

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, 2007 and the accompanying notes, and with our consolidated annual financial statements and our annual MD&A for the year ended December 31, 2006. 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.

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 8, 2007. 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.

Non-GAAP Measures

This MD&A includes certain measures which have not been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") 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 are no longer 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 Canadian 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 Canadian 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 several 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, rights to certain product updates “if and when available” and products sold on a subscription basis. 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 type, mix and quantity of each vary by customer and by product.

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

(In thousands of dollars, except percentages and per share amounts)

	Three months ended		Period-Over-Period		Six months ended		Period-Over-Period	
	Jun. 30,		Change		Jun. 30,		Change	
	2007	2006	\$	%	2007	2006	\$	%
Revenue	60,487	52,211	8,276	15.9%	116,380	103,431	12,949	12.5%
Cost of Revenue	23,020	20,276	2,744	13.5%	44,537	40,614	3,923	9.7%
Gross Profit	37,467	31,935	5,532	17.3%	71,843	62,817	9,026	14.4%
Expenses								
Research and development	8,862	8,196	666	8.1%	17,772	16,388	1,384	8.4%
Sales and marketing	7,324	6,739	585	8.7%	14,365	13,147	1,218	9.3%
General and administration	10,410	9,701	709	7.3%	20,446	18,754	1,692	9.0%
Total Expenses (pre amortization)	26,596	24,636	1,960	8.0%	52,583	48,289	4,294	8.9%
Adjusted EBITDA	10,871	7,299	3,572	48.9%	19,260	14,528	4,732	32.6%
Depreciation	855	727	128	17.6%	1,548	1,363	185	13.6%
Total Expenses	27,451	25,363	2,088	8.2%	54,131	49,652	4,479	9.0%
Income before the undernoted	10,016	6,572	3,444	52.4%	17,712	13,165	4,547	34.5%
Appreciation in common shares eligible for redemption	0	0	0	NA	0	10,093	(10,093)	-100.0%
Amortization of intangible assets	5,209	3,796	1,413	37.2%	9,643	7,457	2,186	29.3%
Other expenses	0	1,087	(1,087)	NA	0	1,970	(1,970)	-100.0%
Gain on sale of short-term investments, marketable securities and other assets	(1,119)	0	(1,119)	NA	(1,354)	(8)	(1,346)	16825.0%
Interest expense (income)	(34)	(25)	(9)	36.0%	(149)	(84)	(65)	77.4%
Foreign exchange loss	1,345	(189)	1,534	-811.6%	1,351	74	1,277	1725.7%
Income (loss) before income taxes	4,615	1,903	2,712	142.5%	8,221	(6,337)	14,558	NA
Income taxes (recovery)								
Current	1,421	1,290	131	10.2%	2,578	2,000	578	28.9%
Future	(348)	(688)	340	-49.4%	(501)	(982)	481	-49.0%
	1,073	602	471	78.2%	2,077	1,018	1,059	104.0%
Net income (loss)	3,542	1,301	2,241	172.3%	6,144	(7,355)	13,499	NA
Adjusted net income	8,751	5,097	3,654	71.7%	15,787	10,195	5,592	54.9%
Weighted avg # of shares outstanding (000's)								
Basic	21,111	20,914			21,102	20,574		
Diluted	21,192	21,127			21,192	20,935		
Net income (loss) per share								
Basic	\$ 0.17	\$ 0.06	\$ 0.11	183.3%	\$ 0.29	\$ (0.36)	\$ 0.65	NA
Diluted	\$ 0.17	\$ 0.06	\$ 0.11	183.3%	\$ 0.29	\$ (0.36)	\$ 0.65	NA
Adjusted EBITDA per share								
Basic	\$ 0.51	\$ 0.35	\$ 0.16	45.7%	\$ 0.91	\$ 0.71	\$ 0.20	28.2%
Diluted	\$ 0.51	\$ 0.35	\$ 0.16	45.7%	\$ 0.91	\$ 0.69	\$ 0.22	31.9%
Adjusted net income per share								
Basic	\$ 0.41	\$ 0.24	\$ 0.17	70.8%	\$ 0.75	\$ 0.50	\$ 0.25	50.0%
Diluted	\$ 0.41	\$ 0.24	\$ 0.17	70.8%	\$ 0.74	\$ 0.49	\$ 0.25	51.0%

Comparison of the second quarter and six months ended June 30, 2007 and 2006

Revenue:

Total revenue for the second quarter of 2007 ended June 30, was \$60.5 million, an increase of 15.9%, or \$8.3 million, compared to \$52.2 million for the comparable period in 2006. For the first six months of 2007 total revenues were \$116.4 million, an increase of 12.5%, or \$12.9 million, compared to \$103.4 million for the comparable period in 2006. The increase for both the second quarter and six month periods were attributable almost entirely to growth from acquisitions as organic growth from our existing businesses was estimated at approximately 1% for the second quarter and 0% for the first six months, with the remaining 15% growth for the second quarter and 13% for the first six months being attributed to acquisitions.

Software license revenue for the quarter ended June 30, 2007 was essentially flat at \$7.3 million, vs. \$7.3 million for the same period in 2006. During the six months ended June 30, 2007, license revenue decreased by 7.6% or \$1.1 million to \$13.3 million, from \$14.4 million for the same period in 2006. Professional services and other services revenue for the quarter ended June 30, 2007 increased by 7.6%, or \$1.0 million to \$14.6 million, from \$13.6 million for the same period in 2006. During the six months ended June 30, 2007, services revenue increased by 6.1% or \$1.6 million to \$27.8 million, from \$26.2 million for the same period in 2006. Hardware and other revenue for the quarter ended June 30, 2007 increased by 23.9%, or \$0.8 million to \$4.0 million, from \$3.2 million for the same period in 2006. During the six months ended June 30, 2007, hardware and other revenue increased by 11.3% or \$0.8 million to \$8.1 million, from \$7.3 million for the same period in 2006. Maintenance revenues for the quarter ended June 30, 2007 increased by 23.1%, or \$6.5 million to \$34.6 million, from \$28.1 million for the same period in 2006. During the six months ended June 30, 2007, maintenance revenue increased by 20.9% or \$11.6 million to \$67.1 million, from \$55.5 million for the same period in 2006. The following table displays the breakdown of our revenue according to revenue type:

Revenue by Type

	Three months ended Jun. 30,				Six months ended Jun. 30,			
	2007	2006	2007	2006	2007	2006	2007	2006
	(\$000)		(% of total revenue)		(\$000)		(% of total revenue)	
Licenses	7,293	7,314	12.1%	14.0%	13,338	14,431	11.5%	14.0%
Professional services and other:								
Services	14,596	13,563	24.1%	26.0%	27,816	26,222	23.9%	25.4%
Hardware and other	3,992	3,221	6.6%	6.2%	8,083	7,260	6.9%	7.0%
Maintenance	34,607	28,113	57.2%	53.8%	67,144	55,518	57.7%	53.7%
	60,487	52,211	100.0%	100.0%	116,380	103,431	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, 2007 compared to the same periods in 2006:

	Three months ended Jun. 30,		Period-Over-Period Change		Six months ended Jun. 30,		Period-Over-Period Change	
	2007	2006	\$	%	2007	2006	\$	%
	(\$000, except percentages)				(\$000, except percentages)			
Public Sector								
Licenses	4,557	4,500	57	1.3%	7,940	8,752	(812)	-9.3%
Professional services and other:								
Services	11,125	9,185	1,940	21.1%	20,558	17,562	2,996	17.1%
Hardware and other	2,919	2,176	743	34.2%	5,888	4,846	1,042	21.5%
Maintenance	20,738	15,408	5,330	34.6%	39,720	30,422	9,298	30.6%
	39,339	31,269	8,070	25.8%	74,106	61,582	12,524	20.3%
Private Sector								
Licenses	2,736	2,814	(78)	-2.8%	5,397	5,679	(282)	-5.0%
Professional services and other:								
Services	3,470	4,378	(908)	-20.7%	7,258	8,660	(1,402)	-16.2%
Hardware and other	1,074	1,045	29	2.8%	2,195	2,414	(219)	-9.1%
Maintenance	13,868	12,705	1,163	9.2%	27,424	25,096	2,328	9.3%
	21,148	20,942	206	1.0%	42,274	41,849	425	1.0%

For the quarter ended June 30, 2007, total revenue in the public sector segment increased 25.8%, or \$8.1 million, to \$39.3 million, compared to \$31.3 million for the quarter ended June 30, 2006. For the six months ended June 30, 2007 total revenue increased by 20.3% or \$12.5 million, to \$74.1 million, compared to \$61.6 million for the comparable period in 2006. The increases for both the three and six month periods were significant across all revenue types with the exception of license fees which were only up 1.3% in the second quarter and actually down 9.3% for the first six months

over the comparable periods in 2006, respectively. 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 2006 in our public sector segment. It is estimated that these acquisitions contributed approximately \$7.1 million to our Q2 2007 revenues and \$11.9 million to our revenues in the six months ended June 30, 2007. The remaining \$0.9 million of revenue growth for Q2 and \$0.6 million of revenue growth for the first six months of 2007 in this sector was generated from organic sources. The organic growth was driven by the following:

- **Trapeze operating group** (increase of approximately \$0.3 million for Q2 and a contraction of \$0.7 million for the first six months of 2007). Trapeze experienced strong growth in maintenance revenues in both the quarter and year to date results offset by declines in license and services revenues due to the timing of bookings in our mobile computing and European business areas as well as some implementation slow-downs in North America.
- **Harris operating group** (increase of approximately \$1.1 million for Q2 and \$1.5 million for the first six months of 2007). Harris' organic growth continues to be driven by upgrades under our software for life program, continued sales to new name customers and the continued growth in maintenance revenues from clients completing installations and moving on to maintenance.
- **Emphasys operating group** (a contraction of approximately \$0.4 million for Q2, but growth of \$0.1 million for the first six months of 2007). The decline in Q2 revenues from organic sources at Emphasys is a result of a very strong second quarter in 2006 during which one of our large former clients re-engaged us as their software provider. The minor growth in organic revenues for the first six months was driven by an increase in our licenses and services revenues from new name and base sales.
- **Justice operating group** (a revenue contraction of \$0.1 million for Q2 and \$0.3 million for the first six months of 2007). The decline in Q2 and the first half of 2007 was a function of an unusually strong first half in 2006.

For the quarter ended June 30, 2007, total revenue in the private sector segment increased 1.0%, or \$0.2 million, to \$21.1 million, compared to \$20.9 million for the quarter ended June 30, 2006. For the six months ended June 30, 2007 total revenue increased by 1.0% or \$0.4 million, to \$42.3 million, compared to \$41.8 million for the comparable period in 2006. Revenue growth from acquired businesses was \$0.5 million in Q2 2007 and \$1.1 million for the first six months of 2007, as we have only completed one acquisition since the beginning of 2006 in this segment. Revenues declined organically by \$0.3 million in Q2 2007 and \$0.7 million during the first half of 2007. The organic revenue decline was driven by the following:

- **Jonas operating group** (revenue growth of approximately \$0.7 million for Q2 and \$0.9 million for the first six months of 2007). The Jonas organic growth in 2007 continues to be driven by maintenance revenues as we continue to capture both market share and customer share in the private club and construction verticals.
- **Homebuilder operating group** (revenue contraction of approximately \$0.6 million for Q2 and \$0.9 million for the first six months of 2007). Our Homebuilder operating group continues to feel the effects of the housing slowdown in the US. The decline was most apparent in licenses and professional services as many of our clients and prospective clients have delayed purchasing decisions.
- **Friedman operating group** (revenue decline of approximately \$0.4 million for Q2 and \$0.7 million for the first six months of 2007). Friedman (like Homebuilders) is

feeling the effects of the building products and housing starts slow down. The decline at Friedman is solely the result of lower licenses and services as our maintenance revenues have increased period over period.

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 Jun. 30,				Six months ended Jun. 30,			
	2007	2006	2007	2006	2007	2006	2007	2006
	(\$000)				(\$000)			
Gross profit licenses	91.3%	92.0%	6,661	6,729	91.6%	93.1%	12,216	13,436
Gross profit services & maintenance	61.4%	60.2%	30,190	25,086	61.1%	59.5%	58,019	48,613
Gross profit hardware & other	15.5%	3.7%	617	120	19.9%	10.6%	1,610	768
Gross profit on total revenue	61.9%	61.2%	37,468	31,935	61.7%	60.7%	71,845	62,817

Gross profit increased for the quarter ended June 30, 2007 to \$37.5 million, or 61.9% of total revenue, from \$31.9 million, or 61.2% of total revenue. The increase in gross margin dollars is largely 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 maintenance revenue in the quarter. For the first half of 2007 our gross profit increased to \$71.8 million or 61.7% of total revenue, from \$62.8 million or 60.7% of total revenue for the comparable period in 2006. The increase in gross margin dollars is largely 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 maintenance revenue in the first six months. Our licenses, services and maintenance revenue margins experienced minimal change vs. 2006 in both the three and six month periods. Our hardware and other revenue margins continued to strengthen in both the three and six months ended June 30, 2007 as we realized stronger margins in our hardware and forms businesses. Management believes there could be significant fluctuations in gross profit margins for future periods if we experience a significant shift in our revenue mix.

Operating Expenses:

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

	Three months ended Jun. 30,		Period-Over-Period Change		Six months ended Jun. 30,		Period-Over-Period Change	
	2007	2006	\$	%	2007	2006	\$	%
	(\$000, except percentages)				(\$000, except percentages)			
Research and development	8,862	8,196	666	8.1%	17,772	16,388	1,384	8.4%
Sales and marketing	7,324	6,739	585	8.7%	14,365	13,147	1,218	9.3%
General and administration	10,410	9,701	709	7.3%	20,446	18,754	1,692	9.0%
Depreciation	855	727	128	17.6%	1,548	1,363	185	13.6%
	27,451	25,363	2,088	8.2%	54,131	49,652	4,479	9.0%

Overall operating expenses for the quarter ended June 30, 2007 increased 8.2%, or \$2.1 million, to \$27.5 million, compared to \$25.4 million over the same period in 2006. As a percentage of total revenue, operating expenses decreased from 48.6% in the quarter ended June 30, 2006 to 45.4% in the quarter ended June 30, 2007. During the six months ended June 30, 2007 operating expenses increased 9.0%, or \$4.5 million, to \$54.1 million, compared to \$49.7 million over the same period in 2006. As a percentage of total revenue, operating expenses decreased from 48.0% in the six months ended June 30, 2006 to 46.5% in the six months ended June 30, 2007. The 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 11.6% from 666 in the quarter ended June 30, 2006 to 743 in the quarter ended June 30, 2007. During the six months ended June 30, 2007 head count associated with operating expenses was up

9.6% to an average headcount of 720 compared to an average of 657 during the same period in 2006. Offsetting the increase associated with higher headcount, was a lower bonus accrual and tight expense controls throughout the group. The lower bonus accrual was driven by our lower period over period revenue growth rates in 2007 vs. 2006. Strengthening of C\$ vs. the US \$ contributes to the growth in operating expenses (as we estimate that approximately 1/3rd of our total expenses, including costs of goods sold, are originated in Canadian dollars). However the average exchange rate for the C\$ did not change significantly in the periods being measured, (2% increase in Q2 2007 vs. Q2 2006 and no change for the six month periods). Should the C\$ / US\$ exchange rate prevailing at the end of Q2 2007 remain unchanged we will experience a larger impact in Q3 2007.

Research and development – Research and development expenses increased 8.1%, or \$0.7 million, to \$8.9 million for the quarter ended June 30, 2007 compared to \$8.2 million for the same period in 2006. As a percentage of total revenue, research and development expense decreased to 14.7% in Q2 2007 from 15.7% in Q2 2006. During the six months ended June 30, 2007, research and development expense increased 8.4%, or \$1.4 million, to \$17.8 million, compared to \$16.4 million over the same period in 2006. As a percentage of total revenue, research and development decreased from 15.8% in the six months ended June 30, 2006 to 15.3% in the six months ended June 30, 2007. The absolute dollar increase from the same three and six month periods of the prior year reflects the growth in personnel devoted to research and development (414 in Q2 2007 vs. 365 in Q2 2006 and 397 during the six months ended June 30, 2007 vs. 356 for the same period in 2006).

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 2007 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 8.7%, or \$0.6 million to \$7.3 million, in the quarter ended June 30, 2007 compared to \$6.7 million for the same period in 2006. As a percentage of total revenue, sales and marketing expenses decreased to 12.1% in the quarter ended June 30, 2007 from 12.9% for the same period in 2006. For the six months ended June 30, 2007, sales and marketing expenses increased 9.3%, or \$1.2 million, to \$14.4 million, compared to \$13.1 million over the same period in 2006. As a percentage of total revenue, sales and marketing expenses decreased from 12.7% in the six months ended June 30, 2006 to 12.3% in the six months ended June 30, 2007. The increase in expenses during the quarter and six months ended June 30, 2007 is largely attributable to our growth in headcount from both acquisitions and internal hiring. For Q2 2007 we averaged 172 staff compared to 155 in the same period in 2006 (163 vs. 156 for the comparable six month periods).

General and administration – General and administration (“G&A”) expenses increased 7.3%, or \$0.7 million, to \$10.4 million in the quarter ended June 30, 2007 from \$9.7 million for the same period in 2006. As a percentage of total revenue, G&A expenses decreased to 17.2% in Q2 2007 from 18.6% in Q2 2006. For the six months ended June 30, 2007, G&A increased 9.0%, or \$1.7 million, to \$20.4 million, compared to \$18.8 million over the same period in 2006. As a percentage of total revenue, G&A decreased from 18.1% in the six months ended June 30, 2006 to 17.6% in the six months ended June 30, 2007. The dollar value increase was mainly attributable to increases in headcount in 2007 as compared to the same period in 2006. Average headcount for G&A employees grew 7.5% from 146 staff in Q2 2006 to 157 for Q2 2007. For the six months ended June 30, 2007, average headcount grew 9.6% to 160 staff from 146 staff over the same period in 2006.

Amortization of capital assets – Amortization of capital assets for the quarter and six months ended June 30, 2007 did not change materially. As a percentage of total revenue, amortization was 1.4% in Q2 2007 compared to 1.4% in Q2 2006. For the six month periods the percentages were 1.3% in 2007 vs. 1.3% in 2006. 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	
	Jun. 30,		Change		Jun. 30,		Change	
	2007	2006	\$	%	2007	2006	\$	%
	(\$000, except percentages)				(\$000, except percentages)			
Appreciation in common shares eligible for redemption	0	0	0	NA	0	10,093	(10,093)	NA
Amortization of intangible assets	5,209	3,796	1,413	37.2%	9,643	7,457	2,186	29.3%
Other expenses	0	1,087	(1,087)	NA	0	1,970	(1,970)	NA
Gain on sale of short term investments, marketable securities and other assets	(1,119)	0	(1,119)	NA	(1,354)	(8)	(1,346)	16825.0%
Interest expense (income)	(34)	(25)	(9)	36.0%	(149)	(84)	(65)	77.4%
Foreign exchange loss	1,345	(189)	1,534	-811.6%	1,351	74	1,277	1725.7%
Income tax expense	1,073	602	471	78.2%	2,077	1,018	1,059	104.0%
	6,474	5,271	1,203	22.8%	11,568	20,520	(8,952)	-43.6%

Appreciation in Common Shares eligible for redemption – As highlighted in our 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 or first half of 2007 with respect to appreciation in common shares eligible for redemption. Further we do not expect to incur these charges in the future. The historical expense of \$10.1 million in Q1 2006 for appreciation in common shares eligible for redemption was a result of the rights of certain shareholders (contained in 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.

Amortization of intangible assets – Amortization of intangible assets was \$5.2 million for the quarter ended June 30, 2007 compared to \$3.8 million for the same period in 2006, representing an increase of 37.2%. For the six months ended June 30, 2007 amortization of intangibles increased 29.3%, to \$9.6 million, compared to \$7.5 million over the same period in 2006. Both the three and six month increases are attributable to the increases in our intangible asset balance over the twelve month period ended June 30, 2007 as a result of the acquisitions that we completed during this period.

Other expenses – Other expenses in the quarter ended June 30, 2007 were \$0 million compared to other expenses of \$1.1 million for the same period in 2006. For the six month period ended June 30, 2007 other expenses were \$0 million vs. \$2.0 million for the same period in 2006. Since we have accrued all expenses with respect to the IPO and redeemed the previously outstanding phantom shares, we expect very little if any “Other expenses” in our income statements for future periods. The \$2.0 million expense in the first half of 2006 was the combination of: (i) \$0.4 million expense, due to the increase in liability associated with our phantom shares driven by the increase in our share price (see discussion above in the appreciation of common shares eligible for redemption section) and (ii) \$1.6 million in one time costs associated with the IPO.

Gain on sale of short-term investments, marketable securities and other assets - Gains for the quarter and six months ended June 30, 2007 were \$1.1 million and \$1.4 million compared to a gain of \$0 million for Q2 2006 and a gain of \$0 million for the first half 2006. The gains for the

second quarter and first half of 2007 are a result of liquidating a portion of our investment in certain marketable securities. 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 these shares if we cannot acquire a controlling stake, generating either gains or losses. As of June 30, 2007, we had two investments that would have the potential to create such gains or losses. In the future, we may liquidate these holdings if we feel we have a better use for the capital, if our outlook for the businesses changes, or if the market price exceeds our expectations of value.

Interest income – Net interest income was \$34,000 for the quarter ended June 30, 2007 compared to \$25,000 for the same period in the previous year, representing an increase of 36%. For the first half of the year net interest income was \$149,000 compared to \$84,000 in the comparable period for 2006, representing an increase of 77.4%. At the end of the second quarter we completed an investment in VCG Inc. which will generate approximately \$0.1 million per quarter in interest income. Our excess cash balances (to the extent that we have excess cash) will also generate interest income. These sources of interest income will be offset by periodic borrowings on our line of credit to fund acquisitions. As a result we expect interest income / expense to fluctuate significantly in the future depending upon the timing of acquisitions and the amount we borrow against our line of credit to complete them.

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 revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended June 30, 2007 our foreign exchange loss was \$1.3 million compared to a gain of \$0.2 million for Q2 2006. For the six months ended June 30, 2007 the loss was 1.4 million vs. a loss of \$0.1 million during the same period in 2006. The significant foreign exchange loss in Q2 2007 is mainly attributable to a 9% increase in the quarter-end closing rate for the C\$ vs. the US\$ at June 30, 2007 vs. March 31, 2007. As we generally run our business with negative working capital and we had a reasonable amount of our net liabilities denominated in C\$, when we re-valued C\$ net liabilities to US\$ (our functional currency) at quarter end, we had to record a significant foreign exchange loss in the quarter. The 9% increase in the Canadian dollar closing rates from March 2007 to June 2007 was the most significant quarter over quarter movement we have experienced since the beginning of 2005.

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, 2007, the provision for income taxes was \$1.1 million, compared to \$0.6 million in 2006. For the six months ended June 30, 2007, the provision for income taxes was \$2.1 million, compared to \$1.0 million in 2006. The increase in the tax provision for both the second quarter and first half of 2007 compared to 2006 is mainly attributable to an increase in taxable income.

Net income (loss) – Net income for the quarter ended June 30, 2007 was \$3.5 million compared to net income of \$1.3 million for the same period in 2006. On a per share basis this translated into a net income per diluted share of \$0.17 in Q2 2007 vs. a net income per diluted share of \$0.06 in Q2 2006. Net income in Q2 2007 was positively impacted by the growth in our operations and operating income, offset by the increase in amortization of intangibles and the foreign exchange loss. For the first half of the year, 2007 net income was \$6.1 million or \$0.29 per diluted share compared to a loss of \$7.4 million or \$0.36 per share in the first half of 2006. The net loss for the first half of 2006 was a result of the charges for appreciation in common shares eligible for redemption.

Adjusted EBITDA:

For Q2 2007, Adjusted EBITDA increased by \$3.6 million to \$10.9 million compared to \$7.3 million in Q2 2006, representing an increase of 48.9%. Adjusted EBITDA margin was 18.0% in the second quarter of 2007, compared to 14.0% of total revenue for the same period in 2006. For the first half of 2007, Adjusted EBITDA increased by \$4.7 million to \$19.3 million compared to \$14.5 million during the same period in 2006, representing an increase of 32.6%. Adjusted EBITDA margin was 16.5% in the second half of 2007, compared to 14.0% of total revenue for the same period in 2006. 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 Jun. 30,		Six months ended Jun. 30,	
	2007	2006	2007	2006
	(\$'000, except percentages)		(\$'000, except percentages)	
Total revenue	<u>60,487</u>	<u>52,211</u>	<u>116,380</u>	<u>103,431</u>
Net income (loss)	3,542	1,301	6,144	(7,355)
Add back:				
Income tax expense	1,073	602	2,077	1,018
Foreign exchange loss	1,345	(189)	1,351	74
Interest expense (income)	(34)	(25)	(149)	(84)
Gain on sale of short-term investments, marketable securities and other assets	(1,119)	0	(1,354)	(8)
Other expenses	0	1,087	0	1,970
Appreciation in common shares eligible for redemption	0	0	0	10,093
Amortization of intangible assets	5,209	3,796	9,643	7,457
Depreciation	855	727	1,548	1,363
Adjusted EBITDA	10,871	7,299	19,260	14,528
Adjusted EBITDA margin	18.0%	14.0%	16.5%	14.0%

Adjusted net income:

For Q2 2007, Adjusted net income increased by \$3.7 million to \$8.8 million compared to \$5.1 million in 2006, representing an increase of 71.7%. Adjusted net income margin was 14.5% in the second quarter of 2007, compared to 9.8% of total revenue for the same period in 2006. For the first half of 2007, Adjusted net income increased by \$5.6 million to \$15.8 million compared to \$10.2 million during the same period in 2006, representing an increase of 54.9%. Adjusted net income margin was 13.6% in the second half of 2007, compared to 9.9% of total revenue for the same period in 2006. 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 Jun. 30,		Six months ended Jun. 30,	
	2007	2006	2007	2006
	(\$'000, except percentages)		(\$'000, except percentages)	
Total revenue	<u>60,487</u>	<u>52,211</u>	<u>116,380</u>	<u>103,431</u>
Net income (loss)	3,542	1,301	6,144	(7,355)
Add back:				
Appreciation in common shares eligible for redemption	0	0	0	10,093
Amortization of intangible assets	5,209	3,796	9,643	7,457
Adjusted net income	8,751	5,097	15,787	10,195
Adjusted net income margin	14.5%	9.8%	13.6%	9.9%

Quarterly Results

	Quarter Ended							
	Sep. 30, 2005	Dec. 31, 2005	Mar. 31, 2006	June 30, 2006	Sep. 30, 2006	Dec. 31, 2006	Mar. 31, 2007	Jun. 30, 2007
	(\$000, except per share amounts)							
Revenue	42,648	44,551	51,220	52,211	53,809	53,519	55,893	60,487
Net Income (loss)	2,075	815	(8,656)	1,301	2,287	3,831	2,602	3,542
Net Income (loss) per share								
Basic	0.10	0.04	(0.43)	0.06	0.11	0.18	0.12	0.17
Diluted	0.10	0.04	(0.43)	0.06	0.11	0.18	0.12	0.17

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, foreign exchange (gains) and losses 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 in the future.

Liquidity and Capital Resources

Our cash and cash equivalents position (net of borrowings on our line of credit) at June 30, 2007 decreased to \$7.0 million, from \$25.8 million at December 31, 2006 representing a decrease of 73%.

Total assets increased \$21.0 million, from \$186.6 million at December 31, 2006 to \$207.6 million at June 30, 2007. While most asset categories increased, the majority of the increase can be explained by increases in: a) intangible assets and goodwill of \$17.8 million due to the 5 acquisitions completed in the first half of 2007, b) accounts receivable of \$9.4 million which is driven by growth in the business and increases in receivables due to acquisitions, c) prepaid expenses and other current assets of \$6.7 million the majority of which was acquired in the PG Govern acquisition, and d) the \$4 million investment in VCG Inc. These increases were partially offset by the decrease in cash and restricted cash of \$15.2 million (as explained below).

Current liabilities increased by \$15.7 million from \$99.1 million as of December 31, 2006, to \$114.8 million at June 30, 2007. From an individual category perspective the increases were driven by: a) deferred revenue up \$10.0 million, consistent with the growth in our maintenance revenues and the acquired deferred revenue, b) acquisition holdback payments up \$2.0 million, representing the holdbacks on 2007 acquisitions offset by holdbacks paid in the first half of 2007, c) income taxes payable up \$3.8 million from taxes accrued in the first half of 2007 and acquired taxes payable from PG Govern, and d) borrowings on our line of credit which are up \$3.6 million since December 31, 2006. These were offset by a decrease in our accounts payable and accrued liabilities of \$3.7 million, driven by the payout of the 2006 employee bonuses in the first half of 2007, offset by increases from acquired accounts payable and accrued liabilities and additional bonus accruals for the 2007 fiscal year.

Net Changes in Cash Flow

	Six months ended June 30, 2007
	(in millions of \$)
Net cash provided by operating activities	\$4.6
Net cash provided by financing activities	0.5
Net cash used in investing activities	(19.5)
Effect of exchange rate changes on cash and cash equivalents	(0.8)
Net decrease in cash and cash equivalents	(\$15.2)

The net cash flow from operating activities was \$4.6 million for the six months ended June 30, 2007. In the first half of 2007 we generated free cash flow profits of approximately \$16.8 million, however, this was offset by a net increase in our working capital of \$12.2 million most of which can be attributed to the payment of the 2006 employee bonuses. The bonuses were paid in the first quarter however the funds withheld to buy shares were only forwarded to the purchasing agent as the shares were purchased. During the second quarter approximately 70% of the shares required for the bonus plan were purchased, expending approximately C\$3.5 million.

The net cash used in financing activities in the first half of 2007 was due to the payment of our annual dividend of \$0.15 per share for cash usage of \$3.2 million, the issuance of shareholder loans of \$0.4 million, and the repayment of long term debt of \$0.2 million. This was offset by borrowings on our line of credit generating cash of \$3.6 million and the repayment of shareholder loans of \$0.8 million.

The net cash used in investing activities was due primarily to acquisitions completed in the first half of 2007 for an aggregate of \$22.8 million (including payments for holdbacks on prior acquisitions and the investment in VCG Inc.). We also invested about \$1.3 million in property and equipment. These amounts were partially offset by cash generated from the sale of marketable securities and the application of our restricted cash to fund acquisitions.

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. If we continue to acquire VMS businesses we may need additional external funding depending upon the size and timing of the acquisitions.

Capital Resources and Commitments

We obtained a credit facility in 2004 that is collateralized by substantially all of our assets including the assets of certain of our Canadian and US subsidiaries. Certain other subsidiaries also guarantee this facility. In the fourth quarter of 2006, we amended the agreement to increase the maximum borrowing under the facility to \$20 million from \$10 million. 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, 2007, we had drawn \$3.6 million on this facility and issued a letter of credit for C\$5.0 million which limits our borrowing capacity dollar for dollar.

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 and our investment in VCG Inc.) that would have a significant effect on our assets and liabilities as at June 30, 2007.

Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the US 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 un-measurable contingent liabilities (not accrued in accordance with Canadian 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 during the second quarter of 2007. The outstanding balance of loans granted under the KELP as of June 30, 2007 was \$1.8 million as compared to \$2.1 million as of December 31, 2006.

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, 2006 (as contained in the Company’s annual report for 2006).

Changes in Accounting Policies and Recent Accounting Pronouncements

On January 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook (CICA Handbook) Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; Section 3865, *Hedges*; and Section 3251, *Equity*. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening accumulated other comprehensive income. As required by the implementation of these new standards, the comparative Interim Consolidated financial Statements have not been restated.

On January 1, 2007, the Company also adopted CICA Handbook Section 1506, “Accounting changes”, which requires that voluntary changes in accounting policy are made only if the changes result in financial statements that provide more reliable and more relevant information. It also requires prior period errors to be corrected retrospectively. The adoption of this standard did not impact the Company’s consolidated financial statements.

In December 2006, the CICA issued Section 3862, “Financial Instruments, Disclosures”, and Section 3863, “Financial Instruments, Presentation”. These standards provide additional guidance on disclosing risks related to recognized and unrecognized financial instruments and how those risks are managed. The standards are effective for 2008. The Company is currently evaluating the impact of adopting these standards on its consolidated financial statements.

Share Capital

As at August 8, 2007, 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 that approximately two thirds of our growth will be attributable to acquisitions over this five year period (vs. the approximate 50/50 split estimated at the time of the IPO). Further a shift toward more acquired growth could lead to slightly increased Adjusted EBITDA margins. 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 Annual Information Form for the year ended December 31, 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.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under Multilateral Instrument 52-109. At June 30, 2007, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

Management is responsible for the design of its internal controls over financial reporting ("ICFR") as defined under Multilateral Instrument 52-109. At December 31, 2006, the President and Chief Financial Officer concluded that the design of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP. The President and CFO have evaluated whether there were changes to internal controls over financial reporting during the interim period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. No such changes were identified.

NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Constellation Software Inc. (the “Company”) and the accompanying consolidated balance sheet and consolidated statement of deficit as at June 30, 2007, the interim consolidated statement of operations and consolidated statement of cash flows for the three and six month periods ended June 30, 2007, 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 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 8, 2007

Barry Symons
Chief Financial Officer
Toronto, Canada
August 8, 2007

CONSTELLATION SOFTWARE INC.

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

	June 30, 2007	December 31, 2006
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,624	\$ 25,807
Restricted cash	–	858
Short-term investments and marketable securities - available for sale (note 3)	626	3,320
Accounts receivable	42,074	32,655
Work in progress	12,408	13,189
Inventory	1,722	1,434
Prepaid expenses and other current assets	11,489	4,787
Future income taxes (note 10)	918	1,153
	<u>79,861</u>	<u>83,203</u>
Property and equipment	8,799	6,385
Future income taxes (note 10)	3,418	3,429
Note Receivable (note 15)	3,433	–
Share purchase warrants (note 15)	571	–
Other long-term assets	805	585
Goodwill	31,450	26,886
Intangible assets (note 5)	79,272	66,085
	<u>\$ 207,609</u>	<u>\$ 186,573</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	\$ 3,593	\$ –
Accounts payable and accrued liabilities	33,332	37,024
Acquisition holdback payments	6,756	4,797
Deferred revenue	66,200	56,190
Income taxes payable	4,901	1,063
	<u>114,782</u>	<u>99,074</u>
Future income taxes (note 10)	9,300	8,048
Acquisition holdback payments	231	231
Other long-term liabilities	1,116	404
Shareholders' equity:		
Capital stock (note 7)	99,283	99,283
Shareholder loans (note 8)	(1,822)	(2,135)
Accumulated other comprehensive income (note 14)	(3,066)	(3,152)
Deficit	(12,215)	(15,180)
	<u>82,180</u>	<u>78,816</u>
Subsequent event (note 17)		
	<u>\$ 207,609</u>	<u>\$ 186,573</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 June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Revenue	\$ 60,487	\$ 52,211	\$ 116,380	\$ 103,431
Cost of revenue	23,020	20,276	44,537	40,614
	37,467	31,935	71,843	62,817
Research and development	8,862	8,196	17,772	16,388
Sales and marketing	7,324	6,739	14,365	13,147
General and administration	10,410	9,701	20,446	18,754
Depreciation	855	727	1,548	1,363
	27,451	25,363	54,131	49,652
Income before the undernoted	10,016	6,572	17,712	13,165
Appreciation in common shares eligible for redemption (note 7(d))	—	—	—	10,093
Amortization of intangible assets	5,209	3,796	9,643	7,457
Other expenses	—	1,087	—	1,970
Gain on sale of short-term investments, marketable securities and other assets	(1,119)	—	(1,354)	(8)
Interest expense (income)	(34)	(25)	(149)	(84)
Foreign exchange loss (gain)	1,345	(189)	1,351	74
Income (loss) before income taxes	4,615	1,903	8,221	(6,337)
Income taxes (recovery) (note 10):				
Current	1,421	1,290	2,578	2,000
Future	(348)	(688)	(501)	(982)
	1,073	602	2,077	1,018
Net income (loss)	\$ 3,542	\$ 1,301	\$ 6,144	\$ (7,355)
Income (loss) per share (note 11):				
Basic	\$ 0.17	\$ 0.06	\$ 0.29	\$ (0.36)
Diluted	0.17	0.06	0.29	(0.36)
Weighted average number of shares outstanding (in thousands) (note 11):				
Basic	21,111	20,914	21,102	20,574
Diluted	21,192	21,127	21,192	20,935
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 June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Deficit, beginning of period	\$ (15,757)	\$ (22,600)	\$ (15,180)	\$ (12,623)
Net income (loss)	3,542	1,301	6,144	(7,355)
Dividends (note 7(c))	–	–	(3,179)	(1,381)
Refundable taxes and other	–	–	–	60
Deficit, end of period	\$ (12,215)	\$ (21,299)	\$ (12,215)	\$ (21,299)

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Net income (loss)	\$ 3,542	\$ 1,301	\$ 6,144	\$ (7,355)
Other comprehensive income (loss)	(746)	–	86	–
Comprehensive income (loss)	\$ 2,796	\$ 1,301	\$ 6,230	\$ (7,355)

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 June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Cash flows from operating activities:				
Net income (loss)	\$ 3,542	\$ 1,301	\$ 6,144	\$ (7,355)
Adjustments to reconcile net income to net cash flows from operations:				
Depreciation	855	727	1,548	1,363
Amortization of intangible assets	5,209	3,796	9,643	7,457
Loss on common shares eligible for redemption	—	—	—	10,093
Deferred compensation	—	—	—	400
Future income taxes	(347)	(688)	(501)	(982)
Gain on sale of short-term investments, marketable securities and other assets	(1,119)	—	(1,354)	(8)
Unrealized exchange loss (gain)	1,299	(481)	1,283	(238)
Change in non-cash operating working capital (note 13)	(3,277)	148	(12,199)	(6,821)
Cash flows from operating activities	6,162	4,803	4,564	3,909
Cash flows from financing activities:				
Increase (decrease) in long-term liabilities	21	13	(209)	16
Increase in bank indebtedness	1,171	1,500	3,593	2,600
Dividends	—	—	(3,179)	(1,381)
Distributions to common shares eligible for redemption	—	—	—	(471)
Issue of common shares eligible for redemption, net of shareholder loans	—	906	—	3,805
Redemption of common shares eligible for redemption	—	(6)	—	(20)
Issuance of shareholder loans	—	—	(447)	—
Repayment of shareholder loans	(32)	302	760	2,212
Repurchase of phantom shares (note 9)	—	(1,657)	—	(1,657)
Return of capital	—	—	—	(637)
Cash flows from financing activities	1,160	1,058	518	4,467
Cash flows from investing activities:				
Acquisition of businesses, net of cash acquired (note 4)	(4,198)	(10,293)	(18,815)	(13,727)
Reduction (increase) to short-term investments, marketable securities and other assets	3,151	(313)	3,952	(1,478)
Decrease in restricted cash	—	—	858	—
Decrease (increase) in other assets	(3,914)	135	(4,224)	161
Property and equipment purchased	(768)	(822)	(1,285)	(1,509)
Cash flows (used in) investing activities	(5,729)	(11,293)	(19,514)	(16,553)
Effect of currency translation adjustment on cash and cash equivalents	(777)	633	(751)	441
Increase (decrease) in cash and cash equivalents	816	(4,799)	(15,183)	(7,736)
Cash and cash equivalents, beginning of period	9,808	15,348	25,807	18,285
Cash and cash equivalents, end of period	\$ 10,624	\$ 10,549	\$ 10,624	\$ 10,549

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 months and six months ended June 30, 2007 and 2006
(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 three months and six months ended June 30, 2007, the Company completed certain acquisitions as described in note 4 to the Interim Financial Statements. The results of operations of these acquired companies have been included in these Interim Financial Statements from the dates 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 2006 Annual Report.

2. Changes in accounting policies:

On January 1, 2007, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1530, Comprehensive Income; Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; Section 3865, Hedges; and Section 3251, Equity. These sections apply to fiscal years beginning on or after October 1, 2006 and provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, and describe when and how hedge accounting may be applied. Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income is defined by revenue, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income, in conformity with generally accepted accounting principles.

CONSTELLATION SOFTWARE INC.

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

Three months and six months ended June 30, 2007 and 2006
(Unaudited)

2. Changes in accounting policies (continued):

Under the new standards, all financial assets are classified as held for trading, held-to-maturity investments, loans and receivables or available-for-sale categories. Also, all financial liabilities must be classified as held for trading or other financial liabilities. All financial instruments are recorded on the consolidated balance sheet at fair value. After initial recognition, the financial instruments should be measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which should be measured at amortized cost. The effective interest related to the financial liabilities and the gain or loss arising from a change in the fair value of a financial asset or financial liability classified as held for trading is included in net income for the period in which it arises. If a financial asset is classified as available-for-sale, the gain or loss should be recognized in other comprehensive income until the financial asset is derecognized and any cumulative gain or loss is then recognized in net income.

As a result of the implementation of this standard, the Company has classified cash and cash equivalents as held for trading. Short-term investments and marketable securities have been classified as available for sale. Accounts receivable has been classified as loans and receivables. Bank indebtedness, accounts payable and certain accrued liabilities have been classified as other financial liabilities. The Company has not classified any financial asset as held-to-maturity. The remeasurement on adoption to fair value resulted in an increase in short-term investments and marketable securities of \$1,154 and a corresponding increase in other comprehensive income.

3. Short-term investments and marketable securities:

At June 30, 2007, 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, 2007		December 31, 2006	
	Cost	Market value	Cost	Market value
	(Unaudited)			
Common shares	\$ 540	\$ 626	\$ 3,320	\$ 4,474

CONSTELLATION SOFTWARE INC.

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

Three months and six months ended June 30, 2007 and 2006
(Unaudited)

4. Business acquisitions:

2007:

(a) 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 \$4,280. The holdback is payable in the fourth quarter of 2007 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 the Interim Financial Statements from the date of acquisition. The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:	
Current assets	\$ 11,737
Property and equipment	2,628
Goodwill	4,084
Technology assets	16,694
Customer assets	2,373
	<hr/> 37,516
Liabilities assumed:	
Current liabilities	18,059
Future income tax liability	1,144
Other long-term liabilities	921
	<hr/> 20,124
<hr/>	
Total purchase price consideration	<hr/> \$ 17,392

Goodwill has been allocated to the Public segment.

CONSTELLATION SOFTWARE INC.

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

Three months and six months ended June 30, 2007 and 2006
(Unaudited)

4. Business acquisitions (continued):

(b) Other acquisitions:

During the six months ended June 30, 2007, the Company made four other acquisitions for aggregate net initial cash consideration of \$2,295 plus holdbacks of \$517. The holdbacks are payable over a one-year period subject to no claims under the representations and warranties of the agreement. The acquisitions have been accounted for using the purchase method with the results of operations included in these Interim 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	\$ 1,423
Property and equipment	49
Goodwill	439
Technology assets	3,287
Customer assets	466
	<hr/> 5,664
Liabilities assumed:	
Current liabilities	2,357
Deferred taxes	495
	<hr/> 2,852
<hr/> Total purchase price consideration	<hr/> \$ 2,812

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
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Three months and six months ended June 30, 2007 and 2006
(Unaudited)

4. Business acquisitions (continued):

2006:

(a) Advanced Utility Systems Corporation:

On June 14, 2006, the Company acquired Advanced Utility Systems Corporation for net cash consideration of \$10,063 on closing plus a holdback of \$1,631. The holdback was payable on June 14, 2007 subject to no claims under the representations and warranties of the agreement. (A holdback payment of \$1,696 was made on June 14, 2007) The acquisition has been accounted for using the purchase method with the results of operations included in these Interim 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 the acquisition:

Assets acquired:	
Current assets	\$ 2,131
Capital assets	371
Goodwill	2,998
Technology assets	9,468
Customer assets	750
	<hr/>
	15,718
Liabilities assumed:	
Current liabilities	3,296
Future income tax liability	634
Other long term liabilities	94
	<hr/>
	4,024
<hr/>	
Total purchase price consideration	\$ 11,694

CONSTELLATION SOFTWARE INC.

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

Three months and six months ended June 30, 2007 and 2006
(Unaudited)

4. Business acquisitions (continued):

(b) Other acquisitions:

During the six months ended June 30, 2006 the Company made four other acquisitions for aggregate net initial cash consideration of \$3,775 plus holdbacks of \$1,000. The holdbacks are payable over a one-year period subject to no claims under the representations and warranties of the agreement. (Holdbacks of \$200 and \$800 were paid in 2006 and during the six months ended June 30, 2007, respectively.) The acquisitions have been accounted for using the purchase method with the results of operations included in these Interim Financial Statements from the date of each acquisition. The following table summarizes the aggregate estimated fair value of the assets acquired and liabilities assumed at the date of each acquisition:

Assets acquired:			
Current assets		\$	926
Capital assets			150
Technology assets			5,793
Customer assets			96
			6,965
Liabilities assumed:			
Current liabilities			2,190
Total purchase price consideration		\$	4,775

5. Intangible assets:

			June 30, 2007	December 31, 2006
	Cost	Accumulated amortization	Net book value	Net book value
Technology assets	\$ 108,979	\$ 40,371	\$ 68,608	\$ 56,763
Non-compete agreements	1,680	1,481	199	506
Customer assets	16,810	6,390	10,420	8,765
Trademarks	133	88	45	51
	\$ 127,602	\$ 48,330	\$ 79,272	\$ 66,085

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
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Three months and six months ended June 30, 2007 and 2006
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5. Intangible assets (continued):

Amortization expense related to intangible assets for the three months and six months ended June 30, 2007 was \$5,209 and \$9,643 (three months and six months ended June 30, 2006 - \$3,796 and \$7,457), respectively.

6. Credit facilities:

The Company has an operating line of credit with a major bank in the amount of \$20,000. 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, 2007, \$3,593 (December 31, 2006 - nil) had been drawn from this credit facility, and letters of credit totalling \$4,970 (December 31, 2006 - \$250) were issued which limit the borrowing capacity on a dollar-for-dollar basis.

7. Capital stock:

(a) The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Class A non-voting shares. The rights and privileges of the existing Class A non-voting shares entitle the holders of such shares to distributions, if and when declared by the Board of Directors. The holders of the Class A non-voting shares are entitled to convert such shares, at any time, into common shares on a one-for-one basis.

(b) The issued share capital of the Company is as follows:

	Common shares		Class A non-voting		Total	
	Number	Amount	Number	Amount	Number	Amount
Balance, December 31, 2006	16,903,530	\$ 84,762	4,288,000	\$ 14,521	21,191,530	\$ 99,283
Issuance of shares	-	-	-	-	-	-
Repurchased for cancellation	-	-	-	-	-	-
Balance, June 30, 2007	16,903,530	\$ 84,762	4,288,000	\$ 14,521	21,191,530	\$ 99,283

CONSTELLATION SOFTWARE INC.

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

Three months and six months ended June 30, 2007 and 2006
(Unaudited)

7. Capital stock (continued):

(c) During the six months ended June 30, 2007, a distribution to shareholders of U.S. \$0.15 per share (2006 - \$0.12) was declared and paid by the Company.

(d) Share structure prior to the Initial Public Offering ("IPO"):

At March 31, 2006, prior to the IPO in May 2006, the Company had issued and outstanding 1,732,102 Series 1 and 2,491,856 Series 3 common shares eligible for redemption (all of which were converted to common shares as part of the IPO). The holders of these shares had the right to sell their shares back to the Company on an annual basis, subject to certain restrictions, at their fair value as determined by the Company's Board of Directors. Accordingly, these shares were presented as a liability on the Company's consolidated balance sheets. For the six months ended June 30, 2006, the Company recorded \$10,093 as a charge for the appreciation in common shares eligible for redemption, representing the remeasurement of the liability. The redemption features of these shares have been eliminated with the completion of the IPO and are no longer presented as a liability on the Company's consolidated balance sheets. Accordingly, the Company no longer records an appreciation charge.

8. Shareholder loans:

Share purchase loans receivable of \$1,822 (December 31, 2006 - \$2,135) 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, 2006	\$ (2,135)
Issuance of shareholder loans	(447)
Repayment of shareholder loans	809
Interest	(49)
Balance, June 30, 2007	\$ (1,822)

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
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Three months and six months ended June 30, 2007 and 2006
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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 could 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. 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 at June 30, 2007, the Company had total net deferred tax assets of \$4,336 (December 31, 2006 - \$4,582) and total deferred tax liabilities of \$9,300 (December 31, 2006 - \$8,048).

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 periods 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
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(Unaudited)

11. Income (loss) per share:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Numerator:				
Net income (loss)	\$ 3,542	\$ 1,301	\$ 6,144	\$ (7,355)
Denominator:				
Weighted average number of shares:				
Basic	21,111	20,914	21,102	20,574
Effect of dilutive securities:				
Shares secured by shareholder loans	81	213	90	—
Diluted	21,192	21,127	21,192	20,574
Income (loss) per share:				
Basic	\$ 0.17	\$ 0.06	\$ 0.29	\$ (0.36)
Diluted	0.17	0.06	0.29	(0.36)

For the six months ended June 30, 2006, common shares secured by shareholder loans totalled 361. These shares were not included in the calculation of diluted income (loss) per share because to do so would have been anti-dilutive.

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
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Three months and six months ended June 30, 2007 and 2006
(Unaudited)

12. 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 and Private Sector businesses based on several factors, of which, the primary financial measures are revenue and income (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, 2007	Public Sector	Private Sector	Other	Total
Revenue	\$ 39,339	\$ 21,148	\$ —	\$ 60,487
Cost of revenue	15,936	7,084	—	23,020
	23,403	14,064	—	37,467
Research and development	5,718	3,144	—	8,862
Sales and marketing	5,026	2,298	—	7,324
General and administration	6,608	3,802	—	10,410
Amortization of capital assets	622	233	—	855
	17,974	9,477	—	27,451
Income before the undernoted	5,429	4,587	—	10,016
Amortization of intangible assets	3,563	1,646	—	5,209
Other expenses	—	—	—	—
Interest income	(21)	(14)	1	(34)
Gain on sale of short-term investments, marketable securities and other assets	—	—	(1,119)	(1,119)
Foreign exchange loss (gain)	333	384	628	1,345
Inter-company expenses (income)	475	690	(1,165)	—
Income before income taxes	1,079	1,881	1,655	4,615
Income taxes (recovery):				
Current	654	744	23	1,421
Future	(248)	(100)	—	(348)
	406	644	23	1,001
Net income	\$ 673	\$ 1,237	\$ 1,632	\$ 3,542
Other selected information:				
Capital assets purchased	\$ 483	\$ 247	\$ 38	\$ 768

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
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Three months and six months ended June 30, 2007 and 2006
(Unaudited)

12. Segmented information (continued):

Six months ended June 30, 2007	Public Sector	Private Sector	Other	Total
Revenue	\$ 74,106	\$ 42,274	\$ —	\$ 116,380
Cost of revenue	30,441	14,096	—	44,537
	43,665	28,178	—	71,843
Research and development	11,298	6,474	—	17,772
Sales and marketing	9,476	4,889	—	14,365
General and administration	12,664	7,782	—	20,446
Amortization of capital assets	1,083	465	—	1,548
	34,521	19,610	—	54,131
Income before the undernoted	9,144	8,568	—	17,712
Amortization of intangible assets	6,330	3,313	—	9,643
Other expenses	—	—	—	—
Interest income	(100)	(39)	(10)	(149)
Gain on sale of short-term investments, marketable securities and other assets	—	—	(1,354)	(1,354)
Foreign exchange loss (gain)	180	440	731	1,351
Inter-company expenses (income)	906	1,129	(2,035)	—
Income before income taxes	1,828	3,725	2,668	8,221
Income taxes (recovery):				
Current	1,212	1,372	(6)	2,578
Future	(202)	(299)	—	(501)
	1,010	1,073	(6)	2,077
Net income	\$ 818	\$ 2,652	\$ 2,674	\$ 6,144
Other selected information:				
Capital assets purchased	\$ 823	\$ 395	\$ 67	\$ 1,285

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
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Three months and six months ended June 30, 2007 and 2006
(Unaudited)

12. Segmented information (continued):

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
Other expenses	1	26	1,060	1,087
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	1,501	(332)	1,903
Income taxes (recovery):				
Current	549	941	(200)	1,290
Future	(406)	(282)	—	(688)
	143	659	(200)	602
Income (loss) for the period	\$ 591	\$ 842	\$ (132)	\$ 1,301
Other selected information:				
Capital assets purchased	\$ 591	\$ 226	\$ 5	\$ 822

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
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Three months and six months ended June 30, 2007 and 2006
(Unaudited)

12. Segmented information (continued):

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	10,144	6,244	–	16,388
Sales and marketing	7,442	5,705	–	13,147
General and administration	11,089	7,665	–	18,754
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	816	1,496	(312)	2,000
Future	(440)	(350)	(192)	(982)
	376	1,146	(504)	1,018
Income (loss) for the period	\$ 883	\$ 1,648	\$ (9,886)	\$ (7,355)
Other selected information:				
Capital assets purchased	\$ 841	\$ 599	\$ 69	\$ 1,509

(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,			
	2007		2006		2007		2006	
Canada	\$ 11,210	19%	\$ 6,409	12%	\$ 16,565	14%	\$ 11,947	12%
United States	40,538	67%	38,042	73%	82,692	71%	75,652	73%
Other	8,739	14%	7,760	15%	17,123	15%	15,832	15%
Total	\$ 60,487	100%	\$ 52,211	100%	\$116,380	100%	\$ 103,431	100%

CONSTELLATION SOFTWARE INC.

Notes to Interim Consolidated Financial Statements
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12. Segmented information (continued):

As at June 30, 2007 and December 31, 2006 and for the six months ended June 30, 2007 and 2006, no single customer accounted for more than 10% of the Company's total accounts receivable and total revenue, respectively.

13. Change in non-cash operating working capital:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Decrease (increase) in accounts receivable	\$ (378)	\$ 3,079	\$ (2,243)	\$ 1,738
Decrease (increase) in work in progress	724	(990)	745	(2,384)
Decrease (increase) in inventory	(128)	(689)	(288)	(1,223)
Decrease (increase) in prepaid expenses and other current assets	(401)	(200)	(726)	(474)
Increase (decrease) in accounts payable, accrued liabilities, and income taxes payable	1,310	4,608	(11,002)	(4,505)
Increase (decrease) in deferred revenue	(4,404)	(5,660)	1,315	27
	\$ (3,277)	\$ 148	\$ (12,199)	\$ (6,821)

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, 2007 and 2006.

14. Accumulated other comprehensive income:

Accumulated other comprehensive income consists of the following:

Foreign currency translation account	\$ (3,152)
Mark-to-market adjustment of available-for-sale investments on January 1, 2007	1,154
Net unrealized gain on available-for-sale financial assets during the period	36
Reclassification adjustment for gains and losses included in net income	(1,104)
Balance, June 30, 2007	\$ (3,066)

CONSTELLATION SOFTWARE INC.

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15. Note Receivable

Note Receivable from VCG Inc.

On June 18, 2007, the Company entered into an agreement with VCG Inc. to purchase \$4,000 of senior subordinated secured notes. These notes bear interest at 12% per annum payable annually in arrears and mature on June 18, 2012 at which time the principal sum of \$4,000 is due. In conjunction with this note the Company received 1,120,183 share purchase warrants (the "Warrants") having the right to purchase Preferred Series C-1 shares convertible into 8% of the fully diluted equity interest of VCG as of June 18, 2007, subject to the terms of the Warrants. The exercise price for the Warrants is \$0.00007 per share. The Warrants can be exercised at the option of the holder anytime until the expiration date of June 18, 2017.

The Warrant component of this instrument constitutes a derivative, and thus under Canadian generally accepted accounting principles must be valued separately from the value of the notes. The Company allocated the total consideration paid for the notes using the residual method. The fair value of the Warrants was determined using the Black-Scholes option-pricing model. The following assumptions were used to value the Warrants: risk-free interest rate of 4.53%, volatility of 89%, share price of \$0.51, expected life of 10 years and zero dividend yield. The fair value of the note was determined by subtracting the fair value of the Warrants from the total face value of the notes. The allocation based on fair value of the Warrants and the residual portion allocated to the note resulted in the allocation of \$571 to the Warrants and \$3,429 to the note receivable.

The note component is recorded at amortised cost with an effective interest rate of 14.86%. Each reporting period, the Company is required to accrete the carrying value of the note receivable, such that at maturity the carrying value of the note receivable will equal the face value of \$4,000. For the six months ended June 30, 2007, the Company recorded accretion interest income of \$4 (2006 – Nil).

16. Comparative figures:

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

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Three months and six months ended June 30, 2007 and 2006
(Unaudited)

17. Subsequent event:

On July 2, 2007 the Company purchased the assets and shares of Mainstreet Software Corporation incorporated under the laws of the State of Maryland, and on July 20, 2007 the Company purchased APAK Systems Inc. incorporated under the laws of Ontario. The cash consideration for these two acquisitions was approximately \$2,200 on closing plus holdbacks of \$950.

On July 7, 2007, the Company sold the assets and shares PG Solutions Corporatives et Forestieres Ltee., incorporated under the laws of the Province of Québec, for a \$189 short term note and future consideration based on performance of the unit.