



Constellation Software Inc.

# **INTERIM FINANCIAL REPORT**

Second Quarter Fiscal Year 2006

For the three and six month periods ended  
June 30, 2006  
(UNAUDITED)

# CONSTELLATION SOFTWARE INC.

## TO OUR SHAREHOLDERS

The second quarter of 2006 was profitable for Constellation Software Inc. (“Constellation” or the “Company”), with Adjusted EBITDA of \$7.3 million, the highest quarterly Adjusted EBITDA in the history of the company. Constellation’s revenues also grew handsomely - Gross Revenues were up 28% versus the same period in 2005. Despite the record Q2 achievements, we are concerned about the short to mid-term growth prospects for our private sector businesses, and the longer term challenge of maintaining organic growth in all of our businesses. Investments in acquisitions for the quarter more than kept pace with our ability to generate excess cash, so we remain comfortable with Constellation’s ability to generate growth in the short-term via acquisition.

Last Quarter we promised to provide investors with some useful metrics to help interpret our results. Below is a table that captures a number of the key measures that we use to analyze our performance and to which we tie our incentive compensation. We will introduce some other metrics relating to invested capital next quarter.

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006
	(\$ millions, except percentages)					
Revenue	37.5	40.7	42.6	44.6	51.2	52.2
Net Revenue	34.5	37.0	39.0	39.8	46.0	47.3
Net Maintenance Revenue	19.3	20.7	21.8	23.0	26.0	26.9
Adjusted Net Income	3.8	4.1	5.2	4.1	5.1	5.1
Net Income	1.1	(3.5)	2.1	0.8	(8.7)	1.3
Organic Net Revenue Growth (Y/Y)	22%	18%	22%	13%	14%	12%

When we look at revenue trends, we use a concept that we call “Net Revenue”. Net Revenue is Gross Revenue for GAAP purposes less any third party and flow-through expenses. We use Net Revenue since it captures 100% of the license, maintenance and services revenues associated with Constellation’s own products, but only the margin on the lower value-added revenues such as commodity hardware or third party software. In Q2, our Net Revenue increased to \$47.3 million compared to \$46.0 million in Q1 2006, and to \$37.0 million in the Q2 2005 period. The Q2 Net Revenue growth rate compared to Q2 of last year was 28%, but the growth rate was down from the 33% rate achieved in Q1 2006 compared to Q1 of last year.

Net Maintenance Revenue is derived from GAAP Maintenance Revenue by subtracting third party maintenance costs. We believe that Net Maintenance Revenue is one of the best indicators of the intrinsic value of a software company, and that the operating profitability of a low growth software business should correlate tightly to Net Maintenance Revenues. In Q2, our Net Maintenance Revenue increased to \$26.9 million compared to \$26.0 million in Q1 2006, and to \$20.7 million in the Q2 2005 period. The Q2 Net Maintenance Revenue growth rate compared to Q2 of last year was 30%, but the growth was down from the 35% rate achieved in Q1 2006 compared to Q1 of last year.

Our revenue growth stems from both acquisitions and organic sources. While the two are difficult to separate, we attempt to do so. In Q2 Net Revenue grew organically by 12% compared with Net Revenue in Q2 of the prior year. This was down from the 14% organic growth rate experienced in Q1. The Q2 organic Net Revenue growth rate was the lowest that we have achieved in the last six quarters.

Adjusted net income is derived by adjusting GAAP net income for non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption (a charge that will no longer

be incurred post Q1 2006). We use Adjusted net income because it is generally a better measure of cash flow than GAAP net income. In Q2, our Adjusted net income at \$5.1 million was at the same level as in the prior quarter, but increased from \$4.1 million in the Q2 2005 period. The Q2 Adjusted net income Growth rate was 25% versus Q2 of last year, down from the 34% growth rate achieved in Q1. Q2 Adjusted net income was depressed by the appreciation of the Canadian Dollar. If the currency had remained stable at Q2 2005 levels, management estimates that quarterly Adjusted net income would have been approximately \$0.5 million higher.

Our objective is to grow, on average, the Net Revenues per share and Adjusted EBITDA per share of Constellation by 20% per annum from January 1, 2006 to December 31, 2010. In the short term there will be economic cycles when growth slows, and others when it accelerates. As the IT industry matures, however, there will also come a time when our targeted growth rates are no longer achievable.

#### Forward Looking Statements

Certain statements herein may be “forward looking” statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Constellation or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date hereof. 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. These forward looking statements are made as of the date hereof and Constellation assumes no obligation to update any forward looking statements to reflect new events or circumstances.

#### Non-GAAP Measures

Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth should not be construed as alternatives to revenue or 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 Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers.

Mark Leonard  
President

# CONSTELLATION SOFTWARE INC.

## 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 six month periods ended June 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".

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, August 9, 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 June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2006	2005	\$	%	2006	2005	\$	%
	(\$000, except percentages)				(\$000, except percentages)			
<b>Revenue</b>	<b>52,211</b>	<b>40,700</b>	<b>11,511</b>	<b>28.3%</b>	<b>103,431</b>	<b>78,163</b>	<b>25,268</b>	<b>32.3%</b>
Cost of Revenue	20,276	16,021	4,255	26.6%	40,614	30,748	9,866	32.1%
Gross Profit	31,935	24,679	7,256	29.4%	62,817	47,415	15,402	32.5%
Expenses								
Research and development	8,196	6,287	1,909	30.4%	16,388	12,553	3,835	30.6%
Sales and marketing	6,739	5,739	1,000	17.4%	13,147	10,628	2,519	23.7%
General and administrative	9,701	7,441	2,260	30.4%	18,754	14,420	4,334	30.1%
Total Expenses (pre amortization)	24,636	19,467	5,169	26.6%	48,289	37,601	10,688	28.4%
<b>Adjusted EBITDA</b>	<b>7,299</b>	<b>5,212</b>	<b>2,087</b>	<b>40.0%</b>	<b>14,528</b>	<b>9,814</b>	<b>4,714</b>	<b>48.0%</b>
Amortization of capital assets	727	614	113	18.4%	1,363	1,168	195	16.7%
Total Expenses	25,363	20,081	5,282	26.3%	49,652	38,769	10,883	28.1%
<b>Income before the undernoted</b>	<b>6,572</b>	<b>4,598</b>	<b>1,974</b>	<b>42.9%</b>	<b>13,165</b>	<b>8,646</b>	<b>4,519</b>	<b>52.3%</b>
Common Shares eligible for redemption	0	4,528	(4,528)	-100.0%	10,093	4,528	5,565	122.9%
Amortization of intangible assets	3,796	3,017	779	25.8%	7,457	5,739	1,718	29.9%
Other expenses	1,087	232	855	368.5%	1,970	233	1,737	745.5%
Gain on sale of marketable securities	0	(440)	440	-100.0%	(8)	(671)	663	-98.8%
Interest income	(25)	(121)	96	-79.3%	(84)	(381)	297	-78.0%
Foreign exchange loss	(189)	272	(461)	-169.5%	74	296	(222)	-75.0%
Income (loss) before income taxes	1,903	(2,890)	4,793	NA	(6,337)	(1,098)	(5,239)	NA
Income taxes	602	566	36	6.4%	1,018	1,271	(253)	-19.9%
<b>Net Income</b>	<b>1,301</b>	<b>(3,456)</b>	<b>4,757</b>	<b>NA</b>	<b>(7,355)</b>	<b>(2,369)</b>	<b>(4,986)</b>	<b>NA</b>
<b>Adjusted net income</b>	<b>5,097</b>	<b>4,089</b>	<b>1,008</b>	<b>24.7%</b>	<b>10,195</b>	<b>7,898</b>	<b>2,297</b>	<b>29.1%</b>
Weighted avg # of shares outstanding								
Basic	20,914	19,820			20,574	19,784		
Diluted	21,127	20,296			20,935	20,295		
<b>Net income per share</b>								
Basic	\$ 0.06	\$ (0.17)	\$ 0.23	NA	\$ (0.36)	\$ (0.12)	\$ (0.24)	NA
Diluted	\$ 0.06	\$ (0.17)	\$ 0.23	NA	\$ (0.36)	\$ (0.12)	\$ (0.24)	NA
<b>Adjusted EBITDA per share</b>								
Basic	\$ 0.35	\$ 0.26	\$ 0.09	32.7%	\$ 0.71	\$ 0.50	\$ 0.21	42.4%
Diluted	\$ 0.35	\$ 0.26	\$ 0.09	34.5%	\$ 0.69	\$ 0.48	\$ 0.21	43.5%
<b>Adjusted net income per share</b>								
Basic	\$ 0.24	\$ 0.21	\$ 0.04	18.2%	\$ 0.50	\$ 0.40	\$ 0.10	24.1%
Diluted	\$ 0.24	\$ 0.20	\$ 0.04	19.8%	\$ 0.49	\$ 0.39	\$ 0.10	25.2%

### *Comparison of the second quarter and six months ended June 30, 2006 and 2005*

#### Revenue:

Total revenue for the second quarter of 2006 ended June 30, was \$52.2 million, an increase of 28.3%, or \$11.5 million, compared to \$40.7 million for the comparable period in 2005. For the first six months of 2006 total revenues were \$103.4 million, an increase of 32.3%, or \$25.3 million, compared to \$78.2 million for the comparable period in 2005. The increase for both the second quarter and six month periods were due to a combination of organic growth from our existing businesses estimated at approximately 12% for the second quarter and 14% for the first six months, with the remaining 16% growth for the second quarter and 18% for the first six months being attributed to acquisitions completed in the relevant periods.

Software license revenue for the quarter ended June 30, 2006 increased by 32.5%, or \$1.8 million to \$7.3 million, from \$5.5 million for the same period in 2005. During the six months ended June 30, 2006, license revenue increased by 29.9% or \$3.3 million to \$14.4 million, from \$11.1 million for the same period in 2005. Professional services and other services revenue for the quarter ended June 30, 2006 increased by 25.1%, or \$2.7 million to \$13.6 million, from \$10.8 million for the same period in 2005. During the six months ended June 30, 2006, services revenue increased by 25.6% or \$5.3 million to \$26.2 million, from \$20.9 million for the same period in 2005. Hardware and other revenue for the quarter ended June 30, 2006 increased by 15.9%, or \$0.4 million to \$3.2 million, from \$2.8 million for the same period in 2005. During the six months ended June 30, 2006, hardware and other revenue increased by 63.6% or \$2.8 million to \$7.3 million, from \$4.4 million for the same period in 2005. Maintenance revenues for the quarter ended June 30, 2006 increased by 30.4%, or \$6.6 million to \$28.1 million, from \$21.6 million for the same period in 2005. During the six months ended June 30, 2006, maintenance revenue increased by 33.0% or \$13.8 million to \$55.5 million, from \$41.7 million for the same period in 2005. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended June 30,				Six months ended June 30,			
	2006	2005	2006	2005	2006	2005	2006	2005
	(\$000)		(% of total revenue)		(\$000)		(% of total revenue)	
Licenses	7,314	5,520	14.0%	13.6%	14,431	11,111	14.0%	14.2%
Professional services and other:								
Services	13,563	10,846	26.0%	26.6%	26,222	20,877	25.4%	26.7%
Hardware and other	3,221	2,779	6.2%	6.8%	7,260	4,439	7.0%	5.7%
Maintenance	28,113	21,555	53.8%	53.0%	55,518	41,736	53.7%	53.4%
	52,211	40,700	100.0%	100.0%	103,431	78,163	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 six months ended June 30, 2006 compared to the same periods in 2005:

	Three months ended June 30,				Six months ended June 30,			
	2006	2005	Period-Over-Period Change	Change	2006	2005	Period-Over-Period Change	Change
	(\$000, except percentages)		\$	%	(\$000, except percentages)		\$	%
<b>Public Sector</b>								
Licenses	4,500	3,068	1,432	46.7%	8,752	5,464	3,288	60.2%
Professional services and other:								
Services	9,185	7,012	2,173	31.0%	17,562	13,844	3,718	26.9%
Hardware and other	2,176	1,347	829	61.5%	4,846	2,148	2,698	125.6%
Maintenance	15,408	10,835	4,573	42.2%	30,422	21,428	8,994	42.0%
	31,269	22,262	9,007	40.5%	61,582	42,884	18,698	43.6%
<b>Private Sector</b>								
Licenses	2,814	2,452	362	14.8%	5,679	5,647	32	0.6%
Professional services and other:								
Services	4,378	3,834	544	14.2%	8,660	7,033	1,627	23.1%
Hardware and other	1,045	1,432	(387)	-27.0%	2,414	2,291	123	5.4%
Maintenance	12,705	10,720	1,985	18.5%	25,096	20,308	4,788	23.6%
	20,942	18,438	2,504	13.6%	41,849	35,279	6,570	18.6%

For the quarter ended June 30, 2006, total revenue in the public sector segment increased 40.5%, or \$9.0 million, to \$31.3 million, compared to \$22.3 million for the quarter ended June 30, 2005. For the six months ended June 30, 2006 total revenue increased by 43.6% or \$18.7 million, to \$61.6 million, compared to \$42.9 million for the comparable period in 2005. The increases for both the three and six

month periods were significant across all revenue types. Revenue growth from acquired businesses was significant for both the three and six month periods as we have completed 14 acquisitions since the beginning of 2005 in our public sector segment. It is estimated that these acquisitions contributed approximately \$6.5 million to our Q2 2006 revenues and \$12.7 million to our revenues in the six months ended June 30, 2006. The remaining \$2.5 million of revenue growth for Q2 and \$6.0 million of revenue growth for the first six months of 2006 in this sector was generated from organic sources. The organic growth was driven by the following: Our Trapeze operating group (approximately \$0.6 million for Q2 and \$2.5 million for the first half) our Harris operating group (approximately \$0.9 million for Q2 and \$2.0 million for the first half) and our Emphasys operating group (approximately \$0.9 million for Q2 and \$1.1 million for the first half). Organic revenue growth attributed to our Trapeze operating group was driven by the continued penetration of additional modules into our existing client base, sales to new customers and the continued growth in maintenance revenues from clients completing installations and moving on to maintenance. The Harris organic growth primarily resulted from the continued growth in maintenance revenues from clients completing installations and moving on to maintenance. The Emphasys organic growth primarily resulted from the re-licensing of our suite of products to a large public housing entity.

For the quarter ended June 30, 2006, total revenue in the private sector segment increased 13.6%, or \$2.5 million, to \$20.9 million, compared to \$18.4 million for the quarter ended June 30, 2005. For the six months ended June 30, 2006 total revenue increased by 18.6% or \$6.6 million, to \$41.8 million, compared to \$35.3 million for the comparable period in 2005. Increases occurred across most revenue types, however the primary drivers of growth were 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 Q2 2006 revenues and \$1.6 million of revenue growth to our revenues in the six months ended June 30, 2006. The remaining \$2.3 million of revenue growth for Q2 and \$5.0 million of revenue growth for the first six months of 2006 in this sector was generated from organic sources. The organic growth was driven by the following: Our Homebuilder operating group (approximately \$1.1 million for Q2 and \$2.6 million for the first half), our Friedman operating group (approximately \$0.8 million for Q2 and \$1.5 million for the first half) and our Jonas operating group (approximately \$0.5 million for Q2 and \$0.9 million for the first half). Organic revenue growth attributed to our Homebuilder operating group resulted from the growth of our customers. In the Homebuilder businesses, certain amounts of our license and maintenance revenues are tied directly to the number of seats in use and number of housing starts in the prior year, both of which have been increasing. The Friedman organic growth primarily resulted from increased professional services revenue from the increased levels of demand for these services. The Jonas organic growth was driven by growth in maintenance resulting from the penetration of add on modules back to our client base and the implementation of new clients in the private club and construction verticals.

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 June 30,				Six months ended June 30,			
	2006	2005	2006	2005	2006	2005	2006	2005
			(\$000)				(\$000)	
Gross profit licenses	92.0%	92.5%	6,729	5,106	93.1%	92.0%	13,436	10,217
Gross profit services & maintenance	60.2%	59.3%	25,086	19,199	59.5%	58.7%	48,613	36,772
Gross profit hardware & other	3.7%	13.5%	120	374	10.6%	9.6%	768	426
Gross profit on total revenue	61.2%	60.6%	31,935	24,679	60.7%	60.7%	62,817	47,415

Gross profit increased for the quarter ended June 30, 2006 to \$31.9 million, or 61.2% of total revenue, from \$24.7 million, or 60.6% of total revenue, for the quarter ended June 30, 2005. The increase in gross margin dollars is attributable to the overall increase in total revenue while the increase in gross margin percentage can be attributed to the revenue mix as we experienced a greater increase in our higher

margin licenses and services revenue in the quarter. For the first half of 2006 our gross profit increased to \$62.8 million or 60.7% of total revenue, from \$47.4 million or 60.7% 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 growth in high margin licenses, services and maintenance being offset by the large growth in low margin hardware and other. Our licenses, services and maintenance revenue margins experienced minimal change vs. 2005 in both the three and six month periods. Our hardware and other revenue margins decreased significantly in the second quarter due to some timing issues with respect to the billing and collection of reimbursed expenses, however, for the six month period they were relatively consistent. Management is uncertain as to whether we can maintain this aggregate gross profit level in future periods as gross profit is often influenced by variables outside of our control. For example, it is difficult for us to predict the percentage of our sales that will come from low margin revenue sources such as hardware and other versus higher margin revenues such as license revenue.

Operating Expenses:

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

	Three months ended		Period-Over-Period		Six months ended		Period-Over-Period	
	June 30,		Change		June 30,		Change	
	2006	2005	\$	%	2006	2005	\$	%
	(\$000, except percentages)				(\$000, except percentages)			
Research and development	8,196	6,287	1,909	30.4%	16,388	12,553	3,835	30.6%
Sales and marketing	6,739	5,739	1,000	17.4%	13,147	10,628	2,519	23.7%
General and administration	9,701	7,441	2,260	30.4%	18,754	14,420	4,334	30.1%
Amortization of capital assets	727	614	113	18.4%	1,363	1,168	195	16.7%
	25,363	20,081	5,282	26.3%	49,652	38,769	10,883	28.1%

Overall operating expenses for the quarter ended June 30, 2006 increased 26.3%, or \$5.3 million, to \$25.4 million, compared to \$20.1 million over the same period in 2005. As a percentage of total revenue, operating expenses decreased from 49.3% in the quarter ended June 30, 2005 to 48.6% in the quarter ended June 30, 2006. During the six months ended June 30, 2006 operating expenses increased 28.1%, or \$10.9 million, to \$49.7 million, compared to \$38.8 million over the same period in 2005. As a percentage of total revenue, operating expenses decreased from 49.6% in the six months ended June 30, 2005 to 48.0% in the six months ended June 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 18% from 571 in the quarter ended June 30, 2005 to more than 673 in the quarter ended June 30, 2006. During the six months ended June 30, 2006 head count was up 17% to an average headcount of 661 compared to an average of 564 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 second quarter of 2006 was approximately 10% higher than the comparable average rate in 2005. During the six months ended June 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 Q2 and the first six months of the year. Finally, the variable compensation payable under our bonus plan also contributed to the growth in expenses. Our bonus plan rewards net revenue growth and return on invested capital (or “ROIC”) as determined in accordance with our internal measurements. As a result of our continued revenue growth in the quarter and six months ended June 30, 2006 and our ability to grow net income for bonus purposes, the average bonus payable per employee increased by approximately 5% for the first six months over the comparable period in 2005 (it was flat in the second quarter).

**Research and development** – Research and development expenses increased 30.4%, or \$1.9 million, to \$8.2 million for the quarter ended June 30, 2006 compared to \$6.3 million for the same period in 2005. As a percentage of total revenue, research and development expense increased to 15.7% in Q2 2006 from 15.4% in Q2 2005. During the six months ended June 30, 2006, research and development expense increased 30.6%, or \$3.8 million, to \$16.4 million, compared to \$12.6 million over the same period in 2005. As a percentage of total revenue, research and development decreased from 16.1% in the six months ended June 30, 2005 to 15.8% in the six months ended June 30, 2006. The absolute dollar increase from the same three and six month periods of the prior year reflects the significant growth in personnel devoted to research and development (369 in Q2 2006 vs. 310 for Q2 2005 and 360 during the six months ended June 30, 2006 vs. 312 for the same period in 2005). Further, the bonus growth for the six months ended June 30, 2006 was more heavily attributed to research and development employees as they tend to be some of our more highly compensated staff. Finally, 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 second quarter or first six 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 17.4%, or \$1.0 million to \$6.7 million, in the quarter ended June 30, 2006 compared to \$5.7 million for the same period in 2005. As a percentage of total revenue, sales and marketing expenses decreased to 12.9% in the quarter ended June 30, 2006 from 14.1% for the same period in 2005. For the six months ended June 30, 2006, sales and marketing expenses increased 23.7%, or \$2.5 million, to \$13.1 million, compared to \$10.6 million over the same period in 2005. As a percentage of total revenue, sales and marketing expenses decreased from 13.6% in the six months ended June 30, 2005 to 12.7% in the six months ended June 30, 2006. The increase in expenses during the quarter and six months ended June 30, 2006 is largely attributable to our growth in headcount from both acquisitions and internal hiring. For Q2 2006 we averaged 161 staff compared to 140 in the same period in 2005 (159 vs. 131 for the comparable six month periods). Sales and marketing expenses also felt the impacts of the increased bonus and increased Canadian dollar, but to a lesser extent than research and development or general and administration (“G&A”) as our sales staff tend to share less in the bonus plan given their other forms of variable compensation and 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 30.4%, or \$2.3 million, to \$9.7 million in the quarter ended June 30, 2006 from \$7.4 million for the same period in 2005. As a percentage of total revenue, G&A expenses increased to 18.6% in Q2 2006 from 18.3% in Q2 2005. For the six months ended June 30, 2006, G&A increased 30.1%, or \$4.3 million, to \$18.8 million, compared to \$14.4 million over the same period in 2005. As a percentage of total revenue, G&A decreased from 18.4% in the six months ended June 30, 2005 to 18.1% in the six months ended June 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 18% from 121 staff in Q2 2005 to 143 for Q2 2006. For the six months ended June 30, 2006, average headcount grew 18% to 142 staff from 120 staff over the same period in 2005. Further, the increase in variable compensation from our bonus plan had a disproportionate effect on G&A expense as the majority of our senior executives are expensed to this group and our bonus plan is more heavily weighted to senior staff. Finally, 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 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 six months ended June 30, 2006 did not change materially. As a percentage of total revenue, amortization was 1.4% in Q2 2006 compared to 1.5% in Q2 2005. For the six month periods the percentages were 1.3% 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		Period-Over-Period		Six months ended		Period-Over-Period	
	June 30,	June 30,	Change		June 30,	June 30,	Change	
	2006	2005	\$	%	2006	2005	\$	%
	(\$000, except percentages)				(\$000, except percentages)			
Appreciation in common shares eligible for redemption	0	4,528	(4,528)	NA	10,093	4,528	5,565	122.9%
Amortization of intangibles	3,796	3,017	779	25.8%	7,457	5,739	1,718	29.9%
Other expenses	1,087	232	855	368.5%	1,970	233	1,737	745.5%
Gain on sale of short term investments, marketable securities and other assets	0	(440)	440	-100.0%	(8)	(671)	663	-98.8%
Interest income	(25)	(121)	96	-79.3%	(84)	(381)	297	-78.0%
Foreign exchange loss (gain)	(189)	272	(461)	-169.5%	74	296	(222)	-75.0%
Income taxes	602	566	36	6.4%	1,018	1,271	(253)	-19.9%
	5,271	8,054	(2,783)	-34.6%	20,520	11,015	9,505	86.3%

**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 second 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 six months ended June 30, 2006 was \$10.1 million compared to \$4.5 million for the six months ended June 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 Q2 2005 to \$9.75 at the end of Q1 2006.

**Amortization of intangible assets** – Amortization of intangible assets was \$3.8 million for the quarter ended June 30, 2006 compared to \$3.0 million for the same period in 2005, representing an increase of 25.8%. For the six months ended June 30, 2006 amortization of intangibles increased 29.9%, to \$7.5 million, compared to \$5.7 million over the same period in 2005. Both the three and six month increases are attributable to the increases in our intangible asset balance (on a cost basis) over the twelve month period ended June 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 June 30, 2006 were \$1.1 million compared to other expense of \$0.2 million for the same period in 2005. The \$1.1 million expense in Q2 2006 relates to the remaining one time costs associated with the IPO while the 2005 expense related to the phantom shares that existed prior to our IPO. For the six month period ended June 30, 2006 other

expenses were \$2.0 million vs. \$0.2 million for the same period in 2005. 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” charges in our statements of operations for future periods.

**Gain on sale of short-term investments, marketable securities and other assets** - Gains for the quarter and six months ended June 30, 2006 were immaterial compared to a gain of \$0.4 million for Q2 2005 and a gain of \$0.7 million for the first half 2005. The gains for the second quarter and first half 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 the remaining shares, generating either gains or losses. As of June 30, 2006 we had two investments that would have the potential to create such gains or losses. We are not currently liquidating these positions. However, if we feel we have a better use for the capital, if our outlook for the business changes, or if the market price exceeds our expectations of value, then we may liquidate these positions.

**Interest income** – Net interest income was \$25,000 for the quarter ended June 30, 2006 compared to \$0.1 million for the same period in the previous year, representing a decrease of 79.3%. For the first half of the year net interest income was \$0.1 million compared to \$0.4 million in the comparable period for 2005, representing a decrease of 78.0%. The decrease for both the three and six month periods was primarily a result of lower average cash balances partially offset by higher interest rates. 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 June 30, 2006 there were approximately \$2.6 million in borrowings against this line, further we have some letters of credit outstanding which reduce our borrowing capacity under this facility. As of June 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 June 30, 2006 our foreign exchange gain was \$0.2 million compared to a \$0.3 million loss for the previous year. For the six months ended June 30, 2006 the loss was 0.1 million vs. a loss of \$0.3 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 June 30, 2006 the provision for income taxes was \$602 thousand, compared to \$566 thousand in 2005, representing an increase of 6.4%. The effective tax rate for the quarter ended June 30, 2006 was 31.6%. For the six months ended June 30, 2006 the provision for income taxes was \$1.0 million, compared to \$1.3 million in 2005, representing a decrease of 19.9%. Our effective tax rates for both the quarter and six months ended June 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 amortization of intangibles.

**Net income (loss)** – Net income for the quarter ended June 30, 2006 was \$1.3 million compared to net loss of \$3.5 million for the same period in 2005. On a per share basis this translated into a net income per diluted share of \$0.06 in Q2 2006 vs. a net loss per diluted share of \$0.17 in Q2 2005. Net income in Q2 2006 was positively impacted by the growth in our operations and operating income, offset by the increase in amortization of intangibles. The Q2 2005 net loss is attributable to the charge for appreciation in common shares eligible for redemption and amortization of intangibles. For the first half

of the year, 2006 net loss was \$7.4 million or \$0.36 per diluted share compared to a loss of \$2.4 million or \$0.12 per share in the first half of 2005. For the first half 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 Q2 2006, Adjusted EBITDA increased by \$2.1 million to \$7.3 million compared to \$5.2 million in Q2 2005, representing an increase of 40.0%. Adjusted EBITDA margin was 14.0% in the second quarter of 2006, compared to 12.8% of total revenue for the same period in 2005. For the first half of 2006, Adjusted EBITDA increased by \$4.7 million to \$14.5 million compared to \$9.8 million during the same period in 2005, representing an increase of 48.0%. Adjusted EBITDA margin was 14.0% in second half of 2006, compared to 12.6% 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 June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(\$000, except percentages)		(\$000, except percentages)	
<b>Total revenue</b>	<u>52,211</u>	<u>40,700</u>	<u>103,431</u>	<u>78,163</u>
<b>Net income</b>	1,301	(3,456)	(7,355)	(2,369)
<b>Add back:</b>				
Income taxes	602	566	1,018	1,271
Foreign exchange loss	(189)	272	74	296
Interest income	(25)	(121)	(84)	(381)
Gain on sale of short-term investments, marketable securities and other assets	0	(440)	(8)	(671)
Other expenses	1,087	232	1,970	233
Appreciation in common shares eligible for redemption	0	4,528	10,093	4,528
Amortization of intangible assets	3,796	3,017	7,457	5,739
Amortization of capital assets	727	614	1,363	1,168
Adjusted EBITDA	7,299	5,212	14,528	9,814
Adjusted EBITDA margin	14.0%	12.8%	14.0%	12.6%

Adjusted net income:

For Q2 2006, Adjusted net income increased by \$1.0 million to \$5.1 million compared to \$4.1 million in 2005, representing an increase of 24.7%. Adjusted net income margin was 9.8% in the second quarter of 2006, compared to 10.0% of total revenue for the same period in 2005. For the first half of 2006, Adjusted net income increased by \$2.3 million to \$10.2 million compared to \$7.9 million during the same period in 2005, representing an increase of 29.1%. Adjusted net income margin was 9.9% in second half of 2006, compared to 10.1% 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 June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(\$000, except percentages)		(\$000, except percentages)	
<b>Total revenue</b>	<u>52,211</u>	<u>40,700</u>	<u>103,431</u>	<u>78,163</u>
<b>Net income</b>	1,301	(3,456)	(7,355)	(2,369)
<b>Add back:</b>				
Appreciation in common shares eligible for redemption	0	4,528	10,093	4,528
Amortization of intangible assets	3,796	3,017	7,457	5,739
Adjusted net income	5,097	4,089	10,195	7,898
Adjusted net income margin	9.8%	10.0%	9.9%	10.1%

## Quarterly Results

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

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 (net of borrowings on our line of credit) at June 30, 2006 decreased to \$7.9 million, from \$18.3 million at December 31, 2005 representing a decrease of 57%.

Total assets increased \$7.9 million, from \$158.5 million at December 31, 2005 to \$166.4 million at June 30, 2006. The largest increase came in intangible assets at \$9.6 million and the largest decrease was in our cash and cash equivalents down \$7.7 million.

Current liabilities increased from \$81.1 million as of December 31, 2005, to \$85.7 million at June 30, 2006. From an individual category perspective the biggest changes were the borrowings on our operating line of credit of \$2.6 million at June 30, 2006 compared to NIL at December 31, 2005 and the increase in deferred revenue of \$2.8 million to \$47.8 million at June 30, 2006. The borrowings on our operating line of credit were required to fund certain acquisitions while the increase in deferred revenue is consistent with our growth in revenues.

<b>Net Changes in Cash Flow</b>	<b>Six months ended June 30, 2006</b>
	(in millions of \$)
Net cash provided by operating activities	\$3.9
Net cash provided by financing activities	4.5
Net cash used in investing activities	(16.6)
Effect of exchange rate changes on cash and cash equivalents	0.5
<b>Net decrease in cash and cash equivalents</b>	<b>(\$7.7)</b>

The net cash flow from operating activities was \$3.9 million for the six months ended June 30, 2006. In the first half of 2006 we generated free cash flow profits of approximately \$10.7 million, however, this was offset by a net increase in our working capital of \$6.8 million most of which can be attributed to the payment of the 2005 employee bonuses.

The net cash provided by financing activities in the first half 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 half we issued on a net basis \$6.0 million worth of redeemable common shares (including repayments of shareholder loans). In addition \$2.6 million was drawn on our operating line of credit to help fund certain acquisitions. Offsetting this was the distributions to shareholders in the form of dividends and returns of capital of \$2.5 million and the repurchase of our phantom shares for \$1.7 million.

The net cash used in investing activities was due primarily to acquisitions completed in the first half of 2006 for an aggregate of \$13.7 million, further investments in our short term marketable securities of \$1.5 million and capital asset purchases of \$1.5 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 June 30, 2006, approximately \$2.6 million was 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 June 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 June 30, 2006. The outstanding balance of loans issued under the KELP as of June 30, 2006 was \$3.0 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 August 9, 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.

## NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements of Constellation Software Inc. (the “Company”), which consists of the consolidated balance sheet, as at June 30, 2006 and the consolidated statements of operations, deficit and cash flows for the three and six month periods ended June 30, 2006 and 2005, are the responsibility of the Company’s management. These consolidated financial statements have been reviewed on behalf of the shareholders by the independent external auditors of the Company, KPMG LLP. The statement of deficit as at June 30, 2005, the interim consolidated statement of operations and consolidated statement of cash flows for the three and six month periods ended June 30, 2005 have not been audited or reviewed on behalf of the shareholders by the independent external auditors of the Company, KPMG LLP.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with accounting principles generally accepted in Canada.

Mark Leonard  
President  
Toronto, Canada  
August 9, 2006

Barry Symons  
Chief Financial Officer  
Toronto, Canada  
August 9, 2006

**CONSTELLATION SOFTWARE INC.**Consolidated Balance Sheets  
(In thousands of U.S. dollars)

	June 30, 2006 (unaudited)	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,549	\$ 18,285
Short-term investments (note 2)	2,410	932
Accounts receivable	28,766	27,655
Work in progress	13,920	11,535
Inventory	1,750	528
Prepaid expenses and other current assets	4,467	3,992
Future income taxes	2,587	2,359
	<u>64,449</u>	<u>65,286</u>
Capital assets	7,121	6,446
Future income taxes	2,617	3,986
Other long-term assets	633	787
Goodwill	23,720	23,720
Intangible assets (note 4)	67,830	58,258
	<u>\$ 166,370</u>	<u>\$ 158,483</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (note 5)	\$ 2,600	\$ -
Accounts payable and accrued liabilities	33,430	34,653
Deferred revenue	47,779	44,939
Deferred compensation (note 9)	-	237
Income taxes payable	1,851	1,276
	<u>85,660</u>	<u>81,105</u>
Future income taxes	7,284	9,267
Other long term liabilities	1,555	1,464
Deferred compensation (note 9)	-	1,020
Common shares eligible for redemption (note 6a)	-	24,182
Shareholders' equity:		
Capital stock (note 6a)	99,283	57,220
Shareholder loans	(2,961)	-
Cumulative translation adjustment	(3,152)	(3,152)
Deficit	(21,299)	(12,623)
	<u>71,871</u>	<u>41,445</u>
Subsequent events (note 12)		
	<u>\$ 166,370</u>	<u>\$ 158,483</u>

See accompanying notes to the unaudited interim consolidated financial statements

**CONSTELLATION SOFTWARE INC.**

## Consolidated Statements of Operations

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

Unaudited

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenue	52,211	40,700	103,431	78,163
Cost of revenue	20,276	16,021	40,614	30,748
	31,935	24,679	62,817	47,415
Research and development	8,196	6,287	16,388	12,553
Sales and marketing	6,739	5,739	13,147	10,628
General and administration	9,701	7,441	18,754	14,420
Amortization of capital assets	727	614	1,363	1,168
	25,363	20,081	49,652	38,769
Income before the undernoted	6,572	4,598	13,165	8,646
Appreciation in common shares eligible for redemption (note 6(b))	–	4,528	10,093	4,528
Amortization of intangible assets	3,796	3,017	7,457	5,739
Other expenses	1,087	232	1,970	233
Gain on sale of short-term investments, marketable securities and other assets	–	(440)	(8)	(671)
Interest income, net	(25)	(121)	(84)	(381)
Foreign exchange (gain) loss	(189)	272	74	296
Income (loss) before income taxes	1,903	(2,890)	(6,337)	(1,098)
Income tax expense (recovery) (note 7):				
Current	1,290	484	2,000	1,077
Future	(688)	82	(982)	194
	602	566	1,018	1,271
Net income (loss)	1,301	(3,456)	(7,355)	(2,369)
Net income (loss) per share (note 8):				
Basic	0.06	(0.17)	(0.36)	(0.12)
Diluted	0.06	(0.17)	(0.36)	(0.12)
Weighted average number of shares Outstanding (in thousands) (note 8):				
Basic	20,914	19,820	20,574	19,784
Diluted	21,127	20,296	20,935	20,295
Outstanding at the end of the period	21,192	20,281	21,192	20,281

See accompanying notes to the unaudited interim consolidated financial statements.

**CONSTELLATION SOFTWARE INC.**

Consolidated Statements of Deficit

(In thousands of U.S. dollars)

Unaudited

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Deficit, beginning of period	\$(22,600)	\$ (10,847)	\$ (12,623)	\$ (11,934)
Net income (loss)	1,301	(3,456)	(7,355)	(2,369)
Dividends	–	(1,150)	(1,381)	(1,150)
Refundable taxes and other	–	–	60	–
Deficit, end of period	\$(21,299)	\$ (15,453)	\$ (21,299)	\$ (15,453)

See accompanying notes to the unaudited interim consolidated financial statements.

**CONSTELLATION SOFTWARE INC.**

## Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)

Unaudited

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income (loss)	\$ 1,301	\$ (3,456)	\$ (7,355)	\$ (2,369)
Adjustments to reconcile net income to net cash flows from operations:				
Amortization of capital assets	727	614	1,363	1,168
Amortization of intangible assets	3,796	3,017	7,457	5,739
Loss on common shares eligible for redemption	—	4,528	10,093	4,528
Deferred compensation	—	232	400	232
Future income taxes	(688)	83	(982)	194
Gain on sale of short term investments and marketable securities	—	(440)	(8)	(671)
Unrealized exchange loss (gain)	(481)	272	(238)	296
Change in non-cash operating working capital (note 11)	148	(1,845)	(6,821)	1,270
Cash flows from operating activities	4,803	3,005	3,909	10,387
Cash flows from (used in) financing activities:				
Increase (decrease) in long term liabilities	13	(18)	16	(83)
Increase (decrease) in bank debt	1,500	—	2,600	—
Dividends	—	(1,150)	(1,381)	(1,150)
Distributions to common shares eligible for redemption	—	(346)	(471)	(346)
Issue of common shares eligible for redemption	906	5	3,805	197
Redemption of common shares eligible for redemption	(6)	(136)	(20)	(201)
Repayment of shareholder loans	302	682	2,212	769
Repurchase of phantom shares (note 9)	(1,657)	—	(1,657)	—
Return of capital	—	(531)	(637)	(531)
Cash flows from (used in) financing activities	1,058	(1,494)	4,467	(1,345)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired (note 3)	(10,293)	(2,254)	(13,727)	(15,208)
Additions (reductions) to short-term investments, marketable securities and other assets	(313)	1,291	(1,478)	2,124
Other assets	135	—	161	—
Capital asset purchases	(822)	(943)	(1,509)	(1,854)
Cash flows used in investing activities	(11,293)	(1,906)	(16,553)	(14,938)
Effect of currency translation adjustment on cash and cash equivalents	633	(391)	441	(400)
Decrease in cash and cash equivalents	(4,799)	(786)	(7,736)	(6,296)
Cash and cash equivalents, beginning of period	15,348	19,935	18,285	25,445
Cash and cash equivalents, end of period	\$ 10,549	\$ 19,149	\$ 10,549	\$ 19,149

See accompanying notes to the unaudited interim consolidated financial statements.

## **Notes to Consolidated Financial Statements**

Three-month and six-month periods ended June 30, 2006 and 2005  
(In thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### **1. Basis of presentation:**

The accompanying unaudited condensed interim consolidated financial statements (“the Interim 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 period, the Company completed certain acquisitions as described in note 3 to these interim consolidated financial statements. The results of operations of these acquired companies have been included in these interim financial statements from the date of acquisition.

These Interim 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 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. The Interim 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 consolidated financial statements and notes included in the Company’s financial statements for the year ended December 31, 2005.

### **2. Short-term investments:**

At June 30, 2006 the Company held investments in a U.K. listed public company and a U.S. listed public company both of which develop and sell software solutions.

	June 30, 2006		December 31, 2005	
	Cost	Market value	Cost	Market value
Common shares	\$ 2,410	\$ 2,915	\$ 932	\$ 1,194

### **Notes to Consolidated Financial Statements**

Three-month and six-month periods ended June 30, 2006 and 2005  
(In thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

#### **3. Business acquisitions:**

##### **2006:**

##### a) Advanced Utility Systems Corporation

On June 14, 2006, the Company acquired Advanced Utility Systems Corporation for net cash consideration of \$10,170 on closing plus a holdback of \$1,631. In order to guarantee timely payment, the Company has granted to the vendor a security interest in the purchased assets, to a maximum value of the holdback. The acquisition has been accounted for using the purchase method with the results of operations included in these financial statements from the date of acquisition. As the Company is in the process of obtaining a third party valuation of the acquired intangible assets, the preliminary purchase price allocation is subject to adjustments. The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed at the date of the acquisition:

---

Assets acquired:	
Current assets	\$ 2,302
Capital assets	371
Technology assets	9,107
Customer assets	2,554
	<hr/> 14,334
Liabilities assumed:	
Current liabilities	2,459
Long term liabilities	74
	<hr/> 2,533
Total purchase price consideration	<hr/> \$ 11,801 <hr/>

##### b) Other acquisitions

During the six months ended June 30, 2006 the Company made four other acquisitions for aggregate net initial cash consideration of \$3,557 plus holdbacks of \$1,000. The acquisitions have been accounted for using the purchase method. The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed at the date of each acquisition:

---

Assets acquired:	
Current assets	\$ 609
Capital assets	158
Technology assets	4,260
Customer assets	1,110
	<hr/> 6,137

## **Notes to Consolidated Financial Statements**

Three-month and six-month periods ended June 30, 2006 and 2005  
(In thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

Liabilities assumed:	
Current liabilities	1,580
<hr/>	
Total purchase price consideration	\$ 4,557

### **2005:**

#### (a) Clubsystems Holdings Inc ("CSG"):

On February 1, 2005, a subsidiary of the Company acquired all of the issued and outstanding shares of CSG, a provider of software solutions for the private club, golf and resort industries for cash consideration of \$10,773. In addition to the net purchase price we incurred \$111 of professional fees relating to the acquisition. The acquisition was accounted for using the purchase method. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

<hr/>	
Assets acquired:	
Current assets	\$ 1,435
Capital assets	368
Future income tax asset	3,429
Goodwill	3,962
Technology assets	10,384
Customer assets	1,568
<hr/>	
	21,146
Liabilities assumed:	
Current liabilities	5,720
Future income tax liability	4,542
<hr/>	
	10,262
<hr/>	
Total cash consideration	\$ 10,884

#### (b) Other acquisitions:

During the six months ended June 30, 2005, the Company made four other acquisitions for aggregate cash consideration of \$4,324. All acquisitions have been accounted for using the purchase method. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of each acquisition:

## Notes to Consolidated Financial Statements

Three-month and six-month periods ended June 30, 2006 and 2005  
(In thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

Assets acquired:	
Current assets	\$ 322
Capital assets	66
Goodwill	776
Intangible assets	5,018
	<hr/> 6,182
Liabilities assumed:	
Current liabilities	1,858
Total cash consideration	<hr/> \$4,324 <hr/>

#### 4. Intangible assets:

	Cost	Accumulated amortization	Net book value June 30, 2006	Net book value December 31, 2005
Technology assets	\$ 79,561	\$ 23,929	\$ 55,632	\$ 48,628
Non-compete agreements	1,880	1,265	615	722
Customer assets	15,312	3,784	11,528	8,848
Trademarks	133	78	55	60
	<hr/> \$ 96,886	<hr/> \$ 29,056	<hr/> \$ 67,830	<hr/> \$ 58,258 <hr/>

Amortization expense related to intangible assets for the three and six month periods ended June 30, 2006 was \$3,796 and \$7,457 respectively. (Three and six month periods ended June 30, 2005 was \$3,017 and \$5,739 respectively).

#### 5. Credit facilities:

The Company has an operating line-of-credit with a major bank in the amount of \$10,000. The line-of-credit bears a variable interest rate and is payable in 24 equal monthly instalments following the date of termination. It is secured by a general security agreement and is subject to various standard debt covenants. As at June 30, 2006, \$2,600 (2005 – NIL) had been drawn from this credit facility.

## Notes to Consolidated Financial Statements

Three-month and six-month periods ended June 30, 2006 and 2005  
(In thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### 6. Capital stock:

	June 30, 2006		December 31, 2005	
	Number	Amount	Number	Amount
Share capital:				
Authorized:				
Unlimited common shares and Class A non-voting shares				
Issued and outstanding:				
Class A non-voting shares	4,288,000	\$14,521	8,304,554	\$ 28,123
Common shares:				
Outstanding following reorganization (a)	16,903,530	84,762	8,507,562	29,097
	<u>21,191,530</u>	<u>\$ 99,283</u>	<u>16,812,116</u>	<u>\$ 57,220</u>
Common shares eligible for redemption:				
Series 1:				
Opening balance	1,685,344	\$ 401	1,620,606	\$ 126
Issued during the period	46,758	456	64,738	440
Return of capital	-	(202)	-	(165)
Converted on reorganization (a)	(1,732,102)	(655)	-	-
	<u>-</u>	<u>-</u>	<u>1,685,344</u>	<u>401</u>
Series 3:				
Opening balance	2,242,978	11,867	1,846,329	9,143
Issued during the period	406,667	3,965	471,973	3,437
Purchased for cancellation	(2,333)	(20)	(75,324)	(532)
Return of capital	-	(269)	-	(181)
Converted on reorganization (a)	(2,647,312)	(15,543)	-	-
	<u>-</u>	<u>-</u>	<u>2,242,978</u>	<u>11,867</u>
Premium on common shares eligible for redemption:				
Series 1	1,732,102	16,233	1,685,344	11,902
Series 3	2,647,312	10,269	2,242,978	4,507
Reclass to Share Capital (a)	(4,379,414)	(26,502)	-	-
	<u>-</u>	<u>-</u>	<u>3,928,322</u>	<u>16,409</u>
Shareholder loans:				
Opening balance	-	4,495	-	3,618
Issued during the period	-	615	-	1,832
Repaid	-	(2,149)	-	(955)
	<u>-</u>	<u>(2,961)</u>	<u>-</u>	<u>4,495</u>
		<u>\$ (2,961)</u>		<u>\$ 24,182</u>
<b>Total shares outstanding</b>	<b>21,191,530</b>		<b>20,740,438</b>	

## **Notes to Consolidated Financial Statements**

Three-month and six-month periods ended June 30, 2006 and 2005  
(In thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### **6. Capital stock (continued):**

#### (a) Reorganization of share capital:

On May 11, 2006, the Company filed a prospectus to qualify the distribution of 5,176,472 common shares of the Company to be sold by two of the Company's significant shareholders at a price of C\$17.00 per share. The Company did not receive any of the proceeds relating to the common shares sold by these shareholders. The initial public offering of 4,705,883 common shares was completed on May 18, 2006 and an additional 470,589 common shares were sold by the selling shareholders on June 16, 2006 pursuant to the exercise by the underwriters of their over-allotment option.

Concurrently with the above noted transaction, the Company completed a reorganization of its share capital and amended its Articles of Incorporation to remove the Series 1 and Series 2 common shares and re-designate the Series 3 common shares as common shares and amend the provisions of the common shares and the Class A Non-voting shares. Accordingly, all the issued and outstanding Series 1 and Series 2, common shares were converted into an equivalent number of Series 3 common shares, which were subsequently re-designated as "common shares".

Certain holders of the Series 1 and Series 3 common shares had the right to sell to the Company a specified number of these shares on an annual basis in accordance with the terms of the shareholder agreements. Accordingly, these shares were presented as a liability on the Company's balance sheet. Under these shareholder agreements, upon the completion of an initial public offering the redemption rights terminated, and therefore these shares no longer represent a liability to the Company and the Company has reduced the carrying value of the common shares eligible for redemption with a corresponding increase to share capital in the amount of \$26,502.

The costs related to the initial public offering and reorganization of approximately \$1,600 were charged to the statement of operations in the six-month period ended June 30, 2006.

#### (b) Series 1 and series 3 common shares eligible for redemption:

For the three-month and six-month periods ended June 30, 2006 the Company recorded Nil and \$10,093 respectively (three-month and six-month periods ended June 30, 2005 - \$4,528 and \$4,528 respectively) as a charge for the appreciation in common shares eligible for redemption representing the re-measurement of the liability. As noted above, the redemption features of these shares have been eliminated with the completion of the initial public offering, and are no longer presented as a liability on the Company's balance sheet. Accordingly, the Company will no longer record an appreciation charge in future periods.

## Notes to Consolidated Financial Statements

Three-month and six-month periods ended June 30, 2006 and 2005

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

(Unaudited)

### 7. 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 June 30, 2006 and December 31, 2005, the Company had total net deferred tax assets of \$5,204 and \$6,345 respectively, and total deferred tax liabilities of \$7,284 and \$9,267 respectively.

In assessing the realizability 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.

### 8. Net income (loss) per share:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Numerator:				
Net Income (loss)	\$ 1,301	\$ (3,456)	\$ (7,355)	\$ (2,369)
Denominator:				
Weighted average number of shares:				
Basic	20,914	19,820	20,574	19,784
Effect of dilutive securities:				
Shares secured by shareholder loans	213	476	361	511
Diluted:	21,127	20,296	20,935	20,295
Net Income (loss) per share:				
Basic	0.06	(0.17)	(0.36)	(0.12)
Diluted	0.06	(0.17)	(0.36)	(0.12)

In periods showing a net loss, common shares secured by shareholder loans were not included in the calculation of diluted net income (loss) per share because to do so would have been anti-dilutive.

## Notes to Consolidated Financial Statements

Three-month and six-month periods ended June 30, 2006 and 2005

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

(Unaudited)

### 9. Deferred compensation:

During 2000, the Company created a Phantom Share Plan under which 512,505 phantom shares of the Company's common stock were granted to employees of a subsidiary company. The exercise price per phantom share was Cdn. \$0.01. The shares vested immediately and the greater of 20% of the shares held or 500 shares can be redeemed by the holder per year.

During the second quarter of 2006, the Company redeemed the remaining 169,953 shares at a price of \$9.75 per share, for a total of \$1,657.

### 10. Segmented information:

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

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: loss on common shares eligible for redemption, amortization of intangible assets, other expenses, gain on sale of short-term investments and marketable securities and other assets, interest income, foreign exchange gains and losses, inter company expenses and income taxes.

#### (a) Reportable segments:

Three months ended June 30, 2006	Public Sector	Private Sector	Other	Total
Revenue	\$ 31,269	\$ 20,942	\$ –	\$ 52,211
Cost of revenue	13,209	7,067	–	20,276
	18,060	13,875	–	31,935
Research and development	5,017	3,179	–	8,196
Sales and marketing	3,958	2,781	–	6,739
General and administration	5,637	4,064	–	9,701
Amortization of capital assets	417	310	–	727
	15,029	10,334	–	25,363
Income before the undernoted	3,031	3,541	–	6,572
Appreciation on common shares eligible for redemption	–	–	–	–
Amortization of intangible assets	2,171	1,625	–	3,796

## Notes to Consolidated Financial Statements

Three-month and six-month periods ended June 30, 2006 and 2005

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

(Unaudited)

Other expenses	1	24	1,060	1,085
Interest income	(6)	(13)	(6)	(25)
Gain on sale of short-term investments, marketable securities and other assets	–	–	–	–
Foreign exchange loss (gain)	(208)	182	(163)	(189)
Inter company expenses (income)	339	220	(559)	–
Income (loss) before income taxes	734	1,503	(332)	1,905
Income taxes (recovery):				
Current	423	1,115	(50)	1,488
Future	(405)	(282)	–	(687)
	18	833	(50)	801
Net income (loss)	\$ 716	\$ 670	\$ (282)	\$ 1,104

Other selected information:				
Capital assets purchased	591	226	5	822

Six months ended June 30, 2006	Public Sector	Private Sector	Other	Total
Revenue	\$ 61,582	\$ 41,849	\$ –	\$ 103,431
Cost of revenue	26,058	14,556	–	40,614
	35,524	27,293	–	62,817
Research and development	10,143	6,244	–	16,387
Sales and marketing	7,442	5,705	–	13,147
General and administration	11,090	7,665	–	18,755
Amortization of capital assets	744	619	–	1,363
	29,419	20,233	–	49,652
Income before the undernoted	6,105	7,060	–	13,165
Appreciation on common shares eligible for redemption	–	–	10,093	10,093
Amortization of intangible assets	4,197	3,260	–	7,457
Other expenses	1	450	1,519	1,970
Interest income	(26)	(32)	(26)	(84)
Gain on sale of short-term investments, marketable securities and other assets	–	–	(8)	(8)
Foreign exchange loss (gain)	22	202	(150)	74
Inter company expenses (income)	652	386	(1,038)	–
Income (loss) before income taxes	1,259	2,794	(10,390)	(6,337)
Income taxes (recovery):				
Current	871	1,669	(162)	2,378
Future	(440)	(350)	(192)	(982)
	431	1,319	(354)	1,396
Net income (loss)	\$ 828	\$ 1,475	\$ (10,036)	\$ (7,733)

Other selected information:				
Capital assets purchased	841	599	69	1,509

## Notes to Consolidated Financial Statements

Three-month and six-month periods ended June 30, 2006 and 2005

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

(Unaudited)

Three months ended June 30, 2005	Public Sector	Private Sector	Other	Total
Revenue	\$ 22,262	\$ 18,438	\$ —	\$ 40,700
Cost of revenue	8,848	7,173	—	16,021
	13,414	11,265	—	24,679
Research and development	3,516	2,771	—	6,287
Sales and marketing	3,385	2,354	—	5,739
General and administration	4,130	3,311	—	7,441
Amortization of capital assets	291	323	—	614
	11,322	8,759	—	20,081
Income before the undernoted	2,092	2,506	—	4,598
Appreciation on common shares eligible for redemption	—	—	4,528	4,528
Amortization of intangible assets	1,305	1,712	—	3,017
Other expenses	—	231	—	231
Interest income	(119)	(7)	5	(121)
Gain on sale of short-term investments, marketable securities and other assets	—	—	(440)	(440)
Foreign exchange loss (gain)	146	16	110	272
Inter company expenses (income)	173	169	(342)	—
Income (loss) before income taxes	587	385	(3,861)	(2,889)
Income taxes (recovery):				
Current	205	263	16	484
Future	116	(34)	—	82
	321	229	16	566
<b>Net income (loss)</b>	<b>\$ 266</b>	<b>\$ 156</b>	<b>\$ (3,877)</b>	<b>\$ (3,455)</b>
Other selected information:				
Capital assets purchased	661	276	—	917

Six months ended June 30, 2005	Public Sector	Private Sector	Other	Total
Revenue	\$ 42,884	\$ 35,279	\$ —	\$ 78,163
Cost of revenue	17,243	13,505	—	30,748
	25,641	21,774	—	47,415
Research and development	7,057	5,496	—	12,553
Sales and marketing	5,988	4,641	—	10,629
General and administration	8,098	6,321	—	14,419
Amortization of capital assets	560	608	—	1,168
	21,703	17,066	—	38,769
Income before the undernoted	3,938	4,708	—	8,646
Appreciation on common shares eligible for redemption	—	—	4,528	4,528
Amortization of intangible assets	2,531	3,208	—	5,739
Other expenses	—	234	—	234
Interest income	(267)	(11)	(103)	(381)
Gain on sale of short-term investments, marketable securities and other assets	—	—	(671)	(671)

## Notes to Consolidated Financial Statements

Three-month and six-month periods ended June 30, 2006 and 2005

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

(Unaudited)

Foreign exchange loss (gain)	169	12	115	296
Inter company expenses (income)	355	321	(676)	–
Income (loss) before income taxes	1,150	944	(3,193)	(1,099)
Income taxes (recovery):				
Current	455	589	33	1,077
Future	190	4	–	194
	645	593	33	1,271
<b>Net income (loss)</b>	<b>\$ 505</b>	<b>\$ 351</b>	<b>\$ (3,226)</b>	<b>\$ (2,370)</b>
Other selected information:				
Capital assets purchased	1,120	664	70	1,854

### (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 June 30,				Six months ended June 30,			
	2006		2005		2006		2005	
Canada	\$ 6,409	12%	\$ 4,264	10%	\$ 11,947	12%	\$ 8,574	11%
United States	38,042	73%	31,609	78%	75,652	73%	60,166	77%
Other	7,760	15%	4,827	12%	15,832	15%	9,423	12%
<b>Total</b>	<b>\$ 52,211</b>	<b>100%</b>	<b>\$ 40,700</b>	<b>100%</b>	<b>\$ 103,431</b>	<b>100%</b>	<b>\$ 78,163</b>	<b>100%</b>

As at June 30, 2006 and December 31, 2005 and for the three and six month periods ended June 30, 2006 and 2005 no single customer accounted for more than 10% of the Company's total accounts receivable and total revenues, respectively.

**Notes to Consolidated Financial Statements**

Three-month and six-month periods ended June 30, 2006 and 2005  
(In thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

**11. Change in non-cash operating working capital:**

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Decrease (increase) in accounts receivable	\$ 3,079	\$ 2,717	\$ 1,738	\$ (2,474)
Increase in work in progress	(990)	(1,531)	(2,384)	(353)
Increase in prepaid expenses and other current assets	(889)	(169)	(1,697)	(342)
Increase (decrease) in accounts payable, accrued liabilities, and income taxes payable	4,608	(1,977)	(4,505)	962
Increase (decrease) in deferred revenue	(5,660)	(885)	27	3,477
	\$ 148	\$ (1,845)	\$ (6,821)	\$ 1,270

The above table excludes initial non-cash working capital acquired via acquisition. For non-cash working capital related to acquisitions, the table only reflects changes between the acquisition date and the amounts at June 30, 2006 and 2005.

**12. Subsequent events:**

- a) On July 6, 2006, one of the Company's subsidiaries purchased the net assets of DataTeam Systems Inc. a school administration software provider, for a total purchase price of approximately \$3 million.