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, 2011, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 Constellation Software Inc. (the "Company" or "Constellation"), 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, February 29, 2012. 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-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with 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 adjusting for finance income, finance costs, income taxes, impairment of non-financial assets, depreciation, 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 adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, and certain other non-cash 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, deferred 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. 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 flows 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 multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable, where applicable. 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-related revenues, and hosted products. Maintenance fee arrangements generally include ongoing customer support and rights to certain product updates "when and if available" and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions and arrangements, as well as sales of hardware assembled internally. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the type, mix and quantity of each vary by customer and by product.

Expenses consist primarily of staff costs, occupancy expenses, the cost of hardware, third party licenses, maintenance and professional services, and other general operating expenses.

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,		Period-Over-Period Change		Fiscal year ended December 31,
	2011	2010	$	%	2011	2010	$	%	2009 *Note 1*
Revenue	**198,357**	**171,986**	**26,371**	**15%**	**773,341**	**633,965**	**139,376**	**22%**	**437,940**
Expenses	150,910	139,232	11,678	8%	604,663	517,547	87,116	17%	349,814
Adjusted EBITDA	**47,447**	**32,754**	**14,693**	**45%**	**168,678**	**116,418**	**52,260**	**45%**	**88,126**
Depreciation	1,829	2,028	(199)	-10%	7,868	6,756	1,112	16%	3,811
Amortization of intangible assets	20,917	19,260	1,657	9%	76,650	67,926	8,724	13%	60,588
Impairment of non-financial assets	(29)	-	(29)	NM	489	-	489	NM	-
Foreign exchange loss	364	2,483	(2,119)	-85%	3,392	4,526	(1,134)	-25%	2,568
Finance income	(1,100)	(341)	(759)	223%	(7,267)	(1,241)	(6,026)	486%	(1,341)
Finance costs	986	2,111	(1,125)	-53%	5,575	5,783	(208)	-4%	5,039
Bargain purchase gain	-	(1,745)	1,745	-100%	-	(1,745)	1,745	-100%	-
Profit before income taxes	24,480	8,958	15,522	173%	81,971	34,413	47,558	138%	17,461
Income taxes expense (recovery)									
Current income tax expense	5,139	3,927	1,212	31%	18,615	16,961	1,654	10%	15,635
Deferred income tax recovery	(54)	(5,846)	5,792	-99%	(93,818)	(12,564)	(81,254)	647%	(8,398)
Income tax expense (recovery)	5,085	(1,919)	7,004	-365%	(75,203)	4,397	(79,600)	NM	7,237
Net income *(Note 2)*	**19,395**	**10,877**	**8,518**	**78%**	**157,174**	**30,016**	**127,158**	**424%**	**10,224**
Adjusted net income	**40,229**	**22,546**	**17,683**	**78%**	**140,495**	**83,633**	**56,862**	**68%**	**62,414**
Weighted average number of shares outstanding (000's) Basic and diluted	21,192	21,192			21,192	21,192			21,192
Net income per share Basic and diluted	$ 0.92	$ 0.51	$ 0.40	78%	$ 7.42	$ 1.42	$ 6.00	424%	$ 0.48
Adjusted EBITDA per share Basic and diluted	$ 2.24	$ 1.55	$ 0.69	45%	$ 7.96	$ 5.49	$ 2.47	45%	$ 4.16
Adjusted net income per share Basic and diluted	$ 1.90	$ 1.06	$ 0.83	78%	$ 6.63	$ 3.95	$ 2.68	68%	$ 2.95
Cash dividends declared per share Basic and diluted					$ 2.00	$ 0.26	$ 1.74	669%	$ 0.22
Total assets					630,575	535,919	94,656	18%	471,991
Total long-term liabilities					53,459	62,392	(8,933)	-14%	73,829

NM - Not meaningful

Note 1: The 2009 information is presented in accordance with Canadian GAAP.

Note 2: Net income amounts for each of the quarterly periods in the nine months ended September 30, 2011 have been adjusted to correct for immaterial out of period errors. This resulted in a reduction of the deferred income recovery in profit and loss for each of the quarterly periods in the nine months ended September 30, 2011 totalling $1,742, $2,613 and $2,613 respectively, which have been reflected herein. The Company will recast the comparative interim periods in its future filings in fiscal 2012.

Comparison of the three and twelve months ended December 31, 2011 and 2010

Revenue:

Total revenue for the quarter ended December 31, 2011 was $198 million, an increase of 15%, or $26 million, compared to $172 million for the comparable period in 2010. For the 2011 fiscal year, total revenues were $773 million, an increase of 22%, or $139 million, compared to $634 million for the comparable period in 2010. The increase for both the fourth quarter and full year compared to the same periods in the prior year is attributable to both growth from acquisitions and organic growth. Organic growth was 7% for the fourth quarter and 10% for the full year. For business acquisitions, organic growth is calculated as the difference between actual revenues achieved by each business in the financial period following acquisition compared to the revenues it 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 fluctuated significantly in the past and is expected to continue to do so in the future. As well, a number of acquired contracts were recorded at their estimated fair value as of the date of acquisition. As a result of this accounting treatment, excess profits or costs relative to normalized profitability are recorded as contract assets or liabilities and amortized into revenues over the remaining life of the contract. As a result, the revenue and costs associated with these contracts reflected through profit or loss will differ from the revenue and costs that would have been recognized under normal course percentage of completion contract accounting. 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 6% in Q4 2011 and 6% for the year ended 2011.

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, 2011	Fiscal year ended December 31, 2011
Constellation	7%	10%
Constellation excluding PTS	6%	6%

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

Software license revenue for the quarter ended December 31, 2011 was $17 million, an increase of 9%, or $1 million, compared to $15 million in the same period in 2010. During the year ended December 31, 2011, license revenue increased by 22% or $11 million to $61 million, from $50 million for the same period in 2010. Professional services revenue for the quarter ended December 31, 2011 increased by 7%, or $3 million to $46 million, from $43 million for the same period in 2010. During the year ended December 31, 2011, professional services revenue increased by 7% or $11 million to $181 million, from $170 million for the same period in 2010.

Hardware and other revenue for the quarter ended December 31, 2011 increased by 14%, or $3 million to $26 million from $23 million for the same period in 2010. During the year ended December 31, 2011, hardware and other revenue increased by 46%, or $34 million to $109 million from $75 million for the same period in 2010. Maintenance revenue for the quarter ended December 31, 2011 increased by 21%, or $19 million to $110 million, from $91 million for the same period in 2010. During the year ended December 31, 2011, maintenance revenue increased by 24% or $83 million to $422 million, from $340 million for the same period in 2010. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change	
	2011	2010	$	%	2011	2010	$	%
	($000, except percentages)				($000, except percentages)			
Licenses	16,557	15,250	1,307	9%	61,076	49,987	11,089	22%
Professional services	46,037	42,946	3,091	7%	181,166	169,737	11,429	7%
Hardware and other	25,558	22,515	3,043	14%	108,716	74,602	34,114	46%
Maintenance	110,205	91,275	18,930	21%	422,383	339,639	82,744	24%
	198,357	171,986	26,371	15%	773,341	633,965	139,376	22%

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

The following table displays our revenue by reportable segment and the percentage change for the three and twelve months ended December 31, 2011 compared to the same periods in 2010:

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change	
	2011	2010	$	%	2011	2010	$	%
	($000, except percentages)				($000, except percentages)			
Public Sector								
Licenses	11,125	10,705	420	4%	41,717	36,080	5,637	16%
Professional services	37,081	35,637	1,444	4%	146,281	141,487	4,794	3%
Hardware and other	22,822	20,063	2,759	14%	97,133	66,076	31,057	47%
Maintenance	73,591	61,898	11,693	19%	286,520	231,189	55,331	24%
	144,619	128,303	16,316	13%	571,651	474,832	96,819	20%
Private Sector								
Licenses	5,432	4,545	887	20%	19,359	13,907	5,452	39%
Professional services	8,956	7,309	1,647	23%	34,885	28,250	6,635	23%
Hardware and other	2,736	2,452	284	12%	11,583	8,526	3,057	36%
Maintenance	36,614	29,377	7,237	25%	135,863	108,450	27,413	25%
	53,738	43,683	10,055	23%	201,690	159,133	42,557	27%

Public Sector

For the quarter ended December 31, 2011, total revenue in the public sector reportable segment increased 13%, or $16 million, to $145 million, compared to $128 million for the quarter ended December 31, 2010. For the year ended December 31, 2011, total revenue increased by 20% or $97 million, to $572 million, compared to $475 million for the comparable period in 2010. The increases for both the three and twelve month periods were significant across our license, hardware and other, and maintenance revenue streams. Revenue growth from acquired businesses was significant for both the three and twelve month periods as we completed twenty acquisitions since the beginning of 2010 in our public sector segment. Revenues increased organically by $9 million or 7% in Q4 2011 and by $44 million or 9% for the year ended December 31, 2011 compared to the same periods in 2010. Excluding PTS, revenues increased organically by 5% in Q4 2011 and 5% in the twelve months ended December 31, 2011.

Organic Revenue Growth

	Three months ended December 31, 2011	Fiscal year ended December 31, 2011
Public Sector	7%	9%
Public Sector excluding PTS	5%	5%

The organic revenue change was primarily driven by the following:

- **Volaris operating group (formerly the Trapeze operating group)** (increase of approximately $5 million in Q4 2011 and an increase of approximately $38 million for the year ended December 31, 2011). For both the quarter and year ended December 31, 2011, organic growth was primarily driven by strong revenue from existing clients and new customers in its transit and agricultural verticals.

- **Harris operating group** (increase of approximately $4 million for Q4 2011 and an increase of approximately $8 million for the year ended December 31, 2011). For both the quarter and year ended December 31, 2011, organic revenue was primarily driven by strong revenue from existing clients and new customers in their utility and local government verticals.

Private Sector

For the quarter ended December 31, 2011, total revenue in the private sector reportable segment increased by 23%, or $10 million, to $54 million, compared to $44 million for the quarter ended December 31, 2010. For the year ended December 31, 2011 total revenue increased by 27% or $43 million, to $202 million, compared to $159 million for the comparable period in 2010. Revenue growth from acquired businesses was significant for both the three and twelve month periods ended December 31, 2011 as we completed twenty-three acquisitions since the beginning of 2010 in our private sector segment. Revenues increased organically by $4 million or 9% in Q4 2011 and $16 million or 10% in the twelve months ended December 31, 2011 compared to the same periods in 2010.

The organic revenue change was primarily driven by the following:

- **Jonas operating group** (increase of approximately $3 million in Q4 2011 and an increase of approximately $10 million for the year ended December 31, 2011). Jonas' organic growth was driven by strong sales to both existing and new customers in its fitness, leisure centre, construction, and food services verticals.

- **Homebuilder operating group** (increase of approximately $1 million in Q4 2011 and an increase of approximately $7 million for the year ended December 31, 2011). The organic growth was primarily driven by strong sales to both existing and new customers in its pulp and paper manufacturing and lease management verticals.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change	
	2011	2010	$	%	2011	2010	$	%
	($000, except percentages)				($000, except percentages)			
Expenses								
Staff	101,688	93,185	8,503	9%	401,379	356,539	44,840	13%
Hardware	13,247	13,297	(50)	0%	60,854	45,109	15,745	35%
Third party license, maintenance and professional services	13,134	10,996	2,138	19%	51,066	37,669	13,397	36%
Occupancy	4,667	4,600	67	1%	18,918	16,840	2,078	12%
Travel	9,359	6,407	2,952	46%	30,038	23,094	6,944	30%
Telecommunications	2,557	2,359	198	8%	9,992	9,177	815	9%
Supplies	3,567	2,717	850	31%	15,314	11,125	4,189	38%
Professional fees	1,835	2,453	(618)	-25%	8,623	8,219	404	5%
Other	856	3,218	(2,362)	-73%	8,479	9,775	(1,296)	-13%
	150,910	139,232	11,678	8%	604,663	517,547	87,116	17%

Overall expenses for the quarter ended December 31, 2011 increased 8%, or $12 million, to $151 million, compared to $139 million during the same period in 2010. As a percentage of total revenue, expenses decreased to 76% in the quarter ended December 31, 2011 from 81% in the quarter ended December 31, 2010. Our average employee headcount associated with operating expenses grew 11% from 3,495 for the quarter ended December 31, 2010 to 3,876 for the quarter ended December 31, 2011. During the year ended December 31, 2011, expenses increased 17%, or $87 million, to $605 million, compared to $518 million during the same period in 2010. As a percentage of total revenue, operating expenses decreased from 82% in the year ended December 31, 2010 to 78% in the year ended December 31, 2011. The growth in expenses for the three and twelve months ended December 31, 2011 is primarily due to the growth in the number of employees and an increase in hardware and third party license, maintenance and professional services expenses to support both the organic and acquisition related growth in revenue. For the three month period ended December 31, 2011, the increase in expense resulting from an increase in headcount was offset by a decrease in other expenses due to an increase in research and development investment tax credits as compared to the three months ended December 31, 2010. Our average employee headcount associated with operating expenses grew 12% from 3,328 for the year ended December 31, 2010 to 3,738 for the year ended December 31, 2011 primarily due to acquisitions. As well, operating expenses for the year ended December 31, 2011, as compared to the same period in 2010, was adversely impacted by the depreciation of the U.S. dollar compared to the Canadian dollar and Swiss Franc. See 'Foreign Currency Exposure'.

Staff expense – Staff expense can be broken down into five key operating departments: Professional Services, Maintenance, Research and Development, Sales and Marketing, and General and Administrative. Professional Services staff expenses include personnel and related costs associated with our delivery of professional services. Research and Development staff expenses include personnel and related costs associated with our research and development efforts. Sales and Marketing staff expenses consist primarily of the personnel and related costs associated with our sales and marketing functions. General and Administrative staff expenses consist primarily of the personnel and related costs associated with the administration of the business. The table below compares the period over period variances.

Three months ended December 31,		Period-Over-Period Change	
2011	2010	$	%
($000, except percentages)			
24,596	24,702	(106)	0%
19,535	17,839	1,696	10%
27,026	21,585	5,441	25%
14,384	11,791	2,593	22%
16,147	17,268	(1,121)	-6%
101,688	93,185	8,503	9%

Fiscal year ended December 31,		Period-Over-Period Change	
2011	2010	$	%
($000, except percentages)			
100,651	94,274	6,377	7%
76,683	67,714	8,969	13%
103,600	86,173	17,427	20%
54,817	45,104	9,713	22%
65,628	63,274	2,354	4%
401,379	356,539	44,840	13%

Professional Services – Staff expenses related to our Professional Services operating department remained unchanged at $25 million for the quarter ended December 31, 2011 compared to the same period in 2010. During the twelve months ended December 31, 2011 staff expenses related to our professional services operating department increased 7%, or $6 million, to $101 million, compared to $94 million over the same period in 2010. The growth in staff expenses for the twelve months ended December 31, 2011 related to our Professional Services operating department was primarily due to the growth in the number of employees compared to the same period in 2010. Our average employee headcount associated with our Professional Services operating department grew 2% from 990 for the year ended December 31, 2010 to 1,008 for the year ended December 31, 2011 primarily due to acquisitions.

Maintenance – Staff expenses related to our Maintenance operating department increased 10%, or $2 million, to $20 million for the quarter ended December 31, 2011 compared to $18 million for the same period in 2010. During the year ended December 31, 2011 staff expenses related to our Maintenance operating department increased 13%, or $9 million, to $77 million, compared to $68 million over the same period in 2010. The growth in staff expenses related to our Maintenance operating department is primarily due to the growth in the number of employees compared to the same period in 2010. Our average employee headcount associated with our Maintenance operating department grew 17% from 765 for the year ended December 31, 2010 to 898 for the year ended December 31, 2011 and grew 17% from 810 for the quarter ended December 31, 2010 to 950 for the quarter ended December 31, 2011 primarily due to acquisitions.

Research and Development – Staff expenses related to our Research and Development operating department increased 25%, or $5 million, to $27 million for the quarter ended December 31, 2011 from $22 million for the same period in 2010. During the twelve months ended December 31, 2011 staff expenses related to our Research and Development operating department increased 20%, or $17 million, to $104 million from $86 million over the same period in 2010. The growth in staff expenses related to our Research and Development operating department is primarily due to the growth in the number of employees compared to the same period in 2010. Our average employee headcount associated with our Research and Development operating department grew 20% from 852 for the year ended December 31, 2010 to 1,022 for the year ended December 31, 2011 and grew 20% from 889 for the quarter ended December 31, 2010 to 1,070 for the quarter ended December 31, 2011 primarily due to acquisitions.

Sales and Marketing – Staff expenses related to our Sales and Marketing operating department increased 22%, or $3 million, to $14 million for the quarter ended December 31, 2011 compared to $12 million for the same period in 2010. During the twelve months ended December 31, 2011 staff expenses related to our Sales and Marketing operating department increased 22%, or $10 million, to $55 million from $45 million over the same period in 2010. The growth in staff expenses related to our Sales and Marketing operating department is primarily due to the growth in the number of employees compared to the same period in 2010. Our average employee headcount associated with our Sales and Marketing operating department grew 17% from 362 for the year ended December 31, 2010 to 422 for the year ended December 31, 2011 and grew 17% from 376 for the quarter ended December 31, 2010 to 440 for the quarter ended December 31, 2011 primarily due to acquisitions.

General and Administrative – Staff expenses related to our General and Administrative operating department decreased 6% to $16 million for the quarter ended December 31, 2011 compared to $17 million for the same period in 2010. During the twelve months ended December 31, 2011 staff expenses related to our General and Administrative operating department increased 4%, or $3 million, to $66 million from $63 million over the same period in 2010. The growth in staff expenses related to our General and Administrative operating department is primarily due to the growth in the number of employees compared to the same period in 2010. Our average employee headcount associated with our General and Administrative operating department grew 8% from 359 for the year ended December 31, 2010 to 388 for the year ended December 31, 2011 and grew 10% from 368 for the quarter ended December 31, 2010 to 404 for the quarter ended December 31, 2011 primarily due to acquisitions. The growth in expenses resulting from the growth in headcount was offset by a decline in bonus expense in 2011 compared to the same periods in 2010.

Hardware expenses – Hardware expenses for the quarter ended December 31, 2011 remained unchanged at $13 million compared to the same period in 2010. During the twelve months ended December 31, 2011 hardware expenses increased 35%, or $16 million, to $61 million from $45 million over the same period in 2010. The increase in hardware expenses for the twelve months ended December 31, 2011 is attributable to an increase in hardware and other revenue primarily relating to the PTS business in our Volaris operating group.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses for the quarter ended December 31, 2011 increased 19% or $2 million to $13 million, compared to $11 million for the quarter ended December 31, 2010. During the twelve months ended December 31, 2011 third party license, maintenance and professional services expense increased 36%, or $13 million, to $51 million from $38 million over the same period in 2010. The increase is primarily due to an increase in license and maintenance revenue in 2011 and due to an acquisition late in 2010 that had a relatively high component of third party costs.

Other Expenses:

The following table displays the breakdown of our other expenses:

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change	
	2011	2010	$	%	2011	2010	$	%
	($000, except percentages)				($000, except percentages)			
Depreciation	1,829	2,028	(199)	-10%	7,868	6,756	1,112	16%
Amortization of intangible assets	20,917	19,260	1,657	9%	76,650	67,926	8,724	13%
Impairment of non-financial assets	(29)	-	(29)	NM	489	-	489	NM
Foreign exchange loss	364	2,483	(2,119)	-85%	3,392	4,526	(1,134)	-25%
Finance income	(1,100)	(341)	(759)	223%	(7,267)	(1,241)	(6,026)	486%
Finance costs	986	2,111	(1,125)	-53%	5,575	5,783	(208)	-4%
Bargain purchase gain	0	(1,745)	1,745	-100%	0	(1,745)	1,745	-100%
Income tax expense (recovery)	5,085	(1,919)	7,004	-365%	(75,203)	4,397	(79,600)	NM
	28,052	21,877	6,175	28%	11,504	86,402	(74,898)	-87%

NM - Not meaningful

Depreciation – Depreciation of property and equipment remained unchanged at $2 million in the quarter ended December 31, 2011 compared to the same period in 2010. For the fiscal year ended December 31, 2011, depreciation of property and equipment increased 16% or $1 million, to $8 million from $7 million for the same period in 2010. The increase for the full year is primarily due to an increase in purchased property and equipment and property and equipment obtained in acquisitions.

Amortization of intangible assets – Amortization of intangible assets increased 9% or $2 million to $21 million, compared to $19 million for the quarter ended December 31, 2010. For the fiscal year ended December 31, 2011, amortization of intangible assets increased 13% or $9 million, to $77 million from $68 million for the same period in 2010. The increase for the full year is attributable to an increase in our gross intangible asset balance over the twelve month period ended December 31, 2011 as a result of acquisitions we completed during this period.

Impairment of non-financial assets – Impairment of non-financial assets was $0.5 million in the year ended December 31, 2011 compared to nil for the same period in 2010. In the year ended December 31, 2011, intangible assets relating to a business unit in the Public Sector segment were deemed to be impaired due to a significant decline in forecasted cash flows resulting from deteriorating revenue attributable to the loss of a significant customer.

Foreign exchange – For the quarter ended December 31, 2011, our foreign exchange loss was $0.5 million compared to a loss of $2 million in the quarter ended December 31, 2010. For the fiscal year ended

December 31, 2011 the foreign exchange loss was $3 million compared to a loss of $5 million, for the same period in 2010. The foreign exchange gains and losses for the quarter and fiscal year ended December 31, 2011 are due to realized gains and losses on settling certain non-USD liabilities and due to holding gains and losses on certain non-USD net liabilities.

Finance income – Finance income increased to $1 million for the quarter ended December 31, 2011 from $0.5 million for the quarter ended December 31, 2010. For the fiscal year ended December 31, 2011, finance income was $7 million compared to $1 million for the same period in 2010. The increase in finance income for the quarter and year ended December 31, 2011 is due to gains on available-for-sale equity securities sold in the quarter and the year ended December 31, 2011.

Finance costs – Finance costs decreased to $1 million for the quarter ended December 31, 2011 from $2 million for the quarter ended December 31, 2010. For the fiscal year ended December 31, 2011, finance costs remained unchanged at $6 million compared to the same period in 2010. The decrease in finance costs for the quarter ended December 31, 2011 is primarily due to decreased interest expense resulting from lower average borrowings.

Bargain Purchase Gain - Bargain purchase gain was nil for the quarter and year ended December 31, 2011 compared to $2 million for the quarter and year ended December 31, 2010. The bargain purchase gain recorded in 2010 relates to a bargain purchase gain associated with an acquisition. A bargain purchase gain arose on acquisition because the fair value of the separately identifiable assets 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 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, 2011, income tax expense was $5 million, compared to a recovery of $2 million for the same period in 2010. The increase in income tax expense for the quarter ended December 31, 2011 was due to an increase in income before tax and due to a decrease in deferred income tax recovery compared to the same period in 2010. For the fiscal year ended December 31, 2011, income tax recovery was $75 million compared to income tax expense of $4 million for the same period in 2010. The increase in the income tax recovery for the fiscal year ended December 31, 2011 was due to inter-jurisdictional transfers of certain intangible assets within the Company in 2011. Deferred tax assets were recorded on the increase in fair market value arising on the transfers. The deferred income tax recovery recorded through profit or loss represents the amount of the temporary differences that the Company has determined is probable of being utilized for income tax deduction purposes in the future. These deductions were available to the Company in 2011 and will be available in future periods and, as such, the Company expects a reduction in current income tax as a percentage of Adjusted net income in 2011 and in future periods compared to previous periods.

Net Income:

Net income for the quarter ended December 31, 2011 was $19 million compared to net income of $11 million for the same period in 2010. On a per share basis this translated into a net income per diluted share of

$0.92 in the quarter ended December 31, 2011 versus a net income per diluted share of $0.51 in the quarter ended December 31, 2010. For the year ended December 31, 2011, net income was $157 million or $7.42 per diluted share compared to $30 million or $1.42 per diluted share in the full year of 2010. Net income for the full year 2011 was positively impacted by the growth in our Adjusted EBITDA, gains on sale of available-for-sale equity securities, and a decrease in income tax expense, offset by an increase in amortization of intangible assets. Net income for the quarter ended December 31, 2011 was positively impacted by the growth in our Adjusted EBITDA, a decrease in foreign exchange loss, a decrease in finance costs, an increase in finance income, offset by an increase in income tax expense.

Adjusted EBITDA:

For the quarter ended December 31, 2011, Adjusted EBITDA increased by $15 million to $47 million compared to $33 million in the quarter ended December 31, 2010, representing an increase of 45%. Adjusted EBITDA margin was 24% in the fourth quarter of 2011 compared to 19% in the comparable period in 2010. For the year ended December 31, 2011, Adjusted EBITDA increased by $52 million to $169 million compared to $116 million during the same period in 2010, representing an increase of 45%. Adjusted EBITDA margin was 22% for the year ended December 31, 2011, compared to 18% of total revenue in 2010. The increase in Adjusted EBITDA margin for the quarter and fiscal year ended December 31, 2011 is largely due to the growth in our maintenance revenue, which is a relatively high margin revenue stream, and due to a decrease in our general and administrative expenses as a percentage of revenue resulting from operational improvements implemented at a number of business units. See “Non-IFRS 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,		Fiscal year ended December 31,	
	2011	2010	2011	2010
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 198,357	$171,986	$ 773,341	$ 633,965
Net income	19,395	10,877	157,174	30,016
Adusted for:				
Income tax expense (recovery)	5,085	(1,919)	(75,203)	4,397
Foreign exchange loss	364	2,483	3,392	4,526
Finance income	(1,100)	(341)	(7,267)	(1,241)
Finance costs	986	2,111	5,575	5,783
Bargain purchase gain	0	(1,745)	0	(1,745)
Impairment of non-financial assets	(29)	-	489	-
Amortization of intangible assets	20,917	19,260	76,650	67,926
Depreciation	1,829	2,028	7,868	6,756
Adjusted EBITDA	47,447	32,754	168,678	116,418
Adjusted EBITDA margin	24%	19%	22%	18%

Adjusted Net Income:

For the quarter ended December 31, 2011, Adjusted net income increased by $18 million to $40 million compared to $23 million in the quarter ended December 31, 2010, representing an increase of 78%. Adjusted net income margin was 20% in the fourth quarter of 2011 compared to 13% in the comparable period in 2010. For the year ended December 31, 2011, Adjusted net income increased by $57 million to $140 million compared to $84 million during the same period in 2010, representing an increase of 68%. Adjusted net income margin was 18% for the year ended December 31, 2011, compared to 13% of total revenue for the same period in 2010. The increase in Adjusted net income margin for the three and twelve months ended December 31, 2011 is largely due to an improvement in our Adjusted EBITDA margin. See “Non-IFRS 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,		Fiscal year ended December 31,	
	2011	2010	2011	2010
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 198,357	$171,986	$ 773,341	$ 633,965
Net income	19,395	10,877	157,174	30,016
Adusted for:				
Amortization of intangible assets	20,917	19,260	76,650	67,926
Impairment of non-financial assets	(29)	-	489	-
Bargain purchase gain	0	(1,745)	0	(1,745)
Deferred income tax recovery	(54)	(5,846)	(93,818)	(12,564)
Adjusted net income	40,229	22,546	140,495	83,633
Adjusted net income margin	20%	13%	18%	13%

Quarterly Results

	Quarter Ended							
	Mar. 31 2010	Jun. 30 2010	Sep. 30 2010	Dec. 31 2010	Mar. 31 2011	Jun. 30 2011	Sep. 30 2011	Dec. 31 2011
	($000, except per share amounts)							
								Note 1
Revenue	144,846	153,545	163,588	171,986	177,632	195,099	202,253	198,357
Net Income	8,031	2,322	8,786	10,877	62,488	55,986	19,305	19,395
Net Income per share								
Basic	0.38	0.11	0.41	0.51	2.95	2.64	0.91	0.92
Diluted	0.38	0.11	0.41	0.51	2.95	2.64	0.91	0.92

The quarterly information is presented in accordance with IFRS.
Note 1: Net income amounts for each of the quarterly periods in the nine months ended September 30, 2011 have been adjusted to correct for immaterial out of period errors. This resulted in a reduction of the deferred income recovery in profit and loss for each of the quarterly periods in the nine months ended September 30, 2011 totalling $1,742, $2,613 and $2,613 respectively, which have been reflected herein. The Company will recast the comparative interim periods in its future filings in fiscal 2012.

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

Acquisition of PTS from Continental

On November 2, 2009, Constellation acquired the Public Transit Solutions business ('PTS') from Continental AG ('Continental') for gross cash consideration of $3 million. The purchase price was a small percentage of PTS' annualized revenues, reflecting its pre-acquisition history of negative cash flows.

Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain acquisition related accounting price adjustments and the impact of contract accounting in a business combination under IFRS 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.

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 through profit or loss will differ from the revenue and costs that would have been recognized under normal course percentage of completion contract accounting.

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. PTS has contributed $36 million in cash flow from operations since the date of acquisition. PTS contributed $25 million in cash flow from operations in Q4 2011 and $16 million in cash flow from operations for the full year ended December 31, 2011. Previously, we indicated that we expected cash flow from operations for PTS to be close to breakeven for the full year ended December 31, 2011. PTS exceeded the expectation due to the receipt of significant milestone payments and customer deposits in Q4 2011. Adjusted EBITDA of PTS was lower in Q4 2011 as compared to previous periods due to an increase in incentive bonuses earned in Q4 compared to previous periods. 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 $2 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.

Supplemental Financial Information for PTS

The table below provides certain supplemental statement of comprehensive income and cash flow information regarding PTS for the quarter and year ended December 31, 2011. 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 flows from operations of PTS until such time as it becomes consistently cash flow positive. Management believes cash flows from operations is useful supplemental information about the performance of the underlying business as certain acquisition related accounting adjustments and contract accounting under IFRS may result in reported earnings that differ materially from cash flows from operations.

Supplemental financial information

For the three months and fiscal year ended December 31, 2011

(Unaudited)	For the three months ended December 31, 2011 Constellation Software Inc. (excluding PTS)	PTS	Consolidated	For the fiscal year ended December 31, 2011 Constellation Software Inc. (excluding PTS)	PTS	Consolidated
Revenue	$ 164,379	$ 33,978	$ 198,357	$ 629,524	$ 143,817	$ 773,341
Adjusted EBITDA	45,879	1,568	47,447	147,233	21,445	168,678
EBITDA as % Total Revenue	28%	5%	24%	23%	15%	22%
Net Income	$ 18,558	$ 837	$ 19,395	$ 142,478	$ 14,696	$ 157,174
Cash flows from operating activities:						
Net income	$ 18,558	$ 837	$ 19,395	$ 142,478	$ 14,696	$ 157,174
Adjustments to reconcile net income to net cash flows from operations, less taxes paid:	22,119	707	22,826	(10,151)	6,406	(3,745)
Change in non-cash operating working capital	(9,396)	23,937	14,541	(10,661)	(5,235)	(15,896)
Cash flows from operating activities	$ 31,281	$ 25,481	$ 56,762	$ 121,666	$ 15,867	$ 137,533

Adjusted EBITDA to net income reconciliation

For the three months and fiscal year ended December 31, 2011

(Unaudited)	For the three months ended December 31, 2011 Constellation Software Inc. (excluding PTS)	PTS	Consolidated	For the fiscal year ended December 31, 2011 Constellation Software Inc. (excluding PTS)	PTS	Consolidated
Total revenue	$ 164,379	$ 33,978	$ 198,357	$ 629,524	$ 143,817	$ 773,341
Net income	18,558	837	19,395	142,478	14,696	157,174
Adjusted for:						
Income tax expense	4,095	990	5,085	(79,056)	3,853	(75,203)
Other expenses (income)	640	(419)	221	517	1,672	2,189
Amortization of intangible assets	20,917	-	20,917	76,650	-	76,650
Depreciation	1,669	160	1,829	6,644	1,224	7,868
Adjusted EBITDA	45,879	1,568	47,447	147,233	21,445	168,678
Adjusted EBITDA margin	28%	5%	24%	23%	15%	22%

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 customer 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.

In February 2011, a subsidiary of the Company and MAXIMUS received a letter from a customer initiating a dispute resolution process under the customer's contract. The customer alleges that the subsidiary of Constellation and MAXIMUS failed to observe the most favoured customer pricing terms of the contract and also raised a number of issues pertaining to services and products delivered under the contract. The customer alleges total damages of approximately $30 million. The subsidiary of the Company and the seller of the MAJES assets are contesting all of the customer's claims. The contract with the customer has a $9 million limitation of liability clause that the Company believes will apply to all of the claims in the letter. The subsidiary of the Company also believes that it is entitled to indemnification from MAXIMUS in respect of certain of the claims made by the customer. The Company is currently following the dispute resolution process and continues to provide services to the customer.

Liquidity

Our net cash position (cash less bank indebtedness) at December 31, 2011 increased to $33 million, from negative $15 million at December 31, 2010. Borrowings on our line of credit decreased by $46 million and cash increased by $3 million.

Total assets increased $95 million, from $536 million at December 31, 2010 to $631 million at December 31, 2011. The majority of the increase can be explained by an increase in deferred tax assets of $84 million resulting from the intercompany transfer of intellectual property and the inter-jurisdictional migration of entities within the Company (See "Income Taxes" discussion above), and by increases in accounts receivable, inventory and work in progress of $8 million due to the growth in the business.

Current liabilities decreased $9 million, from $330 million at December 31, 2010 to $321 million at December 31, 2011. The majority of the decrease can be explained by a decrease in bank indebtedness of $46 million, offset by an increase in deferred revenue of $23 million, primarily due to acquisitions and the timing of billings versus revenue recognized, and an increase of $10 million in accounts payable and accrued liabilities.

Net Changes in Cash Flows

	For the fiscal year ended December 31, 2011
	(in thousands of $)
Net cash provided by operating activities	137,533
Net cash used in financing activities	91,891
Net cash used in investing activities	43,212
Effect of currency translation on cash	151
Net decrease in cash and cash equivalents	2,581

The net cash flows from operating activities was $138 million for the fiscal year ended December 31, 2011. The $138 million provided by operating activities resulted from $157 million in net income, $10 million of non-cash add backs to net income, less $16 million of cash used by changes in our non-cash operating working capital and less $15 million in taxes paid. The $10 million in cash used by changes in our non-cash operating working capital was largely due to a reduction in acquired contract liabilities resulting from the PTS acquisition offset by cash generated from negative working capital in the rest of our business.

The net cash flows used in financing activities in the fiscal year ended December 31, 2011 was $92 million. $43 million was used in March 2011 to pay a dividend of $2.00 per share, $48 million was repayment on our bank indebtedness, $5 million was used to pay interest on the bank indebtedness and $4 million was used to pay other non-current liabilities.

The net cash used in investing activities in the fiscal year ended December 31, 2011 was $43 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $46 million (including payments for holdbacks relating to prior acquisitions), the purchase of available-for-sale equity securities in the amount of $6 million and $7 million in additions to property and equipment. Offsetting this were the proceeds from the sale of available-for-sale equity securities in the amount of $14 million.

We believe we have more than sufficient cash 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, 2011, we had nil drawings on this facility. We have arranged an increase in our credit facility from $160 million to $300 million and will be adding additional lenders to our banking syndicate. The facility increase is expected to close in March and will be available for general corporate purposes including acquisitions and expires in 2016.

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 available for sale securities and other equity investments included in other assets) that would have a significant effect on our assets and liabilities as at December 31, 2011.

Commitments

(in thousands of dollars)

	Total	< 1 yr	1-5 yrs	> 5 yrs
Operating and capital leases	49,319	14,921	27,354	7,044
Holdbacks	13,852	11,378	2,474	-
Line of credit	-	-	-	-
Total outstanding commitments	63,171	26,299	29,828	7,044

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 typically 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 and expenses, as applicable, for the three and twelve months ended December 31, 2011:

	Three months ended December 31, 2011		Fiscal year ended December 31, 2011	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	69%	54%	67%	52%
CAD	10%	21%	10%	23%
GBP	11%	10%	11%	11%
CHF	1%	8%	2%	9%
Euro	6%	3%	7%	1%
Others	3%	4%	3%	4%
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 liabilities and commitments are reflected on our balance sheet.

Proposed Transactions

We seek potential acquisition targets on an ongoing basis and may complete several acquisitions in any given fiscal year. As disclosed in the Company's press release dated January 3, 2012, the Board of Directors has concluded its previously announced review of strategic alternatives for the Company.

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 3 to our annual consolidated financial statements which are available on SEDAR (www.sedar.com). 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 represents the fair value of consideration received or receivable from clients for goods and services provided by the Company, net of discounts and sales taxes. The Company reports revenue under four revenue categories, License, Hardware, Professional Services and Maintenance.

Typically, the Company's software license agreements are multiple-element arrangements as they may also include maintenance, professional services, and hardware. Multiple-element arrangements are recognized as the revenue for each unit of accounting is earned based on the relative fair value of each unit of accounting as determined by an internal analysis of prices or by using the residual method. A delivered element is considered a separate unit of accounting if it has value to the customer on a standalone basis, and delivery or performance of the undelivered elements is considered probable and substantially under the Company's control. If these criteria are not met, revenue for the arrangement as a whole is accounted for as a single unit of accounting.

Revenue from the license of software involving significant implementation or customization essential to the functionality of the Company's product, or from the sales of hardware where software is essential to its functionality, is recognized under the percentage-of-completion method of accounting based on the achievement of contractually defined milestones, estimated contract costs, or based on estimated labour hours. Any probable losses are recognized immediately in operating expenses. In certain situations where the outcome of an arrangement cannot be estimated reliably, costs associated with the arrangement are recognized as incurred. In this situation, revenues are recognized only to the extent of the costs incurred that are probable of recovery.

A portion of the Company's sales, categorized as hardware revenue, are accounted for as product revenue. Product revenue is recognized when the Company has an executed agreement, the product has been delivered and costs can be measured reliably, the amount of the fee to be paid by the customer is fixed and determinable, and the collection of the related receivable is deemed probable from the outset of the arrangement.

Maintenance revenue primarily consists of fees charged for customer support on our software products post-delivery, which are determinable based on vendor specific objective evidence 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 ‘‘when and if 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 Services revenue including implementation, training and customization of software is recognized by the stage of completion of the customer arrangement at the balance sheet date determined using the percentage of completion method noted above or as such services are performed as appropriate in the circumstances. The revenue and profit of fixed price contracts is recognized on a percentage of completion basis when the outcome of a contract can be estimated reliably. When the outcome of the contract cannot be estimated reliably, the amount of revenue recognized is limited to the cost incurred in the period. Losses on contracts are recognized as soon as a loss is foreseen by reference to the estimated costs of completion.

Management exercises judgement in determining whether a contract's outcome can be estimated reliably. Management also applies estimates in the calculation of future contract costs and related profitability as it relates to labour hours and other considerations, which are used in determining the value of amounts recoverable on contracts and timing of revenue recognition. Estimates are continually revised based on changes in the facts relating to each contract. Judgement is also needed in assessing the ability to collect the corresponding receivables.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in work in progress. Amounts billed in accordance with customer contracts, but not yet earned, are recorded as deferred revenue once the contract term has commenced.

Valuation of Identifiable Goodwill and Other Intangible Assets

Acquisitions on or after January 1, 2010, have been accounted for using the acquisition method required by IFRS 3. Goodwill arising on acquisition is measured as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred.

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 method (“MEEM”) 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 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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee. No such losses have been recognized during the year.

The impairment test methodology is based on a comparison between the higher of fair value less costs to sell and value-in-use of each of the Company's business units (considered as the grouping of cash generating units ("CGU") at which level the impairment test is performed) and the net asset carrying values (including goodwill) of the Company's business units. Within the Company's reporting structure, business units generally reflect one level below the six operating groups (Volaris Operating Group, Harris Operating Group, Emphasys Operating Group, Jonas Operating Group, Homebuilder Operating Group, Friedman Operating Group). In determining the recoverable amount, the Company applies an estimated market valuation multiple to the business units' annual reoccurring revenues, which are derived from combined software/support contracts, transaction revenues, and hosted products. Valuation multiples reflect current conditions specific to the business unit and are tested for reasonability by comparing to the Company's current and past experience in acquiring representative software companies. An impairment is recognized if the carrying amount of a cash generating unit exceeds its estimated recoverable amount.

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.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits, difference in tax bases in the purchaser's tax jurisdiction and its cost as reported in the consolidated financial statements as a result of an intra-group transfer of assets and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

We are subject to income tax audits by various authorities in respect of prior periods that could result in additional tax expense in future periods. While the outcome of current outstanding actions and claims remains uncertain, it is expected that they will be resolved without a material impact to our financial position. However, there can be no assurances as to the final resolution of these matters and, if the final outcome is adverse to us, the amounts we will be required to pay and the loss of certain future tax deductions could be material to our financial statements.

Accounts Receivable

We evaluate the collectability 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 at 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.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the estimated future cash flows required to settle the present obligation, based on the most reliable evidence available at the reporting date. The estimated cash flows are discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortization of the discount is recognized as part of finance costs.

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. Because of the uncertainties related to these matters, provisions 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 provisions. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

Changes in Accounting Policies

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, this is the first full year in which we have provided consolidated 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 as of 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 are the first annual financial statements of the Company that comply with IFRS.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 18 of the Audited Consolidated Financial Statements for the year ended December 31, 2011. This note includes reconciliations from Canadian GAAP to IFRS of equity and comprehensive income of the comparative periods and of equity at the date of transition.

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements. The relevant standards are listed below.

IFRS 9 Financial Instruments

IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied.

The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The Company does not expect the amendments to have a material impact on the financial statements, because of the nature of the Company's operations and the types of financial assets that it holds.

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2012. The Company does not expect the amendments to IAS 12 to have a material impact on the financial statements.

IFRS 10 Consolidated Financial Statements

The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

IFRS 11 Joint Arrangements

The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 11 to have a material impact on the financial statements.

IFRS 12 Disclosure of Interests in Other Entities

The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to have a material impact on the financial statements, because of the nature and extent of the Company's interests in other entities.

IFRS 13 Fair Value Measurement

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Amendments to IAS 28 Investments in Associates and Joint Ventures

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

Amendments to IAS 1 Presentation of Financial Statements

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Company does not expect the amendments to IAS 1 to have a material impact on the financial statements.

Amendments to IAS 19 Employee Benefits

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

Amendments to IAS 32 and IFRS 7, Offsetting Financial Assets and Liabilities

The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

Share Capital

As at February 29, 2012, 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

For fiscal 2011, we previously reported that we expected gross revenue to be in the range of $765 million to $775 million and Adjusted EBITDA to be in the range of $160 million to $170 million. Management achieved each of these objectives by achieving actual 2011 gross revenue of $773 million and Adjusted EBITDA of $169 million. See Non-IFRS Measures.

Risks and Uncertainties

A complete description of the risks and uncertainties affecting the Company is included in the 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, 2011, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

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

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

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.