Constellation Software Inc.

# INTERIM FINANCIAL REPORT

First Quarter Fiscal Year 2008

For the three month period ended
March 31, 2008
(UNAUDITED)

# CONSTELLATION SOFTWARE INC.

## TO OUR SHAREHOLDERS

Q1 2008 benefited from a very weak comparable Q1 in 2007. Revenue increased 32%, Organic Net Revenue growth was 6%, Net Maintenance growth was 34%, and Adjusted Net Income growth was 62%. On a sequential basis (Q4 2007 vs Q1 2008) growth was more modest but still encouraging (revenue increased 11% and Adjusted Net Income increased 19%). Please note that we have changed the definition of Adjusted Net Income (see MD&A) in a way that has reduced the Adjusted Net Income for this quarter by $1.3 million vs what it would have been using the former definition. We believe the current definition provides a closer approximation of after tax cash profits.

Organic growth continued to improve despite deteriorating performance in our building related verticals. This was the fourth consecutive quarter of improving Organic Net Revenue growth. A table containing our quarterly Performance Metrics is appended. Our favourite single metric for measuring shareholder returns combines profitability and growth (ROIC + Organic Net Revenue growth). The combined metric was 32% (annualised) in Q1, a very handsome return for a business with such a low Tangible Net Asset ("TNA") requirement. TNA/Net Revenue remained stable at -58% (-57% in Q1 of 2007). We were disappointed that we did not see more improvement in this metric, despite considerable efforts throughout the year. Building related verticals are exhibiting longer receivables, and some long-dated receivables that came along with recent acquisitions (against which we have provisions in the acquisition agreements, should they prove uncollectable) are the primary culprits.

We completed 3 acquisitions in Q1, but only a modest ($2.7 million) amount of capital was invested. Shortly after the end of the quarter, 3 further acquisitions were made for a total net cash investment of $11.4 million. This continues to be one of the best acquisition markets that we have seen in many years. In 2007 we signed 50% more Non Disclosure Agreements than we signed in 2006. These resulted in a 52% increase in the value of Letters of Intent that we issued, and a 65% increase in the value of the Letters of Intent that were signed back to us. 2008 promises to be an equally busy year. As you may have seen in our recent press release, we have increased our revolving line of credit to $105 million, so that we are in a position to take advantage of attractive acquisition opportunities when they are available.

I am often asked why Constellation takes minority interests in other public software companies. The answer is simple (value!), but it can be complicated by our investment horizon and by our requirement that the company have competent ownership.

Constellation's objective is to be a perpetual owner of inherently attractive software businesses. Part of a perpetual owner's job, is to make sure that energetic, intelligent and ethical general managers ("GM") are running their businesses and that the GM's are incented to enhance shareholder value over the very long term. It is trivial for an experienced GM to run a software company to generate high profitability and shrinking revenues. Far more challenging, is generating reasonable short term profits while continuing to grow revenues, in an industry where investment cycles often exceed 10 years. Understanding a GM's performance as they make these long term trade-offs is the most difficult part of a perpetual owner's job.

We have bought more than 70 private software businesses outright. On ten occasions, however, we have also participated in the purchase of significant minority positions in public software businesses. Usually these minority interests were purchased for less than their intrinsic value, and for far less per share than we would have had to pay for the entire business. While these purchases tend to be at the "value" end of our investment spectrum, they often carry incremental risk because we lack access to information concerning the long term trade-offs that the businesses are making. Even excellent managers of public companies are initially uncomfortable allowing us to join their boards to get access to this information, suspecting us of dire motives or a short-term orientation. We have the same objective when we buy a piece of a business as when we buy 100%, i.e. we want to be a great perpetual owner of an inherently attractive asset. If we are allowed to join a public company's board, we offer to sign an agreement that will limit our ability to make an unsolicited take-over bid. This allows existing long-term shareholders of our public investees to continue to enjoy the benefits

of ownership. For shareholders with similar objectives to ours, we believe that we are an exceptional co-investor.

When boards reject our request for representation, we may resort to "shareholder democracy", i.e. we may approach other shareholders to request that they support our quest for a board seat. Only as a last resort will we make an unsolicited bid for a company.

Our financial objective is to generate in excess of 20% average annual revenue and EBITDA growth per share for the period January 1, 2006 through December 31, 2010. We continue to believe that these objectives are attainable.

Mark Leonard
President
Constellation Software Inc.

May 7th, 2008

| | Q1 2006 | Q2 2006 | Q3 2006 | Q4 2006 | Q1 2007 | Q2 2007 | Q3 2007 | Q4 2007 | Q1 2008 |
|---|---|---|---|---|---|---|---|---|---|
| ($ millions, except percentages) | | | | | | | | | |
| Revenue | 51.2 | 52.2 | 53.8 | 53.5 | 55.9 | 60.5 | 60.6 | 66.1 | 73.6 |
| Net Income / (Loss) | (8.7) | 1.3 | 2.3 | 3.8 | 2.6 | 3.5 | 3.3 | 1.6 | 4.3 |
| Net Revenue | 46.0 | 47.3 | 48.4 | 48.6 | 50.7 | 54.9 | 55.3 | 60.2 | 66.6 |
| Net Maintenance Revenue | 26.0 | 26.9 | 28.1 | 29.6 | 31.2 | 33.3 | 34.5 | 37.8 | 41.7 |
| Adjusted Net Income (1) | 4.8 | 4.4 | 7.5 | 9.0 | 6.9 | 8.4 | 8.5 | 9.4 | 11.1 |
| Average Invested Capital | 114 | 119 | 125 | 135 | 143 | 149 | 158 | 167 | 176 |
| Net Revenue Growth (Y/Y) | 33% | 28% | 24% | 22% | 10% | 16% | 14% | 24% | 31% |
| Organic Net Revenue Growth (Y/Y) | 14% | 12% | 5% | 3% | -1% | 0% | 2% | 3% | 6% |
| Net Maintenance Growth (Y/Y) | 35% | 30% | 30% | 29% | 20% | 24% | 23% | 28% | 34% |
| Adjusted Net Income Growth (Y/Y) | 21% | 5% | 49% | 115% | 43% | 91% | 13% | 5% | 62% |
| Average Invested Capital Growth (Y/Y) | 19% | 20% | 20% | 24% | 25% | 25% | 26% | 24% | 24% |
| Tangible Net Assets / Net Revenue | -52% | -51% | -59% | -73% | -57% | -45% | -53% | -74% | -58% |
| ROIC (Annualized) | 17% | 15% | 24% | 27% | 19% | 23% | 22% | 22% | 25% |
| ROIC + Organic Net Revenue Growth | 31% | 27% | 29% | 30% | 18% | 23% | 24% | 26% | 32% |

(1) Historical figures restated to comply with revised definition.

See "Non-GAAP Measures" below and the Company's Q1 2008 Management Discussion and Analysis.

Performance Metrics Glossary

"Net Revenue" means Revenue for GAAP purposes less third party and flow-through expenses. We use Net Revenue since it captures 100% of the license, maintenance and services revenues associated with Constellation's own products, but only includes the margin on our lower value-added revenues such as commodity hardware or third party software.

"Net Maintenance Revenue" is derived from GAAP Maintenance Revenue by subtracting third party maintenance costs. We believe that Net Maintenance Revenue is one of the best indicators of the intrinsic value of a software company and that the operating profitability of a low growth software business should correlate tightly to Net Maintenance Revenues.

Effective this quarter, the term ''Adjusted Net Income'' is derived by adjusting GAAP net income for the non-cash amortization of intangibles, future income taxes, and charges related to appreciation in common shares eligible for redemption (a charge that we no longer incur now that Constellation's common shares are publicly traded). Prior to Q1 2008, Adjusted Net Income was derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption. The computation was changed to include future income taxes since the majority of future income taxes relate to the amortization of intangible assets, and thus are being added back to more closely match the non-cash future tax recovery with the amortization of intangibles. All previously reported Adjusted Net Income figures have been restated in the table above to reflect the new method of computations. We use Adjusted Net Income because it is generally a better measure of cash flow than GAAP net income and it is closely aligned with the calculation of net income we use for bonus purposes.

"Average Invested Capital" is based on the Company's estimate of the amount of money that our shareholders had invested in Constellation. Subsequent to that estimate, each period we have kept a running tally, adding Adjusted Net Income, subtracting any dividends, adding any amounts related to share issuances and making some small adjustments, including adjustments relating to our use of certain incentive programs and the amortization of impaired intangibles.

"Tangible Net Assets / Quarterly Net Revenue" provides a measure of our Tangible Net Assets as a proportion of Quarterly Net Revenue. Tangible Net Assets is calculated by taking Total Assets for GAAP purposes, and subtracting (i) intangible assets and goodwill, (ii) cash and short term investments, (iii) future income tax assets, (iv) all customer, trade and government liabilities that do not bear a coupon, excluding future income tax liabilities and acquisition holdbacks.

"ROIC (Annualized)" represents a ratio of Adjusted Net Income to Average Invested Capital.

"ROIC + Organic Net Revenue Growth" provides a historical measure of the effectiveness of our capital allocation.

Forward Looking Statements

Certain statements herein may be "forward looking" statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Constellation or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date hereof. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements. These forward looking statements are made as of the date hereof and Constellation assumes no obligation to update any forward looking statements to reflect new events or circumstances.

Non-GAAP Measures

Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth should not be construed as alternatives to revenue or net income determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company's liquidity and cash flows. The Company's method of calculating Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers.

# 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, 2008 and the accompanying notes, and with our consolidated annual financial statements and our annual MD&A for the year ended December 31, 2007. 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 known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this MD&A, May 7, 2008. 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. 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-GAAP Measures

This MD&A includes certain measures which have not been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") such as Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Net Income and Adjusted Net Income margin.

The term ''Adjusted EBITDA'' refers to net income before deducting interest, taxes, depreciation, amortization, other expenses and foreign exchange, and before including gain on sale of short-term investments, marketable securities and other assets. The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and the other items listed above. ''Adjusted EBITDA margin'' refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

Effective this quarter, the term ''Adjusted Net Income'' means net income plus amortization of intangible assets and future income taxes. Prior to Q1 2008, Adjusted Net Income was reported on the basis of net income plus amortization of intangible assets. The computation was changed to include future income taxes since the majority of future income taxes relate to the amortization of intangible assets, and thus are being added back to more closely match the non-cash future tax recovery with the amortization of intangibles. All previously reported Adjusted Net Income figures have been restated here in Results of Operations to reflect the new method of computations. See "Adjusted Net 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 intangibles and future income taxes as these are non-cash expenses that do not necessarily reflect the economic value of acquisitions. ''Adjusted Net Income margin'' refers to the percentage that Adjusted Net Income for any period represents as a portion of total revenue for that period.

Adjusted EBITDA and Adjusted Net Income are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Adjusted EBITDA and Adjusted Net Income should not be construed as alternatives to net income determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company's liquidity and cash flows. The Company's method of calculating Adjusted EBITDA and Adjusted Net Income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted Net Income may not be comparable to similar measures presented by other issuers. See ''Results of Operations —Adjusted EBITDA'' and ''— Adjusted Net Income'' for a reconciliation of Adjusted EBITDA and Adjusted Net Income to net income.

**Overview**

We acquire, manage and build vertical market software ("VMS") businesses. Generally, these businesses provide mission critical software solutions that address the specific needs of our customers in particular markets. Our focus on acquiring businesses with growth potential, managing them well and then building them, has allowed us to generate significant cash flow and revenue growth during the past several years.

Our revenue consists primarily of software license fees, maintenance fees, and professional service fees. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under single-year, multiple-year or perpetual arrangements in which the fair value of the license fee is separately determinable from maintenance and/or professional service fees. Maintenance revenue consists of fees charged for customer support on our software products post-delivery. Maintenance fee arrangements generally include ongoing customer support and rights to certain product updates "if and when available" and products sold on a subscription basis. Professional service revenue consists of fees charged for product training, consulting and implementation services. Our customers typically purchase a combination of software, maintenance and professional services, although the types, mix and quantity of each solution varies by customer and by product.

Cost of revenue consists primarily of the costs directly related to revenues including third party costs and internal costs related to the delivery of professional services and maintenance. Cost of revenue is generally expected to increase in the future as a result of increases in revenue.

Research and development expenses include personnel and related costs associated with our research and development efforts.

Sales and marketing expenses consist primarily of personnel and related costs associated with our sales and marketing functions, including advertising, commissions, trade shows and other promotional materials.

General and administration expenses include personnel and related costs associated with the administration of our business, rental of office space, legal and professional fees and insurance.

## Results of Operations

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

| | Three months ended Mar. 31, | | Period-Over-Period Change | |
|---|---|---|---|---|
| | 2008 | 2007 | $ | % |
| **Revenue** | **73,603** | **55,893** | **17,710** | **31.7%** |
| Cost of Revenue | 28,627 | 21,516 | 7,111 | 33.0% |
| Gross Profit | 44,976 | 34,377 | 10,599 | 30.8% |
| Expenses | | | | |
| Research and development | 11,630 | 8,910 | 2,720 | 30.5% |
| Sales and marketing | 8,041 | 7,042 | 999 | 14.2% |
| General and administration | 12,799 | 10,036 | 2,763 | 27.5% |
| Total Expenses (pre amortization) | 32,470 | 25,988 | 6,482 | 24.9% |
| **Adjusted EBITDA** | **12,506** | **8,389** | **4,117** | **49.1%** |
| Depreciation | 785 | 692 | 93 | 13.4% |
| Total Expenses | 33,255 | 26,680 | 6,575 | 24.6% |
| **Income before the undernoted** | **11,721** | **7,697** | **4,024** | **52.3%** |
| Amortization of intangible assets | 8,096 | 4,434 | 3,662 | 82.6% |
| Gain on sale of short-term investments, marketable securities and other assets | (48) | (234) | 186 | -79.5% |
| Interest expense (income) | 163 | (115) | 278 | NA |
| Foreign exchange loss (gain) | (471) | 7 | (478) | NA |
| Income before income taxes | 3,981 | 3,605 | 376 | 10.4% |
| **Income taxes (recovery)** | | | | |
| Current | 961 | 1,157 | (196) | -16.9% |
| Future | (1,309) | (154) | (1,155) | 750.0% |
| | (348) | 1,003 | (1,351) | -134.7% |
| **Net income** | **4,329** | **2,602** | **1,727** | **66.4%** |
| **Adjusted net income**[1] | **11,116** | **6,882** | **4,234** | **61.5%** |
| Weighted avg # of shares outstanding (000's) | | | | |
| Basic | 21,113 | 21,093 | | |
| Diluted | 21,192 | 21,192 | | |
| **Net income per share** | | | | |
| Basic | $ 0.21 | $ 0.12 | $ 0.09 | 75.0% |
| Diluted | $ 0.20 | $ 0.12 | $ 0.08 | 66.7% |
| **Adjusted EBITDA per share** | | | | |
| Basic | $ 0.59 | $ 0.40 | $ 0.19 | 47.5% |
| Diluted | $ 0.59 | $ 0.40 | $ 0.19 | 47.5% |
| **Adjusted net income per share**[1] | | | | |
| Basic | $ 0.53 | $ 0.33 | $ 0.20 | 60.6% |
| Diluted | $ 0.52 | $ 0.32 | $ 0.20 | 62.5% |

[1] Adjusted net income figures for 2007 have been restated to reflect future income taxes. See "Non-GAAP Measures".

### *Comparison of the first quarter ended March 31, 2008 and 2007*

Revenue:

Total revenue for the first quarter ended March 31, 2008 was $73.6 million, an increase of 32%, or $17.7 million, compared to $55.9 million for the comparable period in 2007. The increase was largely attributable to growth from acquisitions, as organic growth from our existing business was estimated at approximately 8%. The remaining 24% growth is due to acquisitions completed since the beginning of 2007.

Software license revenue for the quarter ended March 31, 2008 increased by 47%, or $2.8 million to $8.9 million, from $6.0 million for the same period in 2007. Professional services and other services revenue for the quarter ended March 31, 2008 increased by 22%, or $2.9 million to $16.1 million, from $13.2 million for the same period in 2007. Hardware and other revenue for the quarter ended March 31, 2008 increased by 26%, or $1.1 million to $5.2 million from $4.1 million for the same period in 2007. Maintenance revenues for the quarter ended March 31, 2008 increased by 33%, or $10.9 million to $43.5 million, from $32.6 million for the same period in 2007. The following table displays the breakdown of our revenue according to revenue type:

| | Three months ended Mar. 31, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | ($000) | | (% of total revenue) | |
| Licenses | 8,873 | 6,045 | 12.1% | 10.8% |
| Professional services and other: | | | | |
| Services | 16,110 | 13,179 | 21.9% | 23.6% |
| Hardware and other | 5,157 | 4,091 | 7.0% | 7.3% |
| Maintenance | 43,463 | 32,578 | 59.1% | 58.3% |
| | 73,603 | 55,893 | 100.0% | 100.0% |

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

The following table displays our revenue by reporting segment and the percentage change for the three months ended March 31, 2008 compared to the same period in 2007:

| | Three months ended Mar. 31, | | Period-Over-Period Change | |
|---|---|---|---|---|
| | 2008 | 2007 | $ | % |
| | ($000, except percentages) | | | |
| **Public Sector** | | | | |
| Licenses | 5,441 | 3,384 | 2,057 | 60.8% |
| Professional services and other: | | | | |
| Services | 12,187 | 9,391 | 2,796 | 29.8% |
| Hardware and other | 4,086 | 2,969 | 1,117 | 37.6% |
| Maintenance | 26,601 | 19,023 | 7,578 | 39.8% |
| | 48,315 | 34,767 | 13,548 | 39.0% |
| **Private Sector** | | | | |
| Licenses | 3,432 | 2,661 | 771 | 29.0% |
| Professional services and other: | | | | |
| Services | 3,923 | 3,788 | 135 | 3.6% |
| Hardware and other | 1,071 | 1,122 | (51) | -4.6% |
| Maintenance | 16,862 | 13,555 | 3,307 | 24.4% |
| | 25,288 | 21,126 | 4,162 | 19.7% |

**Public Sector**

For the quarter ended March 31, 2008, total revenue in the public sector segment increased 39%, or $13.5 million, to $48.3 million, compared to $34.8 million for the quarter ended March 31, 2007. Revenue increased significantly across all revenue types. Revenue growth from acquired businesses was significant for the three month period as we completed 11 acquisitions since the beginning of 2007 in our public sector segment. It is estimated that acquisitions contributed approximately $8.5 million to our Q1 2008 revenue. The remaining $5.0 million of revenue growth for Q1 2008 in this sector was generated from organic sources. The organic growth was primarily driven by the following:

- **Trapeze Operating Group** (increase of approximately $3.5 million for Q1). Trapeze experienced a significant increase in maintenance revenues and an increase in license and services revenue in the quarter primarily due to improvements in their mobile computing, UK and North American businesses.

- **Harris Operating Group** (increase of approximately $1.9 million for Q1). Harris had strong sales both to existing clients and to new customers as well as a strong increase in maintenance revenues from completed implementations.

- **Emphasys Operating Group** (decrease of approximately $0.3 million for Q1). Emphasys experienced a decrease in license revenue primarily due to timing of bookings.

**Private Sector**

For the quarter ended March 31, 2008, total revenue in the private sector segment increased 20%, or $4.2 million, to $25.3 million, compared to $21.1 million for the quarter ended March 31, 2007. Strong growth in maintenance and license revenue was offset by marginal growth in professional services revenue and a slight decline in hardware and other revenue. Revenue growth from acquired businesses was significant for the three month period as we completed five acquisitions since the beginning of 2007 in our private sector segment. It is estimated that acquisitions contributed approximately $5.0 million to our Q1 2008 revenue. Revenues decreased organically by $0.8 million in Q1 2008. The organic revenue decline was driven by the following:

- **Jonas Operating Group** (increase of approximately $1.3 million for Q1). The Jonas organic growth in Q1 2008 was driven by sales to new customers in the construction vertical, increasing customer share in the private club vertical through selling add on products, and by strong license and professional services revenue in the food services vertical.

- **Homebuilder and Friedman Operating Groups** (decrease of approximately $2.1 million for Q1). These Operating Groups continued to feel the effects of the housing slowdown in the U.S. The decline was particularly apparent in licenses and services revenue as many of our clients and prospective clients have delayed purchasing decisions.

*Gross Profit by Source:*

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

| | Three months ended Mar. 31, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | | | ($000) | |
| Gross profit licenses | 91.7% | 91.9% | 8,140 | 5,555 |
| Gross profit services & maintenance | 60.1% | 60.8% | 35,823 | 27,830 |
| Gross profit hardware & other | 19.6% | 24.2% | 1,013 | 992 |
| Gross profit on total revenue | 61.1% | 61.5% | 44,976 | 34,377 |

Gross profit increased for the quarter ended March 31, 2008 to $45.0 million, or 61.1% of total revenue, from $34.4 million, or 61.5% of total revenue, for the quarter ended March 31, 2007. The increase in gross margin dollars is attributable to the overall increase in total revenue. Our licenses, services and maintenance revenue margins experienced minimal change vs. 2007 in the three month period. Our hardware and other revenue margins declined in the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. Hardware and other revenue margins can fluctuate significantly given the relatively small size of this category. Management believes there could be significant fluctuations in gross profit margins for future periods if we experience a significant shift in our revenue mix.

*Operating Expenses:*

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

| | Three months ended Mar. 31, | | Period-Over-Period Change | |
|---|---|---|---|---|
| | 2008 | 2007 | $ | % |
| | ($000, except percentages) | | | |
| Research and development | 11,630 | 8,910 | 2,720 | 30.5% |
| Sales and marketing | 8,041 | 7,042 | 999 | 14.2% |
| General and administration | 12,799 | 10,036 | 2,763 | 27.5% |
| Depreciation | 785 | 692 | 93 | 13.4% |
| | 33,255 | 26,680 | 6,575 | 24.6% |

Overall operating expenses for the quarter ended March 31, 2008 increased 25%, or $6.7 million, to $33.3 million, compared to $26.7 million over the same period in 2007. As a percentage of total revenue, operating expenses decreased from 48% in the quarter ended March 31, 2007 to 45% in the quarter ended March 31, 2008. The growth in expenses as a dollar amount is primarily due to the growth in the number of employees, as the vast majority of our operating expenses are headcount-related. Our average employee count associated with operating expenses grew 26% from 700 in the quarter ended March 31, 2007 to 882 in the quarter ended March 31, 2008 primarily due to acquisitions.

**Research and development –** Research and development expenses increased 31%, or $2.7 million, to $11.6 million for the quarter ended March 31, 2008 compared to $8.9 million for the same period in 2007. As a percentage of total revenue, research and development expense decreased slightly to 15.8% in Q1 2008 from 15.9% in Q1 2007. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from both acquisitions and internal hiring. For Q1 2008, we averaged 490 staff compared to 383 in the same period in 2007, representing a 28% increase in headcount.

We currently do not have any capitalized software development costs. All of our software development costs are expensed as incurred unless they meet Canadian generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Capitalized costs would be amortized over the estimated benefit period of the software developed. No costs were deferred in the first quarter of 2008 as most projects did not meet the criteria for deferral and, for those projects that met these criteria, the period between achieving technological feasibility and the completion of software development was minimal, and the associated costs immaterial.

**Sales and marketing –** Sales and marketing expenses increased 14%, or $1.0 million to $8.0 million, in the quarter ended March 31, 2008 compared to $7.0 million for the same period in 2007. As a percentage of total revenue, sales and marketing expenses decreased to 11% in the quarter ended March 31, 2008 from 13% for the same period in 2007. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from both acquisitions and internal hiring. For Q1 2008, we averaged 203 staff compared to 163 in the same period in 2007, representing a 25% increase in headcount.

**General and administration –** General and administration ("G&A") expenses increased 28%, or $2.8 million, to $12.8 million in the quarter ended March 31, 2008 from $10.0 million for the same period in 2007. As a percentage of total revenue, G&A expenses decreased to 17% in Q1 2008 from 18% in Q1 2007. The dollar value increase was mainly attributable to increases in headcount in 2008 as compared to the same period in 2007. Average headcount for G&A employees grew from 154 staff in Q1 2007 to 188 for Q1 2008, representing a 22% increase. In addition to the increased headcount in Q1, there was a higher bonus accrual driven by higher period over period revenue growth rates in 2008 versus 2007 as well as an increase in overall expenses due to the appreciation of the Canadian dollar over Q1 2007, as a significant portion of our G&A expense is in Canadian dollars.

**Depreciation of property and equipment –** Depreciation of property and equipment for the quarter ended March 31, 2008 did not change materially. As a percentage of total revenue, depreciation was 1.1% in Q1 2008 compared to 1.2% in Q1 2007.

*Non-Operating Expenses:*

The following table displays the breakdown of our non-operating expenses by category.

| | Three months ended Mar. 31, | | Period-Over-Period Change | |
|---|---|---|---|---|
| | 2008 | 2007 | $ | % |
| | ($000, except percentages) | | | |
| Amortization of intangible assets | 8,096 | 4,434 | 3,662 | 82.6% |
| Gain on sale of short term investments, marketable securities and other assets | (48) | (234) | 186 | -79.5% |
| Interest expense (income) | 163 | (115) | 278 | NA |
| Foreign exchange loss (gain) | (471) | 7 | (478) | NA |
| Income tax expense (recovery) | (348) | 1,003 | (1,351) | -134.7% |
| | 7,392 | 5,095 | 2,297 | 45.1% |

**Amortization of intangible assets –** Amortization of intangible assets was $8.1 million for the quarter ended March 31, 2008 compared to $4.4 million for the same period in 2007, representing an increase

of 83%. The increase is primarily attributed to the increase in our intangible asset balance (on a cost basis) as a result of the acquisitions that we completed during 2007.

**Gain on sale of short-term investments, marketable securities and other assets -** Gain for the quarter ended March 31, 2008 was $48,000 compared to a gain of $234,000 for Q1 2007. The gains are a result of liquidating a portion of our investment in certain marketable securities. We expect to realize gains or losses on an infrequent basis as our strategic goal is to buy VMS businesses and hold them indefinitely. Occasionally we will acquire an ownership interest that is less than 100% of a publicly traded VMS business and subsequently sell these shares if we cannot acquire the entire business, or cannot achieve a position of influence, generating either gains or losses. As of March 31, 2008, we had three investments that would have the potential to create such gains or losses. In the future, we may liquidate these holdings if we feel we have a better use for the capital, or if our outlook for the businesses changes.

**Interest expense (income) –** Net interest expense was $163,000 for the quarter ended March 31, 2008 compared to interest income of $115,000 for the same period in the previous year. At the end of the second quarter of 2007, we completed an investment in VCG Inc. which will generate approximately $0.1 million per quarter in interest income. Our excess cash balances (to the extent that we have excess cash) will also generate interest income. These sources of interest income will be offset by periodic borrowings on our line of credit to fund acquisitions. As a result, we expect interest income / expense to fluctuate significantly in the future depending upon the timing of acquisitions and the amount we borrow against our line of credit to complete them.

**Foreign exchange loss (gain) –** Most of our businesses are organized geographically so that many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended March 31, 2008, our foreign exchange gain was $471,000 compared to a loss of $7,000 for Q1 2007. The foreign exchange gain in Q1 2008 is mainly attributable to a 4% decrease in the closing rate for the Canadian dollar vs. the US dollar at March 31, 2008 vs. December 31, 2007. As we generally run our business with negative working capital and we had a reasonable amount of our net liabilities denominated in Canadian dollars, when we re-valued Canadian dollar net liabilities to US dollars (our functional currency) at quarter end, we had to record a significant foreign exchange gain in the quarter.

**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, 2008, there was an income tax recovery of $348,000, compared to an expense of $1.0 million for the same period in 2007. The decrease in the tax provision for the first quarter ended March 31, 2008 compared to the same period in 2007 is mainly due to future income tax recovery primarily arising from the amortization of acquired intangible assets which have a zero basis for tax purposes.

*Net Income*

Net income for the quarter ended March 31, 2008 was $4.3 million compared to net income of $2.6 million for the same period in 2007. On a per share basis this translated into a net income per diluted share of $0.20 in Q1 2008 vs. a net income per diluted share of $0.12 in Q1 2007. Net income in Q1 2008 was positively impacted by the growth in our operations and operating income offset by the increase in amortization of intangibles.

*Adjusted EBITDA*:

For Q1 2008, Adjusted EBITDA increased by $4.1 million to $12.5 million compared to $8.4 million in Q1 2007, representing an increase of 49%. Adjusted EBITDA margin was 17% in the first quarter of 2008, compared to 15% of total revenue for the same period in 2007. See "Non-GAAP Measures" for a description of Adjusted EBITDA and Adjusted EBITDA margin.

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The following table reconciles Adjusted EBITDA to net income:

| | Three months ended Mar. 31, 2008 | Three months ended Mar. 31, 2007 |
|---|---|---|
| | ($000, except percentages) | |
| **Total revenue** | 73,603 | 55,893 |
| | | |
| **Net income** | 4,329 | 2,602 |
| **Add back:** | | |
| Income tax expense (recovery) | (348) | 1,003 |
| Foreign exchange loss (gain) | (471) | 7 |
| Interest expense (income) | 163 | (115) |
| Gain on sale of short-term investments, marketable securities and other assets | (48) | (234) |
| Amortization of intangible assets | 8,096 | 4,434 |
| Depreciation | 785 | 692 |
| | | |
| Adjusted EBITDA | 12,506 | 8,389 |
| Adjusted EBITDA margin | 17.0% | 15.0% |

*Adjusted Net Income*:

For Q1 2008, Adjusted Net Income increased by $4.2 million to $11.1 million compared to $6.9 million in Q1 2007, representing an increase of 62%. Adjusted Net Income margin was 15% in the first quarter of 2008, compared to 12% of total revenue for the same period in 2007. See "Non-GAAP Measures" for a description of Adjusted Net Income and Adjusted Net Income margin.

In Q1 2008, the method of calculating Adjusted Net Income was modified. The change was a result of the large increase in "future tax expense (recovery)" in the first quarter. Future tax recovery primarily relates to the amortization of intangible assets. Adjusted Net Income is now defined to exclude the impact of this non-cash amount. Management believes that excluding the impact of future tax provides a more accurate picture of the company's results as it more closely matches the non cash future tax items with the associated amortization of intangibles. The following table reconciles Adjusted Net Income to net income:

| | Three months ended Mar. 31, 2008 | Three months ended Mar. 31, 2007 |
|---|---|---|
| | ($000, except percentages) | |
| **Total revenue** | 73,603 | 55,893 |
| | | |
| **Net income** | 4,329 | 2,602 |
| **Add back:** | | |
| Amortization of intangible assets | 8,096 | 4,434 |
| Future income tax expense (recovery) | (1,309) | (154) |
| | | |
| Adjusted net income | 11,116 | 6,882 |
| Adjusted net income margin | 15.1% | 12.3% |

The following table provides a restatement of our previously reported Adjusted net income figures to include the new adjustment for future income taxes:

| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2006 | Sept 30, 2006 | Dec 31, 2006 | March 31, 2007 | June 30, 2007 | Sept 30, 2007 | Dec 31, 2007 | March 31, 2008 |
| | ($000, except per share amounts) | | | | | | | |
| ANI previously reported | 5,097 | 6,776 | 8,975 | 7,036 | 8,751 | 8,628 | 9,059 | 12,425 |
| Future tax expense (recovery) | (688) | 727 | (15) | (154) | (348) | (115) | 302 | (1,309) |
| Restated ANI | 4,409 | 7,503 | 8,960 | 6,882 | 8,403 | 8,513 | 9,361 | 11,116 |
| | | | | | | | | |
| ANI/share previously reported | 0.24 | 0.32 | 0.42 | 0.33 | 0.41 | 0.41 | 0.43 | 0.59 |
| Restated ANI/share | 0.21 | 0.35 | 0.42 | 0.32 | 0.40 | 0.40 | 0.44 | 0.52 |

## Quarterly Results

| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2006 | Sep. 30, 2006 | Dec. 31, 2006 | Mar. 31, 2007 | Jun. 30, 2007 | Sep. 30, 2007 | Dec. 31, 2007 | Mar. 31, 2008 |
| | ($000, except per share amounts) | | | | | | | |
| Revenue | 52,211 | 53,809 | 53,519 | 55,893 | 60,487 | 60,574 | 66,068 | 73,603 |
| Net Income | 1,301 | 2,287 | 3,831 | 2,602 | 3,542 | 3,326 | 1,640 | 4,329 |
| | | | | | | | | |
| Net Income per share | | | | | | | | |
| Basic | 0.06 | 0.11 | 0.18 | 0.12 | 0.17 | 0.16 | 0.08 | 0.21 |
| Diluted | 0.06 | 0.11 | 0.18 | 0.12 | 0.17 | 0.16 | 0.08 | 0.20 |

We do not generally experience significant seasonality in our operating results from quarter to quarter. However, our quarterly results may fluctuate as a result of the various acquisitions which may be completed by the Company in any given quarter. We may experience variations in our net income on a quarterly basis depending upon the timing of certain one-time expenditures or gains such as: loss (gain) on the sale of short-term investments, marketable securities and other assets.

## Liquidity

Our cash and cash equivalents position (net of borrowings on our line of credit) at March 31, 2008 decreased to negative $11.2 million, from $0.5 million at December 31, 2007.

Total assets increased $2.9 million, from $267.1 million at December 31, 2007 to $270 million at March 31, 2008. The majority of the increase can be explained by increases in: a) accounts receivable of $6.1 million which is driven by growth in the business and b) short term investments and marketable securities of $7.2 million due to the investment made in UK based Gladstone PLC. These amounts were partially offset by decreases in intangible assets and goodwill of $2.2 million and cash of $8.4 million (as explained below).

Current liabilities increased from $156 million as of December 31, 2007, to $159 million at March 31, 2008. From an individual category perspective the increases were driven by a) bank indebtedness up $3.3 million due to acquisitions made in Q1 2008 and b) a deferred revenue increase of $10.4 million, consistent with the growth in our maintenance revenues. These increases were partially offset by a decrease of $9.3 million in accounts payable and accrued liabilities due to the payment of 2007 employee bonuses in Q1 2008.

| Net Changes in Cash Flow | Three months ended March 31, 2008 |
|---|---|
| | (in millions of $) |
| Net cash provided by operating activities | $3.9 |
| Net cash used in financing activities | (0.2) |
| Net cash used in investing activities | (11.9) |
| Effect of exchange rate changes on cash and cash equivalents | (0.1) |
| **Net decrease in cash and cash equivalents** | ($8.3) |

The net cash flow from operating activities was $3.9 million for the three months ended March 31, 2008. In Q1 2008, we generated free cash flow profits of approximately $11.6 million; however, this was offset by a net increase in our working capital of $7.8 million.

The net cash used by financing activities was $0.2 million. Borrowings on our line of credit generated cash of $3.3 million and the repayment of shareholder loans a further $0.4 million. This was offset by the payment of our annual dividend of $0.18 per share for cash usage of $3.8 million.

The net cash used in investing activities was due primarily to acquisitions completed in the period ended March 31, 2008 for an aggregate of $3.2 million (including payments for holdbacks relating to prior acquisitions) and the investment of marketable securities of $8.4 million. We also invested approximately $0.5 million in property and equipment.

We believe we have more than sufficient cash and cash equivalents to continue to operate for the foreseeable future. Generally our VMS businesses operate with negative working capital as a result of the collection of maintenance payments and other revenues in advance of the performance of the related services. As such, management anticipates that it can continue to grow the business organically without any additional funding. If we continue to acquire VMS businesses we may need additional external funding depending upon the size and timing of the acquisitions.

## Capital Resources and Commitments

We have a $50 million credit facility that is collateralized by substantially all of our assets including the assets of the majority of our 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 of March 31, 2008, we had drawn $22.6 million on this facility and issued letters of credit for $7.1 million which limits our borrowing capacity dollar for dollar. Subsequent to Q1 2008, we increased the facility to $105 million.

Commitments include operating leases for office equipment and facilities, letters of credit, bank guarantees, and performance bonds that are routinely issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with “earn out” payments based on the future performance of the acquired VMS business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in unconsolidated companies (aside from our shareholdings in publicly traded companies included in our short term investments and our investment in VCG Inc.) that would have a significant effect on our assets and liabilities as at March 31, 2008.

## 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 do not use hedging techniques to mitigate such currency risks. We cannot predict the effect of

foreign exchange losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, results of operations, and financial condition.

### Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases, bank guarantees, letters of credit and other low probability and/or contingent liabilities for which we cannot reasonably estimate the outcome (not accrued in accordance with Canadian GAAP), all of our commitments are reflected on our balance sheet.

### Transactions with Related Parties

Aside from our Key Employee Loan Program ("KELP"), we had no material related party transactions during Q1 2008. The outstanding balance of loans granted under the KELP as of March 31, 2008 was $1.5 million as compared to $1.9 million as of December 31, 2007.

### Proposed Transactions

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

### Critical Accounting Estimates

Details of the critical accounting estimates are available in the management's discussion and analysis for the year ended December 31, 2007.

### Changes in Accounting Policies

Effective January 1, 2008, the Company adopted the recommendations included in the Canadian Institute of Chartered Accountants ("CICA") Handbook, Section 1535, *Capital Disclosures*. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. The adoption of this standard did not have a material impact on the Company's financial statements.

On January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures* and section 3863, *Financial Instruments – Presentation*. Section 3862 requires disclosure about the significance of financial instruments for an entity's financial position, the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. Section 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation*. The adoption of these standards did not have a material impact on the Company's financial statements.

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

Under the new standards, all financial assets are classified as held for trading, held-to-maturity investments, loans and receivables or available-for-sale categories. Also, all financial liabilities must be classified as held for trading or other financial liabilities. All financial instruments are recorded on the

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

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

**Recent Accounting pronouncements**

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact on the transition to IFRS on the Company's financial statements is not yet determinable.

In 2008, the CICA issued Handbook Section 3064, *"Goodwill and Intangible Assets"*. Section 3064 replaces Section 3062 "*Goodwill and Intangible Assets*", and Section 3450, "*Research and Development Costs*". It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company is currently assessing the impact of the new standard.

**Share Capital**

As at May 7, 2008, there were 21,191,530 total shares outstanding comprised of 16,903,530 common shares and 4,288,000 class A non-voting shares.

**Outlook**

Although we anticipate that our annual revenue and Adjusted EBITDA will vary from year to year, management’s objective is grow each of our annual revenue per share and Adjusted EBITDA per share at an average rate, in the five year period commencing January 1, 2006 and ending December 31, 2010, in excess of 20% per annum. While the mix of organic growth and growth from acquisitions will change from year to year, we anticipate that approximately one half to three quarters of our growth will be attributable to acquisitions over this five year period. The foregoing objectives are based on various assumptions of management, including, without limitation, that (i) there will be a sufficient number of reasonably-priced acquisitions available, and (ii) we will continue to declare modest dividends. See ‘‘Forward-Looking Statements’’ and ‘‘Risks and Uncertainties”.

**Risks and Uncertainties**

The risks and uncertainties affecting the Company are described in the Company’s most recently 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.

## Controls and Procedures

***Evaluation of disclosure controls and procedures:***

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under Multilateral Instrument 52-109. At March 31, 2008, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

***Internal controls over financial reporting:***

Management is responsible for the design of its internal controls over financial reporting as defined under Multilateral Instrument 52-109. At December 31, 2007, the President and Chief Financial Officer concluded that the design of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP. The President and CFO have evaluated whether there were changes to internal controls over financial reporting during the interim period ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. No such changes were identified.

## NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Constellation Software Inc. (the "Company") and the accompanying consolidated balance sheet, consolidated statement of deficit, and consolidated statement of comprehensive income as at March 31, 2008, the interim consolidated statement of operations and consolidated statement of cash flows for the three months ended March 31, 2008, are the responsibility of the Company's management. These consolidated financial statements have been reviewed on behalf of the shareholders by the independent external auditors of the Company, KPMG LLP.

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

| | |
|---|---|
| Mark Leonard | John Billowits |
| President | Chief Financial Officer |
| Toronto, Canada | Toronto, Canada |
| May 7, 2008 | May 7, 2008 |

# CONSTELLATION SOFTWARE INC.

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

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Current assets: | | |
| Cash | $ 11,422 | $ 19,796 |
| Restricted cash | 750 | 750 |
| Short-term investments and marketable securities available for sale (note 4) | 8,462 | 1,217 |
| Accounts receivable | 53,270 | 47,177 |
| Work in progress | 9,812 | 10,839 |
| Inventory | 2,292 | 2,069 |
| Prepaid expenses and other current assets | 8,652 | 7,608 |
| Investment tax credit receivable | 1,232 | 661 |
| Future income taxes (note 9) | 1,128 | 1,096 |
| | 97,020 | 91,213 |
| Property and equipment | 7,835 | 8,025 |
| Future income taxes (note 9) | 3,646 | 3,890 |
| Notes receivable | 3,518 | 3,490 |
| Share purchase warrants | 571 | 571 |
| Investment tax credit receivable | 1,512 | 1,779 |
| Other long-term assets | 627 | 643 |
| Intangible assets (note 6) | 121,314 | 128,942 |
| Goodwill | 33,975 | 28,594 |
| | $ 270,018 | $ 267,147 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Bank indebtedness (note 7) | $ 22,642 | $ 19,342 |
| Accounts payable and accrued liabilities | 34,544 | 43,892 |
| Acquisition holdback payments | 9,898 | 10,442 |
| Deferred revenue | 89,230 | 78,870 |
| Income taxes payable | 2,430 | 3,426 |
| Future income taxes (note 9) | 201 | 347 |
| | 158,945 | 156,319 |
| Future income taxes (note 9) | 21,671 | 21,238 |
| Acquisition holdback payments | 1,195 | 1,000 |
| Other long-term liabilities | 1,570 | 1,708 |
| Shareholders' equity: | | |
| Capital stock | 99,283 | 99,283 |
| Shareholder loans (note 8) | (1,468) | (1,915) |
| Accumulated other comprehensive loss (note 15) | (4,444) | (3,237) |
| Deficit | (6,734) | (7,249) |
| | 86,637 | 86,882 |
| Subsequent events (note 16) | | |
| | $ 270,018 | $ 267,147 |

See accompanying notes to interim consolidated financial statements.

# CONSTELLATION SOFTWARE INC.

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

| | Three months ended March 31, 2008 | 2007 |
|---|---|---|
| | (Unaudited) | |
| Revenue | $ 73,603 | $ 55,893 |
| Cost of revenue | 28,627 | 21,516 |
| | 44,976 | 34,377 |
| Research and development | 11,630 | 8,910 |
| Sales and marketing | 8,041 | 7,042 |
| General and administration | 12,799 | 10,036 |
| Depreciation | 785 | 692 |
| | 33,255 | 26,680 |
| Income before the undernoted | 11,721 | 7,697 |
| Amortization of intangible assets | 8,096 | 4,434 |
| Gain on sale of short-term investments, marketable securities and other assets | (48) | (234) |
| Interest expense (income), net | 163 | (115) |
| Foreign exchange (gain) loss | (471) | 7 |
| Income before income taxes | 3,981 | 3,605 |
| Income taxes (recovery) (note 9): | | |
| Current | 961 | 1,157 |
| Future | (1,309) | (154) |
| | (348) | 1,003 |
| Net income | $ 4,329 | $ 2,602 |
| Income per share (note 10): | | |
| Basic | $ 0.21 | $ 0.12 |
| Diluted | 0.20 | 0.12 |
| Weighted average number of shares outstanding (note 10): | | |
| Basic | 21,113 | 21,093 |
| Diluted | 21,192 | 21,192 |
| Outstanding at the end of the period | 21,192 | 21,192 |

See accompanying notes to interim consolidated financial statements.

# CONSTELLATION SOFTWARE INC.

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

| | Three months ended March 31, 2008 | 2007 |
|---|---|---|
| | (Unaudited) | |
| Deficit, beginning of period | $ (7,249) | $ (15,180) |
| Net income | 4,329 | 2,602 |
| Dividends | (3,814) | (3,179) |
| Deficit, end of period | $ (6,734) | $ (15,757) |

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

| | Three months ended March 31, 2008 | 2007 |
|---|---|---|
| | (Unaudited) | |
| Net income | $ 4,329 | $ 2,602 |
| Other comprehensive income (loss) | (1,292) | 832 |
| Comprehensive income | $ 3,037 | $ 3,434 |

See accompanying notes to interim consolidated financial statements.

# CONSTELLATION SOFTWARE INC.

Interim Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)

| | Three months ended March 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net income | $ 4,329 | $ 2,602 |
| Adjustments to reconcile net income to net cash flows from operations: | | |
| Depreciation | 785 | 692 |
| Amortization of intangible assets | 8,096 | 4,434 |
| Accretion interest | 29 | – |
| Future income taxes | (1,309) | (154) |
| Gain on sale of short-term investments, marketable securities and other assets | (48) | (234) |
| Unrealized foreign exchange gain | (245) | (16) |
| Change in non-cash operating working capital (note 14) | (7,782) | (8,922) |
| Cash flows from (used in) operating activities | 3,855 | (1,598) |
| Cash flows from financing activities: | | |
| Decrease in long-term liabilities | (138) | (230) |
| Increase in bank indebtedness | 3,300 | 2,422 |
| Dividends | (3,814) | (3,179) |
| Issuance of shareholder loans | – | (447) |
| Repayment of shareholder loans, net | 447 | 792 |
| Cash flows used in financing activities | (205) | (642) |
| Cash flows from investing activities: | | |
| Acquisition of businesses, net of cash acquired (note 5) | (3,212) | (14,617) |
| Reduction (additions) to short-term investments, marketable securities and other assets | (8,405) | 801 |
| Decrease in restricted cash | – | 858 |
| Decrease (increase) in other assets | 226 | (310) |
| Property and equipment purchased | (513) | (517) |
| Cash flows used in investing activities | (11,904) | (13,785) |
| Effect of currency translation adjustment on cash and cash equivalents | (120) | 26 |
| Decrease in cash and cash equivalents | (8,374) | (15,999) |
| Cash, beginning of period | 19,796 | 25,807 |
| Cash, end of period | $ 11,422 | $ 9,808 |

See accompanying notes to interim consolidated financial statements.

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### 1. Basis of presentation:

The accompanying unaudited condensed interim consolidated financial statements (the "Interim Consolidated Financial Statements") include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant inter-company transactions and balances have been eliminated. During the three months ended March 31, 2008, the Company completed certain acquisitions as described in note 5 to the Interim Consolidated Financial Statements. The results of operations of these acquired companies have been included in these Interim Consolidated Financial Statements from the dates of acquisition.

These Interim Consolidated Financial Statements are expressed in U.S. dollars and are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reflect all adjustments consisting only of normal adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods presented. These Interim Consolidated Financial Statements are based upon accounting policies and methods of their application that are consistent with those used and described in the Company's annual consolidated financial statements, except as described in note 2. The Interim Consolidated Financial Statements do not include all of the financial statement disclosures included in the annual financial statements prepared in accordance with Canadian GAAP and, therefore, should be read in conjunction with the 2007 consolidated financial statements and notes.

### 2. Changes in accounting policies:

(a) Capital disclosures:

Effective January 1, 2008, the Company adopted the recommendations included in the Canadian Institute of Chartered Accountants (“CICA”) Handbook, Section 1535, Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company’s objectives, policies and processes for managing capital.

**2. Changes in accounting policies (continued):**

(b) Financial instruments - disclosures:

On January 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation.

Section 3862 requires disclosure about the significance of financial instruments for an entity's financial position, the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

Section 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation.

The additional disclosures, required as a result of adoption of these standards, have been included in Note 11, Capital risk management and Note 12, Financial risk management and financial instruments.

### 3. Changes in accounting policies not yet adopted:

The following accounting pronouncements have been released but have not yet been adopted by the Company.

(a) International Financial Reporting Standards:

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact on the transition to IFRS on the Company's financial statements is not yet determinable.

(b) Goodwill and Intangible Assets:

In 2008, the CICA issued Handbook Section 3064 "Goodwill and Intangible Assets". Section 3064 replaces Section 3062 "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company is currently assessing the impact of the new standard.

### 4. Short-term investments and marketable securities:

At March 31, 2008, the Company held investments in three public companies listed in the U.K. and U.S., all of which develop and sell software solutions.

| | March 31, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Cost | Market value | Cost | Market value |
| Common shares | $ 9,754 | $ 8,462 | $ 1,303 | $ 1,217 |

**5. Business acquisitions:**

**2008**

(a) During the three months ended March 31, 2008, the Company made three acquisitions for aggregate net cash consideration of $2,689 plus cash holdbacks of $595 resulting in total consideration of $3,284. The holdbacks are payable over a two-year period and are adjusted for any claims under the representations and warranties of the agreements. The acquisitions have been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of each acquisition:

| | | |
|---|---|---|
| Assets acquired: | | |
| Current assets | $ | 554 |
| Property and equipment | | 81 |
| Intangibles | | 5,304 |
| | | 5,939 |
| Liabilities assumed: | | |
| Current liabilities | | 47 |
| Deferred revenue | | 660 |
| Future income tax liability | | 1,948 |
| | | 2,655 |
| Total purchase price consideration | $ | 3,284 |

The Company has determined that it acquired technology and customer relationships. The Company is in the process of determining the fair value of the intangible assets acquired.

**5. Business acquisitions (continued):**

**2007**

(b) PG Govern QC Inc. ("PG"):

On March 1, 2007, the Company acquired the assets and shares of PG for net cash consideration of $13,112 on closing plus a holdback of $2,228 resulting in total consideration of $15,340. The holdback is expected to be paid out as assets are converted into cash, subject to no claims under the representations and warranties of the agreement. The acquisition has been accounted for by the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition:

| | | |
|---|---|---|
| Assets acquired: | | |
| Current assets | $ | 8,115 |
| Property and equipment | | 1,030 |
| Other long-term assets | | 2,212 |
| Technology assets | | 16,694 |
| Customer assets | | 4,346 |
| Backlog | | 767 |
| | | 33,164 |
| Liabilities assumed: | | |
| Current liabilities | | 8,441 |
| Deferred revenue | | 7,068 |
| Future income tax liability | | 1,533 |
| Other long-term liabilities | | 782 |
| | | 17,824 |
| Total purchase price consideration | $ | 15,340 |

**5. Business acquisitions (continued):**

(c) Other acquisitions:

During the three months ended March 31, 2007, the Company made two other acquisitions for aggregate net initial cash consideration of $705 plus holdbacks of $233 resulting in total consideration of $938. All holdbacks have subsequently been paid ($107 during the three months ended March 31, 2008). The acquisitions have been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of each acquisition:

| | | |
|---|---|---|
| Assets acquired: | | |
| Current assets | $ | 79 |
| Property and equipment | | 22 |
| Technology assets | | 711 |
| Customer assets | | 560 |
| | | 1,372 |
| Liabilities assumed: | | |
| Current liabilities | | 11 |
| Deferred revenue | | 423 |
| | | 434 |
| Total purchase price consideration | $ | 938 |

(d) 2007 Holdbacks:

During the three months ended March 31, 2008, holdbacks of $416 relating to acquisitions made in the second and third quarters of 2007 came due and were paid.

### 6. Intangible assets:

| | | | March 31, 2008 | December 31, 2007 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Technology assets | $ 136,809 | $ 56,617 | $ 80,192 | $ 71,866 |
| Non-compete agreements | 1,680 | 1,643 | 37 | 91 |
| Customer assets | 25,861 | 8,846 | 17,015 | 15,175 |
| Trademarks | 133 | 96 | 37 | 40 |
| Backlog | 1,567 | 1,033 | 534 | 128 |
| Contract related assets | 549 | 48 | 501 | 549 |
| Other | 23,863 | 865 | 22,998 | 41,093 |
| | $ 190,462 | $ 69,148 | $ 121,314 | $ 128,942 |

Note: "Other" includes intangible assets, customer assets, and backlog relating to certain acquisition preliminary purchase price allocations. The allocations will be finalized in 2008.

### 7. Credit facilities:

The Company has an operating line-of-credit with a Canadian charter bank in the amount of $50,000 (December 31, 2007 - $50,000). The line-of-credit bears a variable interest rate and is due in full November 16, 2010. It is secured by a general security agreement covering the majority of the assets of the Company and its subsidiaries, and is subject to various standard debt covenants. As at March 31, 2008, $22,642 (December 31, 2007 - $19,342) had been drawn from this credit facility, and letters of credit totalling $6,978 (December 31, 2007 - $7,186) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Interest expense paid on the line-of-credit for the three months ended March 31, 2008 totalled $404.

## 8. Shareholder loans:

Share purchase loans receivable of $1,468 (December 31, 2007 - $1,915) under the Company's share purchase plan are included as a reduction of shareholders' equity. Interest rates on these loans range from 5.0% to 6.5% depending on the year the loan was advanced. The balances outstanding are secured by the shares for which they were used to purchase.

The following table summarizes the shareholder loan activity for the period:

| | | |
|---|---|---|
| Balance at December 31, 2007 | $ | 1,915 |
| Issuance of shareholder loans | | – |
| Repayment of shareholder loans | | (469) |
| Interest | | 22 |
| Balance, March 31, 2008 | $ | 1,468 |

## 9. Income taxes:

The Company operates in various tax jurisdictions, and accordingly, the Company's income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another. The Company's ability to use income tax losses and future income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise. As of March 31, 2008, the Company had total net future tax assets of $4,774 (December 31, 2007 - $4,986) and total future tax liabilities of $21,872 (December 31, 2007 - $21,585).

In assessing the valuation of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax assets, and tax planning strategies in making this assessment. To the extent that management believes that the realization of the future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

### 10. Income per share:

| | Three months ended March 31, 2008 | 2007 |
|---|---|---|
| Numerator: | | |
| Net income | $ 4,329 | $ 2,602 |
| Denominator: | | |
| Weighted average number of shares: | | |
| Basic | 21,113 | 21,093 |
| Effect of dilutive securities: | | |
| Shares secured by shareholder loans | 79 | 99 |
| Diluted | 21,192 | 21,192 |
| Net income per share: | | |
| Basic | $ 0.21 | $ 0.12 |
| Diluted | 0.20 | 0.12 |

### 11. Capital risk management:

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company manages its capital with the objective of ensuring that there are adequate capital resources while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Company consists of cash, credit facilities and components of shareholders' equity including deficit and capital stock.

The Company is subject to certain covenants on it credit facilities. The covenants include a leverage ratio and an interest coverage ratio, as well as a minimum net worth requirement. The Company monitors the ratios on a monthly basis. As at March 31, 2008, the Company is in compliance with the covenants on its credit facilities. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements.

## 11. Capital risk management (continued):

The Company's policy is to pay annual dividends, subject to Board approval, based on the Company's financial results. The Board of Directors will determine if and when dividends should be declared and paid based on all relevant circumstances, including the desirability of financing further growth of the Company and its financial position at the relevant time. There is no guarantee that dividends will continue to be paid in the future. In addition, the Company is restricted, pursuant to financial covenants under its operating line of credit, from paying dividends of more than 20% of its consolidated adjusted net income as defined in the agreement.

The Company makes adjustments to its capital structure in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may pay dividends, increase or decrease the line of credit or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions not in the ordinary course of business, including significant acquisitions or other major investments.

## 12. Financial risk management and financial instruments:

(a) Overview:

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

**12. Financial risk management and financial instruments (continued):**

(b) Market risk:

Market risk is the risk that changes in market prices, such as fluctuations in the market prices of the Company's publicly traded investments, foreign exchanges rates and interest rates, will affect the Company's income or the value of its financial instruments.

The Company manages risk related to fluctuations in the market prices of its publicly traded investments by regularly conducting financial reviews of publicly available information to ensure that any risks are within established levels of risk tolerance. The Company does not routinely engage in risk management practices such as hedging, derivatives or short selling with respect to its publicly traded investments. Management does not believe that the impact of market price fluctuations in respect of its marketable securities will be significant to net income or other comprehensive income and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net income or other comprehensive income.

The Company is exposed to interest rate risk on the utilized portion of its credit facilities and does not currently hold any financial instruments that mitigate this risk. Management does not believe that the impact of interest rate fluctuations on the current level of borrowings will be significant and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net income and comprehensive income. A breakdown of the components of interest expense (income) amount recorded on the financial statements is as follows:

| | Three months ended March 31, 2008 | 2007 |
|---|---|---|
| Interest expense on credit facilities (Other financial liability) | $ 404 | $ 40 |
| Interest income on note receivables (Loans and receivables) | (149) | – |
| Bank interest (Held for trading) | (70) | (130) |
| Interest income on shareholder loans | (22) | (25) |

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company currently does not use derivative instruments to hedge its exposure to those risks. Most of the Company's businesses are organized geographically so that many of its expenses are incurred in the same currency as its revenues thus mitigating some of its exposure to currency fluctuations.

**12. Financial risk management and financial instruments (continued):**

*Foreign currency sensitivity analysis:*

The Company is mainly exposed to fluctuations in the Canadian dollar and British pound. The following table details the Company's sensitivity to a 1% strengthening of the Canadian dollar and British pound on net income and comprehensive income against the U.S. dollar. The sensitivity analysis includes foreign currency denominated monetary assets and liabilities and adjusts their translation at period end for a 1% change in foreign currency rates. For a 1% weakening of the U.S. dollar, there would be an equal and opposite impact on net income and comprehensive income.

| | Canadian Dollar Impact | British Pound Impact |
|---|---|---|
| Net income (loss) | $ 39 | $ (72) |
| Comprehensive income (loss) | 39 | (133) |

(c) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 11 to the unaudited interim consolidated financial statements. The Company's growth is financed through a combination of the cash flows from operations and borrowing under the existing credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. The Company's credit facilities are disclosed in note 7 to the unaudited interim consolidated financial statements. As at March 31, 2008, the undrawn portion of the Company's bank credit facility was $20,380. Utilizations include advances borrowed under the bank credit facility and issuances of letters of credits. The majority of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days. Holdbacks payable are due within two years. Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

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**12. Financial risk management and financial instruments (continued):**

(d) Credit risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument, in which the Company has an amount owing from the counterparty failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company. The carrying amount of the Company's financial assets represents the Company's maximum credit exposure.

The Company manages credit risk related to accounts receivable by maintaining reserves for potential credit losses and returns, but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. Also, the majority of the accounts receivable balance relates to maintenance invoices to customers that have a history of payment. As at March 31, 2008, 26% of the Company's accounts receivable balance is over 90 days past due. Accounts receivable are net of allowance for doubtful accounts of $2,644 at March 31, 2008 (December 31, 2007 - $2,227).

There is no significant credit risk associated with the Company's short term investments. The Company manages its credit risk related to short-term investments by conducting financial and other assessments of these investments on a regular basis.

The Company manages credit risk related to notes receivable by monitoring the results of the business to which the note relates, and maintaining security over the assets of the business.

The Company manages credit risk related to cash by maintaining bank accounts with Schedule 1 banks.

In the ordinary course of business the Company and its subsidiaries have provided performance bonds and other guarantees for the completion of certain customer contracts. The Company has not experienced a loss to date and future losses are not anticipated; therefore, no liability has been recorded in the unaudited interim consolidated balance sheets related to these types of indemnifications or guarantees at March 31, 2008.

## 12. Financial risk management and financial instruments (continued):

(e) Financial instruments:

(i) Classification of financial instruments

| | Classification | Measurement |
|---|---|---|
| Cash | Held for trading | Fair value |
| Short term investments and marketable securities | Available for sale | Fair value |
| Accounts receivable | Loans and receivables | Amortized cost |
| Notes receivable | Loans and receivable | Amortized cost |
| Share purchase warrants | Held for trading | Fair value |
| Other long-term assets | Loans and receivables | Amortized cost |
| Bank indebtedness | Other financial liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Holdbacks on acquisitions | Other financial liabilities | Amortized cost |

(ii) Fair values of financial instruments

The carrying values of cash, restricted cash, accounts receivable, bank indebtedness, accounts payable, accrued liabilities, acquisition holdbacks, and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

The fair values of short-term investments, which are publicly traded, are determined by the quoted market values for each investment (note 4).

Notes receivable are recorded at amortized cost, which approximates the fair value.

Warrants which are not traded are valued using fair valuation techniques and adjusted by the Company after considering the fair value of the underlying security and the strike price of the warrants. As at March 31, 2008, there was no change in the value of the warrants.

### 13. Segmented information:

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

The accounting policies of the segments are the same as those described in the significant accounting policies (note 1). The Company evaluates performance of the Public Sector businesses and the Private Sector businesses based on several factors, of which the primary financial measures are revenue and earnings (loss) from operations. The Company defines earnings (loss) from operations as earnings (loss) prior to: appreciation of common shares eligible for redemption, amortization of intangible assets, other expenses, gain on sale of short-term investments and marketable securities and other assets, interest income, foreign exchange gains and losses, inter-company expenses and income taxes.

## 13. Segmented information (continued):

(a) Reportable segments:

| 2008 | Public Sector | Private Sector | Other | Total |
|---|---|---|---|---|
| Revenue | $ 48,315 | $ 25,288 | $ – | $ 73,603 |
| Cost of revenue | 20,707 | 7,920 | – | 28,627 |
| | 27,608 | 17,368 | – | 44,976 |
| Research and development | 7,574 | 4,056 | – | 11,630 |
| Sales and marketing | 4,606 | 3,435 | – | 8,041 |
| General and administration | 7,764 | 5,035 | – | 12,799 |
| Depreciation | 536 | 249 | – | 785 |
| | 20,480 | 12,775 | – | 33,255 |
| Income before the undernoted | 7,128 | 4,593 | – | 11,721 |
| Amortization of intangible assets | 4,962 | 3,086 | 48 | 8,096 |
| Interest expense (income), net | (50) | (16) | 229 | 163 |
| Gain on sale of short-term investments, marketable securities and other assets | (1) | (1) | (46) | (48) |
| Foreign exchange gain | (129) | (219) | (123) | (471) |
| Inter-company expenses (income) | 280 | 855 | (1,135) | – |
| Income before income taxes | 2,066 | 888 | 1,027 | 3,981 |
| Income taxes (recovery): | | | | |
| Current | 794 | 347 | (180) | 961 |
| Future | (384) | (925) | – | (1,309) |
| | 410 | (578) | (180) | (348) |
| Net income | $ 1,656 | $ 1,466 | $ 1,207 | $ 4,329 |
| Other selected information: | | | | |
| Property and equipment purchased | $ 366 | $ 109 | $ 39 | $ 514 |

### 13. Segmented information (continued):

| 2007 | Public Sector | Private Sector | Other | Total |
|---|---|---|---|---|
| Revenue | $ 34,767 | $ 21,126 | $ – | $ 55,893 |
| Cost of revenue | 14,504 | 7,012 | – | 21,516 |
| | 20,263 | 14,114 | – | 34,377 |
| Research and development | 5,580 | 3,330 | – | 8,910 |
| Sales and marketing | 4,450 | 2,592 | – | 7,042 |
| General and administration | 6,055 | 3,981 | – | 10,036 |
| Depreciation | 460 | 232 | – | 692 |
| | 16,545 | 10,135 | – | 26,680 |
| Income before the undernoted | 3,718 | 3,979 | – | 7,697 |
| Amortization of intangible assets | 2,766 | 1,668 | – | 4,434 |
| Interest income, net | (79) | (25) | (11) | (115) |
| Gain on sale of short-term investments, marketable securities and other assets | – | – | (234) | (234) |
| Foreign exchange loss (gain) | (151) | 56 | 102 | 7 |
| Inter-company expenses (income) | 432 | 438 | (870) | – |
| Income before income taxes | 750 | 1,842 | 1,013 | 3,605 |
| Income taxes (recovery): | | | | |
| Current | 558 | 628 | (29) | 1,157 |
| Future | 44 | (198) | – | (154) |
| | 602 | 430 | (29) | 1,003 |
| Net income | $ 148 | $ 1,412 | $ 1,042 | $ 2,602 |
| Other selected information: | | | | |
| Property and equipment purchased | $ 341 | $ 147 | $ 29 | $ 517 |

**13. Segmented information (continued):**

(b) Geographic information:

The Company's external revenue by geographic region is based on the region in which the revenue is transacted. The property and equipment and goodwill and other intangible assets are based on the geographic region in which the Company operates:

The Company's external revenue by geographic region is based on the region in which the revenue is transacted.

| | Three months ended March 31, 2008 | | Three months ended March 31, 2007 | |
|---|---|---|---|---|
| Canada | $ 11,315 | 15% | $ 5,356 | 10% |
| United States | 52,328 | 71% | 42,155 | 75% |
| Other | 9,960 | 14% | 8,382 | 15% |
| Total | $ 73,603 | 100% | $ 55,893 | 100% |

As at March 31, 2008 and December 31, 2007 and for the three months ended March 31, 2008 and 2007, no single customer accounted for more than 10% of the Company's total accounts receivable and total revenues, respectively.

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

| | Three months ended March 31, 2008 | Three months ended March 31, 2007 |
|---|---|---|
| Increase in accounts receivable | $ (5,680) | $ (1,865) |
| Decrease in work in progress | 929 | 21 |
| Increase in inventory | (191) | (160) |
| Increase in prepaid expenses and other current assets | (1,520) | (324) |
| Decrease in accounts payable and accrued liabilities excluding holdbacks from acquisitions | (9,941) | (12,876) |
| Increase in deferred revenue | 9,633 | 5,719 |
| Increase (decrease) income taxes payable | (1,012) | 563 |
| | $ (7,782) | $ (8,922) |

### 15. Accumulated other comprehensive loss:

Accumulated other comprehensive loss consists of the following:

| | | |
|---|---|---|
| Foreign currency translation account | $ | (3,152) |
| Mark-to-market adjustment of available-for-sale investments from prior periods | | (85) |
| Net unrealized gain on available-for-sale financial assets during the period | | (1,168) |
| Transfer of gain upon derecognition of available-for-sale investments | | (39) |
| Balance, March 31, 2008 | $ | (4,444) |

### 16. Subsequent events:

During the month of April 2008, the Company made three acquisitions for net cash consideration of $11,388 on closing plus holdbacks of $1,100.

On May 1, 2008, the Company established a new syndicated revolving credit facility for $105,000 to replace its current $50,000 facility. The new facility is available for both working capital and future acquisitions.

### 17. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's presentation.