for potential credit losses and returns, but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. Also, the majority of the accounts receivable balance relates to maintenance invoices to customers that have a history of payment. As at September 30, 2008, 33% of the Company's accounts receivable balance is over 90 days past due which is in line with the balance at December 31, 2007. Accounts receivable are net of allowance for doubtful accounts of \$4,084 at September 30, 2008 (December 31, 2007 - \$2,227).

There is no significant credit risk associated with the Company's short term investments. The Company manages its credit risk related to short-term investments by conducting financial and other assessments of these investments on a regular basis.

The Company manages credit risk related to notes receivable by monitoring the results of the business to which the note relates, and maintaining security over the assets of the business.

The Company manages credit risk related to cash by maintaining bank accounts with Schedule 1 banks.

In the ordinary course of business the Company and its subsidiaries have provided performance bonds and other guarantees for the completion of certain customer contracts. The Company has not experienced a loss to date and future losses are not anticipated; therefore, no liability has been recorded in the unaudited interim consolidated balance sheets related to these types of indemnifications or guarantees at September 30, 2008.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

12. Financial risk management and financial instruments (continued):

(e) Financial instruments:

(i) Classification of financial instruments

	Classification	Measurement
Cash	Held for trading	Fair value
Restricted cash	Held for trading	Fair value
Short term investments and marketable securities	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Notes receivable	Loans and receivable	Amortized cost
Share purchase warrants	Held for trading	Fair value
Other long-term assets	Loans and receivables	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Holdbacks on acquisitions	Other financial liabilities	Amortized cost

(ii) Fair values of financial instruments

The carrying values of cash, restricted cash, accounts receivable, bank indebtedness, accounts payable, accrued liabilities, acquisition holdbacks, and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

The fair values of short-term investments, which are publicly traded, are determined by the quoted market values for each investment (note 4).

Notes receivable are recorded at amortized cost, which approximates the fair value.

Warrants which are not publicly traded are fair valued using valuation techniques and adjusted by the Company after considering the fair value of the underlying security and the strike price of the warrants. As at September 30, 2008, there was a decrease of \$134 in the fair value of the warrants as compared to December 31, 2007.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

13. Segmented information:

The Company has a number of operating subsidiaries, which have been aggregated into two reportable segments in accordance with CICA Handbook Section 1701. The Company's Public Sector segment develops and distributes software solutions primarily to government and government-related customers. The Company's Private Sector segment develops and distributes software solutions primarily to commercial customers.

The accounting policies of the segments are the same as those described in the significant accounting policies in note 1 of the 2007 annual financial statements. The Company evaluates performance of the Public Sector businesses and the Private Sector businesses based on several factors, of which the primary financial measures are revenue and earnings (loss) from operations. The Company defines earnings (loss) from operations as earnings (loss) prior to: amortization of intangible assets, (gain) loss on sale of short-term investments and marketable securities and other assets, interest expense (income), foreign exchange gains and losses, inter-company expenses and income taxes.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

13. Segmented information (continued):

(a) Reportable segments:

Three months ended September 30, 2008	Public Sector	Private Sector	Other	Total
Revenue	\$ 55,359	\$ 25,431	\$ -	\$ 80,790
Cost of revenue	21,751	7,971	-	29,722
	33,608	17,460	-	51,068
Research and development	8,071	3,785	-	11,856
Sales and marketing	5,703	3,227	-	8,930
General and administration	9,541	4,998	-	14,539
Depreciation	619	264	-	883
	23,934	12,274	-	36,208
Income before the undernoted	9,674	5,186	-	14,860
Amortization of intangible assets	6,374	3,265	70	9,709
Gain on sale of short-term investments, marketable securities and other assets	6	9	-	15
Loss on held for trading investments related to mark to market adjustments	-	-	134	134
Interest expense (income), net	(40)	1	159	120
Foreign exchange (gain) loss	318	(132)	(10)	176
Inter-company expenses (income)	270	911	(1,181)	-
Income before income taxes	2,746	1,132	828	4,706
Income taxes (recovery):				
Current	1,512	758	(187)	2,083
Future	(356)	(314)	-	(670)
	1,156	444	(187)	1,413
Net Income	\$ 1,590	\$ 688	\$ 1,015	\$ 3,293
Other selected information:				
Property and equipment purchased	\$ 684	\$ 190	\$ -	\$ 874

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

13. Segmented information (continued):

Nine months ended September 30, 2008	Public Sector	Private Sector	Other	Total
Revenue	\$ 156,442	\$ 75,693	\$ -	\$ 232,135
Cost of revenue	63,136	23,838	-	86,974
	93,306	51,855	-	145,161
Research and development	22,938	11,875	-	34,813
Sales and marketing	16,536	10,276	-	26,812
General and administration	26,687	14,702	-	41,389
Depreciation	1,738	771	-	2,509
	67,899	37,624	-	105,523
Income before the undernoted	25,407	14,231	-	39,638
Amortization of intangible assets	17,407	9,419	180	27,006
Gain (loss) on sale of short-term investments, marketable securities and other assets	29	8	(46)	(9)
Loss on held for trading investments related to mark to market adjustments	-	-	134	134
Interest expense (income), net	(143)	(22)	682	517
Foreign exchange gain	94	(295)	(286)	(487)
Inter-company expenses (income)	1,033	2,637	(3,670)	-
Income before income taxes	6,987	2,484	3,006	12,477
Income taxes (recovery):				
Current	3,061	1,472	(498)	4,035
Future	(1,118)	(1,464)	-	(2,582)
	1,943	8	(498)	1,453
Net Income	\$ 5,044	\$ 2,476	\$ 3,504	\$ 11,024
Other selected information:				
Property and equipment purchased	\$ 1,737	\$ 609	\$ 39	\$ 2,385

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

13. Segmented information (continued):

Three months ended September 30, 2007	Public Sector	Private Sector	Other	Total
Revenue	\$ 39,461	\$ 21,113	\$ -	\$ 60,574
Cost of revenue	15,564	6,804	-	22,368
	23,897	14,309	-	38,206
Research and development	5,685	3,442	-	9,127
Sales and marketing	4,345	2,382	-	6,727
General and administration	6,780	4,214	-	10,994
Depreciation	630	233	-	863
	17,440	10,271	-	27,711
Income before the undernoted	6,457	4,038	-	10,495
Amortization of intangible assets	3,684	1,618	-	5,302
Other expenses	-	(230)	300	70
Gain on sale of short-term investments, marketable securities and other assets	-	-	-	-
Interest expense (income), net	(76)	(16)	(157)	(249)
Foreign exchange loss	172	593	(75)	690
Inter-company expenses (income)	298	805	(1,103)	-
Income before income taxes	2,379	1,268	1,035	4,682
Income taxes (recovery):				
Current	614	738	119	1,471
Future	(107)	(8)	-	(115)
	507	730	119	1,356
Net Income	\$ 1,872	\$ 538	\$ 916	\$ 3,326
Other selected information:				
Property and equipment purchased	\$ 337	\$ 187	\$ 20	\$ 544

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

13. Segmented information (continued):

Nine months ended September 30, 2007	Public Sector	Private Sector	Other	Total
Revenue	\$ 113,567	\$ 63,388	\$ -	\$ 176,955
Cost of revenue	46,005	20,899	-	66,904
	67,562	42,489	-	110,051
Research and development	16,983	9,916	-	26,899
Sales and marketing	13,822	7,271	-	21,093
General and administration	19,443	11,997	-	31,440
Depreciation	1,713	698	-	2,411
	51,961	29,882	-	81,843
Income before the undernoted	15,601	12,607	-	28,208
Amortization of intangible assets	10,014	4,931	-	14,945
Other expenses	-	(230)	300	70
Gain on sale of short-term investments, marketable securities and other assets	-	-	(1,354)	(1,354)
Interest expense (income), net	(175)	(56)	(167)	(398)
Foreign exchange loss	353	1,032	657	2,042
Inter-company expenses (income)	1,204	1,934	(3,138)	-
Income before income taxes	4,205	4,996	3,702	12,903
Income taxes (recovery):				
Current	1,827	2,111	112	4,050
Future	(311)	(306)	-	(617)
	1,516	1,805	112	3,433
Net Income	\$ 2,689	\$ 3,191	\$ 3,590	\$ 9,470
Other selected information:				
Property and equipment purchased	\$ 1,160	\$ 581	\$ 88	\$ 1,829

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

13. Segmented information (continued):

(b) Geographic information:

The Company's external revenue by geographic region is based on the region in which the revenue is transacted.

	Three months ended September 30, 2008		2007		Nine months ended September 30, 2008		2007	
Canada	\$ 12,820	16%	\$ 11,617	19%	\$ 36,594	16%	\$ 28,182	16%
United States	56,267	70%	41,198	68%	161,860	70%	123,891	70%
Other	11,703	14%	7,759	13%	33,681	14%	24,882	14%
Total	\$ 80,790	100%	\$ 60,574	100%	\$ 232,135	100%	\$ 176,955	100%

As at September 30, 2008 and December 31, 2007 and for the nine months ended September 30, 2008 and 2007, no single customer accounted for more than 10% of the Company's total accounts receivable and total revenues, respectively.

14. Change in non-cash operating working capital:

	Three months ended September 30, 2008		2007		Nine months ended September 30, 2008		2007	
Decrease in accounts receivable	\$ 6,866	\$ 2,416	\$ 8,515	\$ 173				
Increase in work in progress	(375)	(975)	(3,449)	(230)				
Decrease (increase) in inventory	139	(334)	(202)	(622)				
Decrease (increase) in prepaid expenses and other current assets	(304)	1,166	522	598				
Increase (decrease) in accounts payable and accrued liabilities excluding holdbacks from acquisitions	7,426	804	(2,799)	(11,698)				
Increase (decrease) in deferred revenue	(4,017)	(148)	428	1,167				
Increase (decrease) in income taxes payable	335	2,545	(866)	4,045				
	\$ 10,070	\$ 5,474	\$ 2,149	\$ (6,567)				

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
(In thousands of U.S. dollars, except per share amounts)

Three and nine month periods ended September 30, 2008 and 2007
(Unaudited)

15. Subsequent events:

On October 31, 2008, the Company made an offer to Gladstone PLC ("Gladstone") shareholders to purchase all outstanding shares of Gladstone for 25 pence (\$0.45) per share for a total purchase price of approximately £8,980 GBP (\$16,315).

16. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's presentation.