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, 2010, 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, March 2, 2011. 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 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), extraordinary gain, amortization, and foreign exchange loss (gain). 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 implementation services, custom programming, product training and consulting. Hardware sales include the resale of third party hardware as well as sales of hardware assembled 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, maintenance and the assembly of hardware. 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 December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Year-Over-Year Change		Fiscal year ended December 31,
	2010	2009	$	%	2010	2009	$	%	2008
Revenue	**171,468**	**131,894**	**39,574**	**30%**	**630,857**	**437,940**	**192,917**	**44%**	**330,532**
Cost of Revenue	71,719	53,673	18,046	34%	262,569	166,607	95,962	58%	124,690
Gross Profit	99,749	78,221	21,528	28%	368,288	271,333	96,955	36%	205,842
Expenses									
Research and development	20,828	19,172	1,656	9%	84,880	65,632	19,248	29%	48,224
Sales and marketing	15,235	13,680	1,555	11%	58,310	45,174	13,136	29%	37,693
General and administration	30,942	23,141	7,801	34%	108,668	72,401	36,267	50%	55,585
Total Expenses (excluding depreciation and amortization)	67,005	55,993	11,012	20%	251,858	183,207	68,651	37%	141,502
Adjusted EBITDA	**32,744**	**22,228**	**10,516**	**47%**	**116,430**	**88,126**	**28,304**	**32%**	**64,340**
Depreciation	1,888	1,105	783	71%	6,036	3,811	2,225	58%	3,642
Total Expenses	68,893	57,098	11,795	21%	257,894	187,018	70,876	38%	145,144
Income before the undernoted	**30,856**	**21,123**	**9,733**	**46%**	**110,394**	**84,315**	**26,079**	**31%**	**60,698**
Amortization of intangible assets	20,050	16,317	3,733	23%	70,064	60,588	9,476	16%	42,635
Other expenses (income)	218	(445)	663	NA	(175)	996	(1,171)	NA	413
Interest expense, net	1,353	794	559	70%	3,847	2,702	1,145	42%	1,115
Foreign exchange loss (gain)	2,347	1,944	403	21%	2,387	2,568	(181)	-7%	(455)
Income before exceptional items and income taxes	6,888	2,513	4,375	174%	34,271	17,461	16,810	96%	16,990
Extraordinary gain (taxes - nil)	9,021	-	9,021	NA	12,538	-	12,538	NA	-
Income taxes (recovery)									
Current	3,927	4,172	(245)	-6%	16,961	15,635	1,326	8%	5,181
Future	(5,911)	(1,649)	(4,262)	258%	(11,918)	(8,398)	(3,520)	42%	(3,185)
	(1,984)	2,523	(4,507)	-179%	5,043	7,237	(2,194)	-30%	1,996
Net income (loss)	**17,893**	**(10)**	**17,903**	**NM**	**41,766**	**10,224**	**31,542**	**309%**	**14,994**
Adjusted net income	**23,011**	**14,658**	**8,353**	**57%**	**87,374**	**62,414**	**24,960**	**40%**	**54,444**
Weighted average number of shares outstanding (000's)									
Basic	21,181	21,172			21,179	21,165			21,140
Diluted	21,192	21,192			21,192	21,192			21,192
Net income per share									
Basic	$ 0.84	$ -	$ 0.84	NA	$ 1.97	$ 0.48	$ 1.49	310%	$ 0.71
Diluted	$ 0.84	$ -	$ 0.84	NA	$ 1.97	$ 0.48	$ 1.49	310%	$ 0.71
Adjusted EBITDA per share									
Basic	$ 1.55	$ 1.05	$ 0.50	48%	$ 5.50	$ 4.16	$ 1.34	32%	$ 3.04
Diluted	$ 1.55	$ 1.05	$ 0.50	48%	$ 5.49	$ 4.16	$ 1.33	32%	$ 3.04
Adjusted net income per share									
Basic	$ 1.09	$ 0.69	$ 0.40	58%	$ 4.13	$ 2.95	$ 1.18	40%	$ 2.58
Diluted	$ 1.09	$ 0.69	$ 0.40	58%	$ 4.12	$ 2.95	$ 1.17	40%	$ 2.57
Cash dividends declared per share									
Basic					$ 0.26	$ 0.22	$ 0.04	20%	$ 0.18
Diluted					$ 0.26	$ 0.22	$ 0.04	20%	$ 0.18
Total assets	553,413	471,991	81,422	17%	553,413	471,991	81,422	17%	385,799
Total long-term liabilities	72,545	73,829	(1,284)	-2%	72,545	73,829	(1,284)	-2%	37,224

Comparison of the fourth quarter and fiscal years ended December 31, 2010 and 2009

Revenue:

Total revenue for the quarter ended December 31, 2010 was $171 million, an increase of 30%, or $39 million, compared to $132 million for the comparable period in 2009. For the 2010 fiscal year, total revenues were $631 million, an increase of 44%, or $193 million, compared to $438 million for the comparable period in 2009. The increase for both the fourth quarter and the full year compared to the same periods in the prior year was almost entirely attributable to growth from acquisitions, as organic growth was 1% for the fourth quarter and negative 4% for the full year. 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. Revenue from PTS declined significantly in the twelve months 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. 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 1% in Q4 2010 and 2% for 2010.

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

Organic Revenue Growth

	Three months ended December 31, 2010	Fiscal year ended December 31, 2010
Constellation	1%	-4%
Constellation excluding PTS	1%	2%

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

Software license revenue for the quarter ended December 31, 2010 was $16 million, an increase of 30%, or $4 million compared to $12 million for the comparable period in 2009. During the year ended December 31, 2010, license revenue increased by 24%, or $10 million to $53 million, from $43 million for the same period in 2009. Professional services and other services revenue for the quarter ended December 31, 2010 increased by 21%, or $7 million to $42 million, from $35 million for the same period in 2009. During the year ended December 31, 2010, professional services and other services revenue increased by 52%, or $57 million to $167 million, from $110 million for the same period in 2009. Hardware and other revenue for the quarter ended December 31, 2010 increased by 106%, or $12 million to $23 million from $11 million for the same period in 2009. During the year ended December 31, 2010, hardware and other revenue increased by 121%, or $41 million to $75 million, from $34 million for the same period in 2009. Maintenance revenues for the quarter ended December 31, 2010 increased by 23%, or $17 million to $91 million, from $74 million for the same period in 2009. During the year ended December 31, 2010, maintenance revenue increased by 34%, or $85 million to $337 million, from $252 million for the same period in 2009. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended December 31,				Fiscal year ended December 31,			
	2010	2009	2010	2009	2010	2009	2010	2009
	($000)		(% of total revenue)		($000)		(% of total revenue)	
Licenses	16,017	12,320	9%	9%	52,961	42,670	8%	10%
Professional services and other:								
Services	42,428	34,982	25%	27%	166,629	109,695	26%	25%
Hardware and other	22,515	10,953	13%	8%	74,604	33,797	13%	8%
Maintenance	90,508	73,639	53%	56%	336,663	251,778	53%	57%
	171,468	131,894	100%	100%	630,857	437,940	100%	100%

We aggregate our business into two distinct reportable 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, 2010 compared to the same periods in 2009:

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Year-Over-Year Change	
	2010	2009	$	%	2010	2009	$	%
	($000, except percentages)				($000, except percentages)			
Public Sector								
Licenses	11,109	9,759	1,350	14%	37,782	33,954	3,828	11%
Professional services and other:								
Services	35,119	31,603	3,516	11%	138,379	97,234	41,145	42%
Hardware and other	20,065	9,908	10,157	103%	66,075	30,008	36,067	120%
Maintenance	61,494	51,992	9,502	18%	229,488	175,423	54,065	31%
	127,787	103,262	24,525	24%	471,724	336,619	135,105	40%
Private Sector								
Licenses	4,907	2,561	2,346	92%	15,181	8,716	6,465	74%
Professional services and other:								
Services	7,309	3,379	3,930	116%	28,250	12,461	15,789	127%
Hardware and other	2,451	1,044	1,407	135%	8,526	3,789	4,737	125%
Maintenance	29,014	21,648	7,366	34%	107,176	76,355	30,821	40%
	43,681	28,632	15,049	53%	159,133	101,321	57,812	57%

Public Sector

For the quarter ended December 31, 2010, total revenue in the public sector segment increased 24%, or $25 million, to $128 million, compared to $103 million for the quarter ended December 31, 2009. For the year ended December 31, 2010, total revenue increased by 40%, or $135 million, to $472 million, compared to $337 million for the comparable period in 2009. The increases for both the three months and the full year were significant across all revenue types. Revenue growth from acquired businesses was significant for both the three and twelve month periods as we completed fifteen acquisitions since the beginning of 2009 in our public sector segment. It is estimated that acquisitions completed since the beginning of 2009 contributed approximately $26 million to our Q4 2010 revenues and $156 million to our revenues in the year ended December 31, 2010. Revenues decreased organically by 1% or $1 million in Q4 2010 and by 6% or $21 million in the year ended December 31, 2010 compared to the same periods in 2009. Excluding PTS, organic growth for the public sector was negative 2% in Q4 2010 and 1% for 2010.

Organic Revenue Growth		
	Three months ended December 31, 2010	Fiscal year ended December 31, 2010
Public Sector	-1%	-6%
Public Sector excluding PTS	-2%	1%

The organic revenue change was primarily driven by the following:

- **Trapeze operating group** (increase of approximately $2 million for Q4 and a decrease of $23 million for the full year). For the full year, the negative organic growth was primarily caused by the PTS business as PTS recognized substantial non-recurring revenue in the twelve months prior to acquisition that did not re-occur in the corresponding financial period following acquisition. Excluding the impact of PTS, Trapeze experienced 3% organic growth in Q4 and 2% organic growth for the full year.

  Effective March 3, 2011, Trapeze Operating Group will be renamed the Volaris Operating Group.

- **Harris operating group** (decrease of approximately $3 million for Q4 and an increase of approximately $3 million for the full year). For Q4, Harris experienced decreased revenue in a few business units principally due to a delay in orders and due to a slowdown in the progression to contract completion on a few large contracts. For the full year, Harris had increased revenue from existing clients and new customers in their utility, local government and school business units.

Private Sector

For the quarter ended December 31, 2010, total revenue in the private sector segment increased 53%, or $15 million, to $44 million, compared to $29 million for the quarter ended December 31, 2009. For the year ended December 31, 2010 total revenue increased by 57%, or $58 million, to $159 million, compared to $101 million for the comparable period in 2009. Revenue growth from acquired businesses was significant for both the three and twelve month periods as we completed nineteen acquisitions since the beginning of 2009 in our private sector segment. It is estimated that acquisitions completed since the beginning of 2009 contributed approximately $12 million to our Q4 2010 revenues and $51 million to our revenues in the year ended December 31, 2010. Revenues increased organically by 9% or $3 million in Q4 2010 and 5% or $5 million in the year ended December 31, 2010 compared to the same periods in 2009. The organic revenue change was primarily driven by the following:

- **Jonas operating group** (increase of approximately $2 million for Q4 and $4 million for the full year). For both the quarter and full year, Jonas' organic growth was driven by strong sales to both existing and new customers primarily in its' fitness, construction, and food service verticals.

- **Homebuilder operating group** (increase of approximately $2 million for Q4 and $3 million for the full year). For both the quarter and full year, Homebuilders' organic growth was driven by strong sales to both existing and new customers primarily in its' pulp and paper and homebuilding verticals.

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 December 31,				Fiscal year ended December 31,			
	2010	2009	2010	2009	2010	2009	2010	2009
			($000)				($000)	
Gross profit licenses	90%	90%	14,409	11,147	89%	91%	47,349	39,041
Gross profit services & maintenance	59%	60%	78,604	64,907	60%	62%	300,583	224,738
Gross profit hardware & other	30%	20%	6,736	2,167	27%	22%	20,356	7,554
Gross profit on total revenue	58%	59%	99,749	78,221	58%	62%	368,288	271,333

Gross profit increased for the quarter ended December 31, 2010 to $100 million, or 58% of total revenue, from $78 million, or 59% of total revenue, for the quarter ended December 31, 2009. The increase in gross profit is attributable to the overall increase in total revenue. For the year ended December 31, 2010, our gross profit increased to $368 million or 58% of total revenue, from $271 million or 62% of total revenue for the comparable period in 2009. The decline in gross profit as a percentage of revenue for the full year 2010 compared to the full year 2009 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 December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Year-Over-Year Change	
	2010	2009	$	%	2010	2009	$	%
	($000, except percentages)				($000, except percentages)			
Research and development	20,828	19,172	1,656	9%	84,880	65,632	19,248	29%
Sales and marketing	15,235	13,680	1,555	11%	58,310	45,174	13,136	29%
General and administration	30,942	23,141	7,801	34%	108,668	72,401	36,267	50%
Depreciation	1,888	1,105	783	71%	6,036	3,811	2,225	58%
	68,893	57,098	11,795	21%	257,894	187,018	70,876	38%

Overall operating expenses for the quarter ended December 31, 2010 increased 21%, or $12 million, to $69 million, compared to $57 million during the same period in 2009. As a percentage of total revenue, operating expenses decreased from 43% in the quarter ended December 31, 2009 to 40% in the quarter ended December 31, 2010. During the year ended December 31, 2010, operating expenses increased 38%, or $71 million, to $258 million, compared to $187 million during the same period in 2009. As a percentage of total revenue, operating expenses decreased from 43% in the year ended December 31, 2009 to 41% in the year ended December 31, 2010. The growth in expenses for the three month period is primarily due to the growth in the number of employees and due to the appreciation of the Canadian dollar versus the U.S. dollar in 2010 as compared with 2009. Our average employee headcount associated with operating expenses grew 17% from 1,400 in the quarter ended December 31, 2009 to 1,633 in the quarter ended December 31, 2010 primarily due to acquisitions. Appreciation of the Canadian dollar vs. the U.S. dollar has a significant negative impact on operating expenses as a significant amount of our total expenses, including costs of revenues, are originated in Canadian dollars (See "Foreign Currency Exposure" below). The average exchange rate for the Canadian dollar increased by 4% versus the U.S. dollar in Q4 2010 vs. Q4 2009. The growth in expenses for the full year is primarily due to the growth in the number of employees. During the year ended December 31, 2010, headcount associated with operating expenses was up 29% to an average headcount of 1,573 compared to an average of 1,220 during the same period in 2009. The average exchange rate for the Canadian dollar increased by 10% versus the U.S. dollar in 2010 vs. 2009.

Research and development – Research and development expenses increased 9%, or $2 million, to $21 million for the quarter ended December 31, 2010 compared to $19 million for the same period in 2009. During the year ended December 31, 2010, research and development expense increased 29%, or $19 million, to $85 million, compared to $66 million over the same period in 2009. As a percentage of total revenue, research and development expense decreased by 3% from 15% in the quarter ended December 31, 2009 to 12% in the quarter ended December 31, 2010. As a percentage of total revenue, research and development expenses decreased by 2% from 15% in the year ended December 31, 2009 to 13% in the year ended December 31, 2010. The increase in expenses as a dollar amount for the three and twelve month periods is largely attributable to our growth in headcount from both acquisitions and hiring of additional employees. For Q4 2010, we averaged 889 staff compared to 775 in the same period in 2009, representing a 15% increase in headcount. Research and development expense in Q4 2010 compared to Q4 2009 did not increase proportional to headcount over the same period due to higher Research and Development tax credits received in Q4 2010 compared to Q4 2009. For the year ended December 31, 2010, we averaged 852 staff compared to 692 in the same period in 2009, representing a 23% increase in headcount. 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 11%, or $1 million to $15 million, in the quarter ended December 31, 2010 compared to $14 million for the same period in 2009. During the year ended December 31, 2010, sales and marketing expense increased 29%, or $13 million, to $58 million, compared to $45 million during the same period in 2009. As a percentage of total revenue, sales and marketing expenses decreased to 9% in both the quarter and year ended December 31, 2010 from 10% compared to the same periods in 2009. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from both acquisitions and hiring of additional employees. For Q4 2010, we averaged 376 staff compared to 314 in the same period in 2009, representing a 20% increase in headcount. For the year ended December 31, 2010, we averaged 362 staff compared to 273 in the same period in 2009, representing a 33% increase in headcount.

General and administration – General and administration (“G&A”) expenses increased 34%, or $8 million, to $31 million in the quarter ended December 31, 2010 from $23 million for the same period in 2009. As a percentage of total revenue, G&A expenses remained consistent at 18% in Q4 2010 compared to Q4 2009. During the year ended December 31, 2010, G&A expense increased 50%, or $37 million, to $109 million, compared to $72 million during the same period in 2009. As a percentage of total revenue, G&A remained consistent at 17% for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from acquisitions and hiring of additional employees, the appreciation of the Canadian dollar versus the U.S. dollar, an increase in bad debt expense, and an increase in our bonus accrual in Q4 2010 as compared to Q4 2009. For Q4 2010, we averaged 368 staff compared to 311 in the same period in 2009, representing an 18% increase in headcount. The increase in G&A expense as a percentage of revenue for the fiscal year ended December 31, 2010 compared to the same period in 2009 is largely due to our growth in headcount from acquisitions and hiring of additional employees, the appreciation of the Canadian dollar versus the U.S. dollar and due to an increase in our bonus accrual. For the year ended December 31, 2010, we averaged 359 staff compared to 255 in the same period in 2009, representing a 41% increase in headcount. The average exchange rate for the Canadian dollar increased by 10% versus the U.S. dollar in 2010 vs. 2009 and by 4% in Q4 2010 over the same period in 2009.

Depreciation of property and equipment – Depreciation of property and equipment increased 71%, or $1 million, to $2 million for the quarter ended December 31, 2010 from $1 million for the same period in 2009. During the year ended December 31, 2010, depreciation of property and equipment increased by 58%, or $2 million, to $6 million from $4 million for the same period in 2009. The increase in both periods is primarily due to an increase in purchased property and equipment and property and equipment obtained in business acquisitions.

Non-Operating Expenses:

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

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Year-Over-Year Change	
	2010	2009	$	%	2010	2009	$	%
	($000, except percentages)				($000, except percentages)			
Amortization of intangible assets	20,050	16,317	3,733	23%	70,064	60,588	9,476	16%
Other expenses (income)	218	(445)	663	NA	(175)	996	(1,171)	NA
Interest expense, net	1,353	794	559	70%	3,847	2,702	1,145	42%
Foreign exchange loss	2,347	1,944	403	21%	2,387	2,568	(181)	-7%
Extraordinary gain	(9,021)	0	(9,021)	NA	(12,538)	0	(12,538)	NA
Income taxes	(1,984)	2,523	(4,507)	-179%	5,043	7,237	(2,194)	-30%
	12,963	21,133	(8,170)	-39%	68,628	74,091	(5,463)	-7%

Amortization of intangible assets – Amortization of intangible assets was $20 million for the quarter ended December 31, 2010 compared to $16 million for the quarter ended December 31, 2009, representing a 23% increase. For the year ended December 31, 2010, amortization of intangibles increased 16%, to $70 million, compared to $61 million over the same period in 2009. For both the quarter and year ended December 31, 2010 the increase is attributable to the increase in the carrying value of our intangible asset balance as a result of the acquisitions that we completed during the periods.

Other expenses (income) – Other expense was $0.2 million for the quarter ended December 31, 2010 compared to other income of $0.4 million for the same period in the previous year. Other income was $0.2 million for the year ended December 31, 2010 compared to an expense of $1 million for the same period in the previous year. The decrease in other expense for the year ended December 31, 2010 is primarily due to a non-cash one time write-down of a UK sterling denominated investment that occurred in 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 interest expense was $1.4 million for the quarter ended December 31, 2010 compared to $0.8 million for the same period in the previous year. For the year ended December 31, 2010, interest expense was $3.8 million compared to $2.7 million for the comparable period in 2009. The increase in interest expense for both periods is due to the increase in our borrowings under our existing line of credit to fund acquisitions.

Foreign exchange loss – 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 December 31, 2010, our foreign exchange loss increased to $2.3 million from $1.9 million for the same period in 2009. For the year ended December 31, 2010, our foreign exchange loss was $2.4 million compared to $2.6 million for the year ended December 31, 2009. As we generally run our business with negative working capital and we had a portion of our net liabilities denominated in Canadian dollars, when we re-valued Canadian dollar net liabilities to U.S. dollars (our functional currency) at quarter end, we recorded a foreign exchange loss.

Extraordinary gain – Extraordinary gain was $9 million for the quarter ended December 31, 2010 and $13 million for the year ended December 31, 2010 compared to nil for the same periods in the previous year. The extraordinary gain recorded in 2010 primarily relates to negative goodwill associated with the PTS acquisition. Negative goodwill arose on acquisition because the fair value of the separately identifiable assets acquired net of the liabilities acquired exceeded the total consideration paid.

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, 2010, the income tax recovery was $2.0 million, compared to an expense of $2.5 million for the same period in 2009. For the year ended December 31, 2010, our income tax expense was $5.0 million, compared to $7.2 million in 2009. The decrease in tax expense for the quarter ended December 31, 2010 compared to the same period in 2009 was primarily due to an increase in future tax recovery resulting from timing differences relating to expenses deducted for accounting purposes but not deducted for tax purposes in the current period. The decrease in tax expense for the year ended December 31, 2010 compared to the same period in 2009 is primarily due to the large future tax recovery recorded in Q4 2010.

Net Income:

Net income for the quarter ended December 31, 2010 was $18 million compared to net income of nil for the same period in 2009. On a per share basis this translated into a net income per diluted share of $0.84 in Q4 2010 vs. a net income per diluted share of nil in Q4 2009. For the full year 2010, net income was $42 million or $1.97 per diluted share compared to $10 million or $0.48 per diluted share in the full year of 2009. Net income in both Q4 and for the full year 2010 was positively impacted by the growth in our Adjusted EBITDA, the recognition of an extraordinary gain and a decrease in income tax expense, offset by increases in amortization of intangibles, and interest expense.

Adjusted EBITDA:

For Q4 2010, Adjusted EBITDA increased by $11 million to $33 million from $22 million in Q4 2009. Adjusted EBITDA margin was 19% in the fourth quarter of 2010 versus 17% in the comparable period in 2009. The increase in Adjusted EBITDA margin for the quarter ended December 31, 2010 is largely due to the improvement in the EBITDA margin in the PTS business in Q4 2010 compared to Q4 2009. For the year ended December 31, 2010, Adjusted EBITDA increased by $28 million to $116 million compared to $88 million in 2009, representing an increase of 32%. Adjusted EBITDA margin was 18% in 2010 compared to 20% in 2009. The decrease in Adjusted EBITDA margin for the year ended December 31, 2010 is largely due to the full year impact of the lower margin PTS business acquired in Q4 2009 and also due to the appreciation of the Canadian dollar vs. the U.S. dollar in 2010 versus 2009, as a significant amount of our operating expenses are originated in Canadian dollars. 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 December 31, 2010	Three months ended December 31, 2009	Fiscal year ended December 31, 2010	Fiscal year ended December 31, 2009
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 171,468	$ 131,894	$ 630,857	$ 437,940
Net income (loss)	17,893	(10)	41,766	10,224
Add back:				
Income taxes	(1,984)	2,523	5,043	7,237
Extraordinary gain	(9,021)	-	(12,538)	-
Foreign exchange loss	2,347	1,944	2,387	2,568
Interest expense, net	1,353	794	3,847	2,702
Other expenses (income)	218	(445)	(175)	996
Amortization of intangible assets	20,050	16,317	70,064	60,588
Depreciation	1,888	1,105	6,036	3,811
Adjusted EBITDA	32,744	22,228	116,430	88,126
Adjusted EBITDA margin	19%	17%	18%	20%

Adjusted net income:

For Q4 2010, Adjusted net income increased by $8 million to $23 million compared to $15 million in Q4 2009, representing an increase of 57%. Adjusted net income margin was 13% in the fourth quarter of 2010, compared to 11% of total revenue for the same period in 2009. The increase in Adjusted net income margin in Q4 2010 as compared to Q4 2009 is primarily due to an increase in Adjusted EBITDA. For the year ended December 31, 2010, Adjusted net income increased by $25 million to $87 million compared to $62 million during the same period in 2009, representing an increase of 40%. Adjusted net income margin was 14% in 2010 and 2009. 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 December 31, 2010	Three months ended December 31, 2009	Fiscal year ended December 31, 2010	Fiscal year ended December 31, 2009
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 171,468	$ 131,894	$ 630,857	$ 437,940
Net income (loss)	17,893	(10)	41,766	10,224
Add back:				
Amortization of intangible assets	20,050	16,317	70,064	60,588
Extraordinary gain	(9,021)	-	(12,538)	-
Future income taxes (recovery)	(5,911)	(1,649)	(11,918)	(8,398)
Adjusted net income	23,011	14,658	87,374	62,414
Adjusted net income margin	13%	11%	14%	14%

Quarterly Results

	Quarter Ended							
	Mar. 31, 2009	Jun. 30, 2009	Sep. 30 2009	Dec. 31 2009	Mar. 31 2010	Jun. 30 2010	Sep. 30 2010	Dec. 31 2010
	($000, except per share amounts)							
Revenue	97,252	101,515	107,279	131,894	143,893	152,682	162,814	171,468
Net Income (loss)	3,781	3,747	2,706	(10)	6,313	3,348	14,211	17,893
Net Income per share								
Basic	0.18	0.18	0.13	(0.00)	0.30	0.16	0.67	0.84
Diluted	0.18	0.18	0.13	(0.00)	0.30	0.16	0.67	0.84

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 unusual 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 percentage 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.

Cash flow from operations from PTS will fluctuate significantly from quarter to quarter due to the timing of receipt of milestone payments associated with large customer contracts. In 2010, PTS contributed $13 million in cash flow from operations. In the first six months of 2011, we expect cash flow from operations to be negative; however, in the second half of 2011, we expect cash flow from operations to be positive. For the full year 2011, we expect cash flow from operations for PTS to be close to breakeven, however, this is contingent on the receipt of significant milestone payments associated with customer contracts in the second half of the year.

As of the date of acquisition, Constellation recorded a restructuring provision of $2 million to realign operations with the future prospects of the acquired business. The majority of the restructuring charge relates to severance costs. The $0.4 million balance of the restructuring provision is included in accounts payable and accrued liabilities in the December 31, 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.

As part of the PTS acquisition, Constellation also assumed certain long-term contracts that contain contingent liabilities which may, but in management's opinion are unlikely to, exceed $4 million in the aggregate. The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by PTS. The contingent liabilities represent the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

In Q3 2010, the Company received an assessment, from a neutral accounting firm, of 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 indicated a reduction in the purchase price of approximately $6.8 million. The Company received payment from Continental AG on October 1, 2010. The amount was recorded as a receivable as at September 30, 2010 and the opening balance sheet was adjusted as part of the purchase price allocation.

In 2010, the Company recorded an extraordinary gain of $11 million relating to negative goodwill associated with the PTS acquisition. Negative goodwill arose on acquisition because the estimated fair value of the separately identifiable assets acquired net of the liabilities acquired exceeded the total consideration paid.

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 $13 million in the aggregate. The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by MAJES and for estimated damages available to customers for breaches of such contracts by MAJES where such contracts did not contain specified penalties. The contingent liabilities represent the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

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 months and year ended December 31, 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 and related obligations 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 months and year ended December 31, 2010

(Unaudited)	For the three months ended December 31, 2010				For the year ended December 31, 2010			
	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Revenue	$ 122,917	$ 19,079	$29,472	$ 171,468	$ 444,066	$76,687	$ 110,104	$ 630,857
Cost of revenue	44,614	5,949	21,156	71,719	164,755	24,385	73,429	262,569
Gross Profit	78,303	13,130	8,316	99,749	279,311	52,302	36,675	368,288
Total Expenses (excluding amortization)	53,235	8,090	5,680	67,005	198,589	28,840	24,429	251,858
Adjusted EBITDA	25,068	5,040	2,636	32,744	80,722	23,462	12,246	116,430
EBITDA as % Total Revenue	20%	26%	9%	19%	18%	31%	11%	18%
Depreciation	1,262	100	526	1,888	4,328	420	1,288	6,036
Income before the undernoted	23,806	4,940	2,110	30,856	76,394	23,042	10,958	110,394
Amortization of intangible assets	18,604	1,446	-	20,050	64,274	5,790	-	70,064
Other expenses (income), net	4,060	(33)	(109)	3,918	6,326	(8)	(259)	6,059
Income before exceptional items and income taxes	1,142	3,527	2,219	6,888	5,794	17,260	11,217	34,271
Extraordinary gain	1,746	-	7,275	9,021	1,745	-	10,793	12,538
Income taxes	(1,868)	542	(657)	(1,984)	(1,457)	4,302	2,198	5,043
Net Income	$ 4,756	$ 2,985	$10,151	$ 17,893	$ 8,996	$12,958	$ 19,812	$ 41,766

Cash flow from operating activities

For the three months and year ended December 31, 2010

	For the three months ended December 31, 2010				For the year ended December 31, 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	$ 4,756	$ 2,985	$ 10,151	$ 17,893	$ 8,996	$ 12,958	$ 19,812	$ 41,766
Adjustments to reconcile net income to net cash flows from operations:								
Depreciation	1,262	100	526	1,888	4,328	420	1,288	6,036
Amortization of intangible assets	18,604	1,446	-	20,050	64,274	5,790	-	70,064
Extraordinary gain	(1,746)	-	(7,275)	(9,021)	(1,745)	-	(10,793)	(12,538)
Future income taxes	(2,928)	(1,887)	(1,096)	(5,911)	(8,212)	(2,670)	(1,037)	(11,918)
Other non-cash items	2,886	1	(329)	2,558	2,493	22	(407)	2,108
Change in non-cash operating working capital	3,660	1,462	9,311	14,433	4,161	1,079	4,283	9,523
Cash flows from operating activities	$ 26,495	$ 4,107	$ 11,289	$ 41,890	$ 74,295	$ 17,599	$ 13,146	$ 105,041

Adjusted EBITDA to net income reconciliation
For the three months and year ended December 31, 2010

(Unaudited)	For the three months ended December 31, 2010				For the year ended December 31, 2010			
	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Total revenue	$ 122,917	$19,079	$29,472	$ 171,468	$ 444,066	$ 76,687	$110,104	$ 630,857
Net income	4,756	2,985	10,151	17,893	8,996	12,958	19,812	41,766
Add back:								
Income tax expense	(1,868)	542	(657)	(1,984)	(1,457)	4,302	2,198	5,043
Extraordinary gain	(1,746)	-	(7,275)	(9,021)	(1,745)	-	(10,793)	(12,538)
Other expenses (income), net	4,060	(33)	(109)	3,918	6,326	(8)	(259)	6,059
Amortization of intangible assets	18,604	1,446	-	20,050	64,274	5,790	-	70,064
Depreciation	1,262	100	526	1,888	4,328	420	1,288	6,036
Adjusted EBITDA	25,068	5,040	2,636	32,744	80,722	23,462	12,246	116,430
Adjusted EBITDA margin	20%	26%	9%	19%	18%	31%	11%	18%

Liquidity

Our net cash position (cash less bank indebtedness) at December 31, 2010 decreased to negative $16 million, from negative $10 million at December 31, 2009. Borrowings on our line of credit increased by $4 million and cash decreased by $2 million. In addition to cash, our investments in marketable securities increased by $17 million from $22 million in 2009 to $39 million in 2010 ($15 million of the $39 million in 2010 is included in other long term assets as it relates to an equity investment in an investee).

Total assets increased $81 million, from $472 million at December 31, 2009 to $553 million at December 31, 2010. The majority of the increase can be explained by an increase in intangible assets and goodwill of $45 million due to acquisitions completed since the beginning of the year and due to an increase in future income taxes, other long term assets, and property and equipment.

Current liabilities increased $41 million, from $290 million at December 31, 2009 to $331 million at December 31, 2010. The majority of the increase can be explained by an increase in accounts payable and accrued liabilities and deferred revenue of $36 million primarily due to the growth in our business.

Net Changes in Cash Flows	**Year ended December 31, 2010**
	(in millions of $)
Net cash provided by operating activities	$105
Net cash used by financing activities	(1)
Net cash used in investing activities	(104)
Effect of currency translation	(2)
Net decrease in cash and cash equivalents	$(2)

The net cash flow from operating activities was $105 million for the year ended December 31, 2010. The $105 million provided by operating activities resulted from $42 million in net income, plus adjustments for $54 million of non-cash expenses included in net income, plus $10 million of cash generated by changes in our non-cash operating working capital.

The net cash used in financing activities in the year ended December 31, 2010 was $1 million. We borrowed an additional $4 million and paid a dividend of $0.216 per share (cash usage of $5 million).

The net cash used in investing activities in the year ended December 31, 2010 was $104 million. The cash used in investing activities was primarily used for acquisitions for an aggregate of $83 million (including payments/receipts for holdbacks/refunds relating to prior acquisitions), and $20 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 December 31, 2010, we had drawn $47 million on this facility. We are currently negotiating a new $250 million credit facility with a syndicate of lenders that will replace our existing $160 million 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 and our equity investment included in other long term assets) that would have a significant effect on our assets and liabilities as at December 31, 2010.

(in milloins of dollars)

	Total	< 1 yr	1-3 yrs	3-5 yrs	>5 yrs
Operating and capital leases	63,670	13,719	23,053	16,140	10,758
Holdbacks	9,664	6,920	2,744	-	-
Line of credit	47,291	-	47,291	-	-
Total outstanding cash commitments	120,625	20,639	73,088	16,140	10,758

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 twelve month periods ending December 31, 2010:

	Three Months Ended Dec 31,2010		Full Year ended Dec 31, 2010	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	65%	49%	68%	53%
CAD	11%	25%	10%	24%
GBP	9%	10%	8%	10%
CHF	6%	11%	6%	10%
EURO	6%	1%	4%	0%
Others	3%	4%	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, 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 2010. The outstanding balance of loans granted under the KELP as of December 31, 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.

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, 2010, except as follows: On January 1,

2010 we adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook (CICA Handbook) Section 1582, "Business Combinations", Section 1601 "Consolidated financial statements" and Section 1602, "Noncontrolling interests in Consolidated Financial Statements".

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, professional service fees and hardware sales. 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 primarily consists of fees charged for customer support on our software products post-delivery, which are determinable based on VSOE of the fair value, and also includes, to a lesser extent, recurring fees derived from combined software/support contracts, transaction revenues, and hosted products. 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 and the services are deemed essential to the bundled arrangement. 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

Beginning in 2010, we account for our business acquisitions under the acquisition 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 fair value process, we must identify and attribute values and estimated lives to the intangible assets acquired. These determinations will affect the amount of amortization expense recognized in future periods.

We use the income approach to value acquired technology and customer related intangible assets, which are the two material intangible asset categories reported in our financial statements.

The income approach is a valuation technique that calculates the fair value of an intangible asset based on the cash flows that the asset can be expected to generate over its remaining useful life. We utilize the discounted cash flow ("DCF") methodology which is a form of the income approach that begins with a forecast of the annual cash flows a market participant would expect the subject intangible asset to generate over a discrete projection period. The forecasted cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows, again, from a market participant perspective, as required by the relevant financial reporting standards. The present value of the forecasted cash flows are then added to the present value of the residual value of the intangible asset (if any) at the end of the discrete projection period to arrive at a conclusion with respect to the fair value of the subject intangible asset.

Specifically, we rely on the relief-from-royalty method to value the technology and the multiple-period excess earnings ("MEEM") method to value the customer assets.

The underlying premise of the relief-from-royalty method is that the fair value of the technology is equal to the cost savings (or the "royalty avoided") resulting from the ownership of the asset by the avoidance of paying royalties to license the use of the technology from another owner. Accordingly the forecasts of income reflect an estimate of a fair royalty that a licensee would pay, on a percentage of revenue basis, to obtain a license to utilize the technology.

The MEEM method isolates the cash flows attributable to the subject asset by utilizing a forecast of expected cash flows less the returns attributable to other enabling assets, both tangible and intangible.

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 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.

The critical accounting estimates described above affect both the public and private segments of the business. The approach taken by management in performing these estimates is not significantly different between segments.

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 exposures, 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.

Recent Accounting Pronouncements

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced the mandatory adoption of IFRS for publicly accountable entities in Canada for fiscal periods beginning on or after January 1, 2011. Accordingly, beginning in the first quarter of 2011, we will provide unaudited consolidated quarterly financial information in accordance with IFRS, including comparative figures for 2010.

The Company has adopted IFRS effective January 1, 2010 ("the transition date") and has prepared its opening IFRS balance sheet at that date. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements of the Company that comply with IFRS. The following information has been provided to assist you in understanding our transition from Canadian GAAP to IFRS.

Transition project

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 groups are engaged on the project. We have also engaged external IFRS consultants. Regular reporting is provided to our senior executive management team 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 December 31, 2010. Our transition 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 statement format,	• Analysis of significant differences. • Senior management and Audit Committee approval of financial statements format, including notes. • Quantification of transition effects on the 2010 opening balance sheet by Q4 2010 and 2010 comparative period by Q1 2011.	• Identification of differences and selection of IFRS accounting policies and elections completed in 2010. • Approval by senior management and the Audit Committee of the Q1 2011 financial statement format, including applicable notes and reconciliations, to occur in 2011. • Quantification of IFRS impact

including disclosures.		on the January 1, 2010 opening balance sheet and fiscal 2010 financial statements completed in 2010. (See discussion below)
System and processes:		
• Assessment of the impact of changes on the systems and processes. • Implementation of any system and process design changes. • Documentation and testing of internal controls over new systems and processes.	• Systems, process and internal control changes implemented in Q4 2010. • Testing of internal controls for 2010 comparatives completed by Q1 2011.	• To date no significant modifications to our information systems have been identified. • To date no significant 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 related to business combinations. • Communicate the effect of the IFRS transition internally and externally. • Provide appropriate training to employees based on their level of required interaction and responsibility with financial reporting under IFRS.	• Contracts analyzed and updated (if appropriate) by end of 2010. • Communication internally at all levels of the entity throughout the transition process. • Communication externally through enhanced disclosure within the fiscal 2010 MD&A.	• Analysis of IFRS impact on significant contracts completed in 2010. • Communication is ongoing. • Training of employees completed in 2010. • Enhanced MD&A disclosure included within the fiscal 2010 MD&A.

The conversion to IFRS from Canadian GAAP impacts the way we present our financial results and the accompanying disclosures. We have evaluated the impact of the conversion on our financial reporting systems, processes and controls and have noted no significant changes to our internal controls over financial reporting or our disclosure controls and procedures.

Impact of transition

The following illustrates our expected impact of IFRS on our financial statements and discusses our preliminary significant IFRS policy decisions and significant expected accounting differences, based on our analysis of the current IFRS standards. The impact of IFRS at transition will depend on the IFRS standards in effect on

December 31, 2011. There can be no guarantee that the International Accounting Standards Board will not make further pronouncements and that the Canadian Accounting Standards Board will also not adopt further pronouncements before the consolidated financial statements for the year ended December 31, 2011 are prepared.

Consequently, there can be no assurance that the standards used to prepare information in this section of our MD&A will not differ from those used to prepare the Consolidated Financial Statements for the year ended December 31, 2011, and that the effects described and quantified below will not change. We will continue to monitor changes in the IFRS standards and will adjust our transition plans accordingly.

The table below summarizes our current estimated impact of transition to IFRS on our key financial highlights as at January 1, 2010 and December 31, 2010 and for the year ended December 31, 2010.

	Year ended December 31, 2010		
(In millions of dollars, except per share amounts)	IFRS	Canadian GAAP	% Chg
Revenue	$ 634	$ 631	0.5%
Net income	31	42	-26.4%
Basic and diluted net income per share	1.44	1.97	-26.9%
Comprehensive income	35	47	-26.6%
Adjusted EBITDA (Note 1)	116	116	-
Basic adjusted EBITDA per share	5.50	5.50	-
Diluted adjusted EBITDA per share	5.49	5.49	-
Adjusted net income (Note 1)	84	87	-3.2%
Basic adjusted net income per share	3.99	4.13	-3.4%
Diluted adjusted net income per share	3.99	4.12	-3.2%
	IFRS	Canadian GAAP	% Chg
January 1, 2010			
Total assets	$ 474	$ 472	0.5%
Total liabilities	362	364	-0.6%
Shareholders' equity	112	108	4.0%
December 31, 2010			
Total assets	$ 547	$ 553	-1.1%
Total liabilities	405	403	0.3%
Shareholders' equity	142	150	-5.0%

Note 1 - See "Non-IFRS Measures" for a description of adjusted EBITDA and adjusted net income.

Changes in accounting policies

The changes listed below are the key areas where changes in accounting policies under IFRS are expected to impact our consolidated financial statements. The individual amounts disclosed, which are estimates based on management's current expectations, are on a pre-tax basis and the tax impact of all changes are discussed on an overall basis. Additionally, we have highlighted various standards under IFRS where multiple acceptable alternatives are available and have identified the alternatives we have chosen in the context of our business. The list and comments

are intended to highlight those areas for which we currently believe the impact to be most significant and should not be regarded as a complete list of estimated changes that will result from our transition to IFRS.

First-time adoption of International Financial Reporting Standards (IFRS 1)

Upon transition, an entity 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. The following discusses the significant exemptions which we expect to apply in preparing our consolidated financial statements under IFRS:

Business combinations

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3 (revised), "Business Combinations" ("IFRS 3") retrospectively to business combinations that occurred before the date of the opening IFRS balance sheet - January 1, 2010. We have made this election in order to only apply IFRS 3 to business combinations prospectively (i.e. to those that occur on or after January 1, 2010).

As a result of this election our business combinations which occurred prior to January 1, 2010, have a deemed cost equal to the carrying value in accordance with Canadian GAAP at December 31, 2009. Should the accounting for the purchase equation be incomplete at December 31, 2009, the deemed cost is equal to the carrying value in accordance with Canadian GAAP immediately after the purchase equation is finalized.

At January 1, 2010 the accounting for certain of our business combinations was incomplete and has been recorded under Canadian GAAP using provisional amounts. Since these purchase equations were not yet finalized, changes made under Canadian GAAP during 2010 to these preliminary purchase equations will be reflected in our opening IFRS balance sheet. Our opening IFRS balance sheet is expected to differ from our reported Canadian GAAP balance sheet by the following amounts.

(in millions of dollars)	Opening balance sheet January 1, 2010
Increase/(decrease) in:	
Accounts receivable	5
Work in process	1
Inventory	2
Other assets (long-term)	2
Accounts payable and accrued liabilities	(9)
Deferred revenue	7
Other long-term liabilities	(6)
Acquired contract liabilities	8
Increase in retained earnings	11

Our 2010 IFRS statement of operations is expected to have a Nil extraordinary gain compared to an $11 million extraordinary gain[1] in our reported Canadian GAAP consolidated statement of operations. The extraordinary gain of $11 million from the acquisition of PTS is included in retained earnings of the IFRS opening balance sheet.

[1] On November 2, 2009, the Company acquired the PTS business of Continental see note 10(e) to the 2010 consolidated financial statements. Negative goodwill has arisen on acquisition because the fair value of the separately identifiable assets and liabilities acquired exceeded the total consideration paid. The excess of the fair value of the net assets acquired over cost has been recorded and presented under Canadian GAAP in the statement of operations as an extraordinary gain.

Contingent consideration

While we have elected to apply IFRS 3 to all business combinations after January 1, 2010, we are required under IFRS, to recognize the fair value of any contingent consideration outstanding in our opening IFRS balance sheet. The application of Canadian GAAP as it relates to acquisitions prior to January 1, 2010 does not allow for recognition unless the contingency can be reasonably estimated at the date of acquisition and determined beyond a reasonable doubt.

Our 2010 IFRS retained earnings is expected to be lower than retained earnings reported under Canadian GAAP by $1 million, and our provisions recorded on our IFRS balance sheet will be higher by $1 million than reported under Canadian GAAP. We do not expect this IFRS change to materially impact the 2010 consolidated statement of operations.

Cumulative translation differences

IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. We deemed all cumulative translation differences to be zero on transition to IFRS by adjusting the cumulative amounts through opening retained earnings.

Our 2010 IFRS retained earnings is expected to be lower than retained earnings reported under Canadian GAAP by $4 million, and our accumulated comprehensive income recorded in our IFRS balance sheet will be higher by $4 million than reported under Canadian GAAP.

IFRS to Canadian GAAP differences:

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 that have a greater weighting, such as primary indicators including the currency that most influences sales prices, the currency of the market in which the goods are sold, and the currency that mainly influences expenses. Canadian GAAP has similar indicators as IFRS in determining functional currency. However, Canadian GAAP does not have a defined hierarchy of indicators under which certain indicators are given priority.

Based on our analysis of the functional currency under IFRS, the functional currency of certain of our foreign subsidiaries will change from US dollars to their respective local currency. Our opening IFRS balance sheet is expected to differ from our reported Canadian GAAP balance sheet by the following amounts.

(in millions of dollars)	Opening balance sheet January 1, 2010
Increase/(decrease) in:	
Intangible assets	(1)
Accumulated other comprehensive gain (loss)	(1)

Our December 31, 2010 IFRS balance sheet is expected to differ from our reported Canadian GAAP balance sheet by the following amounts.

(in millions of dollars)	December 31, 2010
Increase/(decrease) in:	
Deferred revenue	1
Acquired contract liabilities	2
Accumulated other comprehensive gain (loss)	(2)
Decrease in retained earnings	(1)

We expect that the foreign exchange loss within our 2010 IFRS statement of operations will be higher than the foreign exchange loss reported under Canadian GAAP by $1 million.

Revenue recognition

We have certain long term contracts that are, under Canadian GAAP, being accounted for using the completed contract method of accounting. Completed contract method of accounting is not acceptable under IFRS. IFRS requires the use of percentage completion method in circumstances when we can reliably estimate the outcome of the contract (i.e. both costs to complete and amount of revenue). In circumstances where we cannot reliably estimate our costs to complete, IFRS requires the use of a zero margin method, whereby an equivalent amount of revenues are recognized as contract costs are incurred.

We have analyzed the long term contracts which were accounted for using the completed contract method of accounting under Canadian GAAP and determined that the outcome of the contracts cannot be reasonably estimated. As a result, at January 1, 2010, we expect that $10 million of revenues and costs of revenues, included as part of operating expenses, will be recognized through our IFRS retained earnings. Since it is at zero margin this change will have no effect on retained earnings for the opening IFRS balance sheet. We expect that revenue and costs of revenues, included as part of operating expenses will each be higher by $3 million than the revenue and costs of revenues reported under our 2010 Canadian GAAP statement of operations.

Amortization of property and equipment, and finite life intangible assets

Under IFRS uniform accounting policies must be used for reporting like transactions. With input from our Operating Groups we have developed uniform accounting policies. The conforming of these accounting policies resulted in a decrease to the useful life of some of our fixed assets and finite life 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.

Our January 1, 2010 IFRS retained earnings is expected to be lower than retained earnings reported under Canadian GAAP by $6 million. Additionally at January 1, 2010 our IFRS property and equipment is expected to be $2 million lower, and our intangible assets are expected to be $4 million lower than the amount reported under Canadian GAAP.

In our 2010 IFRS statement of operations, depreciation expense is expected to be $1 million higher and amortization of intangible assets is expected to be $1 million lower than the amounts reported under Canadian GAAP.

Transaction costs associated with the Company's line of credit

Under Canadian GAAP direct costs associated with securing our line of credit have been capitalized to intangible assets and amortized over the term of the facility. Under IFRS these transaction costs are presented as a reduction of the line of credit and the costs are amortized using the effective interest rate method to interest expense.

In our January 1, 2010 IFRS balance sheet both intangible assets and bank indebtedness is expected to be $2 million lower than the amounts reported under Canadian GAAP. In our 2010 IFRS statement of operations, amortization of intangible assets is expected to be $1 million lower and interest expense is expected to be $1 million higher than the amounts reported under Canadian GAAP.

Income taxes

For subsidiaries deemed to be integrated for foreign currency translation purposes and foreign-denominated purchases of capital assets, IFRS requires a deferred tax asset/liability to be recorded based on foreign exchange movements. Under our current structure, a number of integrated subsidiaries could be impacted by this difference. We are also impacted by the potential income tax effect of the other IFRS changes discussed.

Our 2010 IFRS retained earnings is expected to be higher than reported under Canadian GAAP by $2 million. Our 2010 IFRS future tax asset is expected to be higher than reported under Canadian GAAP by $1 million, and our future tax liability recorded in our IFRS balance sheet is expected to be lower by $1 million than reported under Canadian GAAP. We do not expect this IFRS change to materially impact the 2010 consolidated statement of operations.

Additionally, under IFRS, there is no concept of current versus long-term deferred tax amounts, rather all amounts must be presented long-term. As a result in our opening balance sheet $4 million of deferred taxes will be reclassified from current to long-term.

Other differences between IFRS and Canadian GAAP

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 $17 million in contingent liabilities disclosed in our financial statements. As at December 31, 2010, we do not expect that any of these liabilities will meet the recognition thresholds for inclusion in our financial statements under IFRS.

Impairment of assets

IFRS uses a one-step approach for both testing for and measurement of impairment of assets, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flow). Canadian GAAP however, uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. We do not expect the difference in methodologies to result in additional asset impairments upon transition to IFRS.

Additionally, 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 “CGU”. A CGU is the lowest level of assets that generate largely independent cash inflows. The CGU is a lower level than under Canadian GAAP. This lower level grouping could result in identification of impairment more frequently under IFRS, but of potentially smaller amounts.

Except for goodwill, IFRS also requires reversal of impairments of long-lived assets where adverse circumstances have reversed. Under Canadian GAAP no reversals were permitted. The Company preliminarily 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.

The following unaudited consolidated financial statements reflect the expected impacts of the above noted differences between IFRS and Canadian GAAP as at the date of transition (January 1, 2010) and for the year ended December 31, 2010.

Consolidated Balance Sheets

(In millions of dollars) (unaudited)	January 1, 2010			December 31, 2010		
	Canadian GAAP (Reclassified) (1)	IFRS adjustments	IFRS	Canadian GAAP (Reclassified) (1)	IFRS adjustments	IFRS
Assets						
Current assets:						
Cash	$ 33	-	$ 33	$ 31	-	$ 31
Short-term investments and marketable securities available for sale	22	-	22	24	-	24
Accounts receivable[2]	91	5	96	92	-	92
Work in progress [2]	21	1	23	24	-	24
Inventory [2]	13	2	14	16	-	16
Other assets	26	-	26	26	-	26
	207	8	214	213	-	213
Property and equipment [3]	11	(2)	8	16	(3)	13
Future income taxes [4]	15	1	16	26	1	27
Other assets [2]	12	2	14	23	-	24
Intangible assets [3,5,6]	229	(7)	222	274	(4)	270
	265	(5)	260	340	(7)	334
Total assets	472	2	474	553	(7)	547
Liabilities and Shareholders' Equity						
Current liabilities:						
Bank indebteness [5]	43	(2)	41	47	(1)	46
Accounts payable and accrued liabilities [2]	59	(9)	50	56	-	56
Acquisition holdback payments	4	-	4	7	-	7
Deferred revenue [2,6]	128	7	135	157	1	158
Provisions	44	-	44	51	-	51
Acquired contract liabilities	8	-	8	11	-	11
Other liabilities	4	-	4	1	-	1
	290	(4)	286	331	-	330
Non-current liabilities:						
Future income taxes [4]	28	(1)	27	31	(1)	30
Acquisition holdback payments [2,6]	3	-	3	3	-	3
Provisions [5]	-	1	1	1	1	3
Acquired contract liabilities [2,6]	34	7	41	34	2	36
Other liabilities [2,6]	9	(6)	3	4	-	4
	74	2	75	73	2	74
Shareholders' equity:						
Share Capital	99		99	99	-	99
Accumulated other comprehensive loss [6]	(1)	3	2	5	2	7
Retained earnings (deficit)	10	1	11	46	(10)	36
	108	4	112	150	(8)	142
Total liabilities and shareholders' equity	472	2	474	553	(6)	547

(Note 1) In transitioning to IFRS, we have reclassified certain balances. Most notably, under IFRS, the Company's bonus plan is considered a provision and has been reclassified from accounts payable under Canadian GAAP.
(Note 2) See section entitled "Business combinations"
(Note 3) See section entitled "Amortization of property and equipment and finite life intangible assets"
(Note 4) See section entitled "Income taxes"
(Note 5) See section entitled "Transaction costs associated with the Company's line of credit"
(Note 6) See section entitled "Foreign currency translation"
(Note 7) See section entitled "Contingent consideration"

Consolidated Statement of Operations

(in millions of dollars, except per share amounts) (unaudited)	Canadian GAAP for the year ended December 31, 2010 (Reclassified) (1)	IFRS adjustments	IFRS for the year ended December 31, 2010
Revenue[2]	$ 631	$ 3	$ 634
Operating expenses[2]	514	3	518
	116	-	116
Depreciation[6]	6	1	7
Amortization[4,6]	70	(2)	68
Foreign exchange (gain) loss[5]	2	1	3
Finance income	(1)	-	(1)
Finance expense[4]	5	1	6
Barging purchase gain [8]	-	(2)	(2)
	82	(1)	81
Income before extraordinary gain and income taxes	34	1	36
Extraordinary gain (taxes - nil)[8]	13	(13)	-
Current income tax expense	17	-	17
Future income tax recovery[7]	(12)	-	(12)
Income tax expense	5	-	5
Net income for the period	$ 42	$ (11)	$ 31
Basic and diluted earnings per share	$ 1.97	$ (0.53)	$ 1.44

(Note 1) In transitioning to IFRS, we have elected to present our income statement by nature and as a result have reclassified certain accounts.
(Note 2) See section entitled "Revenue Recognition"
(Note 4) See section entitled "Transaction costs associated with the Company's line of credit"
(Note 5) See section entitled "Foreign currency translation"
(Note 6) See section entitled "Amortization of property and equipment and finite life intangible assets"
(Note 7) See section entitled "Income taxes"
(Note 8) See section entitled "Business combinations"

Consolidated Statement of Comprehensive Income

(in millions of dollars, except per share amounts) (unaudited)	Canadian GAAP for the year ended December 31, 2010	IFRS adjustments	IFRS for the year ended December 31, 2010
Net income for the period	$ 42	$ (11)	$ 31
Other comprehensive income (loss)			
Net unrealized mark-market adjustments gain (loss) on available for sale financial assets during the period	6		6
Net unrealized foreign exchange gain (loss) on available-for sale financial assets during the period	-		-
Reclassification of unrealized gain upon derecognition of available-for-sale investments	(1)		(1)
Future tax expense on unrealized net gains	(1)		(1)
Foreign currency translation adjustments [(1)]	1	(1)	-
Comprehensive income	$ 47	$ (12)	$ 35

(Note 1) See section entitled "Foreign currency translation"

Non-IFRS Measures

This section of the MD&A includes certain measures which have not been prepared in accordance with International Financial Reporting Standards (“IFRS”) such as Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted net income margin.

The term ‘‘Adjusted EBITDA’’ refers to net income before deducting interest, taxes, depreciation, other expenses (income), amortization, excess of fair value of net assets acquired over costs 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, excess of fair value of net assets acquired over costs 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 IFRS 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 IFRS. The Company's method of calculating Adjusted EBITDA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted net income may not be comparable to similar measures presented by other issuers.

The following table reconciles Adjusted EBITDA to net income under IFRS:

	Year ended Dec 31, 2010 ($000,000)	
Total revenue	$	634
Net Income under IFRS	$	31
Add back:		
Income taxes		5
Foreign exchange (gain) loss		3
Interest expense		6
Interest income		(1)
Excess of fair value of net assets acquired over costs		(2)
Amortization of intangibles		68
Depreciation		7
Adjusted EBITDA (under IFRS)		116
Adjusted EBITDA (under IFRS) margin		18%

The following table reconciles Adjusted net income to net income under IFRS.

	Year ended Dec 31, 2010 ($000,000)	
Total revenue	$	634
Net Income under IFRS	$	31
Add back:		
Amortization of intangibles		68
Future income taxes (recovery)		(12)
Excess of fair value of net assets		(2)
Adjusted net income (under IFRS)		84
Adjusted net income (under IFRS) margin		13%

Share Capital

As at March 2, 2011, 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

As previously reported, management's objective was 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. Management achieved this objective by growing both revenue per share and Adjusted EBITDA per share at an average rate in excess of 20% per annum in the five year period commencing January 1, 2006. 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, 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:

Management is responsible for designing and maintaining internal controls over financial reporting as defined under National Instrument 52-109. At December 31, 2010, 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, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. No such changes were identified.