

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the unaudited interim financial statements and the audited consolidated 2006 financial statements of Constellation Software Inc. (the "Company"), for the three and twelve month periods ended December 31, 2006 and the accompanying notes, and with our consolidated annual financial statements and our annual MD&A for the year ended December 31, 2005. Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties". This MD&A and all information herein is current as at March 7, 2007.

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, including our most recent annual information form, when filed, 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, March 7, 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-Canadian Generally Accepted Accounting Principles ("GAAP") Measures

This MD&A includes certain non-Canadian 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 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 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

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

	Three months ended				Fiscal year ended				Fiscal year ended
	Dec. 31,		Period-Over-Period		Dec. 31,		Period-Over-Period		
	2006	2005	\$	%	2006	2005	\$	%	
Revenue	53,519	44,552	8,967	20.1%	210,759	165,362	45,397	27.5%	109,135
Cost of Revenue	20,296	16,993	3,303	19.4%	81,970	64,216	17,754	27.6%	43,417
Gross Profit	33,223	27,559	5,664	20.6%	128,789	101,146	27,643	27.3%	65,718
Expenses									
Research and development	7,944	6,304	1,640	26.0%	32,821	25,043	7,778	31.1%	14,952
Sales and marketing	6,308	6,229	79	1.3%	25,942	22,007	3,935	17.9%	14,797
General and administration	10,580	8,443	2,137	25.3%	39,183	30,608	8,575	28.0%	19,777
Total Expenses (pre amortization)	24,832	20,976	3,856	18.4%	97,946	77,658	20,288	26.1%	49,526
Adjusted EBITDA	8,391	6,583	1,808	27.5%	30,843	23,488	7,355	31.3%	16,192
Amortization of capital assets	787	718	69	9.6%	2,943	2,547	396	15.5%	1,649
Total Expenses	25,619	21,694	3,925	18.1%	100,889	80,205	20,684	25.8%	51,175
Income before the undernoted	7,604	5,865	1,739	29.7%	27,900	20,941	6,959	33.2%	14,543
Common Shares eligible for redemption	0	0	0	NA	10,093	4,528	5,565	122.9%	3,627
Amortization of intangible assets	5,143	3,315	1,828	55.1%	17,090	12,170	4,920	40.4%	6,637
Other expenses (gain)	0	(115)	115	-100.0%	1,970	109	1,861	1707.3%	1,630
(Gain) Loss on sale of marketable securities	(278)	0	(278)	NA	(286)	(658)	372	-56.5%	(1,536)
Interest income	(199)	(80)	(119)	148.6%	(286)	(754)	468	-62.1%	(424)
Foreign exchange (gain) loss	(484)	985	(1,469)	-149.1%	(595)	1,552	(2,147)	-138.3%	(346)
Income (loss) before income taxes	3,422	1,760	1,662	94.4%	(86)	3,994	(4,080)	NA	4,955
Income taxes (recovery)									
Current	(395)	828	(1,223)	-147.7%	1,421	3,335	(1,914)	-57.4%	2,545
Future	(15)	117	(132)	-112.8%	(271)	138	(409)	-296.4%	345
	(410)	945	(1,355)	-143.4%	1,150	3,473	(2,323)	-66.9%	2,890
Net income (loss)	3,832	815	3,017	370.2%	(1,236)	521	(1,757)	NA	2,065
Adjusted net income	8,975	4,130	4,845	117.3%	25,947	17,219	8,728	50.7%	12,329
Weighted avg # of shares outstanding (000's)									
Basic	21,056	20,152			20,810	19,952			19,460
Diluted	21,192	20,544			21,065	20,392			19,891
Net income (loss) per share									
Basic	\$ 0.18	\$ 0.04	\$ 0.14	350.0%	\$ (0.06)	\$ 0.03	\$ (0.09)	NA	\$ 0.11
Diluted	\$ 0.18	\$ 0.04	\$ 0.14	355.8%	\$ (0.06)	\$ 0.03	\$ (0.08)	NA	\$ 0.10
Adjusted EBITDA per share									
Basic	\$ 0.40	\$ 0.33	\$ 0.07	22.0%	\$ 1.48	\$ 1.18	\$ 0.30	25.9%	\$ 0.83
Diluted	\$ 0.40	\$ 0.32	\$ 0.08	23.6%	\$ 1.46	\$ 1.15	\$ 0.31	27.1%	\$ 0.81
Adjusted net income per share									
Basic	\$ 0.43	\$ 0.20	\$ 0.22	108.0%	\$ 1.25	\$ 0.86	\$ 0.38	44.5%	\$ 0.63
Diluted	\$ 0.42	\$ 0.20	\$ 0.22	110.7%	\$ 1.23	\$ 0.84	\$ 0.39	45.9%	\$ 0.62

In the diluted net loss per share calculation, for the twelve months ended Dec. 31, 2006, common shares secured by shareholder loans were excluded as to do so would have been anti-dilutive.

Comparison of the fourth quarter and twelve months ended December 31, 2006 and 2005

Revenue:

Total revenue for the fourth quarter of 2006 ended December 31, was \$53.5 million, an increase of 20.1%, or \$9.0 million, compared to \$44.6 million for the comparable period in 2005. For the 2006 fiscal year total revenues were \$210.8 million, an increase of 27.5%, or \$45.4 million, compared to \$165.4 million in 2005. The increase for both the fourth quarter and twelve month periods compared to the same periods in the prior year was due to a combination of organic growth and acquisitions. In 2006, organic revenue growth was estimated to be approximately 1% for the fourth quarter and 9% for the full year compared to the same periods in 2005. The remaining 19% growth for the fourth quarter and 19% for the full year is a result of, the 22 acquisitions completed since the beginning of 2005.

Software license revenue for the quarter ended December 31, 2006 decreased by 10.1%, or \$0.7 million to \$6.6 million, from \$7.4 million for the same period in 2005. During the twelve months ended December 31, 2006, license revenue increased by 8.9% or \$2.3 million to \$27.9 million, from \$25.6 million for the same period in 2005. Professional services and other services revenue for the quarter

ended December 31, 2006 increased by 11.1%, or \$1.2 million to \$11.6 million, from \$10.4 million for the same period in 2005. During the twelve months ended December 31, 2006, services revenue increased by 22.4% or \$9.4 million to \$51.4 million, from \$42.0 million for the same period in 2005. Hardware and other revenue for the quarter ended December 31, 2006 increased by 63.4%, or \$1.7 million to \$4.5 million, from \$2.7 million for the same period in 2005. During the twelve months ended December 31, 2006, hardware and other revenue increased by 71.6% or \$6.6 million to \$15.8 million, from \$9.2 million for the same period in 2005. Maintenance revenues for the quarter ended December 31, 2006 increased by 28.5%, or \$6.8 million to \$30.8 million, from \$24.0 million for the same period in 2005. During the twelve months ended December 31, 2006, maintenance revenue increased by 30.6% or \$27.1 million to \$115.6 million, from \$88.5 million for the same period in 2005. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended Dec. 31,				Fiscal year ended Dec. 31,			
	2006	2005	2006	2005	2006	2005	2006	2005
	(\$000)		(% of total revenue)		(\$000)		(% of total revenue)	
Licenses	6,633	7,380	12.4%	16.6%	27,931	25,648	13.3%	15.5%
Professional services and other:								
Services	11,592	10,436	21.7%	23.4%	51,367	41,954	24.4%	25.4%
Hardware and other	4,453	2,726	8.3%	6.1%	15,822	9,222	7.5%	5.6%
Maintenance	30,841	24,010	57.6%	53.9%	115,639	88,538	54.9%	53.5%
	53,519	44,552	100.0%	100.0%	210,759	165,362	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 twelve months ended December 31, 2006 compared to the same periods in 2005:

	Three months ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change	
	2006	2005	\$	%	2006	2005	\$	%
	(\$000, except percentages)				(\$000, except percentages)			
Public Sector								
Licenses	3,989	3,863	126	3.3%	17,250	12,863	4,387	34.1%
Professional services and other:								
Services	8,499	7,082	1,417	20.0%	36,002	28,049	7,953	28.4%
Hardware and other	3,336	1,645	1,691	102.8%	10,933	4,856	6,077	125.1%
Maintenance	17,842	12,206	5,636	46.2%	64,737	44,942	19,795	44.0%
	33,666	24,796	8,870	35.8%	128,922	90,710	38,212	42.1%
Private Sector								
Licenses	2,645	3,518	(873)	-24.8%	10,681	12,785	(2,104)	-16.5%
Professional services and other:								
Services	3,092	3,354	(262)	-7.8%	15,365	13,905	1,460	10.5%
Hardware and other	1,116	1,079	37	3.4%	4,889	4,366	523	12.0%
Maintenance	13,000	11,805	1,195	10.1%	50,902	43,596	7,306	16.8%
	19,853	19,756	97	0.5%	81,837	74,652	7,185	9.6%

Public Sector

For the quarter ended December 31, 2006, total revenue in the public sector segment increased 35.8%, or \$8.9 million, to \$33.7 million, compared to \$24.8 million for the quarter ended December 31, 2005. For the twelve months ended December 31, 2006, total revenue increased by 42.1% or \$38.2 million, to \$128.9 million, compared to \$90.7 million for the comparable period in 2005. The increases for both the three and twelve month periods were significant across most revenue types. Revenue growth from acquired businesses was significant for both the three and twelve month periods as we completed 18 acquisitions since the beginning of 2005 in our public sector segment. It is estimated that these acquisitions contributed approximately \$8.3 million to our Q4 2006 revenues and \$29.4 million to our revenues in the twelve months ended December 31, 2006. The remaining \$0.6 million of revenue growth for Q4 and \$8.8 million of revenue growth for the twelve months ended December 31, 2006 in this sector was generated from organic sources. The organic growth was primarily driven by the following:

- **Trapeze operating group** (negative contribution of approximately \$0.6 million for Q4 and positive contribution of \$2.5 million for the full year). The decline in Q4 revenues from organic sources at Trapeze was driven by a decline in organic license revenues and hardware and other revenues as we encountered installation delays / issues on certain larger projects preventing us from recognizing revenue in the quarter. Full year growth in revenues from organic sources was driven by our organic initiatives for intelligent transportation systems and non-emergency medical transit, sales to new customers and the continued growth in maintenance revenues from clients completing installations and moving on to maintenance.
- **Harris operating group** (approximately \$0.8 million for Q4 and \$4.1 million for the full year 2006). The Harris organic growth primarily resulted from 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** (approximately \$0.5 million for Q4 and \$2.1 million for the full year 2006). The Emphasys organic growth primarily resulted from continued sales back to our existing clients and the return of one of our larger former clients who re-engaged us as their software provider.

Private Sector:

For the quarter ended December 31, 2006, total revenue in the private sector segment increased 0.5%, or \$0.1 million, to \$19.9 million, compared to \$19.8 million for the quarter ended December 31, 2005. For the twelve months ended December 31, 2006, total revenue increased by 9.6% or \$7.2 million, to \$81.8 million, compared to \$74.7 million for the comparable period in 2005. Increases occurred across most revenue types, with the primary drivers of growth being maintenance and professional services revenues. Revenue growth from acquired businesses was not as strong as in the public sector as we have only completed 4 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 Q4 2006 revenues and \$2.0 million of revenue growth to our revenues in the twelve months ended December 31, 2006. The remaining decrease of \$0.1 million of revenue growth for Q4 and increase of \$5.2 million of revenue growth for the twelve months ended December 31, 2006 in this sector were generated from organic sources. The organic revenue change was driven by the following:

- **Homebuilder operating group** (approximately \$0.1 million for Q4 and \$2.3 million for the full year 2006). In our Homebuilder operating group we experienced strong organic growth in the first six months of the year offset by a small decline in organic revenue in Q3 and relatively flat organic revenues in Q4. The strong growth in the first six months was tied to growth in our maintenance revenues as a result of sales back to existing clients, and our clients growing their businesses. The decline in organic revenue in the second half of 2006 compared to the second half of 2005 is attributable to a decline in license revenues. In 2005 the Homebuilder operating group had an unusually large increase in license revenues as a result of a small number of very large clients contracting for a significant number of additional seats to stay in compliance with their license agreements. This added approximately \$1.0 million in license revenues to our second half 2005 numbers that was not replicated in 2006.
- **Friedman operating group** (negative contribution of approximately \$0.8 million for Q4 and positive \$0.8 million for the full year). The Friedman organic growth for the full year occurred in the first three quarters of 2006 and was driven primarily by increased professional services revenue as a result of increased levels of demand for these services. The decline in organic revenues in Q4 stems from lower license and services revenues, as we have experienced a progressive decrease in new name and on base sales during 2006.

- **Jonas operating group** (approximately \$0.6 million for Q4 and \$2.1 million for the full year 2006). The Jonas organic growth was driven by a combination of: our web product initiative for our private club customers, continued strong sales to new name clients in private club, the growth in our construction business from new client sales and various add on products sold back to our install base.

Gross Profit by Source:

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

	Three months ended Dec. 31,				Fiscal year ended Dec. 31,			
	2006	2005	2006	2005	2006	2005	2006	2005
	(\$000)				(\$000)			
Gross profit licenses	91.7%	95.0%	6,084	7,009	92.5%	93.1%	25,825	23,890
Gross profit services & maintenance	60.6%	59.6%	25,734	20,529	60.0%	58.8%	100,143	76,753
Gross profit hardware & other	31.6%	0.8%	1,405	21	17.8%	5.5%	2,821	503
Gross profit on total revenue	62.1%	61.9%	33,223	27,559	61.1%	61.2%	128,789	101,146

Gross profit increased for the quarter ended December 31, 2006 to \$33.2 million, or 62.1% of total revenue, from \$27.6 million, or 61.9% of total revenue, for the quarter ended December 31, 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 growth in maintenance revenue as a percentage of total revenues and much stronger margins in our hardware and other revenue line. For the full year 2006 our gross profit increased to \$128.8 million or 61.1% of total revenue, from \$101.1 million or 61.2% of total revenue for the comparable period in 2005. The increase in gross margin dollars is attributable to the overall increase in total revenue, while the relatively flat gross margin percentage is consistent with the relative stability of our revenue mix for the year. Our licenses, services and maintenance revenue margins experienced minimal change compared to 2005 in both the three and twelve month periods. Our hardware and other revenue margins continued to fluctuate significantly, which is expected given the relatively small size of this revenue category and the numerous third party items included in hardware and other. Management believes overall gross margins will continue to fluctuate moderately if we see changes in our revenue mix.

Operating Expenses:

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

	Three months ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change	
	2006	2005	\$	%	2006	2005	\$	%
	(\$000, except percentages)				(\$000, except percentages)			
Research and development	7,944	6,304	1,640	26.0%	32,821	25,043	7,778	31.1%
Sales and marketing	6,308	6,229	79	1.3%	25,942	22,007	3,935	17.9%
General and administration	10,580	8,443	2,137	25.3%	39,183	30,608	8,575	28.0%
Amortization of capital assets	787	718	69	9.6%	2,943	2,547	396	15.5%
	25,619	21,694	3,925	18.1%	100,889	80,205	20,684	25.8%

Overall operating expenses for the quarter ended December 31, 2006 increased 18.1%, or \$3.9 million, to \$25.6 million, compared to \$21.7 million over the same period in 2005. As a percentage of total revenue, operating expenses decreased from 48.7% in the quarter ended December 31, 2005 to 47.8% in the quarter ended December 31, 2006. During the twelve months ended December 31, 2006 operating expenses increased 25.8%, or \$20.7 million, to \$100.9 million, compared to \$80.2 million over the same period in 2005. As a percentage of total revenue, operating expenses decreased from 48.5% in the twelve months ended December 31, 2005 to 47.9% in the twelve months ended December 31, 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 14% from 586 in the quarter ended December 31, 2005 to 667 in the quarter ended December 31, 2006. During the twelve months ended December 31, 2006 headcount was up 16%

to an average headcount of 665 compared to an average of 571 during the same period in 2005. Another major contributor to the increase in expenses was the appreciation of the Canadian dollar compared to 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 fourth quarter of 2006 was approximately 3% higher than the comparable average rate in the fourth quarter of 2005. During the twelve months ended December 31, 2006 the Canadian dollar exchange rate was on average, as compared against the U.S. dollar, approximately 7% higher than for the same period in 2005. Management estimates that the change in the Canadian dollar accounted for approximately 1% of the growth in operating expenses in Q4 and 3% of the growth for the full year 2006. Finally, general inflation, employee raises, and the decline in the US dollar compared to other currencies in which we transact business have contributed to the rising expenses.

Research and development – Research and development expenses increased 26.0%, or \$1.6 million, to \$7.9 million for the quarter ended December 31, 2006 compared to \$6.3 million for the same period in 2005. As a percentage of total revenue, research and development expense increased to 14.8% in Q4 2006 from 14.1% in Q4 2005. During the twelve months ended December 31, 2006, research and development expense increased 31.1%, or \$7.8 million, to \$32.8 million, compared to \$25.0 million over the same period in 2005. As a percentage of total revenue, research and development increased from 15.1% in the twelve months ended December 31, 2005 to 15.6% in the twelve months ended December 31, 2006. The absolute dollar increase from the same three and twelve month periods of the prior year reflects the significant growth in personnel devoted to research and development (367 in Q4 2006 compared to 317 for Q4 2005 and 365 during the twelve months ended December 31, 2006 compared to 314 for the same period in 2005). Also, the impact of the strengthening Canadian dollar contributed to our growth in expenses.

We currently do not have any capitalized software development costs. All of our software development costs are expensed as incurred unless they meet Canadian generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Capitalized costs would be amortized over the estimated benefit period of the software developed. No costs were deferred in fiscal 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 1.3%, or \$0.1 million to \$6.3 million, in the quarter ended December 31, 2006 compared to \$6.2 million for the same period in 2005. As a percentage of total revenue, sales and marketing expenses decreased to 11.8% in Q4 2006 compared to 14.0% in Q4 2005. For the twelve months ended December 31, 2006, sales and marketing expenses increased 17.9%, or \$3.9 million, to \$25.9 million, compared to \$22.0 million over the same period in 2005. As a percentage of total revenue, sales and marketing expenses decreased from 13.3% in the twelve months ended December 31, 2005 to 12.3% in the twelve months ended December 31, 2006. The relatively flat expenses in Q4 2006 compared to Q4 2005 can be attributed to an increase in headcount on a comparative basis, for Q4 2006 we averaged 153 staff compared to 140 in the same period in 2005, offset by lower expenses with respect to: advertising, tradeshow, and certain commission payments based on the timing of deal signing and project completion. The growth in expenses on a full year basis is mainly attributable to the growth in headcount. For the full year in 2006 we averaged 154 staff compared to 134 in the same period in 2005. Sales and marketing expenses also felt the impact of the increased Canadian dollar, but to a lesser extent than research and development or general and administration (“G&A”) as we tend to have fewer Canadian based sales employees compared to research and development and G&A employees.

General and administration – General and administration expenses increased 25.3%, or \$2.1 million, to \$10.6 million in the quarter ended December 31, 2006 from \$8.4million for the same period in 2005. As a percentage of total revenue, G&A expenses increased to 19.7% in Q4 2006 from 19.0% in Q4 2005. For the twelve months ended December 31, 2006, G&A increased 28.0%, or \$8.6 million, to \$39.2 million, compared to \$30.6 million over the same period in 2005. As a percentage of total revenue, G&A was relatively flat at 18.6% in the twelve months ended December 31, 2006 compared to 18.5% in the

twelve months ended December 31, 2005. 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 9% from 129 staff in Q4 2005 to 146 for Q4 2006. For the twelve months ended December 31, 2006, average headcount grew 12% to 146 staff from 123 staff over the same period in 2005. Also, the strengthening Canadian dollar had a larger impact on G&A expenses as we also lease a significant portion of our offices in Canada and incur a significant amount of our professional fees, travel and insurance expense in Canadian dollars.

Amortization of capital assets – Amortization of capital assets for the quarter and twelve months ended December 31, 2006 did not change materially. As a percentage of total revenue, amortization was 1.5% in Q4 2006 compared to 1.6% in Q4 2005. For the twelve month periods the percentages were 1.4% in 2006 compared to 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		Fiscal year ended		Period-Over-Period	
	Dec. 31,		Change		Dec. 31,		Change	
	2006	2005	\$	%	2006	2005	\$	%
	(\$000, except percentages)				(\$000, except percentages)			
Appreciation in common shares eligible for redemption	0	0	0	NA	10,093	4,528	5,565	122.9%
Amortization of intangibles	5,143	3,315	1,828	55.1%	17,090	12,170	4,920	40.4%
Other expenses (gain)	0	(115)	115	-100.0%	1,970	109	1,861	1707.3%
(Gain) Loss on sale of short term investments, marketable securities and other assets	(278)	0	(278)	NA	(286)	(658)	372	-56.5%
Interest income	(199)	(80)	(119)	148.6%	(286)	(754)	468	-62.1%
Foreign exchange (gain) loss	(484)	985	(1,469)	-149.1%	(595)	1,552	(2,147)	-138.3%
Income tax expense	(410)	945	(1,355)	-143.4%	1,150	3,473	(2,323)	-66.9%
	3,772	5,050	(1,278)	-25.3%	29,136	20,420	8,716	42.7%

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 fourth 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 twelve months ended December 31, 2006 was \$10.1 million compared to \$4.5 million for the twelve months ended December 31, 2005. The increase compared to 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 Q4 2005 to \$9.75 at the end of Q1 2006.

Amortization of intangible assets – Amortization of intangible assets was \$5.1 million for the quarter ended December 31, 2006 compared to \$3.3 million for the same period in 2005, representing an increase of 55.1%. For the twelve months ended December 31, 2006 amortization of intangibles increased 40.4%, to \$17.1 million, compared to \$12.2 million over the same period in 2005. Both the three and twelve month increases are attributable to the increases in our intangible asset balance (on a cost basis) over the twelve month period ended December 31, 2006 as a result of the significant number of acquisitions that we completed during this period.

Other expenses – Other expenses in the quarter ended December 31, 2006 were \$0 compared to other expense of (\$0.1 million) for the same period in 2005. As we have stated in the past now that we have accrued all expenses with respect to the IPO and redeemed the previously outstanding phantom shares, we expect very little if any “Other expenses” in our statements of operations for future periods. On a twelve month basis the \$2.0 million in other expenses for 2006 relates to the one time costs associated with the IPO (\$1.6 million) and our phantom share plan that existed prior to our IPO (\$0.4 million), while the 2005 expense related to the phantom shares.

Gain on sale of short-term investments, marketable securities and other assets - Gains for each of the quarter and twelve months ended December 31, 2006 were \$0.3 million compared to a write off of \$13,000 for Q4 2005 and a gain of \$0.7 million for the twelve months ended December 31, 2005. The gains recorded in Q4 2006 and for the full year are a result of liquidating a portion of our investment in certain marketable securities. The gains for the twelve months ended December 31, 2005 are a result of selling a portion of our investment in Indus International Inc. 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 December 31, 2006 we had three 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 business changes, or if the market price exceeds our expectations of value.

Interest income – Net interest income was \$0.2 million for the quarter ended December 31, 2006 compared to \$0.1 million for the same period in the previous year, representing an increase of 149%. For the twelve months ended December 31, 2006 net interest income was \$0.3 million compared to \$0.8 million in the comparable period for 2005, representing a decrease of 62%. The increase in Q4 2006 compared to Q4 2005 is the result of higher average cash balances. The decrease for the twelve month periods was primarily a result of lower average cash balances and utilizing the line of credit for certain periods in 2006. We maintain excess cash in various bank accounts or low yield, low risk, short term debt instruments. We have in place a \$20 million operating line of credit that can be used for either acquisitions or general working capital purposes. As of December 31, 2006 there were no borrowings against this line. Occasionally we issue letters of credit, which reduce our borrowing capacity under this facility. As of December 31, 2006 we had no other significant interest bearing debt outstanding.

Foreign exchange loss (gain) – Most of our businesses are organized geographically, so that most 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 December 31, 2006 our foreign exchange gain was \$0.5 million compared to a \$1.0 million loss for the previous year. For the twelve months ended December 31, 2006 the gain was 0.6 million compared to a loss of \$1.6 million during the same period in 2005. The change in the foreign exchange impact was the result of significant fluctuations in exchange rates between the U.S. dollar (our reporting currency) and the major currencies in which we deal (Canadian Dollar, British Pound, Danish Krone, Euro, and Australian Dollar).

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our tax rate is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses. For the quarter ended December 31, 2006 the provision for income taxes was negative \$0.4 million, compared to \$0.9 million in 2005. For the twelve months ended December 31, 2006 the provision for income taxes was \$1.2 million, compared to \$3.5 million in 2005, representing a decrease of 67%. The significant decrease in tax provisions for the fourth quarter and full year of 2006 compared to 2005 are the results of : a) finalization of prior period tax returns that resulted in increased loss carry-forwards available to Constellation and refunds of taxes paid, b) the tax deduction we can utilize on the redemption of the phantom shares c) the ability to deduct certain portions of our IPO expenses, d) the deal structuring for certain acquisitions which allowed us to realize higher tax basis in certain acquired assets, and e) the amount of our profits earned in lower tax jurisdictions.

Net Income (Loss)

Net income for the quarter ended December 31, 2006 was \$3.8 million compared to \$0.8 million for the same period in 2005. On a per share basis this translated into a net income per diluted share of \$0.18 in Q4 2006 compared to \$0.04 in Q4 2005. Net income in Q4 2006 was positively impacted by the growth in our operations, operating income and negative tax expenses, offset by the increase in amortization of intangibles. For the full year, 2006 net loss was \$1.2 million or (\$0.06) per diluted share compared to a net income of \$0.5 million or \$0.03 per share in the twelve months ended December 31, 2005. For each of fiscal 2006 and 2005 the very small net loss / income was a result of the amortization of intangibles and the charges for appreciation in common shares eligible for redemption.

Adjusted EBITDA:

For Q4 2006, Adjusted EBITDA increased by \$1.8 million to \$8.4 million compared to \$6.6 million in Q4 2005, representing an increase of 27.5%. Adjusted EBITDA margin was 15.7% in the fourth quarter of 2006, compared to 14.8% of total revenue for the same period in 2005. For the full year in 2006, Adjusted EBITDA increased by \$7.4 million to \$30.8 million compared to \$23.5 million during the same period in 2005, representing an increase of 31.3%. Adjusted EBITDA margin was 14.6% in 2006, compared to 14.2% of total revenue for 2005. See “Non-Canadian GAAP Measures” for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

	Three months ended Dec. 31,		Fiscal year ended Dec. 31,	
	2006	2005	2006	2005
	(\$000, except percentages)		(\$000, except percentages)	
Total revenue	53,519	44,552	210,759	165,362
Net income (loss)	3,832	815	(1,236)	521
Add back:				
Income tax expense	(410)	945	1,150	3,473
Foreign exchange (gain) loss	(484)	985	(595)	1,552
Interest income	(199)	(80)	(286)	(754)
(Gain) Loss on sale of short-term investments, marketable securities and other assets	(278)	0	(286)	(658)
Other expenses (gain)	0	(115)	1,970	109
Appreciation in common shares eligible for redemption	0	0	10,093	4,528
Amortization of intangible assets	5,143	3,315	17,090	12,170
Amortization of capital assets	787	718	2,943	2,547
Adjusted EBITDA	8,391	6,583	30,843	23,488
Adjusted EBITDA margin	15.7%	14.8%	14.6%	14.2%

Adjusted net income:

For Q4 2006, Adjusted net income increased by \$4.8 million to \$9.0 million compared to \$4.1 million in 2005, representing an increase of 117%. Adjusted net income margin was 16.8% in the fourth quarter of 2006, compared to 9.3% of total revenue for the same period in 2005. For the full year 2006, Adjusted net income increased by \$8.7 million to \$25.9 million compared to \$17.2 million during the same period in 2005, representing an increase of 50.7%. Adjusted net income margin was 12.3% for 2006, compared to 10.4% of total revenue for 2005. See “Non-Canadian 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		Fiscal year ended	
	Dec. 31,		Dec. 31,	
	2006	2005	2006	2005
	(\$000, except percentages)		(\$000, except percentages)	
Total revenue	53,519	44,552	210,759	165,362
Net income (loss)	3,832	815	(1,236)	521
Add back:				
Appreciation in common shares eligible for redemption	0	0	10,093	4,528
Amortization of intangible assets	5,143	3,315	17,090	12,170
Adjusted net income	8,975	4,130	25,947	17,219
Adjusted net income margin	16.8%	9.3%	12.3%	10.4%

Quarterly Results

	Quarter Ended							
	Mar. 31, 2005	June 30, 2005	Sep. 30, 2005	Dec. 31, 2005	Mar. 31, 2006	June 30, 2006	Sep. 30, 2006	Dec. 31, 2006
	(\$000, except per share amounts)							
Revenue	37,463	40,700	42,648	44,551	51,220	52,211	53,809	53,519
Net Income (loss)	1,087	(3,456)	2,075	815	(8,656)	1,301	2,287	3,831
Net Income (loss) per share								
Basic	0.06	(0.17)	0.10	0.04	(0.43)	0.06	0.11	0.18
Diluted	0.05	(0.17)	0.10	0.04	(0.43)	0.06	0.11	0.18

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 any further charges for appreciation in Common Shares eligible for redemption.

Liquidity and Capital Resources

Our cash and cash equivalents position at December 31, 2006 increased to \$25.8 million, from \$16.5 million at Sept 30, 2006 representing an increase of 56%. From December 31, 2005 the balance has increased \$7.5 million or 41%

Total assets increased \$28.1 million, from \$158.5 million at December 31, 2005 to \$186.6 million at December 31, 2006. While most asset categories were up, the majority of the increase can be explained by increases in: a) intangible assets and goodwill of \$11.0 million due to the 10 acquisitions completed in the year, b) accounts receivable of \$5.0 million which is consistent with the growth of our business, c) work in process of \$1.7 million which is consistent with the growth of our business and d) cash, restricted cash and marketable securities of \$10.8 million.

Current liabilities increased by \$18.0 million from \$81.1 million as of December 31, 2005, to \$99.1 million at December 31, 2006. From an individual category perspective the biggest changes were: the increase in deferred revenue of \$11.3 million, consistent with the growth in our maintenance revenues, and the increase in accounts payable and accrued liabilities of \$7.1 million reflecting growth in the business and a higher employee bonus accrual.

Net Changes in Cash Flow

	Fiscal year ended December 31, 2006
	(in millions of \$)
Net cash provided by operating activities	\$28.6
Net cash provided by financing activities	2.3
Net cash used in investing activities	(24.3)
Effect of exchange rate changes on cash and cash equivalents	0.9
Net increase in cash and cash equivalents	\$7.5

The net cash flow from operating activities was \$28.6 million for the twelve months ended December 31, 2006. In 2006 we generated free cash flow profits of approximately \$28.0 million, and generated cash from working capital of \$0.6 million.

The net cash provided by financing activities in 2006 was primarily due to the net proceeds from the issuance of redeemable common shares during the year relating to our annual employee bonus plan and our annual employee share purchase plan. During 2006 we issued on a net basis \$6.8 million worth of redeemable common shares (including repayments of shareholder loans). Offsetting this were the distributions to shareholders in the form of dividends and returns of capital of \$2.5 million, the repurchase of our phantom shares for \$1.7 million and the repayment of long term liabilities for \$0.3 million.

The net cash used in investing activities was due primarily to acquisitions completed in 2006 for an aggregate of \$19.3 million, further investments in our short term marketable securities of \$2.9 million and capital asset purchases of \$2.3 million.

We believe we have more than sufficient cash and cash equivalents to continue to operate our existing businesses 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 upon the size and timing of the acquisitions.

Capital Resources and Commitments

We obtained a credit facility in the fourth 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. 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 December 31, 2006, no funds are drawn.

Commitments include operating leases for office equipment and facilities, letters of credit, bank guarantees, and performance bonds that are routinely issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with “earn out” payments based on the future performance of the acquired VMS business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in unconsolidated companies (aside from our shareholdings in publicly traded companies included in our short term investments) that would have a significant effect on our assets and liabilities as at December 31, 2006.

The following table summarizes our outstanding cash commitments as of December 31, 2006:

	Total	< 1 Yr	1-3 Yrs	3-5 yrs	>5 yrs
Operating leases	19,732	5,382	6,977	3,832	3,541
Capital leases	157	153	4	–	–
Holdbacks	5,138	4,908	230	–	–
Total outstanding cash commitments	25,027	10,443	7,211	3,832	3,541

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 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 2006. The outstanding balance of loans granted under the KELP as of December 31, 2006 was \$2.1 million as compared to \$4.5 million as of December 31, 2005.

Fourth Quarter Events

During the fourth quarter of fiscal 2006, we completed two acquisitions for total consideration of approximately \$4.3 million, including payment on holdbacks from prior acquisitions, compared to a total of eight acquisitions for considerations totalling approximately \$15.0 million, including payments on holdbacks from prior acquisitions during the first three quarters of the year.

Proposed Transactions

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

Critical Accounting Estimates

General

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Our ongoing evaluation of these estimates forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of revenues and expenses, in cases where they are not readily

ascertainable from other sources. Actual amounts may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are fully described in Note 1 to our consolidated financial statements included in this MD&A. We have not changed our accounting policies or initially adopted new or different accounting policies during the year ended December 31, 2006. However, certain accounting policies are particularly important to the reporting of our financial position and results of operations, and require the application of significant judgment by our management. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different, estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could have a material impact on the financial statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements. We believe that there have been no significant changes in our critical accounting estimates for the years presented in our consolidated financial statements.

Revenue Recognition

Revenue consists primarily of software license fees, maintenance fees, and professional service fees. Maintenance and service revenue is comprised of professional services revenue from consulting, implementation and training services related to our products and maintenance and technical support, which also includes certain software upgrades and enhancements. We recognize revenue in accordance with the current rules of Canadian GAAP. Revenue recognition requirements are very complex and are affected by interpretations of the rules and industry practices, both of which are subject to change. We follow specific and detailed guidelines in measuring revenue; however, certain judgments and current interpretations of rules and guidelines affect the application of our revenue recognition policy.

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. For license arrangements that do not require significant modifications or customization of the software, we recognize software license revenue when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed or determinable, and collection of the resulting receivable is probable.

One of the critical judgments we make is our assessment of the probability of collecting the related accounts receivable balance on a customer-by-customer basis. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection had been made at the time that the transactions were recorded in revenue. In cases where collectibility is not deemed probable, revenue is recognized upon receipt of cash, assuming all other criteria have been met.

When a license agreement includes one or more elements to be delivered at a future date and vendor specific objective evidence (“VSOE”) of the fair value of all undelivered elements exists, we use the residual method to recognize revenue. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of the fair value of one or more undelivered elements does not exist, all revenue is deferred and recognized when delivery of those elements occurs or when fair value can be established. VSOE for all elements of an arrangement is based upon the normal pricing and discounting practices for those elements when sold separately, and, for maintenance services, may additionally be measured by the renewal rate. We are required to exercise judgment in determining whether VSOE exists for each undelivered element and to determine whether and when each element has been delivered. If we were to change any of these assumptions or judgments, it could cause a material increase or decrease in the amount of revenue that we recognize in a particular period.

Maintenance revenue consists of fees charged for customer support on our software products post-delivery, which are determinable based upon VSOE of the fair value. Maintenance fee arrangements include ongoing customer support and rights to certain product updates “if and when available”.

Customer payments for maintenance are generally received in advance and are non-refundable. Maintenance revenue is deferred and recognized on a straight-line basis over the life of the related period, which is typically one year.

Professional service revenue consists of fees charged for product training and consulting and implementation services, which are determinable based upon VSOE of the fair value. When license arrangements include maintenance and professional services, the license fees are recognized upon delivery, provided that (1) the criteria described above for delivery have been met, (2) payment of the license fees is not dependent upon the performance or acceptance of the services, (3) the services are not essential to the functionality of the software, and (4) VSOE exists on the undelivered services and maintenance. We use VSOE of the fair value for the services and maintenance to account for an arrangement using the residual method, regardless of any separately stated prices within the contract for each element. Revenue for services is recognized as the services are performed. VSOE of their fair value of professional services is based upon the average hourly rate charged when such services are sold separately. When we enter into contracts to provide services only, revenue is recognized as the services are performed. Fixed price professional services contracts are recognized on a proportional performance basis as determined by the relationship of contract costs incurred to date and the estimated total contract costs, which are regularly reviewed during the life of the contract, subject to the achievement of any agreed upon milestones. In the event that a milestone has not been achieved, the associated cost is deferred and revenue is not recognized until the customer has accepted the milestone.

Revenue from fixed price professional service contracts is recognized on a proportional performance basis, which requires us to make estimates and is subject to risks and uncertainties inherent in projecting future events. A number of internal and external factors can affect our estimates, including the nature of the services being performed, the complexity of the customer's environment and the utilization and efficiency of our professional services employees. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. If we do not have a sufficient basis to estimate the progress towards completion, revenue is recognized when the project is complete or when we receive final acceptance from the customer.

For arrangements that do not meet the criteria described above, both license revenues and professional services revenues are recognized using the percentage-of-completion method where reasonably dependable estimates of progress toward completion of a contract can be made. We estimate the percentage-of-completion on contracts utilizing costs incurred to date as a percentage of the total costs at project completion. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to earnings in the period in which the facts that give rise to the revision become known. It should be noted that a significant amount of our license and professional services revenue are recognized under the percentage of completion method.

Valuation of Identifiable Goodwill and Other Intangible Assets

We account for our business acquisitions under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we must identify and attribute values and estimated lives to the intangible assets acquired. While we may employ experts to assist us with these matters, such determinations involve considerable judgment, and often involve the use of significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, and asset lives. These determinations will affect the amount of amortization expense recognized in future periods.

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the fair value assigned to the net identifiable tangible and intangible assets acquired. Goodwill is not amortized but rather it is periodically assessed for impairment. We perform an annual review in the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired.

Goodwill is tested for impairment at the “reporting unit level” (“reporting unit”) in accordance with the CICA Handbook Section 3062, “Goodwill and Other Intangible Assets.” A “reporting unit” is a group or business for which discrete financial information is available and that has similar economic characteristics. Our impairment review process compares the fair value of the reporting unit to its carrying value, including the goodwill related to the reporting unit. To determine the fair value, our review process uses the cash flow method and is based on a discounted future cash flow approach that utilizes estimates for the reporting units that include the following: revenue, based on expected growth rates; estimated costs; and appropriate discount rates. Significant management judgment is required in the forecasting of future operating results, which are used in the preparation of the projected discounted cash flows. Should different conditions prevail, material write-downs of goodwill could occur.

We also review the carrying value of amortizable intangible assets for impairment on an annual basis, or whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. Any change in estimate which causes the undiscounted expected future cash flows to be less than the carrying value, would result in an impairment loss being recognized equal to the amount by which the carrying value of the asset exceeds the fair value of the asset.

Accounting for Income Taxes

Significant management judgment is required in determining our provision for income taxes, our income tax assets and liabilities, and any valuation allowance recorded against our net income tax assets. We operate in multiple geographic jurisdictions, and to the extent that we have profits in each jurisdiction, these profits are taxed pursuant to the tax laws of their jurisdiction. Our effective tax rate may be affected by changes in, or interpretations of, tax laws in any given jurisdiction, the level of profitability, utilization of net operating losses and tax credit carry forwards, changes in geographical mix of income and expense, and changes in management’s assessment of matters, such as the ability to realize future tax assets. As a result of these considerations, we must estimate our income taxes in each of the jurisdictions in which we operate on a quarterly basis. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in future tax assets and liabilities, which are included in our consolidated balance sheet.

We record a valuation allowance to reduce our future tax assets recorded on our balance sheet to the amount of future tax benefit that is more likely than not to be realized. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our income tax assets will be recoverable. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance will not need to be increased to cover additional future tax assets that may not be realizable. Although we believe that our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. Any increase in the valuation allowance could have a material adverse impact on our income tax provision and net income reflected in our consolidated statement of operations in the period in which such determination is made.

Accounts Receivable

We evaluate the collectibility of our trade receivables based on a combination of factors. We regularly analyze our significant customer accounts, and, when we become aware of a specific customer’s inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer’s operating results or financial position, we record specific bad debt reserves to reduce the related receivable to the amount which we reasonably believe is collectible. We also record reserves for bad debts on a small portion of all other customer balances based on a variety of factors, including the length of time that the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, our estimates of the recoverability of receivables could be further adjusted.

Work In Progress

For revenue arrangements that are accounted for under the percentage of completion method as well as other arrangements and contracts which limit our ability to invoice to certain milestones that do not match the timing of the actual provision of the services, we record such revenue and the related unbilled receivable in work in process. Similar to accounts receivable, we constantly have to evaluate our ability to bill and subsequently collect any amounts contained in the work in progress accounts. We review these balances on a periodic basis to ensure customer balances are prudent based upon a variety of factors, such as the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, our estimates of the recoverability of work in progress may be further adjusted.

Contingencies

We are currently involved in various claims and legal proceedings. Quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in determining whether a loss is probable and, if so, whether an exposure is reasonably estimable. Because of the uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and, if necessary, revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

Changes in Accounting Policies

Accounting changes

In July 2006, the CICA revised Section 1506, "Accounting changes," which requires that voluntary changes in accounting policy can only be made if the change results in financial statements that provide reliable and more relevant information and that prior period errors are to be corrected retrospectively. The standard is effective for 2007 with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements

Financial Instruments, Comprehensive Income, Hedges

On January 27, 2005, the Accounting Standards Board issued CICA Handbook section 1530 Comprehensive Income ("Section 1530"), Handbook Section 3855 Financial Instruments — Recognition and Measurement ("Section 3855") and CICA Handbook Section 3865 Hedges ("Section 3865"). Section 3855 expands on CICA Handbook section 3860 Financial Instruments — Disclosure and Presentation by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how instrument gains and losses are to be presented. Section 3865 — Hedges, is optional. It provides alternative treatments to Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes and specifies how hedge accounting is applied and what disclosures are necessary when it is applied. Section 1530 introduced a new requirement to present gains and losses outside net income in a new component of shareholders' equity entitled Comprehensive Income. These standards are effective for us beginning January 1, 2007. We are currently evaluating the impact of these standards on our consolidated financial position, results of operations and cash flows.

Share Capital

As at March 7, 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 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.

Controls and Procedures

Evaluation of disclosure controls and procedures:

The Company evaluated its disclosure controls and procedures as defined under Multilateral Instrument 52-109 for the year ended December 31, 2006. This evaluation was performed by the President and the Chief Financial Officer with the assistance of other Company employees to the extent necessary or appropriate. Based on this evaluation, 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:

The Company also evaluated the design of its internal controls over financial reporting ("ICOFR") as defined under Multilateral Instrument 52-109 for the year ended December 31, 2006. This evaluation was performed by the President and the Chief Financial Officer with the assistance of other Company employees to the extent necessary or appropriate. Based on this evaluation, 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 company has also evaluated whether there were changes to its ICOFR during the quarter ended December 31, 2006 that have materially affected, or are reasonably expected to materially affect its ICOFR. No such changes were identified.