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.