CONSTELLATION SOFTWARE INC.

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

The following discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three month period ended March 31, 2013 and with our Annual Consolidated Financial Statements for the year ended December 31, 2012, 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 Constellation Software Inc. (the "Company" or "Constellation"), 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, including those under "Outlook" below, 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 as of the date of this MD&A, May 1, 2013. 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 "Outlook" and "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 income or loss of equity investees, impairment of non-financial assets, depreciation, amortization, and foreign exchange gain or loss. 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 amortization 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 adjusted for 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 or recognized 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, readers 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 flows 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 software as a service, subscriptions, 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 and integration services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions, as well as sales of customized 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, the cost of hardware, third party licenses, maintenance and professional services to fulfill our customer arrangements, travel and occupancy costs and other general operating expenses.

Results of Operations

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

Unaudited

	Three months ended March 31,		Period-Over-Period Change	
	2013	2012	$	%
Revenue	**256,431**	**195,278**	**61,153**	**31%**
Expenses	213,833	156,011	57,822	37%
Adjusted EBITDA	**42,598**	**39,267**	**3,331**	**8%**
Depreciation	2,212	1,718	494	29%
Amortization of intangible assets	26,461	19,275	7,186	37%
Foreign exchange loss	1,775	208	1,567	753%
Equity in net (income) loss of equity investees	(344)	882	(1,226)	NM
Finance income	(490)	(1,069)	579	-54%
Finance costs	1,116	1,018	98	10%
Profit before income taxes	11,868	17,235	(5,367)	-31%
Income taxes expense (recovery)				
Current income tax expense	4,980	4,803	177	4%
Deferred income tax (recovery)	(2,311)	(1,492)	(819)	55%
Income tax expense	2,669	3,311	(642)	-19%
Net income	**9,199**	**13,924**	**(4,725)**	**-34%**
Adjusted net income	**33,349**	**31,707**	**1,642**	**5%**
Weighted average number of shares outstanding (000's)				
Basic and diluted	21,192	21,192		
Net income per share				
Basic and diluted	$ 0.43	$ 0.66	$ (0.22)	-34%
Adjusted EBITDA per share				
Basic and diluted	$ 2.01	$ 1.85	$ 0.16	8%
Adjusted net income per share				
Basic and diluted	$ 1.57	$ 1.50	$ 0.08	5%
Cash dividends declared per share				
Basic and diluted	$ 1.00	$ 1.00	$ -	

NM - Not meaningful

Comparison of the first quarter ended March 31, 2013 and 2012

Revenue:

Total revenue for the quarter ended March 31, 2013 was $256 million, an increase of 31%, or $61 million, compared to $195 million for the comparable period in 2012. The increase is solely attributed to growth from acquisitions as there was no organic growth. Excluding the decline in total revenue related to the Public Transit Solutions business ("PTS") the organic growth for the quarter would have been 4%. For acquired businesses, organic growth is calculated as the difference between actual revenues achieved by each business in the financial period following acquisition compared to the revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

We have historically provided supplemental disclosure around the PTS business which was acquired from Continental Automotive AG on November 2, 2009. The rationale for the supplemental disclosure was the material difference between Adjusted net income and cash flows from operating activities resulting from the accounting treatment of acquired contract assets and liabilities. The majority of the acquired contracts have now been completed or are close to completion, and the remaining difference between Adjusted net income and cash flows from operating activities to be realized on these contracts is not considered material. As such, we will not be providing supplemental disclosure around the PTS business.

Software license revenue for the quarter ended March 31, 2013 increased by 38%, or $6 million to $21 million, from $15 million compared to the same period in 2012. Professional services revenue for the quarter ended March 31, 2013 increased by 31%, or $13 million to $55 million, from $42 million compared to the same period in 2012. Hardware and other revenue for the quarter ended March 31, 2013 increased by 2%, or $1 million to $26 million, from $25 million in 2012. Maintenance and other recurring revenues for the quarter ended March 31, 2013 increased by 37%, or $42 million to $155 million, from $113 million in the same period in 2012. The following tables display the breakdown of our revenue according to revenue type:

	Three months ended March 31,		Period-Over-Period Change	
	2013	2012	$	%
	($000, except percentages)			
Licenses	20,668	14,940	5,728	38%
Professional services	55,099	42,127	12,972	31%
Hardware and other	25,808	25,355	453	2%
Maintenance and other recurring	154,856	112,856	42,000	37%
	256,431	195,278	61,153	31%

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, 2013 compared to the same period in 2012:

	Three months ended March 31,		Period-Over-Period Change	
	2013	2012	$	%
	($000, except percentages)			
Public Sector				
Licenses	13,175	9,790	3,385	35%
Professional services	43,179	32,302	10,877	34%
Hardware and other	22,171	22,289	(118)	-1%
Maintenance and other recurring	97,605	73,851	23,754	32%
	176,130	138,232	37,898	27%
Private Sector				
Licenses	7,493	5,150	2,343	45%
Professional services	11,920	9,825	2,095	21%
Hardware and other	3,637	3,066	571	19%
Maintenance and other recurring	57,251	39,005	18,246	47%
	80,301	57,046	23,255	41%

Public Sector

For the quarter ended March 31, 2013, total revenue in the public sector reportable segment increased 27%, or $38 million, to $176 million, compared to $138 million for the quarter ended March 31, 2012. Revenue growth from acquired businesses was significant as we completed twenty-two acquisitions since the beginning of 2012 in our public sector segment. It is estimated that acquisitions completed since the beginning of 2012 contributed approximately $40 million to our Q1 2013 revenues. Revenues decreased organically by 2% or $2 million in Q1 2013 compared to the same period in 2012, primarily driven by a decline in hardware sales in the PTS European business from the same period in 2012.

Private Sector

For the quarter ended March 31, 2013, total revenue in the private sector reportable segment increased 41%, or $23 million, to $80 million, compared to $57 million for the quarter ended March 31, 2012. Revenue growth from acquired businesses was significant for the three month period as we completed twenty acquisitions since the beginning of 2012 in our private sector segment. It is estimated that acquisitions completed since the beginning of 2012 contributed approximately $21 million to our Q1 2013 revenues. Revenues increased organically by 3% or $2 million in Q1 2013 compared to the same period in 2012.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended March 31,		Period-Over-Period Change	
	2013	2012	$	%
	($000, except percentages)			
Expenses				
Staff	148,104	105,631	42,473	40%
Hardware	16,011	12,227	3,784	31%
Third party license, maintenance and professional services	18,440	14,246	4,194	29%
Occupancy	6,580	4,625	1,955	42%
Travel	9,506	8,246	1,260	15%
Telecommunications	3,093	2,497	596	24%
Supplies	4,648	3,432	1,216	35%
Professional fees	3,461	1,845	1,616	88%
Other, net	3,990	3,262	728	22%
	213,833	156,011	57,822	37%

Overall expenses for the quarter ended March 31, 2013 increased 37%, or $58 million, to $214 million, compared to $156 million during the same period in 2012. As a percentage of total revenue, expenses increased to 83% in the quarter ended March 31, 2013 compared to 80% in the quarter ended March 31, 2012. The increase in expenses as a percentage of total revenue is primarily attributed to North American hiring to address backlog and to staff new investments in growth initiatives, as well as the impact of recent European acquisitions. 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 42% in 2013 from 4,001 in the quarter ended March 31, 2012 to 5,696 in the quarter ended March 31, 2013 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	
	2013	2012	$	%
	($000, except percentages)			
Professional services	34,592	23,859	10,733	45%
Maintenance	28,872	21,006	7,866	37%
Research and development	39,016	28,337	10,679	38%
Sales and marketing	21,209	14,539	6,670	46%
General and administration	24,415	17,890	6,525	36%
	148,104	105,631	42,473	40%

Professional services – Staff expenses related to our Professional services operating department increased 45%, or $11 million, to $35 million for the quarter ended March 31, 2013 compared to $24 million for the same period in 2012. The increase in staff expenses related to our Professional services operating departments was primarily due to the growth in the number of employees compared to the same period in 2012 primarily due to acquisitions.

Maintenance – Staff expenses related to our Maintenance operating department increased 37%, or $8 million, to $29 million for the quarter ended March 31, 2013 compared to $21 million for the same period in 2012. 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 2012 primarily due to acquisitions.

Research and development – Staff expenses related to our Research and development operating department increased 38%, or $11 million, to $39 million for the quarter ended March 31, 2013 from $28 million for the same period in 2012. 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 2012 primarily due to acquisitions.

Sales and marketing – Staff expenses related to our Sales and marketing operating department increased 46%, or $6 million, to $21 million for the quarter ended March 31, 2013 compared to $15 million for the same period in 2012. 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 2012 primarily due to acquisitions.

General and administration – Staff expenses related to our General and administrative operating department increased 36%, or $6 million, to $24 million for the quarter ended March 31, 2013 from $18 million for the same period in 2012. The growth in staff expenses related to our General and administrative operating department is primarily due to the growth in the number of employees compared to the same period in 2012 primarily due to acquisitions.

Hardware expenses – Hardware expenses for the quarter ended March 31, 2013 increased 31%, or $4 million to $16 million, compared to $12 million for the quarter ended March 31, 2012. Hardware expenses as a percentage of hardware revenue increased to 62% from 48% compared to the same period in 2012. This decline in hardware margins is primarily driven by the delivery on some large contracts by the European PTS business in Q1 2012 that included higher margins than the business typically achieves.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses for the quarter ended March 31, 2013 increased 29% or $4 million to $18 million, compared to $14 million for the quarter ended March 31, 2012. Third party license, maintenance and professional services expenses as a percentage of license, professional services, and maintenance and other recurring revenue remained consistent at 8% for both Q1 2013 and Q1 2012.

Travel expenses – Travel expenses for the quarter ended March 31, 2013 increased 15% or $2 million to $10 million, compared to $8 million for the quarter ended March 31, 2012. The increase is primarily due to increased travel expenses incurred by acquired businesses.

Professional fees – Professional fees for the quarter ended March 31, 2013 increased $1 million to $3 million, compared to $2 million for the quarter ended March 31, 2012. The increase is primarily due to legal and tax advisory fees associated with acquisitions and tax planning.

Other, net – Other expenses for the quarter ended March 31, 2013 increased 22% or $1 million to $4 million, compared to $3 million for the quarter ended March 31, 2012. The increase is primarily due to increased expenses incurred by acquired businesses.

Other Income and Expenses:

The following tables display the breakdown of our other (income) and expenses:

	Three months ended March 31,		Period-Over-Period Change	
	2013	2012	$	%
	($000, except percentages)			
Depreciation	2,212	1,718	494	29%
Amortization of intangible assets	26,461	19,275	7,186	37%
Foreign exchange loss	1,775	208	1,567	753%
Equity in net (income) loss of equity investees	(344)	882	(1,226)	NM
Finance income	(490)	(1,069)	579	-54%
Finance costs	1,116	1,018	98	10%
Income tax expense	2,669	3,311	(642)	-19%
	33,399	25,343	8,056	32%

NM - Not meaningful

Depreciation – Depreciation of property and equipment remained unchanged at $2 million in the quarter ended March 31, 2013 compared to the same period in 2012.

Amortization of intangible assets – Amortization of intangible assets for the quarter ended March 31, 2013 increased by 37%, or $7 million to $26 million, compared to $19 million for the quarter ended March 31, 2012. The increase is attributable to an increase in the carrying amount of our intangible asset balance over the twelve month period ended March 31, 2013 as a result of acquisitions completed during this period.

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, 2013, our foreign exchange loss increased to $1.8 million compared to $0.2 million for the quarter ended March 31, 2012. The foreign exchange loss is due to realized losses on the settlement of certain non-US denominated liabilities and due to holding, or unrealized, losses on certain non-US denominated liabilities.

Equity in net (income) loss of equity investees – Equity in the net (income) loss of equity investees was $0.3 million income for the quarter ended March 31, 2013 compared to a loss of $0.9 million for the quarter ended March 31, 2012. The $0.9 million loss in Q1 2012 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 for the quarter ended March 31, 2013 decreased $0.6 million to $0.5 million, compared to $1.1 million for the quarter ended March 31, 2012. The decrease in finance income for the three months and year ended March 31, 2013 is due to reduced gains on sales of equity securities available-for-sale offset by a gain on the sale of a long term asset recognized in Q1 2013.

Finance costs – Finance costs for the quarter ended March 31, 2013 increased $0.1 million to$1.1 million, compared to $1.0 million for the quarter ended March 31, 2012. Increased interest expense on our revolving line of credit resulting from increased average borrowings in Q1 2013 compared to Q1 2012 were offset by a reduction in the amortization expense of capitalized transaction costs.

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 March 31, 2013, income tax expense decreased $0.6 million to $2.7 million compared to $3.3 million for the quarter ended March 31, 2012.

Net Income and Earnings per Share:

Net income for the quarter ended March 31, 2013 was $9 million compared to net income of $14 million for the same period in 2012. On a per share basis this translated into a net income per diluted share of $0.43 in the quarter ended March 31, 2013 compared to net income per diluted share of $0.66 in the quarter ended March 31, 2012. The decrease in net income for the quarter ended March 31, 2013 was primarily due to an increase in the amortization expense attributable to intangible assets as a result of acquisitions completed during 2012 and Q1 2013. There were no changes in the number of shares outstanding.

Adjusted EBITDA:

For Q1 2013, Adjusted EBITDA increased to $43 million compared to $39 million in Q1 2012 representing an increase of 8%. Adjusted EBITDA margin decreased to 17% in the first quarter of 2013 compared to 20% in the first quarter of 2012. The decrease in EBITDA margins in the first quarter of 2013 is primarily attributed to North American hiring to address backlog and to staff new investments in growth initiatives, as well as the impact of recent European acquisitions. See “Non-IFRS Measures” for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

(Unaudited)	Three months ended March 31, 2013	Three months ended March 31, 2012
	($000, except percentages)	
Total revenue	$ 256,431	$ 195,278
Net income	9,199	13,924
Adjusted for:		
Income tax expense	2,669	3,311
Foreign exchange loss	1,775	208
Equity in net (income) loss of equity investees	(344)	882
Finance income	(490)	(1,069)
Finance costs	1,116	1,018
Amortization of intangible assets	26,461	19,275
Depreciation	2,212	1,718
Adjusted EBITDA	42,598	39,267
Adjusted EBITDA margin	17%	20%

Adjusted net income:

For Q1 2013, Adjusted net income increased by $1 million to $33 million compared to $32 million in Q1 2012, representing an increase of 5%. Adjusted net income margin was 13% in the first quarter of 2013 compared to 16% in the comparable period in 2012. The increase in Adjusted net income for the three months ended March 31, 2013 is largely due to an increase in Adjusted EBITDA and the equity pickup in the net income of equity investees. This increase to Adjusted net income was offset by an increase in foreign exchange loss and a decrease in finance income. 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:

(Unaudited)	Three months ended March 31, 2013	2012
	($000, except percentages)	
Total revenue	$ 256,431	$ 195,278
Net income	9,199	13,924
Adjusted for:		
Amortization of intangible assets	26,461	19,275
Deferred income tax (recovery)	(2,311)	(1,492)
Adjusted net income	33,349	31,707
Adjusted net income margin	13%	16%

Quarterly Results

	Quarter Ended							
	Jun. 30 2011	Sep. 30 2011	Dec. 31 2011	Mar. 31 2012	Jun. 30 2012	Sep. 30 2012	Dec. 31 2012	Mar. 31 2013
	($000, except per share amounts)							
Revenue	195,099	202,253	198,357	195,278	208,969	225,980	260,999	256,431
Net Income	55,986	19,305	19,395	13,924	17,592	21,065	40,051	9,199
Adjusted Net Income	33,507	39,717	40,229	31,707	36,161	42,079	62,251	33,349
Net Income per share								
Basic & diluted	2.64	0.91	0.92	0.66	0.83	0.99	1.89	0.43
Adjusted Net Income per share								
Basic & diluted	1.58	1.87	1.90	1.50	1.71	1.99	2.94	1.57

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 expenditures or gains which may include changes in provisions, acquired contract liabilities, bargain purchase gains and gains or losses on the sale of financial and other assets.

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 Solutions businesses ("MAJES"). As part of the acquisition, the Company also acquired certain long-term contracts that contain contingent liabilities which may, but are unlikely to, exceed $16 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 difference between the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

In February 2011, MAXIMUS Inc. ("Maximus") and a subsidiary of Constellation received a letter from a customer initiating a dispute resolution process under the customer's contract. The customer alleged that the subsidiary of Constellation and Maximus failed to observe the most favoured customer pricing terms of 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. The customer also alleged that the subsidiary of Constellation and Maximus failed to provide the services and products required to be delivered under the contract. The subsidiary of the Company, Maximus, and the customer, pursuant to the terms of the contract, entered into arbitration proceedings in respect of the customer's claims. The potential liability was undefined with respect to the claims in arbitration, 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 in arbitration, should there be an unfavourable outcome to the Company. In October 2012, the customer filed a claim in court alleging no contract existed between the customer and the subsidiary of Constellation and was seeking restitution of a minimum of $12 million. In December 2012, the subsidiary of Constellation obtained an arbitration ruling in relation to the customer dispute. The arbitration ruling concluded that no amounts were owed by the subsidiary to the customer for the various claims made by the customer and that the customer owes the subsidiary approximately $10 million in fees for services provided under the contract and for amounts owing due to a breach of contract by the customer. Constellation is seeking to obtain a court judgement to enforce the arbitration ruling. The gain based on this ruling has been deemed to be contingent in nature and, accordingly, has not been recognized in the condensed consolidated interim financial statements.

Liquidity

Our net borrowings (bank indebtedness excluding capitalized transaction costs less cash) increased by $60 million to $65 million resulting from acquisitions. Bank indebtedness excluding capitalized transaction costs increased to $109 million from $46 million at the end of 2012, and cash increased by $3 million to $44 million at March 31, 2013 compared to $41 million at December 31, 2012.

Total assets increased $51 million, from $813 million at December 31, 2012 to $864 million at March 31, 2013. The increase is primarily due to an increase in cash of $3 million, accounts receivable of $3 million, work in progress of $2 million, other current assets of $9 million and intangible assets of $41 million arising from acquisitions made in 2013.

Current liabilities increased $72 million, from $473 million at December 31, 2012 to $544 million at March 31, 2013. The increase can be explained by an increase in borrowings on our line of credit of $63 million, and an increase in deferred revenue of $34 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 $22 million primarily due to the payment of 2012 employee bonuses in Q1 2013, and a reduction in acquisition holdback payments of $4 million.

Net Changes in Cash Flows (in millions of $)	**Three months ended March 31, 2013**
Net cash provided by operating activities	$34
Net cash from financing activities	41
Net cash used in investing activities	(72)
Effect of foreign currency	-
Net increase (decrease) in cash and cash equivalents	$3

The net cash flows from operating activities was $34 million for the three months ended March 31, 2013. The $34 million provided by operating activities resulted from $9 million in net income, plus $34 million of non-cash add backs to net income, offset by $4 million of cash used by an increase in our non-cash operating working capital and $5 million in taxes paid.

The net cash flows from financing activities in the three months ended March 31, 2013 was $41 million, which is mainly a result of an increase in bank indebtedness of $63 million, which is offset by dividends paid in the period of $21 million.

The net cash flows used in investing activities in the three months ended March 31, 2013 was $72 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $75 million (including payments for holdbacks relating to prior acquisitions).

We believe we have more than sufficient cash and available credit capacity 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 31, 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. The credit facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. 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 until 2016. As at March 31, 2013, we had drawn $109 million on this facility. Transaction costs associated with this facility have been included as part of the carrying amount of the liability and are being amortized through profit or loss using the effective interest rate method. As at March 31, 2013, the carrying amount of such costs relating to this facility totalling $2 million has been classified as part of bank indebtedness in the statement of financial position.

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 contingent consideration, or earn out obligations, 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 that would have a significant effect on our assets and liabilities as at March 31, 2013.

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. We cannot predict the effect of foreign exchange gains or 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 Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of financial liabilities. In entering into these forward exchange contracts, the company is exposed to the credit risk of the counterparties to such contracts and the possibility that the counterparties will default on their payment obligations under these contracts. However, given that the counterparties are Schedule 1 banks or affiliates thereof, the Company believes these risks are not material. During the period, the Company did not purchase any contracts of this nature.

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, 2013:

Three Months Ended March 31, 2013		
Currencies	% of Revenue	% of Expenses
USD	67%	56%
CAD	9%	17%
GBP	9%	9%
EURO	8%	9%
CHF	3%	4%
Others	4%	5%
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 as part of our statement of financial position.

Proposed Transactions

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

Disposal of Assets

During the period, the Company sold the Technology and Cloud solution assets of the previously acquired Computer Software Innovations, Inc. to Encore Technology Group for total proceeds of $4,100 (which includes a hold-back receivable of $500). No significant gain or loss arose on the transaction.

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2013, and have not been applied in preparing our interim consolidated financial statements. The relevant standards and the anticipated impact are highlighted below.

IFRS 9 Financial Instruments

IFRS 9 (2009) replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

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 IAS 32, Offsetting Financial Assets and Liabilities

IAS 32 has been amended to include additional presentation requirements for financial assets and liabilities that can be offset in the statement of financial position.

The Company intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Company does not expect the amendments to have a material impact on its financial statements.

Share Capital

As at May 1, 2013, there were 21,191,530 common shares outstanding.

Risks and Uncertainties

The Company's business is subject to a number of risk factors, including those set forth below and also those included in our 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 July 2012, a subsidiary of Constellation received a notice of reassessment for the 2004 taxation year from the Canadian tax authorities ("CRA") which increased taxable income of the subsidiary by approximately $20 million relating to a gain on the sale of property between entities under common control. As a result of the notice of reassessment, the CRA has determined that the subsidiary owes approximately $6 million in federal tax and interest and approximately $5 million in provincial tax and interest. In order to appeal the reassessment, the subsidiary paid $8 million in September 2012 representing 50% of the amount owing from the federal reassessment and 100% of the amount owing from the provincial reassessment. At this stage, the Company believes the proposed reassessment is without merit and is challenging the reassessment. During the period, the Company filed an appeal with the Tax Court of Canada. The Company believes that it has adequately provided for the probable outcome in respect of this matter and as such no additional provision has been recorded in these financial statements during the period. There is no assurance, however, that the Company's appeal will be successful and, if unsuccessful, the Company's future financial results and tax expense could be adversely affected. The $8 million payment made in September 2012 has been recorded in other non-current assets, representative of the deposit on the account.

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 such other outstanding audits and claims remains uncertain, it is expected that they will be resolved without a material impact to the Company's financial position.

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, 2013, 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' annual 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 annual 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, 2013 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.