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 and six month periods ended June 30, 2010 and with our Annual Consolidated Financial Statements for the year ended December 31, 2009, which we prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars. All references to "$" are to U.S. dollars and all references to "C$" are to Canadian dollars.

Additional information about the Company, including our most recently filed Annual Information Form ('AIF'), is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this MD&A, August 5, 2010. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-GAAP Measures

This MD&A includes certain measures which have not been prepared in accordance Canadian 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, other expenses (income), amortization, and foreign exchange (gain) loss. The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and the other items listed above. ''Adjusted EBITDA margin'' refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

''Adjusted net income'' means net income plus non-cash expenses (income) such as amortization of intangible assets, future income taxes, and certain other expenses (income). The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration amortization of intangible assets, future income taxes, and certain other non-cash expenses (income) incurred by the Company from time to time. ''Adjusted net income margin'' refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITDA and Adjusted net income are not recognized measures under 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. 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, professional service fees, and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under single-year, multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable. Maintenance revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from combined software/support contracts, transaction revenues, and hosted products. 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. Hardware sales include the resale of third party hardware as well as sales of hardware created internally. Our customers typically purchase a combination of software, maintenance, professional services, and hardware, although the types, mix and quantity of each 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 June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2010	2009	$	%	2010	2009	$	%
Revenue	**152,682**	**101,515**	**51,167**	**50%**	**296,575**	**198,767**	**97,808**	**49%**
Cost of Revenue	60,953	36,990	23,963	65%	121,503	72,819	48,684	67%
Gross Profit	91,729	64,525	27,204	42%	175,072	125,948	49,124	39%
Expenses								
Research and development	21,299	15,281	6,018	39%	43,489	29,982	13,507	45%
Sales and marketing	15,344	10,683	4,661	44%	28,965	20,780	8,185	39%
General and administration	27,100	16,227	10,873	67%	50,776	32,292	18,484	57%
Total Expenses (excluding depreciation and amortization)	63,743	42,191	21,552	51%	123,230	83,054	40,176	48%
Adjusted EBITDA	**27,986**	**22,334**	**5,652**	**25%**	**51,842**	**42,894**	**8,948**	**21%**
Depreciation	1,430	889	541	61%	2,477	1,639	838	51%
Total Expenses	65,173	43,080	22,093	51%	125,707	84,693	41,014	48%
Income before the undernoted	**26,556**	**21,445**	**5,111**	**24%**	**49,365**	**41,255**	**8,110**	**20%**
Amortization of intangible assets	17,175	14,309	2,866	20%	32,470	28,688	3,782	13%
Other (income) expenses	(123)	1,253	(1,376)	NA	(312)	1,441	(1,753)	NA
Interest expense, net	1,009	686	323	47%	1,654	1,366	288	21%
Foreign exchange loss (gain)	930	(371)	1,301	NA	1,021	(1,398)	2,419	NA
Income before income taxes	7,565	5,568	1,997	36%	14,532	11,158	3,374	30%
Income taxes (recovery)								
Current	4,711	3,505	1,206	34%	8,306	6,657	1,649	25%
Future	(494)	(1,684)	1,190	-71%	(3,435)	(3,027)	(408)	13%
	4,217	1,821	2,396	132%	4,871	3,630	1,241	34%
Net income	**3,348**	**3,747**	**(399)**	**-11%**	**9,661**	**7,528**	**2,133**	**28%**
Adjusted net income	**20,029**	**16,372**	**3,657**	**22%**	**38,696**	**33,189**	**5,507**	**17%**
Weighted avg # of shares outstanding (000's)								
Basic	21,179	21,168			21,177	21,159		
Diluted	21,192	21,192			21,192	21,192		
Net income per share								
Basic	$ 0.16	$ 0.18	$ (0.02)	-11%	$ 0.46	$ 0.36	$ 0.10	28%
Diluted	$ 0.16	$ 0.18	$ (0.02)	-11%	$ 0.46	$ 0.36	$ 0.10	28%
Adjusted EBITDA per share								
Basic	$ 1.32	$ 1.06	$ 0.26	25%	$ 2.45	$ 2.03	$ 0.42	21%
Diluted	$ 1.32	$ 1.05	$ 0.27	26%	$ 2.45	$ 2.02	$ 0.43	21%
Adjusted net income per share								
Basic	$ 0.95	$ 0.77	$ 0.18	23%	$ 1.83	$ 1.57	$ 0.26	17%
Diluted	$ 0.95	$ 0.77	$ 0.18	23%	$ 1.83	$ 1.57	$ 0.26	17%

Comparison of the second quarter and six months ended June 30, 2010 and 2009

Revenue:

Total revenue for the quarter ended June 30, 2010 was $153 million, an increase of 50%, or $51 million, compared to $102 million for the comparable period in 2009. For the first six months of 2010 total revenues were $297 million, an increase of 49%, or $98 million, compared to $199 million for the comparable period in 2009. The increase for both the second quarter and six month periods compared to the same periods in the prior year was entirely attributable to growth from acquisitions, as organic growth from our existing businesses declined by approximately 7% for both the second quarter and the first six months ended June 30, 2010. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

Constellation acquired the Public Transit Solutions business ('PTS') from Continental Automotive AG ('Continental') on November 2, 2009. Given the substantial amount of non-recurring revenue historically earned by PTS, gross revenue from PTS has fluctuated significantly in the past and may continue to do so in the future. Constellation expects revenue from PTS to decline significantly over the twelve month period following acquisition compared to revenue in the corresponding financial period preceding acquisition as PTS recognized substantial non-recurring revenue in the twelve months prior to acquisition that Constellation does not expect to re-occur in the corresponding financial period following acquisition. As such, management has chosen to provide supplemental organic growth disclosure to provide greater clarity regarding the impact of PTS on Constellation's consolidated financial results. Excluding PTS, organic growth for Constellation was 5% in Q2 2010 and 4% for the first six months of 2010 compared to the same periods in 2009.

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

Organic Revenue Growth

	Three months ended June 30, 2010	Six months ended June 30, 2010
Constellation	-7%	-7%
Constellation excluding PTS	5%	4%

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

Software license revenue for the quarter ended June 30, 2010 was $12 million, an increase of 35%, or $3 million, compared to $9 million in the same period in 2009. During the six months ended June 30, 2010, license revenue increased by 17% or $3 million to $23 million, from $20 million for the same period in 2009. Professional services and other services revenue for the quarter ended June 30, 2010 increased by 64%, or $17 million to $42 million, from $25 million for the same period in 2009. During the six months ended June 30, 2010, professional services and other services revenue increased by 64% or $32 million to $82 million, from $50 million for the same period in 2009. Hardware and other revenue for the quarter ended June 30, 2010 increased by 91%, or $7 million to $15 million from $8 million for the same period in 2009. During the six months ended June 30, 2010, hardware and other revenue increased by 133% or $18 million to $32 million, from $14 million for the same period in 2009. Maintenance revenues for the quarter ended June 30, 2010 increased by 41%, or $25 million to $84 million, from $59 million for the same period in 2009. During the six months ended June 30, 2010, maintenance revenue increased by 39% or $45 million to $160 million, from $115 million for the same period in 2009. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended June 30,				Six months ended June 30,			
	2010	2009	2010	2009	2010	2009	2010	2009
	($000)		(% of total revenue)		($000)		(% of total revenue)	
Licenses	12,183	9,025	8%	9%	23,265	19,881	8%	10%
Professional services and other:								
Services	41,683	25,344	27%	25%	81,881	49,956	28%	25%
Hardware and other	14,984	7,834	10%	8%	31,774	13,661	11%	7%
Maintenance	83,832	59,312	55%	58%	159,655	115,269	54%	58%
	152,682	101,515	100%	100%	296,575	198,767	100%	100%

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 reportable segment and the percentage change for the three and six months ended June 30, 2010 compared to the same periods in 2009:

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2010	2009	$	%	2010	2009	$	%
	($000, except percentages)				($000, except percentages)			
Public Sector								
Licenses	8,789	7,130	1,659	23%	17,112	16,143	969	6%
Professional services and other:								
Services	34,525	22,129	12,396	56%	68,564	43,825	24,739	56%
Hardware and other	12,758	6,953	5,805	83%	28,241	11,983	16,258	136%
Maintenance	57,253	41,549	15,704	38%	109,632	80,301	29,331	37%
	113,325	77,761	35,564	46%	223,549	152,252	71,297	47%
Private Sector								
Licenses	3,394	1,895	1,499	79%	6,153	3,738	2,415	65%
Professional services and other:								
Services	7,159	3,215	3,944	123%	13,317	6,131	7,186	117%
Hardware and other	2,225	881	1,344	153%	3,533	1,679	1,854	110%
Maintenance	26,579	17,763	8,816	50%	50,023	34,967	15,056	43%
	39,357	23,754	15,603	66%	73,026	46,515	26,511	57%

Public Sector

For the quarter ended June 30, 2010, total revenue in the public sector segment increased 46%, or $35 million, to $113 million, compared to $78 million for the quarter ended June 30, 2009. For the six months ended June 30, 2010, total revenue increased by 47% or $72 million, to $224 million, compared to $152 million for the comparable period in 2009. The increases for both the three and six month periods were significant across all revenue types. Revenue growth from acquired businesses was significant for both the three and six month periods as we completed ten acquisitions since the beginning of 2009 in our public sector segment. It is estimated that acquisitions completed since the beginning of 2009 contributed approximately $44 million to our Q2 2010 revenues and $86 million to our revenues in the six months ended June 30, 2010. Revenues decreased organically by $8 million in Q2 2010 and $14 million in the six months ended June 30, 2010 compared to the same periods in 2009. Excluding PTS, organic growth for the Public Sector increased by 5% in Q2 2010 and 4% for the six months ended June 30, 2010 compared to the same periods in 2009.

Organic Revenue Growth	Three months ended June 30, 2010	Six months ended June 30, 2010
Public Sector	-10%	-9%
Public Sector excluding PTS	5%	4%

The organic revenue change was primarily driven by the following:

- **Trapeze operating group** (decrease of approximately $10 million in Q2 and a decrease of approximately $19 million for the six months ended June 30, 2010). For both Q2 and the six months ended June 30, 2010, the negative organic growth was primarily caused from the PTS business as PTS recognized substantial non-recurring revenue in the twelve months prior to acquisition that Trapeze does not expect to re-occur in the corresponding financial period following acquisition. Excluding the impact of PTS, Trapeze experienced positive organic growth in both Q2 and the six months ended June 30, 2010.

- **Harris operating group** (increase of approximately $3 million in Q2 and an increase of approximately $5 million for the six months ended June 30, 2010). For both Q2 and the six months ended June 30, 2010, Harris had continued strong revenue from existing clients and new customers in their utility, local government, and school verticals.

Private Sector

For the quarter ended June 30, 2010, total revenue in the private sector segment increased by 66%, or $15 million, to $39 million, compared to $24 million for the quarter ended June 30, 2009. For the six months ended June 30, 2010 total revenue increased by 57% or $26 million, to $73 million, compared to $47 million for the comparable period in 2009. Revenue growth from acquired businesses was significant for both the three and six month periods as we completed seventeen acquisitions since the beginning of 2009 in our private sector segment. It is estimated that acquisitions completed since the beginning of 2009 contributed approximately $15 million to our Q2 2010 revenues and $25 million to our revenues in the six months ended June 30, 2010. Revenues increased organically by $0.6 million in Q2 2010 and $1 million in the six months ended June 30, 2010 compared to the same periods in 2009. The organic revenue change was negligible across each of the private sector operating groups.

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 June 30,				Six months ended June 30,			
	2010	2009	2010	2009	2010	2009	2010	2009
			($000)				($000)	
Gross profit licenses	89%	92%	10,872	8,323	90%	92%	21,007	18,354
Gross profit services & maintenance	61%	65%	76,582	54,709	60%	63%	144,409	104,568
Gross profit hardware & other	29%	19%	4,275	1,493	30%	22%	9,656	3,026
Gross profit on total revenue	60%	64%	91,729	64,525	59%	63%	175,072	125,948

Gross profit increased for the quarter ended June 30, 2010 to $92 million from $65 million for the quarter ended June 30, 2009. Our gross profit as a percentage of revenue declined from 64% in Q2 2009 to 60% in Q2 2010. For the first six months of 2010, gross profit increased to $175 million from $126 million for the same period in 2009.

Our gross profit as a percentage of revenue declined to 59% in the first six months of 2010 compared to 63% for the same period in 2009. For both periods, the increase in gross profit dollars is attributable to the overall increase in total revenue and the decline in gross profit as a percentage of revenue is primarily due to lower margin revenues acquired in the PTS acquisition. Hardware and other revenue margins can fluctuate significantly, given the relatively small size of this category and its diverse product mix.

Operating Expenses:

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

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2010	2009	$	%	2010	2009	$	%
	($000, except percentages)				($000, except percentages)			
Research and development	21,299	15,281	6,018	39%	43,489	29,982	13,507	45%
Sales and marketing	15,344	10,683	4,661	44%	28,965	20,780	8,185	39%
General and administration	27,100	16,227	10,873	67%	50,776	32,292	18,484	57%
Depreciation	1,430	889	541	61%	2,477	1,639	838	51%
	65,173	43,080	22,093	51%	125,707	84,693	41,014	48%

Overall operating expenses for the quarter ended June 30, 2010 increased 51%, or $22 million, to $65 million, compared to $43 million during the same period in 2009. As a percentage of total revenue, operating expenses increased to 43% in the quarter ended June 30, 2010 from 42% in the quarter ended June 30, 2009. During the six months ended June 30, 2010, operating expenses increased 48%, or $41 million, to $126 million, compared to $85 million during the same period in 2009. As a percentage of total revenue, operating expenses decreased from 43% in the six months ended June 30, 2009 to 42% in the six months ended June 30, 2010. The growth in expenses for the three and six month periods is primarily due to the growth in the number of employees, an increase in performance bonus, and the appreciation of the Canadian dollar versus the U.S. dollar. Our average employee headcount associated with operating expenses grew 38% from 1,146 in the quarter ended June 30, 2009 to 1,577 in the quarter ended June 30, 2010 primarily due to acquisitions. During the six months ended June 30, 2010, headcount associated with operating expenses was up 35% to an average headcount of 1,529 compared to an average of 1,134 during the same period in 2009. Appreciation of the Canadian dollar vs. the U.S. dollar has a significant negative impact on operating expenses as a disproportionate amount of our total expenses, including costs of goods sold, are originated in Canadian dollars (See "Foreign Currency Exposure" below). The average exchange rate for the Canadian dollar changed significantly in the periods being measured, as evidenced by a 14% increase in Q2 2010 vs. Q2 2009 and a 16% increase for the comparable six month periods.

Research and development – Research and development expenses increased 39%, or $6 million, to $21 million for the quarter ended June 30, 2010 compared to $15 million for the same period in 2009. During the six months ended June 30, 2010, research and development expense increased 45%, or $13 million, to $43 million, compared to $30 million over the same period in 2009. The increase in expenses as a dollar amount for the three and six month periods is largely attributable to our growth in headcount from acquisitions and the appreciation of the Canadian dollar versus the U.S. dollar. For Q2 2010, we averaged 849 staff compared to 659 in the same period in 2009, representing a 29% increase in headcount. During the six months ended June 30, 2010, headcount associated with research and development was up 27% to an average headcount of 830 compared to an average of 653 during the same period in 2009.As a percentage of total revenue, research and development expense declined to 14% in the quarter ended June 30, 2010 from 15% in the quarter ended June 30, 2009 and remain unchanged at 15% for the six months ended June 30, 2010 compared to the same period in 2009. We do not have any capitalized software development costs. All of our software development costs are expensed as incurred.

Sales and marketing – Sales and marketing expenses increased 44%, or $4 million to $15 million, in the quarter ended June 30, 2010 compared to $11 million for the same period in 2009. As a percentage of total revenue, sales and marketing expenses decreased to 10% in the quarter ended June 30, 2010 from 11% for the same period in 2009. During the six months ended June 30, 2010, sales and marketing expense increased 39%, or $8 million, to $29 million, compared to $21 million over the same period in 2009. As a percentage of total revenue, sales and marketing expenses remain unchanged at 10% for the six month period ended June 30, 2010 compared to the same period in 2009. The increase in expenses as a dollar amount for the three and six month periods is largely attributable to our growth in headcount from acquisitions. For Q2 2010, we averaged 364 staff compared to 258 in the same period in 2009, representing a 41% increase in headcount. During the six months ended June 30, 2010, headcount associated with sales and marketing was up 39% to an average headcount of 349 compared to an average of 252 during the same period in 2009.

General and administration – General and administration ("G&A") expenses increased 67%, or $11 million, to $27 million in the quarter ended June 30, 2010 from $16 million for the same period in 2009. During the six months ended June 30, 2010, general and administration expense increased 57%, or $19 million, to $51 million, compared to $32 million over the same period in 2009. The increase in expenses as a dollar amount during the quarter and the six month period is largely attributable to our growth in headcount from acquisitions, an increase in bonus expense, and the appreciation of the Canadian dollar compared to the US dollar. For Q2 2010, we averaged 364 staff compared to 229 in the same period in 2009, representing a 59% increase in headcount. During the six months ended June 30, 2010, headcount associated with general and administration was up 52% to an average headcount of 349 compared to an average of 229 during the same period in 2009. As a percentage of total revenue, G&A expenses increased to 18% in the quarter ended June 30, 2010 compared to 16% in the quarter ended June 30, 2009 and increased to 17% for the six months ended June 30, 2010 from 16% in the six months ended June 30, 2009.

Depreciation of property and equipment – Depreciation of property and equipment increased 61%, or $0.5 million, to $1.4 million in the quarter ended June 30, 2010 from $0.9 million for the same period in 2009. During the six months ended June 30, 2010, depreciation of property and equipment increased 51%, or $0.9 million, to $2.5 million from $1.6 million for the same period in 2009. The increase in both periods is primarily due to an increase in property and equipment obtained in acquisitions.

Non-Operating Expenses:

The following table displays the breakdown of our non-operating expenses:

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2010	2009	$	%	2010	2009	$	%
	($000, except percentages)				($000, except percentages)			
Amortization of intangible assets	17,175	14,309	2,866	20%	32,470	28,688	3,782	13%
Other (income) expenses	(123)	1,253	(1,376)	NA	(312)	1,441	(1,753)	NA
Interest expense, net	1,009	686	323	47%	1,654	1,366	288	21%
Foreign exchange loss (gain)	930	(371)	1,301	NA	1,021	(1,398)	2,419	NA
Income taxes	4,217	1,821	2,396	132%	4,871	3,630	1,241	34%
	23,208	17,698	5,510	31%	39,704	33,727	5,977	18%

Amortization of intangible assets – Amortization of intangible assets increased to $17 million for the quarter ended June 30, 2010 from $14 million for the quarter ended June 30, 2009, representing a 20% increase. For the six months ended June 30, 2010, amortization of intangibles increased 13%, to $32 million, compared to $29 million over the same period in 2009. Both the three and six month increases are attributable to the increases in our intangible asset balance (on a cost basis) over the twelve month period ended June 30, 2010 as a result of the acquisitions that we completed during this period.

Other expenses (income) – Other income was $0.1 million for the quarter ended June 30, 2010 compared to a $1.3 million expense for the same period in the previous year. Other income was $0.3 million for the six months ended June 30, 2010 compared to an expense of $1.4 million for the same period in the previous year. The decrease in other expense for both periods is primarily due to a non-cash one time write-down of a UK sterling denominated investment that occurred in Q2 2009. Although the investment was classified as available for sale, which requires fair value adjustments be recorded in other comprehensive income, it was determined that a holding loss relating to the depreciation of the UK sterling was other than temporary and as such a loss was recorded in the statement of operations for the decline in value of the investment relating to the depreciation of the UK sterling since the investment was made.

Interest expense, net – Net interest expense was $1.0 million for the quarter ended June 30, 2010 compared to $0.7 million for the same period in the previous year. For the six months ended June 30, 2010, interest expense was $1.7 million compared to $1.4 million for the comparable period in 2009. The increase in interest expense for both periods is due to an increase in our borrowings to fund acquisitions.

Foreign exchange loss (gain) – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended June 30, 2010, our foreign exchange loss was $0.9 million compared to a gain of $0.4 million in Q2 2009. The foreign exchange loss for the three months ended June 30, 2010 is mainly attributable to a decrease in the closing exchange rate of the UK Pound Sterling and Euro currencies vs. the U.S. dollar at June 30, 2010 vs. March 31, 2010. Although we generally run our business with negative working capital, we ended the period with UK Pound Sterling and Euro denominated positive working capital and as such recorded a foreign exchange loss due to the depreciation of these currencies relative to the U.S. dollar. For the six months ended June 30, 2010, the foreign exchange loss was $1 million versus a gain of $1.4 million for the same period in 2009. The large gain in the first half of 2009 was due to a gain realized on Canadian dollar liabilities settled in Q1 2009 at an exchange rate that was favourable to the rate used to value the liabilities at December 31, 2008.

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 June 30, 2010, income tax expense was $4.2 million, compared to $1.8 million for the same period in 2009. The increase in income tax expense is due to an increase in current tax resulting from an increase in adjusted net income before tax and from a reduction in future tax recovery. The reduction in future tax recovery is primarily due to the release of a valuation allowance in Q2 2009 in certain jurisdictions that did not re-occur in 2010. For the six months ended June 30, 2010, income tax expense was $4.9 million, compared to $3.6 million for the same period in 2009. The increase in income tax expense for the six months ended June 30, 2010 compared to the same period in 2009 is due to an increase in income before tax over the same period.

Net Income:

Net income for the quarter ended June 30, 2010 was $3.3 million compared to net income of $3.7 million for the same period in 2009. On a per share basis this translated into a net income per diluted share of $0.16 in Q2 2010 vs. a net income per diluted share of $0.18 in Q2 2009. For the first six months of 2010, net income was $9.7 million or $0.46 per diluted share compared to $7.5 million or $0.36 per diluted share in the first six months of 2009. Net income in Q2 and for the first six months of 2010 was positively impacted by the growth in our Adjusted EBITDA more than offset by increases in amortization of intangibles, foreign exchange loss and income tax expense.

Adjusted EBITDA:

For Q2 2010, Adjusted EBITDA increased by $6 million to $28 million compared to $22 million in Q2 2009, representing an increase of 25%. Adjusted EBITDA margin was 18% in the second quarter of 2010 compared to 22% in the comparable period in 2009. For the first six months of 2010, Adjusted EBITDA increased by $9 million to $52 million compared to $43 million during the same period in 2009, representing an increase of 21%. Adjusted EBITDA margin was 17% in the first six months of 2010, compared to 22% of total revenue for the same period in 2009. The decrease in Adjusted EBITDA margin for the three and six months ended June 30, 2010 is largely due to the impact of the relatively lower profitability of the PTS business acquired in Q4 2009 and also due to the appreciation of the Canadian dollar vs. the U.S. dollar as a significant amount of our operating expenses are originated in Canadian dollars (See "Foreign Currency Exposure" below). The average exchange rate for the Canadian dollar changed significantly in the periods being measured; increasing by 14% versus the U.S. dollar in Q2 2010 compared with Q2 2009 and by 16% in the six months ended June 30, 2010 versus the same period in 2009. See "Non-GAAP Measures" for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 152,682	$ 101,515	$ 296,575	$ 198,767
Net income (loss)	3,348	3,747	9,661	7,528
Add back:				
Income taxes	4,217	1,821	4,871	3,630
Foreign exchange loss (gain)	930	(371)	1,021	(1,398)
Interest expense, net	1,009	686	1,654	1,366
Other (income) expenses	(123)	1,253	(312)	1,441
Amortization of intangible assets	17,175	14,309	32,470	28,688
Depreciation	1,430	889	2,477	1,639
Adjusted EBITDA	27,986	22,334	51,842	42,894
Adjusted EBITDA margin	18%	22%	17%	22%

Adjusted net income:

For Q2 2010, Adjusted net income increased by $4 million to $20 million compared to $16 million in Q2 2009, representing an increase of 22%. Adjusted net income margin was 13% in the second quarter of 2010, compared to 16% of total revenue for the same period in 2009. For the first six months of 2010, Adjusted net income increased by $6 million to $39 million compared to $33 million during the same period in 2009, representing an increase of 17%. Adjusted net income margin was 13% in the first six months of 2010, compared to 17% of total revenue for the same period in 2009. Adjusted net income margin for both the three and six months ended June 30, 2010 declined primarily due to a decline in Adjusted EBITDA margin. See "Non-GAAP Measures" for a description of Adjusted Net Income and Adjusted Net Income margin.

The following table reconciles Adjusted net income to net income:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 152,682	$ 101,515	$ 296,575	$ 198,767
Net income (loss)	3,348	3,747	9,661	7,528
Add back:				
Amortization of intangible assets	17,175	14,309	32,470	28,688
Future income taxes (recovery)	(494)	(1,684)	(3,435)	(3,027)
Adjusted net income	20,029	16,372	38,696	33,189
Adjusted net income margin	13%	16%	13%	17%

Quarterly Results

	Quarter Ended							
	Sep. 30, 2008	Dec. 31, 2008	Mar. 31, 2009	Jun. 30, 2009	Sep. 30 2009	Dec. 31 2009	Mar. 31 2010	Jun. 30 2010
	($000, except per share amounts)							
Revenue	80,790	98,397	97,252	101,515	107,279	131,894	143,893	152,682
Net Income (loss)	3,293	3,970	3,781	3,738	2,715	(10)	6,313	3,348
Net Income per share								
Basic	0.16	0.19	0.18	0.18	0.13	(0.00)	0.30	0.16
Diluted	0.16	0.19	0.18	0.18	0.13	(0.00)	0.30	0.16

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

Acquisition of PTS from Continental

On November 2, 2009, Constellation acquired PTS from Continental for gross cash consideration of $3 million. The purchase price was a small percent of PTS' annualized revenues, reflecting its recent history of negative cash flows. PTS is not considered a reportable operating segment of Constellation, however management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of PTS until such time as it becomes consistently cash flow positive.

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

As of the date of acquisition, Constellation recorded a restructuring provision of $6 million, which was revised to $2m in Q1 2010, to realign operations with the future prospects of the acquired business. The majority of the restructuring provision relates to severance costs. The $1 million balance of the restructuring provision is included in accounts payable and accrued liabilities in the June 30, 2010 balance sheet.

A number of acquired contracts were recorded at their estimated fair value as of the date of acquisition. Under this treatment, excess profits or costs relative to normalized profitability are recorded as contract assets or liabilities and amortized against revenues over the remaining life of the contract. As a result, the revenue and costs of these contracts reflected in the statement of operations will differ from the revenue and costs that would have been recognized under normal course percentage of completion accounting and will differ from the underlying operating cash flow associated with these contracts had we recognized these contracts since their inception. The impact on cash flows will be reflected in the statement of cash flow from operating activities.

In Q1 2010, the Company revised its estimates for progress to completion on a number of acquired long-term contracts that resulted in additional revenue of $1 million being recognized in the period, which related to work performed and costs incurred over the contract term to date.

As part of the PTS acquisition, Constellation also assumed certain long-term contracts that contain contingent liabilities that may, but in management's opinion are unlikely to, exceed $6 million in the aggregate. As the likelihood of loss is not determinable, these amounts have not been recorded in the financial statements.

Subsequent to June 30, 2010, the Company received an assessment, from a neutral accounting firm, as to the value of certain tangible net assets acquired as part of the PTS acquisition in order to resolve an existing dispute between the Company and Continental AG. The findings indicate a reduction in the purchase price of $8.3 million. The Company is reviewing the report and the implications it could have on the estimates included in the purchase price allocation.

There is $3.5 million recorded in other long-term liabilities relating to the PTS acquisition as at June 30, 2010. Management believes additional liabilities may exist due to uncertainties associated with acquired contracts and as such has retained on the balance sheet an amount equal to the current excess of identifiable tangible net assets acquired over the purchase price pending resolution of these matters, which management anticipates will occur during the allowable measurement period. The resolution of these matters may result in the recognition of an extraordinary gain in the event the acquired liabilities are less than the amounts accrued.

Acquisition of certain software assets and liabilities from MAXIMUS Inc.

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

As part of the MAJES acquisition, Constellation also assumed certain long-term contracts that contain contingent liabilities that may, but in management's opinion are unlikely to, exceed $12 million in the aggregate. As the likelihood of loss is not determinable, these amounts have not been recorded in the interim financial statements.

Supplemental Financial Information for MAJES and PTS

The table below provides certain supplemental statement of operations and cash flow information regarding MAJES and PTS for the three and six months ended June 30, 2010. MAJES and PTS are not considered reportable operating segments of Constellation; however, management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of each business. Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and contract accounting under GAAP may result in reported earnings that differ materially from cash flow from operations. Certain contracts acquired as part of the MAJES business are being accounted for using the completed contract method of accounting. As a result, the revenue and costs on these contracts will not be reflected in the statement of operations until such contracts are complete. Over the course of the remaining term of the applicable contracts, the impact on cash flows will be reflected in the statement of cash flows from operating activities.

Statement of Operations

For the three and six months ended June 30, 2010

(Unaudited)	For the three months ended June 30, 2010				For the six months ended June 30, 2010			
	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Revenue	$ 108,824	$ 20,228	$23,630	$ 152,682	$ 207,439	$38,499	$50,637	$ 296,575
Cost of revenue	40,834	6,217	13,902	60,953	77,174	12,951	31,378	121,503
Gross Profit	67,990	14,011	9,728	91,729	130,265	25,548	19,259	175,072
Total Expenses (excluding amortization)	50,418	7,105	6,220	63,743	95,530	14,074	13,626	123,230
Adjusted EBITDA	17,572	6,906	3,508	27,986	34,735	11,474	5,633	51,842
EBITDA as % Total Revenue	16%	34%	15%	18%	17%	30%	11%	17%
Depreciation	1,044	128	258	1,430	1,941	236	300	2,477
Income before the undernoted	16,528	6,778	3,250	26,556	32,794	11,238	5,333	49,365
Amortization of intangible assets	15,729	1,446	-	17,175	29,573	2,897	-	32,470
Other expenses (income), net	186	(52)	1,682	1,816	405	27	1,931	2,363
Income before income taxes	613	5,384	1,568	7,565	2,816	8,314	3,402	14,532
Income taxes	1,411	1,676	1,130	4,217	1,335	1,701	1,835	4,871
Net Income	$ (798)	$ 3,708	$ 438	$ 3,348	$ 1,481	$ 6,613	$ 1,567	$ 9,661

Cash flow from operating activities

For the three and six months ended June 30, 2010

	For the three months ended June 30, 2010				For the six months ended June 30, 2010			
(Unaudited)	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Cash flows from operating activities:								
Net income	$ (798)	$ 3,708	$ 438	$ 3,348	$ 1,481	$ 6,613	$ 1,567	$ 9,661
Adjustments to reconcile net income to net cash flows from operations:								
Depreciation	1,044	128	258	1,430	1,941	236	300	2,477
Amortization of intangible assets	15,729	1,446	-	17,175	29,573	2,897	-	32,470
Future income taxes	23	(416)	(101)	(494)	(3,348)	(137)	50	(3,435)
Other non-cash items	(922)	23	1,667	768	(466)	25	1,040	599
Change in non-cash operating working capital	2,029	3,016	3,896	8,941	2,439	(3,904)	(770)	(2,235)
Cash flows from operating activities	$ 17,105	$ 7,905	$ 6,158	$ 31,168	$ 31,620	$ 5,730	$ 2,187	$ 39,537

Adjusted EBITDA to net income reconciliation
For the three and six months ended June 30, 2010

(Unaudited)	For the three months ended June 30, 2010				For the six months ended June 30, 2010			
	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Total revenue	$ 108,824	$20,228	$23,630	$ 152,682	$ 207,439	$ 38,499	$ 50,637	$ 296,575
Net income	(798)	3,708	438	3,348	1,481	6,613	1,567	9,661
Add back:								
Income tax expense	1,411	1,676	1,130	4,217	1,335	1,701	1,835	4,871
Other expenses (income), net	186	(52)	1,682	1,816	405	27	1,931	2,363
Amortization of intangible assets	15,729	1,446	-	17,175	29,573	2,897	-	32,470
Depreciation	1,044	128	258	1,430	1,941	236	300	2,477
Adjusted EBITDA	17,572	6,906	3,508	27,986	34,735	11,474	5,633	51,842
Adjusted EBITDA margin	16%	34%	15%	18%	17%	30%	11%	17%

Liquidity

Our net cash position (cash less bank indebtedness) at June 30, 2010 decreased to negative $29 million, from negative $10 million at December 31, 2009. Borrowings on our line of credit increased by $16 million and cash decreased by $3 million.

Total assets increased $34 million, from $480 million at December 31, 2009 to $514 million at June 30, 2010. The majority of the increase can be explained by an increase in intangible assets and goodwill of $30 million due to acquisitions completed since the beginning of the year.

Current liabilities increased $27 million, from $299 million at December 31, 2009 to $326 million at June 30, 2010. The majority of the increase can be explained by increases in a) bank indebtedness of $16 million and b) deferred revenue of $14 million primarily due to an increase in maintenance revenue from acquisitions and from the timing of billings versus revenue recognized. These increases were offset by a decrease in a) accounts payable and accrued liabilities of $8 million primarily due to the payment of 2009 employee bonuses in Q1 2010.

Net Changes in Cash Flow	**Six months ended June 30, 2010**
	(in millions of $)
Net cash provided by operating activities	$40
Net cash provided by financing activities	11
Net cash used in investing activities	(52)
Effect of currency translation	(2)
Net decrease in cash and cash equivalents	$(3)

The net cash flow from operating activities was $40 million for the six months ended June 30, 2010. The $40 million provided by operating activities resulted from $10 million in net income, plus adjustments for $32 million of non-cash expenses included in net income, less $2 million of cash used by changes in our non-cash operating working capital.

The net cash provided by financing activities in the six months ended June 30, 2010 was $11 million. $16 million in additional funds were drawn from our credit facility and $6 million was used in Q1 2010 to pay a dividend of $0.26 per share.

The net cash used in investing activities in the six months ended June 30, 2010 was $52 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $43 million (including payments for holdbacks relating to prior acquisitions) and due to $8 million in additions to short term investments, marketable securities and other assets.

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 $160 million credit facility that is collateralized by substantially all of our assets including the assets of the majority of our material Canadian and U.S. subsidiaries. Certain other subsidiaries also guarantee this facility. The facility is available for acquisitions, working capital needs, and other general corporate purposes and for the needs of our subsidiaries. As of June 30, 2010, we had drawn $59 million on this facility.

Commitments include operating leases for office equipment and facilities, bank guarantees, and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with "earn out" payments based on the future performance of the acquired business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in unconsolidated companies (aside from our shareholdings in publicly traded companies included in our short term investments) that would have a significant effect on our assets and liabilities as at June 30, 2010.

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.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue/expenses, as applicable, for the three and six month periods ended June 30, 2010:

	Three Months Ended June 30, 2010		Six Months Ended June 30, 2010	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	72%	55%	71%	56%
CAD	11%	24%	10%	24%
GBP	7%	9%	8%	8%
CHF	5%	8%	5%	9%
EURO	2%	0%	3%	0%
Others	3%	4%	3%	3%
Total	100%	100%	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases, bank guarantees, and letters of credit, 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 the six months ended June 30, 2010. The outstanding balance of loans granted under the KELP as of June 30, 2010 was $0.5 million as compared to $0.6 million as of December 31, 2009.

Proposed Transactions

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

Changes in Accounting Policies

Effective January 1, 2010, the Company adopted CICA Handbook, Section 1582 "Business Combinations" which replaces existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. This standard also states that acquisition related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. The Company has elected to early adopt this standard and apply to all business combinations with acquisition dates on or after January 1, 2010. The impact to the Company's financial statements as a result of adopting this new standard was an increase in General and administration expenses of approximately $1.6 million for the six months ended June 30, 2010 compared to the same period in 2009.

Effective January 1, 2010, the Company adopted CICA Handbook, Section 1601, "Consolidated financial statements", which replaces existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal 2011. The Company has elected to early adopt this standard effective January 1, 2010. There was no material impact to the Company's financial statements as a result of adopting this new standard.

In January 2009, the CICA issued Handbook Section 1602, "Noncontrolling interests in Consolidated Financial Statements". This section specifies that noncontrolling interests be treated as a separate component of equity, not as a liability or other item outside of equity. Section 1602 is effective for periods beginning on or after January 1, 2011 and will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The Company has elected to early adopt this standard effective January 1, 2010. There was no material impact to the Company's financial statements as a result of adopting this new standard.

Recent Accounting Pronouncements

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises in Canada. Effective January 1, 2011, companies must convert from Canadian GAAP to IFRS. IFRS is effective for our first quarter ended March 31, 2011, with comparative data also prepared under IFRS.

We have initiated an IFRS transition project with a formal and detailed project plan. A project team consisting of senior management from our head office and operating subsidiaries are engaged on the project. We have also engaged external IFRS consultants. Regular reporting is provided to our senior executive management and to our Audit Committee on the project's progress.

The table below illustrates key elements of our transition plan, our major milestones and status as at June 30, 2010. Our conversion plan is organized in phases over time and by area.

Activities	Milestones	Status
Financial reporting:		
• Identification of differences between Canadian GAAP and IFRS applicable to the Company. • Selection of IFRS accounting policies and IFRS 1 elections. • Quantification of differences between Canadian GAAP and IFRS. • Development of IFRS financial statements including disclosures.	• Analysis of significant differences. • Senior management and Audit Committee approval of financial statement format in Q4 2010. • Final quantification of conversion effects on the 2010 opening balance sheet by Q4 2010 and 2010 comparative period by Q1 2011.	• Identification of initial differences and preliminary selection of IFRS accounting policies completed in 2009.
System and processes:		
• Assessment of the impact of changes on the systems and processes. • Implementation of any system	• Systems, process and internal control changes implemented by Q4 2010. • Testing of internal controls	• To date no significant modifications to our information systems have been identified.

and process design changes. • Documentation and testing of internal controls over new systems and processes.	for 2010 comparatives completed by Q1 2011.	• To date only minor changes to our internal controls and processes have been identified.
Contracts, communication and training:		
• Assessment of the impact to contracts on changing from Canadian GAAP, specifically, employee bonus plans, debt covenants, and any contingent consideration from business combinations. • Communicate the effect of the IFRS change over internally and externally. • Provide appropriate training to employees based on their interaction with IFRS.	• Contracts analyzed and updated (if appropriate) by end of 2010. • Communication at all levels throughout the transition process.	• Communication is ongoing. • Training of employees has begun, scheduled to be completed by Q4 2010.

The following are our preliminary significant IFRS policy decisions and significant expected accounting differences, based on our analysis of the current IFRS standards. Additional differences between Canadian GAAP and IFRS may be identified once the training is completed and as we conduct the quantification process. As a result, our accounting policy choices may change prior to the adoption of IFRS on January 1, 2011. Although we have identified key accounting policy differences, we cannot at this time determine the impact of these differences to our consolidated financial statements.

First-time adoption of IFRS (IFRS 1):

Upon transition, a company is required to apply IFRS on a retrospective basis. However, IFRS 1 has certain mandatory exceptions, as well as limited optional exemptions, in specific areas of certain standards that do not require retrospective application of IFRS. Based on our analysis to date, we expect to apply the following optional exemptions available under IFRS 1 that may be significant to us in preparing our first consolidated financial statements under IFRS:

Business combinations - IFRS 1 allows us to apply these standards on a prospective or retrospective basis. We have elected to apply IFRS 3(revised), Business combinations, on a prospective basis for all business combinations completed after January 1, 2010.

Cumulative translation differences - IFRS 1 allows cumulative translation differences for foreign operations to be cleared through equity on transition. We have elected to reset cumulative translation differences to zero on transition. At June 30, 2010, our cumulative translation account under Canadian GAAP was a loss of $2.9 million and a loss of $3.2 million at December 31, 2009.

IFRS to Canadian GAAP differences:

In addition to the IFRS 1 exceptions and exemptions, the following are preliminary differences between our Canadian GAAP accounting policies and those under IFRS that we believe are applicable and significant to Constellation based on our analysis to date:

Recognizing and measuring goodwill or a gain from a bargain purchase

Under IFRS, negative goodwill does not result in the proportionate reduction of certain acquired assets, or the inclusion of contingent liabilities. Rather, negative goodwill is recorded in the P&L. We have had acquisitions in the past wherein negative goodwill has resulted in a proportionate reduction of certain acquired assets. Under IFRS, this would result in negative goodwill being recorded in the statement of operations.

Foreign currency translation

Under IFRS, there are various indicators to be considered in determining the appropriate functional currency of an entity. When the indicators are mixed and the functional currency is not obvious, priority should be given to indicators identified as primary. Canadian GAAP has similar indicators as IFRS in determining functional currency. However, Canadian GAAP does not have a hierarchy of indicators under which certain indicators are given priority. Based on our preliminary analysis of the functional currency under IFRS, we believe that the functional currency of some of our foreign subsidiaries will change from US dollars to local currency. Based on a preliminary analysis, we do not believe that these changes will have a material impact on our January 1, 2010 opening balance sheet. Any impact of a retrospective change in the functional currency will be initially reported in retained earnings.

Provisions

Under IFRS a provision is recognized in the financial statements if it is probable. Probable is defined under IFRS as “more likely than not”. This is a lower threshold than “likely” under Canadian GAAP. Currently, we have approximately $19 million in contingent liabilities disclosed in our financial statements. Under IFRS, some of these liabilities may be recorded in our financial statements.

Revenue recognition

We have certain long term contracts that are being accounted for using the completed contract method of accounting. Completed contract method of accounting is not allowed under IFRS. As such, we will record accumulated profit/loss on these contracts in our opening retained earnings and recognize the remaining billings and expenses using the percentage completion method where we can reliably estimate costs to complete. Where we cannot estimate costs to complete, the zero margin method will be used.

Income Taxes

For integrated subsidiaries and foreign-denominated purchases of capital assets, IFRS requires a deferred tax asset/liability to be recorded based on foreign exchange movements, whereby an amount arises based on the difference between the historical rate and the current rate. Under its current structure, Constellation has a significant number of integrated subsidiaries that could be impacted by this difference.

Amortization of Fixed Assets and Finite Lives Intangible Assets

Under IFRS uniform accounting policies must be used for reporting like transactions. With input from our subsidiaries we have developed draft uniform accounting policies. These policies decrease the useful life of some of our fixed assets and finite lives intangible assets. IFRS requires that we retrospectively apply this change, the result being a decrease in the net book value of our depreciable assets and a decrease in our retained earnings.

Impairment of Assets

Under IFRS, assets are tested separately for impairment, and where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a cash-generating unit. IFRS uses a one-step process for testing and measuring impairment of long-lived assets, rather than two-step methods under Canadian GAAP.

Except for goodwill, IFRS also requires reversal of impairments of long-lived assets where adverse circumstances have reversed. The Company assessed the carrying value of its assets in accordance with IAS 36 and found that no impairment losses are required to be recognized as at January 1, 2010, or at March 31, 2010. Whether the Company will be materially affected will depend upon the facts at the time of each impairment test.

The impact of IFRS at transition will depend on the IFRS standards in effect at the time, accounting elections that have not yet been made and the prevailing business and economic facts and circumstances. The evolving nature of IFRS may also result in additional accounting changes, some of which may be significant. We will continue to monitor changes in the IFRS standards and will adjust our transition plans accordingly.

Share Capital

As at August 5, 2010, there were 21,191,530 total shares outstanding comprised of 17,503,530 common shares and 3,688,000 class A non-voting shares.

Outlook

Although we anticipate that our annual revenue and Adjusted EBITDA will vary from year to year, management's objective is to grow each of our annual revenue 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 we previously anticipated that approximately one half to three quarters of our growth would be attributable to acquisitions over this five year period, the availability of acquisitions combined with the impact of the economy on our organic growth over this period is currently expected to result in the majority of our growth being attributable to acquisitions. 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 filed AIF. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At June 30, 2010, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

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

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

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the three-month period ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

Exclusion of PTS

Our assessment of and conclusion on the effectiveness of disclosure controls and procedures and internal control over financial reporting did not include the controls or procedures of the operations of PTS, which are included in our Q2 2010 interim consolidated financial statements. Certain summary financial information related to PTS has been included above under 'Acquisition of PTS from Continental'.