CONSTELLATION SOFTWARE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis should be read in conjunction with the Unaudited Consolidated Interim Financial Statements for the three month period ended March 31, 2012 and with our Annual Consolidated Financial Statements for the year ended December 31, 2011, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). 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, including our most recently filed Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve 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, May 2, 2012. 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, except as required by law, 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-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted net income margin.

The term ''Adjusted EBITDA'' refers to net income before adjusting for finance income, finance costs, income taxes, equity in net loss of equity investees, impairment of non-financial assets, depreciation, amortization, and foreign exchange loss (gain). 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.

‘‘Adjusted net income’’ means net income plus non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, and certain other expenses (income). 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 amortization of intangible assets, deferred income taxes, and certain other non-cash expenses (income) incurred by the Company from time to time. ‘‘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 IFRS 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 IFRS. 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 and other recurring fees, professional service fees and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable, where applicable. Maintenance and other recurring revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from combined software/support contracts, transaction-related revenues, and hosted products. Maintenance and other recurring fee arrangements generally include ongoing customer support and rights to certain product updates “when and if available” and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions and arrangements, as well as sales of hardware assembled internally. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the type, mix and quantity of each vary by customer and by product.

Expenses consist primarily of staff costs, occupancy costs, the cost of hardware, third party licenses, maintenance and professional services to fulfill our customer arrangements, and other general operating expenses.

Results of Operations

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

	Three months ended March 31,		Period-Over-Period Change	
	2012	2011 (Recast-Note 1)	$	%
Revenue	**195,278**	**177,632**	**17,646**	**10%**
Expenses	156,011	142,598	13,413	9%
Adjusted EBITDA	**39,267**	**35,034**	**4,233**	**12%**
Depreciation	1,718	2,126	(408)	-19%
Amortization of intangible assets	19,275	18,525	750	4%
Foreign exchange loss	208	2,065	(1,857)	-90%
Equity in net loss of equity investees	882	0	882	NM
Finance income	(1,069)	(368)	(701)	190%
Finance costs	1,018	1,161	(143)	-12%
Profit before income taxes	17,235	11,525	5,710	50%
Income taxes expense (recovery)				
Current income tax expense	4,803	3,008	1,795	60%
Deferred income tax recovery	(1,492)	(53,971)	52,479	-97%
Income tax expense (recovery)	3,311	(50,963)	54,274	-106%
Net income	**13,924**	**62,488**	**(48,564)**	**-78%**
Adjusted net income	**31,707**	**27,042**	**4,665**	**17%**
Weighted average number of shares outstanding (000's)				
Basic and diluted	21,192	21,192		
Net income per share				
Basic and diluted	$ 0.66	$ 2.95	$ (2.29)	-78%
Adjusted EBITDA per share				
Basic and diluted	$ 1.85	$ 1.65	$ 0.20	12%
Adjusted net income per share				
Basic and diluted	$ 1.50	$ 1.28	$ 0.22	17%
Cash dividends declared per share				
Basic and diluted	$ 1.00	$ 2.00	$ (1.00)	-50%

NM - Not meaningful

Note 1: Net income for the three months ended March 31, 2011 has been adjusted to correct for an error. This error resulted in a reduction of the deferred income tax recovery recognized in profit and loss for the period totalling $1,741.

Comparison of the first quarter ended March 31, 2012 and 2011

Revenue:

Total revenue for the quarter ended March 31, 2012 was $195 million, an increase of 10%, or $17 million, compared to $178 million for the comparable period in 2011. The increase was mainly attributable to growth from acquisitions, as organic growth from our existing businesses increased by approximately $5 million or 3% for the quarter. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

Constellation acquired the Public Transit Solutions business ("PTS") from Continental Automotive AG ("Continental") on November 2, 2009. Given the substantial amount of non-recurring revenue historically earned by PTS, gross revenue from PTS has fluctuated significantly in the past and will continue to do so in the future. As well, a number of acquired contracts were recorded at their estimated fair value as of the date of acquisition. Under this treatment, excess profits or costs relative to normalized profitability are recorded as contract assets or liabilities and amortized against revenues over the remaining life of the contract. As a result, the revenue and costs of these contracts reflected through profit or loss will differ from the revenue and costs that would have been recognized under normal course percentage of completion contract accounting. As such, management has chosen to provide supplemental organic growth disclosure to provide greater clarity regarding the impact of PTS on Constellation's consolidated financial results. Excluding PTS, organic growth for Constellation was 2% for the three months ended March 31, 2012.

The following table provides a summary of the impact of PTS on Constellation's organic revenue growth:

Organic Revenue Growth

	Three months ended March 31, 2012
Constellation	3%
Constellation excluding PTS	2%

Further details of the PTS acquisition are provided under "Acquisition of PTS from Continental".

Software license revenue for the quarter ended March 31, 2012 was $15 million, a decrease of 2% for the comparable period in 2011. Professional services revenue for the quarter ended March 31, 2012 was $42 million, which is consistent with the same period in 2011. Hardware and other revenue for the quarter ended March 31, 2012 increased by 6%, or $1 million to $25 million from $24 million for the same period in 2011. Maintenance and other recurring revenues for the quarter ended March 31, 2012 increased by 17%, or $16 million to $113 million, from $97 million for the same period in 2011. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended March 31,		Period-Over-Period Change	
	2012	2011	$	%
	($000, except percentages)			
Licenses	14,940	15,211	(271)	-2%
Professional services	42,127	41,789	338	1%
Hardware and other	25,355	24,007	1,348	6%
Maintenance and other recurring	112,856	96,625	16,231	17%
	195,278	177,632	17,646	10%

We aggregate our business into two distinct segments for financial reporting purposes: (i) the public sector reportable segment, which includes business units focused primarily on government and government-related customers, and (ii) the private sector reportable segment, which includes business units focused primarily on commercial customers.

The following table displays our revenue by reportable segment and the percentage change for the three months ended March 31, 2012 compared to the same period in 2011:

	Three months ended March 31,		Period-Over-Period Change	
	2012	2011	$	%
	($000, except percentages)			
Public Sector				
Licenses	9,790	10,545	(755)	-7%
Professional services	32,302	33,459	(1,157)	-3%
Hardware and other	22,289	21,257	1,032	5%
Maintenance and other recurring	73,851	65,689	8,162	12%
	138,232	130,950	7,282	6%
Private Sector				
Licenses	5,150	4,666	484	10%
Professional services	9,825	8,330	1,495	18%
Hardware and other	3,066	2,750	316	11%
Maintenance and other recurring	39,005	30,936	8,069	26%
	57,046	46,682	10,364	22%

Public Sector

For the quarter ended March 31, 2012, total revenue in the public sector reportable segment increased 6%, or $7 million, to $138 million, compared to $131 million for the quarter ended March 31, 2011. Revenue growth from acquired businesses was significant as we completed ten acquisitions since the beginning of 2011 in our public sector segment. It is estimated that acquisitions completed since the beginning of 2011 contributed approximately $5 million to our Q1 2012 revenues. Revenues increased organically by 2% or $2 million in Q1 2012 compared to the same period in 2011. Excluding PTS, revenues increased organically by 1% in the three months ended March 31, 2012.

Organic Revenue Growth

	Three months ended March 31, 2012
Public Sector	2%
Public Sector excluding PTS	1%

The organic revenue change was primarily driven by the following:

- **Volaris operating group** (increase of approximately $2 million for the three months ended March 31, 2012). The organic growth was primarily driven from strong revenue in its PTS and agriculture verticals.

Private Sector

For the quarter ended March 31, 2012, total revenue in the private sector reportable segment increased 22%, or $10 million, to $57 million, compared to $47 million for the quarter ended March 31, 2011. Revenue growth from acquired businesses was significant for the three month period as we completed twelve acquisitions since the beginning of 2011 in our private sector segment. It is estimated that acquisitions completed since the beginning of 2011 contributed approximately $7 million to our Q1 2012 revenues. Revenues increased organically by 6% or $3 million in Q1 2012 compared to the same period in 2011.

The organic revenue change was primarily driven by the following:

- **Jonas operating group** (increase of approximately $3 million for the three months ended March 31, 2012). Jonas' organic growth was driven by strong sales to both existing and new customers primarily in its fitness, construction, and food service verticals.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended March 31,		Period-Over-Period Change	
	2012	2011	$	%
	($000, except percentages)			
Expenses				
Staff	105,631	95,919	9,712	10%
Hardware	12,227	12,121	106	1%
Third party license, maintenance and professional services	14,246	12,663	1,583	13%
Occupancy	4,625	4,588	37	1%
Travel	8,246	6,268	1,978	32%
Telecommunications	2,497	2,537	(40)	-2%
Supplies	3,432	4,163	(731)	-18%
Professional fees	1,845	2,136	(291)	-14%
Other	3,262	2,203	1,059	48%
	156,011	142,598	13,413	9%

Overall expenses for the quarter ended March 31, 2012 increased 9%, or $13 million, to $156 million, compared to $143 million during the same period in 2011. As a percentage of total revenue, expenses remained consistent at 80% in the quarter ended March 31, 2012 compared to the quarter ended March 31, 2011. The growth in expenses for the three month period is primarily due to the growth in the number of employees. Our average employee headcount grew 11% from 3,606 in the quarter ended March 31, 2011 to 3,999 in the quarter ended March 31, 2012 primarily due to acquisitions.

Staff expense – Staff expense can be broken down into five key operating departments: Professional Services, Maintenance, Research and Development, Sales and Marketing, and General and Administrative. Professional Services staff expenses include personnel and related costs associated with our delivery of professional services. Research and Development staff expenses include personnel and related costs associated with our research and development efforts. Sales and Marketing staff expenses consist primarily of the personnel and related costs associated with our sales and marketing functions. General and Administrative staff expenses consist primarily of the personnel and related costs associated with the administration of the business. The table below compares the period over period variances.

	Three months ended March 31,		Period-Over-Period Change	
	2012	2011	$	%
	($000, except percentages)			
Professional services	23,859	25,167	(1,308)	-5%
Maintenance	21,006	18,609	2,397	13%
Research and development	28,337	24,363	3,974	16%
Sales and marketing	14,539	13,068	1,471	11%
General and administration	17,890	14,712	3,178	22%
	105,631	95,919	9,712	10%

Professional services – Staff expenses related to our Professional services operating department decreased 5%, or $1 million, to $24 million for the quarter ended March 31, 2012 compared to $25 million for the same period in 2011. The decrease in staff expenses related to our Professional services operating department was primarily due to a decrease in headcount resulting from an allocation of resources from Professional services to research and development projects in the quarter ended March 31, 2012.

Maintenance – Staff expenses related to our Maintenance operating department increased 13%, or $2 million, to $21 million for the quarter ended March 31, 2012 compared to $19 million for the same period in 2011. The growth in staff expenses related to our Maintenance operating department is primarily due to the growth in the number of employees compared to the same period in 2011 primarily due to acquisitions.

Research and development – Staff expenses related to our Research and development operating department increased 16%, or $4 million, to $28 million for the quarter ended March 31, 2012 from $24 million for the same period in 2011. The growth in staff expenses related to our Research and development operating department is primarily due to the growth in the number of employees compared to the same period in 2011 primarily due to acquisitions and due to an allocation of resources from Professional services to Research and development in the quarter ended March 31, 2012.

Sales and marketing – Staff expenses related to our Sales and marketing operating department increased 11%, or $2 million, to $15 million for the quarter ended March 31, 2012 compared to $13 million for the same period in 2011. The growth in staff expenses related to our Sales and marketing operating department is primarily due to the growth in the number of employees compared to the same period in 2011 primarily due to acquisitions.

General and administration – Staff expenses related to our General and administrative operating department increased 22%, or $3 million, to $18 million for the quarter ended March 31, 2012 from $15 million for the same period in 2011. The growth in staff expenses related to our General and administrative operating department is primarily due to the growth in the number of employees and due to an increase in bonus expense compared to the same period in 2011.

Hardware expenses – Hardware expenses for the quarter ended March 31, 2012 remained unchanged at $12 million compared to the same period in 2011.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses for the quarter ended March 31, 2012 increased 13% or $1 million to $14 million, compared to $13 million for the quarter ended March 31, 2011. The increase is primarily due to an increase in maintenance revenue in Q1 2012 as compared to Q1 2011 and due to an acquisition after Q1 2011 that had a relatively high component of third party maintenance costs.

Travel expenses – Travel expenses for the quarter ended March 31, 2012 increased 32% or $2 million to $8 million, compared to $6 million for the quarter ended March 31, 2011. The increase is primarily due to increased travel expenses associated with acquisitions, implementation projects, employee meetings, and corporate relocations.

Other – Other expenses for the quarter ended March 31, 2012 increased 48% or $1 million to $3 million, compared to $2 million for the quarter ended March 31, 2011. The increase is primarily due to fees incurred in connection with the secondary offering of the Company's shares in Q1 2012 and due to an increase in marketing related expenses as compared to the quarter ended March 31, 2011.

Other Expenses:

The following table displays the breakdown of our other expenses:

	Three months ended March 31,		Period-Over-Period Change	
	2012	2011	$	%
	($000, except percentages)			
Depreciation	1,718	2,126	(408)	-19%
Amortization of intangible assets	19,275	18,525	750	4%
Foreign exchange loss	208	2,065	(1,857)	-90%
Equity in net loss of equity investees	882	0	882	NM
Finance income	(1,069)	(368)	(701)	190%
Finance costs	1,018	1,161	(143)	-12%
Income tax expense (recovery)	3,311	(50,963)	54,274	NM
	25,343	(27,454)	52,797	-192%

NM - Not meaningful

Depreciation – Depreciation of property and equipment remained unchanged at $2 million in the quarter ended March 31, 2012 compared to the same period in 2011.

Amortization of intangible assets – Amortization of intangible assets increased by 4% for the quarter ended March 31, 2012 compared to the quarter ended March 31, 2011.

Foreign exchange – Most of our businesses are organized geographically so 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 March 31, 2012, our foreign exchange loss was $0.2 million compared to a loss of $2.0 million in the quarter ended March 31, 2011. The foreign exchange loss in the prior year was due to realized losses on settling certain non-USD liabilities and due to holding losses on certain non-USD liabilities.

Equity in net loss of equity investees – Equity in net loss of equity investees increased to negative $1 million for the quarter ended March 31, 2012 compared to nil for the quarter ended March 31, 2011. The negative $1 million primarily relates to our proportionate share of a loss recorded by an equity investee for the twelve months ended December 31, 2011. The loss resulted from an impairment charge on goodwill.

Finance income – Finance income increased to $1 million for the quarter ended March 31, 2012 from $0.4 million for the quarter ended March 31, 2011. The increase in finance income for the quarter is due to gains on available-for-sale equity securities sold during this period.

Finance costs – Finance costs remained unchanged at $1 million for the quarter ended March 31, 2012 compared to the quarter ended March 31, 2011. The quarter ended March 31, 2012 includes a $0.6 million write down of capitalized transaction costs relating to the Company's previous line of credit which were written off as a result of the Company refinancing its line of credit in Q1 2012.

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. The decrease in income tax recovery for the quarter ended March 31, 2012 compared to the same period in 2011 was primarily due to a transfer of certain intangible assets from one subsidiary to another in the same period last year. In the prior year, a deferred tax asset was recorded on the increase in fair market value arising on the sale of intellectual property between entities within the Company at the rate of tax of the entity that acquired the assets notwithstanding that the gains are not otherwise recorded for accounting and financial reporting on consolidation. The deferred income tax recovery recorded through profit or loss represented the amount of these deferred income tax deductions that the Company determined was probable of being utilized for income tax deduction purposes in the future.

Net Income:

Net income for the quarter ended March 31, 2012 was $14 million compared to net income of $62 million for the same period in 2011. On a per share basis this translated into a net income per diluted share of $0.66 in the quarter ended March 31, 2012 compared to net income per diluted share of $2.95 in the quarter ended March 31, 2011. Net income in the quarter ended March 31, 2012 was negatively impacted by the decrease in income tax recovery as discussed under Income taxes above. Excluding income tax recovery, net income increased by 46% to $12 million in the quarter ended March 31, 2012 from $8 million in the quarter ended March 31, 2011. The increase in net income excluding the income tax recovery was primarily due to an increase in Adjusted EBITDA, a decrease in foreign exchange loss and an increase in finance income, offset by an increase in equity in net loss of equity investee.

Adjusted EBITDA:

For Q1 2012, Adjusted EBITDA increased by $4 million to $39 million compared to $35 million in Q1 2011 representing an increase of 12%. Adjusted EBITDA margin was 20% in the first quarter of 2012 and the first quarter of 2011. See "Non-IFRS Measures" for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

	Three months ended March 31,	
	2012	2011
	($000, except percentages)	
Total revenue	$ 195,278	$ 177,632
Net income	13,924	62,488
Adusted for:		
Income tax expense (recovery)	3,311	(50,963)
Foreign exchange loss	208	2,065
Equity in net loss of equity investees	882	0
Finance income	(1,069)	(368)
Finance costs	1,018	1,161
Amortization of intangible assets	19,275	18,525
Depreciation	1,718	2,126
Adjusted EBITDA	39,267	35,034
Adjusted EBITDA margin	20%	20%

Adjusted net income:

For Q1 2012, Adjusted net income increased by $5 million to $32 million compared to $27 million in Q1 2011, representing an increase of 17%. Adjusted net income margin was 16% in the first quarter of 2012 compared to 15% in the comparable period in 2011. The increase in Adjusted net income for the three months ended March 31, 2012 is largely due to an increase in Adjusted EBITDA, a decrease in foreign exchange loss and an increase in finance income offset by a increase in equity in net loss of equity investees. See "Non-IFRS 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 March 31, 2012	Three months ended March 31, 2011
	($000, except percentages)	
Total revenue	$ 195,278	$ 177,632
Net income	13,924	62,488
Adusted for:		
Amortization of intangible assets	19,275	18,525
Deferred income tax recovery	(1,492)	(53,971)
Adjusted net income	31,707	27,042
Adjusted net income margin	16%	15%

Quarterly Results

	Jun. 30 2010	Sep. 30 2010	Dec. 31 2010	Mar. 31 2011	Jun. 30 2011	Sep. 30 2011	Dec. 31 2011	Mar. 31 2012
	Quarter Ended ($000, except per share amounts)							
				Note 1	*Note 1*	*Note 1*		
Revenue	153,545	163,588	171,986	177,632	195,099	202,253	198,357	195,278
Net Income	2,322	8,786	10,877	62,488	55,986	19,305	19,395	13,924
Adjusted Net Income	19,659	22,516	22,546	27,042	33,507	39,717	40,229	31,707
Net Income per share Basic & diluted	0.11	0.41	0.51	2.95	2.64	0.91	0.92	0.66
Adjusted Net Income per share Basic & diluted	0.93	1.06	1.06	1.28	1.58	1.87	1.90	1.50

The quarterly information is presented in accordance with IFRS.

Note 1: Net income amounts for each of the quarterly periods in the nine months ended September 30, 2011 have been adjusted to correct for out of period errors. This resulted in a reduction of the deferred income tax recovery in profit and loss for each of the quarterly periods in the nine months ended September 30, 2011 totalling $1,741, $2,613 and $2,613 respectively, which have been reflected herein.

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 which may include bargain purchase gains and loss (gain) on the sale of available-for-sale equity securities and other assets.

Acquisition of PTS from Continental

On November 2, 2009, Constellation acquired the Public Transit Solutions business ("PTS") from Continental AG ("Continental") for gross cash consideration of $3 million. The purchase price was a small percentage of PTS' annualized revenues, reflecting its pre-acquisition history of negative cash flows.

Management believes cash flows from operations is useful supplemental information about the performance of the underlying business as certain acquisition related accounting price adjustments and the impact of contract accounting in a business combination under IFRS may result in reported earnings that differ materially from cash flow from operations. A significant amount of working capital was acquired with the PTS business which may have a material positive impact on cash flows from operations should we be able to reduce the level of working capital required in the business.

A number of acquired contracts were recorded at their estimated fair value as of the date of acquisition. Under this treatment, excess profits or costs relative to normalized profitability are recorded as contract assets or liabilities and amortized against revenues over the remaining life of the contract. As a result, the revenue and costs of these contracts reflected through profit or loss will differ from the revenue and costs that would have been recognized under normal course percentage of completion contract accounting.

Cash flows from operations from PTS will fluctuate significantly from quarter to quarter due to the timing of receipt of milestone payments associated with large customer contracts. PTS has contributed $24 million in cash flows from operations since the date of acquisition; however, in the first quarter of 2012, cash flows from operations at PTS were negative $11 million. The negative operating cash flow from Q1 2012 was primarily driven by the payment of 2011 employee bonuses and an increase in net working capital. As part of the PTS acquisition, Constellation also assumed certain long-term contracts that contain contingent liabilities which may, but in management's opinion are unlikely to, exceed $2 million in the aggregate. The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by PTS. The contingent liabilities represent the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

Supplemental Financial Information for PTS

The table below provides certain supplemental statement of comprehensive income and cash flow information regarding PTS for the three months ended March 31, 2012. PTS is not considered a reportable operating segment of Constellation; however, management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flows from operations of each business. Management believes cash flows from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and contract accounting under IFRS may result in reported earnings that differ materially from cash flow from operations.

Supplemental financial information

	For the three months ended March 31, 2012		
(Unaudited)	Constellation Software Inc. (excluding PTS)	PTS	Consolidated
Revenue	$ 162,468	$ 32,810	$ 195,278
Adjusted EBITDA	32,611	6,656	39,267
EBITDA as % Total Revenue	20%	20%	20%
Net Income	$ 8,178	$ 5,746	$ 13,924

Cash flows from operating activities:			
Net income	$ 8,178	$ 5,746	$ 13,924
Adjustments to reconcile net income to net cash flows from operations, including taxes paid:	21,780	861	22,641
Change in non-cash operating working capital	(6,536)	(17,808)	(24,344)
Cash flows from operating activities	$ 23,422	$ (11,201)	$ 12,221

Adjusted EBITDA to net income reconciliation

	For the three months ended March 31, 2012		
(Unaudited)	Constellation Software Inc. (excluding PTS)	PTS	Consolidated
Total revenue	$ 162,468	$ 32,810	$ 195,278
Net income	8,178	5,746	13,924
Adjusted for:			
Income tax expense	2,914	397	3,311
Other expenses	691	348	1,039
Amortization of intangible assets	19,275	-	19,275
Depreciation	1,553	165	1,718
Adjusted EBITDA	32,611	6,656	39,267
Adjusted EBITDA margin	20%	20%	20%

Acquisition of certain software assets and liabilities from MAXIMUS Inc.

On September 30, 2008, Constellation acquired certain assets and liabilities of MAXIMUS Inc.'s Asset, Justice, and Education businesses ('MAJES') for net cash consideration of $34 million.

As part of the MAJES acquisition, Constellation also assumed certain long-term customer contracts that contain contingent liabilities that may, but in management's opinion are unlikely to, exceed $15 million in the aggregate. The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by MAJES and for estimated damages available to customers for breaches of such contracts by MAJES where such contracts did not contain specified penalties. The contingent liabilities represent the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

In February 2011, a subsidiary of the Company and MAXIMUS Inc. ("Maximus") received a letter from a customer initiating a dispute resolution process under the customer's contract. The customer alleges that the subsidiary of Constellation and MAXIMUS failed to observe the most favoured customer pricing terms of the contract and also raised a number of issues pertaining to services and products delivered under the contract. The subsidiary of the Company, MAXIMUS and the customer have resolved the issues relating to the most favoured customer pricing terms of the contract without liability to the Company but continue to follow the dispute resolution process for the customer's other allegations. The subsidiary of the Company and the seller of the MAJES assets continue to contest all of the customer's claims. The liability is undefined with respect to the remainder of the claims, however, the contract with the customer has a $9 million limitation of liability clause that the Company believes will apply to all of the claims.

Liquidity

Our net cash position (cash less bank indebtedness) at March 31, 2012 increased to $38 million, from $33 million at December 31, 2011. Borrowings on our line of credit increased by $13 million and cash increased by $15 million. The increase in borrowings on our line of credit was offset by $2 million of financing fees.

Total assets increased $21 million, from $631 million at December 31, 2011 to $652 million at March 31, 2012. The majority of the increase can be explained by an increase in cash of $16 million. The increase in cash was primarily due to funds held as at March 31, 2012 by our transfer agent for the payment of the April 2, 2012 dividend.

Current liabilities increased $23 million, from $321 million at December 31, 2011 to $344 million at March 31, 2012. The increase can be explained by an increase in borrowings on our line of credit of $13 million, an increase in dividends payable of $21 million, and an increase in deferred revenue of $26 million primarily due to acquisitions and the timing of billings versus revenue recognized. This increase was offset by a decrease in accounts payable and accrued liabilities of $35 million primarily due to the payment of 2011 employee bonuses in Q1 2012.

Net Changes in Cash Flow	**Three months ended March 31, 2012**
	(in millions of $)
Net cash provided by operating activities	$12
Net cash from financing activities	11
Net cash used in investing activities	(8)
Effect of currency translation on cash	(0)
Net increase in cash and cash equivalents	$15

The net cash flow from operating activities was $12 million for the three months ended March 31, 2012. The $12 million provided by operating activities resulted from $14 million in net income, plus $25 million of non-cash add backs to net income, offset by $24 million of cash used by changes in our non-cash operating working capital and $3 million in taxes paid. The $24 million of cash used by changes in our non-cash operating working capital was primarily due to the reduction in accounts payable and accrued liabilities resulting from the payment of 2011 employee bonuses in Q1 2012.

The net cash generated in financing activities in the three months ended March 31, 2012 was $11 million, which is mainly a result of an increase in bank indebtedness.

The net cash used in investing activities in the three months ended March 31, 2012 was $8 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $8 million (including payments for holdbacks relating to prior acquisitions).

We believe we have more than sufficient cash 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

On March 13, 2012, we entered into a new credit facility with a syndicate of Canadian chartered banks and U.S. banks in the amount of $300 million which replaced our previous $160 million facility. The credit facility is collateralized by substantially all of our assets including the assets of the majority of our material Canadian and U.S. subsidiaries. Certain other subsidiaries also guarantee this facility. The facility is available for acquisitions, working capital needs, and other general corporate purposes and for the needs of our subsidiaries. As at March 31, 2012, we had drawn $13 million on this facility. Commitments include operating leases for office equipment and facilities, letters of credit and performance bonds 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 business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in non-consolidated entities (aside from our shareholdings in publicly traded companies included in our available for sale securities and our equity investments included in other assets) that would have a significant effect on our assets and liabilities as at March 31, 2012.

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 U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact could significantly affect future net earnings. Currently, we typically 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.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue and expenses, as applicable, for the three month period ended March 31, 2012:

	Three Months Ended March 31,2012	
Currencies	% of Revenue	% of Expenses
USD	66%	53%
CAD	10%	22%
GBP	12%	11%
EURO	6%	3%
CHF	2%	6%
Others	4%	4%
Total	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases and letters of credit, all of our liabilities and commitments are reflected on our balance sheet.

Proposed Transactions

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

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements. The relevant standards are listed below.

IFRS 9 Financial Instruments

IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied.

The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The Company does not expect the amendments to have a material impact on the financial statements, because of the nature of the Company's operations and the types of financial assets that it holds.

IFRS 10 Consolidated Financial Statements

The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

IFRS 11 Joint Arrangements

The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 11 to have a material impact on the financial statements.

IFRS 12 Disclosure of Interests in Other Entities

The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to have a material impact on the financial statements, because of the nature and extent of the Company's interests in other entities.

IFRS 13 Fair Value Measurement

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Amendments to IAS 28 Investments in Associates and Joint Ventures

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

Amendments to IAS 1 Presentation of Financial Statements

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Company does not expect the amendments to IAS 1 to have a material impact on the financial statements.

Amendments to IAS 19 Employee Benefits

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

Amendments to IAS 32 and IFRS 7, Offsetting Financial Assets and Liabilities

The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

Share Capital

On April 3, 2012, 100% of the Class A non-voting shares were converted to common shares, on a one-for-one basis. As at May 2, 2012, there were 21,191,530 common shares outstanding.

Risks and Uncertainties

A complete description of the risks and uncertainties affecting the Company is included in the most recently filed AIF. 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.

Canada Revenue Agency Reassessment and Other Tax Uncertainties

In April 2012, the Company received a letter from the Canadian Revenue Agency ("CRA") indicating its intention to reassess one of the Company's subsidiaries for the 2004 tax year. CRA is proposing to increase taxable income by approximately $20 million relating to a gain on the sale of intangible property between entities under common control. The Company believes the proposed reassessment is without merit and as such no provision has been recorded in the accompanying financial statements. The Company is subject to various other income tax audits by various authorities in respect of prior periods that could result in additional tax expense in future periods. While the outcome of current outstanding audits and claims remains uncertain, it is expected that they will be resolved without a material impact to the Company's financial position. However, there can be no assurances as to the final resolution of these matters and, if the final outcome is adverse to the Company, the amounts the Company is required to pay and the loss of certain future tax deductions could be material to these financial statements.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At March 31, 2012, 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:

In accordance with National Instrument 52-109 which requires certification of disclosure in issuers' interim filings, the President and Chief Financial Officer have designed or caused it to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that (i) information required to be disclosed by the Company in its quarterly filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its President and Chief Financial Officer in a timely manner.

In addition, the President and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. The control framework the President and the Chief Financial Officer used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the three-month period ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.