CONSTELLATION SOFTWARE INC.

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

The following discussion and analysis should be read in conjunction with the Annual Consolidated Financial Statements for the year ended December 31, 2008, 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 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, March 4, 2009. 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 with 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, loss on held for trading investments related to mark to market adjustments, and foreign exchange, and before including gain (loss) 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 Q1 2008, ‘‘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. 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 maintenance and/or professional service fees are determinable. 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 Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,
	2008	2007	$	%	2008	2007	$	%	2006
Revenue	**98,397**	**66,068**	**32,329**	**49%**	**330,532**	**243,023**	**87,509**	**36%**	**210,759**
Cost of Revenue	37,716	25,208	12,508	50%	124,690	92,113	32,577	35%	81,970
Gross Profit	60,681	40,860	19,821	49%	205,842	150,910	54,932	36%	128,789
Expenses									
Research and development	13,411	10,066	3,345	33%	48,224	36,965	11,259	30%	32,821
Sales and marketing	10,878	7,574	3,304	44%	37,693	28,666	9,027	31%	25,942
General and administration	14,201	12,684	1,517	12%	55,585	44,127	11,458	26%	39,183
Total Expenses (pre amortization)	38,490	30,324	8,166	27%	141,502	109,758	31,744	29%	97,946
Adjusted EBITDA	**22,191**	**10,536**	**11,655**	**111%**	**64,340**	**41,152**	**23,188**	**56%**	**30,843**
Depreciation	1,133	706	427	60%	3,642	3,117	525	17%	2,943
Total Expenses	39,623	31,030	8,593	28%	145,144	112,875	32,269	29%	100,889
Income before the undernoted	**21,058**	**9,830**	**11,228**	**114%**	**60,698**	**38,035**	**22,663**	**60%**	**27,900**
Appreciation in common shares eligible for redemption	0	0	0	NA	0	0	0	NA	10,093
Amortization of intangible assets	15,629	7,419	8,210	111%	42,635	22,364	20,271	91%	17,090
Other expenses	0	(56)	56	NA	0	14	(14)	NA	1,970
(Gain) loss on sale of short-term investments, marketable securities and other assets	0	(15)	15	NA	(8)	(1,369)	1,361	-99%	(286)
Loss on held for trading investments related to mark to market adjustments	288	0	288	NA	421	0	421	NA	0
Interest expense (income)	598	(108)	706	NA	1,115	(508)	1,623	NA	(286)
Foreign exchange (gain) loss	30	424	(394)	NA	(455)	2,466	(2,921)	NA	(595)
Income before income taxes	4,513	2,166	2,347	108%	16,990	15,068	1,922	13%	(86)
Income taxes (recovery)									
Current	1,146	224	922	412%	5,181	4,273	909	21%	1,421
Future	(603)	302	(905)	NA	(3,185)	(315)	(2,870)	911%	(271)
	543	526	17	3%	1,996	3,958	(1,961)	-50%	1,150
Net income	**3,970**	**1,640**	**2,330**	**142.1%**	**14,994**	**11,110**	**3,883**	**35.0%**	**(1,236)**
Adjusted net income [1]	**18,996**	**9,361**	**9,635**	**102.9%**	**54,444**	**33,159**	**21,284**	**64.2%**	**25,676**
Weighted avg # of shares outstanding (000's)									
Basic	21,146	21,110			21,140	21,110			20,810
Diluted	21,192	21,192			21,192	21,192			21,065
Net income per share									
Basic	$ 0.19	$ 0.08	$ 0.11	137.5%	$ 0.71	$ 0.53	$ 0.18	34.0%	$ (0.06)
Diluted	$ 0.19	$ 0.08	$ 0.11	137.5%	$ 0.71	$ 0.52	$ 0.19	36.5%	$ (0.06)
Adjusted EBITDA per share									
Basic	$ 1.05	$ 0.50	$ 0.55	110.0%	$ 3.04	$ 1.95	$ 1.09	55.9%	$ 1.48
Diluted	$ 1.05	$ 0.50	$ 0.55	110.0%	$ 3.04	$ 1.94	$ 1.10	56.7%	$ 1.46
Adjusted net income per share [1]									
Basic	$ 0.90	$ 0.44	$ 0.46	104.5%	$ 2.58	$ 1.57	$ 1.01	64.3%	$ 1.23
Diluted	$ 0.90	$ 0.44	$ 0.46	104.5%	$ 2.57	$ 1.56	$ 1.01	64.7%	$ 1.22
Cash dividends declared per share									
Basic	-	-	-	-	$ 0.18	$ 0.15	$ 0.03	20%	$ 0.12
Diluted	-	-	-	-	$ 0.18	$ 0.15	$ 0.03	20%	$ 0.12
Total assets	385,799	267,147	118,652	44%	385,799	267,147	118,652	44%	186,573
Total long-term liabilities	37,224	23,946	13,278	55%	37,224	23,946	13,278	55%	8,683

[1] Adjusted net income figures for 2006 and 2007 have been restated to reflect future income taxes. See "Non-GAAP Measures".

Comparison of the fourth quarter and twelve months ended December 31, 2008 and 2007

Revenue:

Total revenue for the quarter ended December 31, 2008 was $98 million, an increase of 49%, or $32 million, compared to $66 million for the comparable period in 2007. For the 2008 fiscal year, total revenues were $331 million, an increase of 36%, or $88 million, compared to $243 million in 2007. The increase for both the fourth quarter and the full year compared to the same periods in the prior year, were mainly attributable to growth from acquisitions, as organic growth from our existing business was estimated at approximately 2% for the fourth quarter and 5% for the full year. The remaining 47% growth for the fourth quarter and 31% for the full year is due to acquisitions completed since the beginning of 2007.

Software license revenue for the quarter ended December 31, 2008 increased by 34%, or $3 million to $10 million, from $7 million for the same period in 2007. During the year ended December 31, 2008, license revenue increased by 33% or $9 million to $37 million, from $28 million for the same period in 2007. Professional services and other services revenue for the quarter ended December 31, 2008 increased by 80%, or $12 million to $27 million, from $15 million for the same period in 2007. During the year ended December 31, 2008, services revenue increased by 42% or $24 million to $81 million, from $57 million for the same period in 2007. Hardware and other revenue for the quarter ended December 31, 2008 increased by 38% or $2 million to $6 million, from $4 million for the same period in 2007. During the year ended December 31, 2008, hardware and other revenue increased by 28% or $4 million to $20 million, from $16 million for the same period in 2007. Maintenance revenues for the quarter ended December 31, 2008 increased by 41%, or $16 million to $55 million, from $39 million for the same period in 2007. During the year ended December 31, 2008, maintenance revenue increased by 35% or $50 million to $193 million, from $142 million for the same period in 2007. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended Dec. 31,				Fiscal year ended Dec. 31,			
	2008	2007	2008	2007	2008	2007	2008	2007
	($000)		(% of total revenue)		($000)		(% of total revenue)	
Licenses	10,004	7,448	10%	11%	36,997	27,866	11%	11%
Professional services and other:								
Services	26,767	14,889	27%	23%	80,883	57,100	24%	23%
Hardware and other	6,193	4,478	6%	7%	19,958	15,567	6%	6%
Maintenance	55,433	39,253	56%	59%	192,694	142,490	58%	59%
	98,397	66,068	100%	100%	330,532	243,023	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 reporting segment and the percentage change for the three and twelve months ended December 31, 2008 compared to the same periods in 2007:

	Three months ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change	
	2008	2007	$	%	2008	2007	$	%
	($000, except percentages)				($000, except percentages)			
Public Sector								
Licenses	7,433	5,122	2,311	45%	25,028	17,705	7,323	41%
Professional services and other:								
Services	23,251	11,185	12,066	108%	65,440	42,667	22,773	53%
Hardware and other	5,419	3,558	1,861	52%	16,114	11,508	4,606	40%
Maintenance	38,224	23,372	14,852	64%	124,187	84,924	39,263	46%
	74,327	43,237	31,090	72%	230,769	156,804	73,965	47%
Private Sector								
Licenses	2,570	2,327	243	10%	11,969	10,161	1,808	18%
Professional services and other:								
Services	3,516	3,704	(188)	-5%	15,443	14,433	1,010	7%
Hardware and other	775	920	(145)	-16%	3,844	4,059	(215)	-5%
Maintenance	17,209	15,880	1,329	8%	68,507	57,566	10,941	19%
	24,070	22,831	1,239	5%	99,763	86,219	13,544	16%

Public Sector

For the quarter ended December 31, 2008, total revenue in the public sector segment increased 72%, or $31 million, to $74 million, compared to $43 million for the quarter ended December 31, 2007. For the year ended December 31, 2008, total revenue increased by 47% or $74 million, to $231 million, compared to $157 million for the comparable period in 2007. The increases for both the three and twelve month periods were significant across all revenue types. Revenue growth from acquired businesses was significant for both the three and twelve month periods as we completed twenty-three acquisitions since the beginning of 2007 in our public sector segment. If the acquisitions had sustained their revenue run rates as of the time of acquisitions, it is estimated they would have contributed approximately $28 million to our Q4 2008 revenues and $57 million to our revenues in the year ended December 31, 2008. The remaining $3 million of revenue growth for Q4 and $17 million of revenue growth for the year ended December 31, 2008 in this sector was generated from organic sources. The organic growth was primarily driven by the following:

- **Trapeze operating group** (decrease of approximately $0.7 million for Q4 and an increase of $8 million for the full year). Trapeze experienced a significant increase in all revenue types in the year primarily due to strong bookings in their European businesses and their North American transit business. For the quarter, they experienced a slight decline in organic revenues primarily due to the weakening of non U.S. dollar denominated revenue streams in Q4 2008 versus Q4 2007. As well, Trapeze acquired certain assets from MAXIMUS Inc. on September 30, 2008 which had negative organic growth in Q4 2008 when compared to Q4 2007.

- **Harris operating group** (increase of approximately $3 million for Q4 and $9 million for the full year). For both the quarter and the year, Harris had significant increases across all revenue types primarily due to strong demand for new name and add-on licenses and services in their utility and municipal software businesses.

- **Emphasys operating group** (increase of approximately $0.4 million for Q4 and $0.2 million for the full year). The Emphasys organic growth primarily results from strong demand for new name and add-on licenses and services from their public housing and housing finance customers.

Private Sector

For the quarter ended December 31, 2008, total revenue in the private sector segment increased 5%, or $1 million, to $24 million, compared to $23 million for the quarter ended December 31, 2007. For the year ended December 31, 2008, total revenue increased by 16% or $14 million, to $100 million, compared to $86 million for the comparable period in 2007. Revenue growth from acquired businesses was not as strong as in the public sector as we have only completed thirteen acquisitions since the beginning of 2007 in our private sector segment. If the acquisitions had sustained their revenue run rates as of the time of acquisitions, it is estimated that they would have contributed approximately $3 million of revenue growth to our Q4 2008 revenues and $19 million of revenue growth to our revenues in the year ended December 31, 2008. Revenues decreased organically by $1 million in Q4 2008 and by $5 million in the year ended December 31, 2008. The organic revenue decline was driven by the following:

- **Jonas operating group** (increase of approximately $1 million for Q4 and $5 million for the full year). The Jonas organic growth in the quarter and for the full year was driven by sales to new and existing 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 $3 million for Q4 and $10 million for the full year). These Operating Groups continued to feel the effects of the housing slowdown in the U.S. The decline was apparent across all revenue streams as many of our clients and prospective clients have delayed purchasing decisions. Our Homebuilding and Friedman operating groups are significantly affected by decreasing demand for new housing and building products. These groups continue to see decreased demand for their products and services and we believe that demand will decrease further given the weakness in the underlying industries that they serve.

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 Dec. 31,				Fiscal year ended Dec. 31,			
	2008	2007	2008	2007	2008	2007	2008	2007
			($000)				($000)	
Gross profit licenses	92%	92%	9,246	6,876	91%	91%	33,740	25,443
Gross profit services & maintenance	61%	61%	50,481	32,824	61%	61%	168,227	122,219
Gross profit hardware & other	15%	26%	954	1,160	19%	21%	3,875	3,248
Gross profit on total revenue	62%	62%	60,681	40,860	62%	62%	205,842	150,910

Gross profit increased for the quarter ended December 31, 2008 to $61 million, or 62% of total revenue, from $41 million, or 62% of total revenue, for the quarter ended December 31, 2007. The increase in gross margin dollars for the quarter is attributable to the overall increase in total revenue. For the full year, our gross profit increased to $206 million or 62% of total revenue, from $151 million or 62% of total revenue for the comparable period in 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 both the three and twelve month periods. 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 Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change	
	2008	2007	$	%	2008	2007	$	%
	($000, except percentages)				($000, except percentages)			
Research and development	13,411	10,066	3,345	33%	48,224	36,965	11,259	30%
Sales and marketing	10,878	7,574	3,304	44%	37,693	28,666	9,027	31%
General and administration	14,201	12,684	1,517	12%	55,585	44,127	11,458	26%
Depreciation	1,133	706	427	60%	3,642	3,117	525	17%
	39,623	31,030	8,593	28%	145,144	112,875	32,269	29%

Overall operating expenses for the quarter ended December 31, 2008 increased 28%, or $9 million, to $40 million, compared to $31 million over the same period in 2007. As a percentage of total revenue, operating expenses decreased from 47% in the quarter ended December 31, 2007 to 40% in the quarter ended December 31, 2008. During the year ended December 31, 2008, operating expenses increased 29%, or $32 million, to $145 million, compared to $113 million over the same period in 2007. As a percentage of total revenue, operating expenses decreased from 46% in the year ended December 31, 2007 to 44% in the year ended December 31, 2008. The growth in expenses 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 43% from 768 in the quarter ended December 31, 2007 to 1,095 in the quarter ended December 31, 2008. In addition to the increased headcount in the fourth quarter, there was a higher employee bonus accrual driven by higher period over period revenue growth rates in 2008 versus 2007. The increase in expenses due to headcount and bonus accrual was partly offset by the significant depreciation of the Canadian dollar and British Pound over Q4 2007. During the twelve months ended December 31, 2008, headcount associated with operating expenses was up 30% to an average headcount of 957 compared to an average of 737 during the same period in 2007. Deterioration of the Canadian dollar vs. the US dollar has a significant positive 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, decreasing by 19% versus the U.S. dollar in Q4 2008 compared with Q4 2007 but increasing 1% for the comparable twelve month periods.

Research and development – Research and development expenses increased 33%, or $3 million, to $13 million for the quarter ended December 31, 2008 compared to $10 million for the same period in 2007. As a percentage of total revenue, research and development expenses decreased to 14% in Q4 2008 from 15% in Q4 2007. During the twelve months ended December 31, 2008, research and development expenses increased 30%, or $11 million, to $48 million, compared to $37 million over the same period in 2007. As a percentage of total revenue, research and development decreased slightly from 15.2% in the year ended December 31, 2007 to 14.6% in the year ended December 31, 2008. The increase in expenses during the quarter is largely attributable to our growth in headcount from both acquisitions and internal hiring offset by the weakening of the Canadian dollar. The increase in expenses for the full year is largely attributable to our growth in headcount. For Q4 2008, we averaged 624 staff compared to 429 in the same period in 2007 (536 vs. 410 for the comparable twelve month periods).

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 fourth quarter or twelve months ended 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 44%, or $3 million to $11 million, in the quarter ended December 31, 2008 compared to $8 million for the same period in 2007. As a percentage of total revenue, sales and marketing expenses decreased slightly to 11% in the quarter ended December 31, 2008 from 12% for the same period in 2007. For the year ended December 31, 2008, sales and marketing expenses increased 31%, or $9 million, to $38 million, compared to $29 million over the same period in 2007. As a percentage of total revenue, sales and marketing expenses decreased slightly from 12% in the year ended December 31, 2007 to 11% in the year ended December 31, 2008. The increase in expenses during the quarter and twelve months ended December 31, 2008 is largely attributable to our growth in headcount from both acquisitions and internal hiring. For Q4 2008, we averaged 240 staff compared to 174 in the same period in 2007 (217 vs. 168 for the comparable twelve month periods).

General and administration – General and administration ("G&A") expenses increased 12%, or $2 million, to $14 million in the quarter ended December 31, 2008 from $13 million for the same period in 2007. As a percentage of total revenue, G&A expenses decreased to 14% in Q4 2008 from 19% in Q4 2007. For the twelve months ended December 31, 2008, G&A increased 26%, or $11 million, to $56 million, compared to $44 million over the same period in 2007. As a percentage of total revenue, G&A decreased from 18% in the year ended December 31, 2007 to 17% in the year ended December 31, 2008. The dollar value increase in expenses during the quarter is largely attributable to our growth in headcount from both acquisitions and internal hiring partly offset by the weakening of the Canadian dollar. The dollar value increase in expenses during the year is largely attributable to our growth in headcount from both acquisitions and internal hiring. Average headcount for G&A employees grew from 166 staff in Q4 2007 to 231 for Q4 2008 (159 vs. 204 for the comparable twelve month periods).

Depreciation of property and equipment – Depreciation of property and equipment for the quarter and twelve months ended December 31, 2008 did not change materially. As a percentage of total revenue, depreciation was 1.2% in Q4 2008 compared to 1.1% in Q4 2007. For the twelve month periods the percentages were 1.1% in 2008 vs. 1.3% in 2007.

Non-Operating Expenses:

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

	Three months ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change	
	2008	2007	$	%	2008	2007	$	%
	($000, except percentages)				($000, except percentages)			
Amortization of intangible assets	15,629	7,419	8,210	111%	42,635	22,364	20,271	91%
Other (income) expenses	0	(56)	56	NA	0	14	(14)	NA
Gain on sale of short term investments, marketable securities and other assets	0	(15)	15	NA	(8)	(1,369)	1,361	-99%
Loss on held for trading investments related to mark to market adjustments	288	0	288	NA	421	0	421	NA
Interest expense (income)	598	(108)	706	NA	1,115	(508)	1,623	NA
Foreign exchange (gain) loss	30	424	(394)	NA	(455)	2,466	(2,921)	NA
Income tax expense	543	526	17	3%	1,996	3,958	(1,962)	-50%
	17,088	8,190	8,898	109%	45,704	26,925	18,779	70%

Amortization of intangible assets – Amortization of intangible assets was $16 million for the quarter ended December 31, 2008 compared to $7 million for the same period in 2007, representing an increase of 111%. For the year ended December 31, 2008, amortization of intangibles increased 91%, to $43 million, compared to $22 million over the same period in 2007. Both the three and twelve month increases are attributable to the increases in our intangible asset balance (on a cost basis) over the three and twelve month periods ended December 31, 2008 as a result of the acquisitions that we completed during these periods.

Gain on sale of short-term investments, marketable securities and other assets – Loss on sale of short-term investments, marketable securities and other assets was nil for the quarter ended December 31, 2008 compared to a gain of $15,000 for Q4 2007. Gain on sale of short-term investments, marketable securities and other assets was $8,000 for 2008 compared to a gain of $1.4 million for 2007. The gains and losses are a result of liquidating portions 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 in their entirety and hold them indefinitely. However, occasionally we will acquire an ownership interest that is less than 100% of a publicly traded VMS business. As of December 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, if our outlook for the businesses changes, or if the market price exceeds our expectations of value.

Loss on held for trading investments related to mark to market adjustments – Loss on held for trading for investments related to mark to market adjustments was $288,000 for Q4 2008 and $421,000 in 2008 compared to nil in Q4 2007 and nil in 2007. The loss relates to fair value adjustments to warrants held by the company that are not publicly traded.

Interest (expense) income – Net interest expense was $598,000 for the quarter ended December 31, 2008 compared to net interest income of $108,000 for the same period in the previous year. For 2008, interest expense was $1.1 million compared to interest income of $508,000 in the comparable period for 2007. 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. The increase in interest expense for both the quarter and year ended December 31, 2008 versus the comparable periods in 2007 is due to the increased use of our revolver to fund acquisitions.

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 December 31, 2008, our foreign exchange loss was $30,000 compared to a loss of $424,000 for Q4 2007. For 2008, the gain was $455,000 compared to a loss of $2.5 million in 2007. The significant foreign exchange loss in 2007 was mainly attributable to a 19% increase in the year-end closing rate for the Canadian dollar vs. the US dollar at December 31, 2007 vs. December 31, 2006. 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 the end of Q4 2007, we had to record a significant foreign exchange loss.

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 December 31, 2008, the income tax expense was $543,000, compared $526,000 for the same period in 2007. For the twelve months ended December 31, 2008, the income tax expense was $2.0 million, compared to $4 million for the same period in 2007. The decrease in the tax expense for year ended December 31, 2008 compared to 2007 is mainly attributable to future income tax recovery primarily arising from the amortization of acquired intangible assets which have a zero basis for tax purposes.

Net Income (Loss):

Net income for the quarter ended December 31, 2008 was $4 million compared to net income of $2 million for the same period in 2007. On a per share basis this translated into a net income per diluted share of $0.19 in Q4 2008 vs. a net income per diluted share of $0.08 in Q4 2007. For the year ended December 31, 2008, net income was $15 million or $0.71 per diluted share compared to $11 million or $0.52 per share in 2007. Net income in Q4 2008 and for the year ended December 31, 2008 was positively impacted by the growth in our operations and operating income offset by an increase in amortization of intangibles.

Adjusted EBITDA:

For Q4 2008, Adjusted EBITDA increased by $12 million to $22 million compared to $11 million in Q4 2007, representing an increase of 111%. Adjusted EBITDA margin was 23% in the fourth quarter of 2008, compared to 16% of total revenue for the same period in 2007. For the year ended December 31, 2008, Adjusted EBITDA increased by $23 million to $64 million compared to $41 million for the same period in 2007, representing an increase of 56%. Adjusted EBITDA margin was 19% for the year ended December 31, 2008, compared to 17% of total revenue for the same period in 2007. The increase in Adjusted EBITDA margin for Q4 2008 and for 2008 is largely due to the depreciation of the Canadian dollar 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, decreasing by 19% versus the U.S. dollar in Q4 2008 compared with Q4 2007 but increasing 1% for the comparable twelve month periods. See "Non-GAAP Measures" for a description of Adjusted EBITDA and Adjusted EBITDA margin.

.

The following table reconciles Adjusted EBITDA to net income (loss):

	Three months ended Dec. 31,		Fiscal year ended Dec. 31,	
	2008	2007	2008	2007
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 98,397	$ 66,068	$ 330,532	$ 243,023
Net income	3,970	1,640	14,994	11,110
Add back:				
Income tax expense	543	526	1,996	3,958
Foreign exchange (gain) loss	30	424	(455)	2,466
Interest expense (income)	598	(108)	1,115	(508)
Loss on held for trading investments related to mark to market adjustments	288	0	421	0
Gain on sale of short-term investments, marketable securities and other assets	0	(15)	(8)	(1,369)
Other (income) expenses	0	(56)	0	14
Amortization of intangible assets	15,629	7,419	42,635	22,364
Depreciation	1,133	706	3,642	3,117
Adjusted EBITDA	22,191	10,536	64,340	41,152
Adjusted EBITDA margin	23%	16%	19%	17%

Adjusted net income:

For Q4 2008, Adjusted net income increased by $10 million to $19 million compared to $9 million in Q4 2007, representing an increase of 103%. Adjusted net income margin was 19% in the fourth quarter of 2008, compared to 14% of total revenue for the same period in 2007. For the year ended December 31, 2008, Adjusted net income increased by $21 million to $54 million compared to $33 million during the same period in 2007, representing an increase of 64%. Adjusted net income margin was 16% for the year ended December 31, 2008, compared to 14% 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 Dec. 31, 2008	Three months ended Dec. 31, 2007	Fiscal year ended Dec. 31, 2008	Fiscal year ended Dec. 31, 2007
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 98,397	$ 66,068	$ 330,532	$ 243,023
Net income	3,970	1,640	14,994	11,110
Add back:				
Amortization of intangible assets	15,629	7,419	42,635	22,364
Future income taxes (recovery)	(603)	302	(3,185)	(315)
Adjusted net income	18,996	9,361	54,444	33,159
Adjusted net income margin	19%	14%	16%	14%

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							
	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
	($000, except per share amounts)							
ANI per previous method	7,036	8,751	8,628	9,059	12,425	12,603	13,002	19,599
Future tax expense (recovery)	(154)	(348)	(115)	302	(1,309)	(603)	(670)	(603)
ANI per current method	6,882	8,403	8,513	9,361	11,116	12,000	12,332	18,997
Fully diluted shares	21,192	21,192	21,192	21,192	21,192	21,192	21,192	21,192
ANI/share per previous method	0.33	0.41	0.41	0.43	0.59	0.59	0.61	0.92
ANI/share per current method	0.32	0.40	0.40	0.44	0.52	0.57	0.58	0.90

Quarterly Results

	Quarter Ended							
	Mar. 31, 2007	Jun. 30, 2007	Sep. 30, 2007	Dec. 31, 2007	Mar. 31, 2008	Jun. 30, 2008	Sep. 30, 2008	Dec. 31, 2008
	($000, except per share amounts)							
Revenue	55,893	60,487	60,574	66,068	73,603	77,742	80,790	98,397
Net Income (loss)	2,602	3,542	3,326	1,640	4,329	3,402	3,293	3,970
Net Income (loss) per share								
Basic	0.12	0.17	0.16	0.08	0.21	0.16	0.16	0.19
Diluted	0.12	0.17	0.16	0.08	0.20	0.16	0.16	0.19

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.

Acquisition of certain software assets and liabilities from MAXIMUS Inc.

On September 30, 2008, Constellation acquired certain assets and liabilities of MAXIMUS Inc.'s Justice, Education, and Asset Solution businesses ('MAJES') for aggregate cash consideration of $35 million plus cash holdbacks of $5 million resulting in total consideration of $40 million. The table below provides certain supplemental income statement and cash flow information of MAJES for the year ended December 31, 2008. MAJES 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 MAJES. 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. In the interim, the impact on cash flow will be reflected in the statement of cash flow from operating activities.

The company also acquired certain long-term contracts that contain contingent liabilities that may, but in management's opinion are unlikely to, exceed $17 million in the aggregate.

Statement of Operations
For the year-ended December 31, 2008

(Unaudited)		Constellation Software Inc. (excluding MAJES)		MAJES		Consolidated
Revenue	$	313,974	$	16,558	$	330,532
Cost of revenue		117,686		7,004		124,690
Gross Profit		196,288		9,554		205,842
Total Expenses (pre amortization)		135,339		6,163		141,502
Adjusted EBITDA		60,949		3,391		64,340
EBITDA as % Total Revenue		19%		20%		19%
Depreciation		3,459		183		3,642
Income before the undernoted		57,490		3,208		60,698
Amortization of intangible assets		40,568		2,067		42,635
Other Expenses		1,073		-		1,073
Income before income taxes		15,849		1,141		16,990
Income taxes		1,996		-		1,996
Net Income	$	13,853	$	1,141	$	14,994

Cash flow from operating activities
For the year-ended December 31, 2008

(Unaudited)		Constellation Software Inc. (excluding MAJES)		MAJES		Consolidated
Cash flows from operating activities:						
Net income	$	13,853	$	1,141	$	14,994
Adjustments to reconcile net income to net cash flows from operations:						
Depreciation		3,459		183		3,642
Amortization of intangible assets		40,568		2,067		42,635
Future income taxes		(3,958)		773		(3,185)
Other non-cash items		(163)		-		(163)
Change in non-cash operating working capital		9,932		(5,087)		4,845
Cash flows from operating activities	$	63,691	$	(923)	$	62,768

Adjusted EBITDA to net income reconcilation
For the year-ended December 31, 2008

(Unaudited)	Constellation Software Inc. (excluding MAJES)	MAJES	Consolidated
Total revenue	$ 313,974	$ 16,558	$ 330,532
Net income	13,853	1,141	14,994
Add back:			
Income tax expense	1,996	-	1,996
Other expenses	1,073	-	1,073
Amortization of intangible assets	40,568	2,067	42,635
Depreciation	3,459	183	3,642
Adjusted EBITDA	60,949	3,391	64,340
Adjusted EBITDA margin	19%	20%	19%

Liquidity

Our cash position (net of borrowings on our line of credit) at December 31, 2008 decreased to negative $30 million, from $0.5 million at December 31, 2007. The decrease in cash was largely attributable to cash deployed on acquisitions and holdbacks of $71 million and cash invested in marketable securities of $12 million offset by cash generated from operating activities.

Total assets increased $119 million, from $267 million at December 31, 2007 to $386 million at December 31, 2008. The majority of the increase can be explained by increases in: a) intangible assets and goodwill of $70 million due to the completion of several acquisitions b) short term investments and marketable securities of $9 million due to the investment made in UK based Gladstone PLC and U.S. based Mediware Information Systems Inc.; c) accounts receivable and work in progress of $18 million which were driven by growth in the business and by acquisitions; and d) cash of $11 million which is explained below.

Current liabilities increased $97 million, from $156 million as of December 31, 2007, to $253 million at December 31, 2008. From an individual category perspective the increases were driven by a) bank indebtedness up $41 million due to acquisitions made in 2008; b) a deferred revenue increase of $37 million, due to the growth in our business and due to acquisitions and c) an increase of $20 million in accounts payable and accrued liabilities due to the accrual of 2008 employee bonuses and due to growth in the business.

Net Changes in Cash Flow	**Twelve months ended December 31, 2008** (in millions of $)
Net cash provided by operating activities	$63
Net cash from financing activities	37
Net cash used in investing activities	(87)
Effect of exchange rate changes on cash and cash equivalents	(2)
Net increase in cash and cash equivalents	$11

The net cash flow from operating activities was $63 million for the year ended December 31, 2008. We generated free cash flow profits of approximately $58 million from operations as well as $5 million from a reduction in non-cash operating working capital.

The net cash provided by financing activities in 2008 was $37 million. Borrowings on our line of credit generated cash of $41 million which was offset by the payment of our annual dividend of $0.18 per share for cash usage of $4 million, and the payment of credit facility financing fees of $1 million.

The net cash used in investing activities in 2008 was $88 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $71 million (including payments for holdbacks relating to prior acquisitions) and the investment of marketable securities of $12 million. We also invested approximately $3 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 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. In Q4 2008, we increased the amount of this facility to $130 million from $105 million. As of December 31, 2008, we had drawn $60 million on this facility and issued letters of credit for $7 million which limits our borrowing capacity dollar for dollar.

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 December 31, 2008.

	Total	< 1 yr	1-3 yrs	3-5 yrs	>5 yrs
Operating and capital leases (note 1)	27,060	7,105	9,551	5,890	4,514
Holdbacks	11,673	10,901	772		
Letters of credit	7,000	7,000			
Line of credit	60,200		60,200		
Total outstanding cash commitments	105,933	25,006	70,523	5,890	4,514

Note 1. Capital leases represent less than 2% of total

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 Q4 2008 and for the full year ended 2008:

	Three Months Ended 2008		Full Year ended 2008	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	81%	67%	76%	58%
CAD	10%	23%	12%	30%
GBP	6%	7%	8%	9%
Others	3%	3%	4%	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, 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 2008. The outstanding balance of loans granted under the KELP as of December 31, 2008 was $931,000 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

General

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Our ongoing evaluation of these estimates forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of revenues and expenses, in cases where they are not readily ascertainable from other sources. Actual amounts may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are fully described in Note 1 to our annual consolidated financial statements which are available on SEDAR (www.sedar.com). We did not change our accounting policies or initially adopt new or different accounting policies during the year ended December 31, 2008, except as follows: On January 1, 2008 we adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook (CICA Handbook) Section 1535, *Capital Disclosures*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3862, *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments - Presentation*.

Certain accounting policies are particularly important to the reporting of our financial position and results of operations, and require the application of significant judgment by our management. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different, estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could have a material impact on the financial statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements. We believe that there have been no significant changes in our critical accounting estimates for the years presented in our consolidated financial statements.

Revenue Recognition

Revenue consists primarily of software license fees, maintenance fees, and professional service fees. Maintenance and service revenue is comprised of professional services revenue from consulting, implementation and training services related to our products and maintenance and technical support, which also includes certain software upgrades and enhancements. We recognize revenue in accordance with the current rules of Canadian GAAP. Revenue recognition requirements are very complex and are affected by interpretations of the rules and industry practices, both of which are subject to change. We follow specific and detailed guidelines in measuring revenue; however, certain judgments and current interpretations of rules and guidelines affect the application of our revenue recognition policy.

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. For license arrangements that do not require significant modifications or customization of the software, we recognize software license revenue when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed or determinable, and collection of the resulting receivable is probable.

One of the critical judgments we make is our assessment of the probability of collecting the related accounts receivable balance on a customer-by-customer basis. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection had been made at the time that the transactions were recorded in revenue. In cases where collectibility is not deemed probable, revenue is recognized upon receipt of cash, assuming all other criteria have been met.

When a license agreement includes one or more elements to be delivered at a future date and vendor specific objective evidence (''VSOE'') of the fair value of all undelivered elements exists, we use the residual method to recognize revenue. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of the fair value of one or more undelivered elements does not exist, all revenue is deferred and recognized when delivery of those elements occurs or when fair value can be established. VSOE for all elements of an arrangement is based upon the normal pricing and discounting practices for those elements when sold separately, and, for maintenance services, may additionally be measured by the renewal rate. We are required to exercise judgment in determining whether VSOE exists for each undelivered element and to determine whether and when each element has been delivered. If we were to change any of these assumptions or judgments, it could cause a material increase or decrease in the amount of revenue that we recognize in a particular period.

Maintenance revenue consists of fees charged for customer support on our software products post-delivery, which are determinable based upon VSOE of the fair value. Maintenance fee arrangements include ongoing customer support and rights to certain product updates ''if and when available''. Customer payments for maintenance are generally received in advance and are non-refundable. Maintenance revenue is deferred and recognized on a straight-line basis over the life of the related period, which is typically one year.

Professional service revenue consists of fees charged for product training and consulting and implementation services, which are determinable based upon VSOE of the fair value. When license arrangements include maintenance and professional services, the license fees are recognized upon delivery, provided that (1) the criteria described above for delivery have been met, (2) payment of the license fees is not dependent upon the performance or acceptance of the services, (3) the services are not essential to the functionality of the software, and (4) VSOE exists on the undelivered services and maintenance. We use VSOE of the fair value for the services and maintenance to account for an arrangement using the residual method, regardless of any separately stated prices within the contract for each element. Revenue for services is recognized as the services are performed. VSOE of their fair value of professional services is based upon the average hourly rate charged when such services are sold separately. When we enter into contracts to provide services only, revenue is recognized as the services are performed. Fixed price professional services contracts are recognized on a proportional performance basis as determined by the relationship of contract costs incurred to date and the estimated total contract costs, which are regularly reviewed during the life of the contract, subject to the achievement of any agreed upon milestones. In the event that a milestone has not been achieved, the associated cost is deferred and revenue is not recognized until the customer has accepted the milestone.

Revenue from fixed price professional service contracts is recognized on a proportional performance basis, which requires us to make estimates and is subject to risks and uncertainties inherent in projecting future events. A number of internal and external factors can affect our estimates, including the nature of the services being performed, the complexity of the customer's environment and the utilization and efficiency of our professional services employees. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. If we do not have a sufficient basis to estimate the progress towards completion, revenue is recognized when the project is complete or when we receive final acceptance from the customer.

For arrangements that do not meet the criteria described above, both license revenues and professional services revenues are recognized using the percentage-of-completion method where reasonably dependable estimates of progress toward completion of a contract can be made. We estimate the percentage-of-completion on contracts utilizing costs incurred to date as a percentage of the total costs at project completion. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to earnings in the period in which the facts that give rise to the revision become known. It should be noted that the majority of our license and professional services revenue are recognized under the percentage of completion method. If the estimated costs to complete cannot be reasonably estimated, the completed-contract method of revenue recognition is used. A number of contracts acquired as part of the MAJES acquisition are accounted for using the completed-contract method of accounting.

Valuation of Identifiable Goodwill and Other Intangible Assets

We account for our business acquisitions under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we must identify and attribute values and estimated lives to the intangible assets acquired. While we may employ experts to assist us with these matters, such determinations involve considerable judgment, and often involve the use of significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, and asset lives. These determinations will affect the amount of amortization expense recognized in future periods.

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the fair value assigned to the net identifiable tangible and intangible assets acquired. Goodwill is not amortized but rather it is periodically assessed for impairment. We perform an annual review in the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired.

Goodwill is tested for impairment at the ''reporting unit level'' (''reporting unit'') in accordance with the CICA Handbook Section 3062, ''Goodwill and Other Intangible Assets.'' A ''reporting unit'' is a group or business for which discrete financial information is available and that has similar economic characteristics. Our impairment review process compares the fair value of the reporting unit to its carrying value, including the goodwill related to the reporting unit. To determine the fair value, our review process uses the cash flow method and is based on a discounted future cash flow approach that utilizes estimates for the reporting units that include the following: revenue, based on expected growth rates; estimated costs; and appropriate discount rates. Significant management judgment is required in the forecasting of future operating results, which are used in the preparation of the projected discounted cash flows. Should different conditions prevail, material write-downs of goodwill could occur.

We also review the carrying value of amortizable intangible assets for impairment on an annual basis, or whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. Any change in estimate which causes the undiscounted expected future cash flows to be less than the carrying value, would result in an impairment loss being recognized equal to the amount by which the carrying value of the asset exceeds the fair value of the asset.

Accounting for Income Taxes

Significant management judgment is required in determining our provision for income taxes, our income tax assets and liabilities, and any valuation allowance recorded against our net income tax assets. We operate in multiple geographic jurisdictions, and to the extent that we have profits in each jurisdiction, these profits are taxed pursuant to the tax laws of their jurisdiction. Our effective tax rate may be affected by changes in, or interpretations of, tax laws in any given jurisdiction, the level of profitability, utilization of net operating losses and tax credit carry forwards, changes in geographical mix of income and expense, and changes in management's assessment of matters, such as the ability to realize future tax assets. As a result of these considerations, we must estimate our income taxes in each of the jurisdictions in which we operate on a quarterly basis. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in future tax assets and liabilities, which are included in our consolidated balance sheet.

We record a valuation allowance to reduce our future tax assets recorded on our balance sheet to the amount of future tax benefit that is more likely than not to be realized. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our income tax assets will be recoverable. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance will not need to be increased to cover additional future tax assets that may not be realizable. Although we believe that our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. Any increase in the valuation allowance could have a material adverse impact on our income tax provision and net income reflected in our consolidated statement of operations in the period in which such determination is made.

Accounts Receivable

We evaluate the collectibility of our trade receivables based on a combination of factors. We regularly analyze our significant customer accounts, and, when we become aware of a specific customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, we record specific bad debt reserves to reduce the related receivable to the amount which we reasonably believe is collectible. We also record reserves for bad debts on a small portion of all other customer balances based on a variety of factors, including the length of time that the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, our estimates of the recoverability of receivables could be further adjusted.

Work In Progress

For revenue arrangements that are accounted for under the percentage of completion method as well as other arrangements and contracts which limit our ability to invoice to certain milestones that do not match the timing of the actual provision of the services, we record such revenue and the related unbilled receivable in work in process. Similar to accounts receivable, we constantly have to evaluate our ability to bill and subsequently collect any amounts contained in the work in progress accounts. We review these balances on a periodic basis to ensure customer balances are prudent based upon a variety of factors, such as the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, our estimates of the recoverability of work in progress may be further adjusted.

Contingencies

We are currently involved in various claims and legal proceedings. Quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in determining whether a loss is probable and, if so, whether an exposure is reasonably estimable. Because of the uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and, if necessary, revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

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

In February 2008, the Canadian Accounting Standards Board announced the adoption of International Financial Reporting Standards 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 of 2011. We have initiated an IFRS transition project with a formal project plan and a project manager. Regular reporting is provided to our senior executive management and to our Board of Directors on the project's progress. We have completed the diagnostic phase of our project, which involved an initial assessment and scoping of the significant differences between existing Canadian GAAP and IFRS. Currently, we believe that the areas of accounting difference with the highest potential impact to us are the presentation and disclosure requirements, business combinations, and accounting for income taxes. At this time, we cannot reasonably estimate the impact of adopting IFRS on our consolidated financial statements.

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.

In January 2009, the CICA issued Handbook Section 1582, "Business combinations," which replaces the 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 considerations and contingencies will also be recorded at fair value at the acquisition date. The 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 equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

In January 2009, the CICA issued EIC-173, "Credit risk and the fair value of financial assets and financial liabilities", which requires us to consider our own credit risk as well as the credit risk of our counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. This standard is effective for our first quarter of 2009 and should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value on the date this abstract was issued. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

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. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

Share Capital

As at March 4, 2009, 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 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 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 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 December 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 designing and maintaining internal controls over financial reporting as defined under National Instrument 52-109. At December 31, 2008, the President and Chief Financial Officer concluded that the design and operation 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 based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework.

The President and CFO have evaluated whether there were changes to internal controls over financial reporting during the interim period ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. No such changes were identified.

Exclusion of MAJES

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 MAJES Inc., which are included in our fiscal 2008 consolidated financial statements. Certain summary financial information related to MAJES has been included above under "Acquisition of certain software assets and liabilities from MAXIMUS Inc."