



Constellation Software Inc.

# **FINANCIAL REPORT**

Fourth Quarter Fiscal Year 2011

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

# 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](http://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](http://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<br>December 31, |                | Period-Over-Period<br>Change |            | Fiscal year ended<br>December 31, |                | Period-Over-Period<br>Change |             | Fiscal year<br>ended<br>December 31, |
|--|------------------------------------|----------------|------------------------------|------------|-----------------------------------|----------------|------------------------------|-------------|--------------------------------------|
|  | 2011                               | 2010           | \$                           | %          | 2011                              | 2010           | \$                           | %           | 2009<br><i>Note 1</i>                |
| <b>Revenue</b>   | <b>198,357</b>                     | <b>171,986</b> | <b>26,371</b>                | <b>15%</b> | <b>773,341</b>                    | <b>633,965</b> | <b>139,376</b>               | <b>22%</b>  | <b>437,940</b>                       |
| Expenses   | 150,910                            | 139,232        | 11,678                       | 8%         | 604,663                           | 517,547        | 87,116                       | 17%         | 349,814                              |
| <b>Adjusted EBITDA</b>                                   | <b>47,447</b>                      | <b>32,754</b>  | <b>14,693</b>                | <b>45%</b> | <b>168,678</b>                    | <b>116,418</b> | <b>52,260</b>                | <b>45%</b>  | <b>88,126</b>                        |
| 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                               |
| <b>Income taxes expense (recovery)</b>                   |                                    |                |                              |            |                                   |                |                              |             |                                      |
| 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                                |
| <b>Net income (Note 2)</b>                               | <b>19,395</b>                      | <b>10,877</b>  | <b>8,518</b>                 | <b>78%</b> | <b>157,174</b>                    | <b>30,016</b>  | <b>127,158</b>               | <b>424%</b> | <b>10,224</b>                        |
| <b>Adjusted net income</b>                               | <b>40,229</b>                      | <b>22,546</b>  | <b>17,683</b>                | <b>78%</b> | <b>140,495</b>                    | <b>83,633</b>  | <b>56,862</b>                | <b>68%</b>  | <b>62,414</b>                        |
| Weighted average number of shares<br>outstanding (000's) |                                    |                |                              |            |                                   |                |                              |             |                                      |
| Basic and diluted  | 21,192                             | 21,192         |                              |            | 21,192                            | 21,192         |                              |             | 21,192                               |
| <b>Net income per share</b>                              |                                    |                |                              |            |                                   |                |                              |             |                                      |
| Basic and diluted  | \$ 0.92                            | \$ 0.51        | \$ 0.40                      | 78%        | \$ 7.42                           | \$ 1.42        | \$ 6.00                      | 424%        | \$ 0.48                              |
| <b>Adjusted EBITDA per share</b>                         |                                    |                |                              |            |                                   |                |                              |             |                                      |
| Basic and diluted  | \$ 2.24                            | \$ 1.55        | \$ 0.69                      | 45%        | \$ 7.96                           | \$ 5.49        | \$ 2.47                      | 45%         | \$ 4.16                              |
| <b>Adjusted net income per share</b>                     |                                    |                |                              |            |                                   |                |                              |             |                                      |
| Basic and diluted  | \$ 1.90                            | \$ 1.06        | \$ 0.83                      | 78%        | \$ 6.63                           | \$ 3.95        | \$ 2.68                      | 68%         | \$ 2.95                              |
| <b>Cash dividends declared per share</b>                 |                                    |                |                              |            |                                   |                |                              |             |                                      |
| 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:

| <b>Organic Revenue Growth</b> |   |  |
|-------------------------------|---|--|
|                               | <b>Three months ended December 31, 2011</b> | <b>Fiscal year ended December 31, 2011</b> |
| 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<br>December 31, |             | Period-Over-Period<br>Change |     | Fiscal year ended<br>December 31, |             | Period-Over-Period<br>Change |     |
|-----------------------|------------------------------------|-------------|------------------------------|-----|-----------------------------------|-------------|------------------------------|-----|
|                       | <u>2011</u>                        | <u>2010</u> | \$                           | %   | <u>2011</u>                       | <u>2010</u> | \$                           | %   |
|                       | (\$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<br>December 31, |             | Period-Over-Period<br>Change |     | Fiscal year ended<br>December 31, |             | Period-Over-Period<br>Change |     |
|-----------------------|------------------------------------|-------------|------------------------------|-----|-----------------------------------|-------------|------------------------------|-----|
|                       | <u>2011</u>                        | <u>2010</u> | \$                           | %   | <u>2011</u>                       | <u>2010</u> | \$                           | %   |
|                       | (\$000, except percentages)        |             |                              |     | (\$000, except percentages)       |             |                              |     |
| <b>Public Sector</b>  |                                    |             |                              |     |                                   |             |                              |     |
| 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% |
| <b>Private Sector</b> |                                    |             |                              |     |                                   |             |                              |     |
| 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<br>December 31, |         | Period-Over-Period<br>Change |      | Fiscal year ended<br>December 31, |         | Period-Over-Period<br>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<br>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<br>December 31, |             | Period-Over-Period<br>Change |     | Fiscal year ended<br>December 31, |             | Period-Over-Period<br>Change |     |
|------------------------------------|-------------|------------------------------|-----|-----------------------------------|-------------|------------------------------|-----|
| <u>2011</u>                        | <u>2010</u> | \$                           | %   | <u>2011</u>                       | <u>2010</u> | \$                           | %   |
| (\$000, except percentages)        |             |                              |     | (\$000, except percentages)       |             |                              |     |
| 24,596                             | 24,702      | (106)                        | 0%  | 100,651                           | 94,274      | 6,377                        | 7%  |
| 19,535                             | 17,839      | 1,696                        | 10% | 76,683                            | 67,714      | 8,969                        | 13% |
| 27,026                             | 21,585      | 5,441                        | 25% | 103,600                           | 86,173      | 17,427                       | 20% |
| 14,384                             | 11,791      | 2,593                        | 22% | 54,817                            | 45,104      | 9,713                        | 22% |
| 16,147                             | 17,268      | (1,121)                      | -6% | 65,628                            | 63,274      | 2,354                        | 4%  |
| 101,688                            | 93,185      | 8,503                        | 9%  | 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<br>December 31, |         | Period-Over-Period<br>Change |       | Fiscal year ended<br>December 31, |         | Period-Over-<br>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<br>December 31, |                  | Fiscal year ended<br>December 31, |                   |
|------------------------------------|------------------------------------|------------------|-----------------------------------|-------------------|
|                                    | <u>2011</u>                        | <u>2010</u>      | <u>2011</u>                       | <u>2010</u>       |
|                                    | (\$000, except percentages)        |                  | (\$000, except percentages)       |                   |
| <b>Total revenue</b>               | <u>\$ 198,357</u>                  | <u>\$171,986</u> | <u>\$ 773,341</u>                 | <u>\$ 633,965</u> |
| <b>Net income</b>                  | 19,395                             | 10,877           | 157,174                           | 30,016            |
| <b>Adjusted for:</b>               |                                    |                  |                                   |                   |
| 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<br>December 31, |                  | Fiscal year ended<br>December 31, |                   |
|------------------------------------|------------------------------------|------------------|-----------------------------------|-------------------|
|                                    | <u>2011</u>                        | <u>2010</u>      | <u>2011</u>                       | <u>2010</u>       |
|                                    | (\$000, except percentages)        |                  | (\$000, except percentages)       |                   |
| <b>Total revenue</b>               | <u>\$ 198,357</u>                  | <u>\$171,986</u> | <u>\$ 773,341</u>                 | <u>\$ 633,965</u> |
| <b>Net income</b>                  | 19,395                             | 10,877           | 157,174                           | 30,016            |
| <b>Adjusted for:</b>               |                                    |                  |                                   |                   |
| 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<br><u>2010</u>            | Jun. 30<br><u>2010</u> | Sep. 30<br><u>2010</u> | Dec. 31<br><u>2010</u> | Mar. 31<br><u>2011</u> | Jun. 30<br><u>2011</u> | Sep. 30<br><u>2011</u> | Dec. 31<br><u>2011</u> |
|                      | (\$000, except per share amounts) |                        |                        |                        |                        |                        |                        |                        |
|                      | <i>Note 1</i>                     |                        |                        |                        |                        |                        |                        |                        |
| 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 |           |              | For the fiscal year ended December 31, 2011 |            |              |
|----------------------------------|--|-----------|--------------|---|------------|--------------|
|                                  | Constellation Software Inc. (excluding PTS)  | PTS       | Consolidated | 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      |
| <i>EBITDA as % Total Revenue</i> | 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 |                  |                   | For the fiscal year ended December 31, 2011 |                   |                   |
|-----------------------------------|--|------------------|-------------------|---|-------------------|-------------------|
|                                   | Constellation Software Inc. (excluding PTS)  | PTS              | Consolidated      | Constellation Software Inc. (excluding PTS) | PTS               | Consolidated      |
| <b>Total revenue</b>              | <u>\$ 164,379</u>                            | <u>\$ 33,978</u> | <u>\$ 198,357</u> | <u>\$ 629,524</u>                           | <u>\$ 143,817</u> | <u>\$ 773,341</u> |
| <b>Net income</b>                 | 18,558                                       | 837              | 19,395            | 142,478                                     | 14,696            | 157,174           |
| <b>Adjusted for:</b>              |  |                  |                   |   |                   |                   |
| 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:

| Currencies | Three months ended<br>December 31, 2011 |               | Fiscal year ended<br>December 31, 2011 |               |
|------------|---|---------------|--|---------------|
|            | % 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](http://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.

Consolidated Financial Statements  
(In U.S. dollars)

**CONSTELLATION  
SOFTWARE INC.**

For the years ended December 31, 2011 and 2010





## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

December 31, 2011

The accompanying consolidated financial statements of Constellation Software Inc. ("Constellation") and its subsidiaries and all the information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements include certain amounts that are based on the best estimates and judgements of management and in their opinion present fairly, in all material respects, Constellation's financial position, results of operations and cash flows, in accordance with IFRS. Management has prepared the financial information presented elsewhere in the Management's Discussion and Analysis and has ensured that it is consistent with the consolidated financial statements, or has provided reconciliations where inconsistencies exist.

Management of Constellation has developed and maintains a system of internal controls, which is supported by the internal audit function. Management believes the internal controls provide reasonable assurance that material transactions are properly authorized and recorded, financial records are reliable and form a basis for the preparation of consolidated financial statements and that Constellation's material assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. This committee meets with management and the Company's independent auditors to review the Company's reported financial performance and to discuss audit, internal controls, accounting policies, and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee.

February 29, 2012

"Mark Leonard"

President

"John Billowits"

Chief Financial Officer



**KPMG LLP**  
**Chartered Accountants**  
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Internet [www.kpmg.ca](http://www.kpmg.ca)

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Constellation Software Inc.

We have audited the accompanying consolidated financial statements of Constellation Software Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

### ***Management's responsibility for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



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***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Constellation Software Inc. as at as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

*KPMG LLP*

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Chartered Accountants, Licensed Public Accountants  
February 29, 2012  
Toronto, Canada

# CONSTELLATION SOFTWARE INC.

Consolidated Statements of Financial Position  
(In thousands of U.S. dollars)

|   | December 31,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|---|----------------------|----------------------|--------------------|
| <b>Assets</b>                                     |                      |                      |                    |
| Current assets:                                   |                      |                      |                    |
| Cash  | \$ 33,492            | \$ 30,911            | \$ 33,249          |
| Equity securities available-for-sale (note 5)     | 21,222               | 23,723               | 22,323             |
| Accounts receivable                               | 100,398              | 90,898               | 95,431             |
| Work in progress                                  | 26,244               | 25,607               | 23,077             |
| Inventories (note 6)                              | 13,539               | 15,945               | 14,320             |
| Other assets (note 7)                             | 25,633               | 26,463               | 26,261             |
|   | <u>220,528</u>       | <u>213,547</u>       | <u>214,661</u>     |
| Non-current assets:                               |                      |                      |                    |
| Property and equipment (note 8)                   | 14,591               | 13,469               | 8,226              |
| Deferred income taxes (note 13)                   | 99,659               | 15,368               | 4,779              |
| Other assets (note 7)                             | 28,005               | 23,548               | 13,879             |
| Intangible assets (note 9)                        | 267,792              | 269,987              | 222,239            |
|   | <u>410,047</u>       | <u>322,372</u>       | <u>249,123</u>     |
| <b>Total assets</b>                               | <b>\$ 630,575</b>    | <b>\$ 535,919</b>    | <b>\$ 463,784</b>  |
| <b>Liabilities and Shareholders' Equity</b>       |                      |                      |                    |
| Current liabilities:                              |                      |                      |                    |
| Bank indebtedness (note 10)                       | \$ -                 | \$ 46,041            | \$ 41,153          |
| Accounts payable and accrued liabilities          | 114,952              | 104,905              | 86,640             |
| Deferred revenue                                  | 181,450              | 158,025              | 135,299            |
| Provisions (note 11)                              | 3,555                | 2,253                | 8,312              |
| Acquired contract liabilities                     | 4,750                | 10,908               | 7,652              |
| Acquisition holdback payments                     | 11,378               | 6,920                | 3,587              |
| Income taxes payable                              | 4,751                | 1,424                | 3,757              |
|   | <u>320,836</u>       | <u>330,476</u>       | <u>286,400</u>     |
| Non-current liabilities:                          |                      |                      |                    |
| Deferred income taxes (note 13)                   | 11,259               | 17,809               | 16,321             |
| Acquired contract liabilities                     | 28,051               | 35,633               | 41,482             |
| Acquisition holdback payments                     | 2,474                | 2,744                | 2,537              |
| Other liabilities                                 | 11,675               | 6,206                | 4,018              |
|   | <u>53,459</u>        | <u>62,392</u>        | <u>64,358</u>      |
| <b>Total liabilities</b>                          | <b>374,295</b>       | <b>392,868</b>       | <b>350,758</b>     |
| Shareholders' equity (note 14):                   |                      |                      |                    |
| Capital stock                                     | 99,283               | 99,283               | 99,283             |
| Accumulated other comprehensive income            | 6,961                | 8,522                | 3,003              |
| Retained earnings                                 | 150,036              | 35,246               | 10,740             |
|   | <u>256,280</u>       | <u>143,051</u>       | <u>113,026</u>     |
| Subsequent events (note 26)                       |                      |                      |                    |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 630,575</b>    | <b>\$ 535,919</b>    | <b>\$ 463,784</b>  |

See accompanying notes to the consolidated financial statements.

# CONSTELLATION SOFTWARE INC.

Consolidated Statements of Comprehensive Income  
(In thousands of U.S. dollars, except per share amounts)

Years ended December 31, 2011 and 2010

|  | 2011       | 2010       |
|--|------------|------------|
| Revenue (note 15)  | \$ 773,341 | \$ 633,965 |
| Expenses   |            |            |
| Staff  | 401,379    | 356,539    |
| Hardware   | 60,854     | 45,109     |
| Third party license, maintenance and professional services           | 51,066     | 37,669     |
| Occupancy  | 18,918     | 16,840     |
| Travel   | 30,038     | 23,094     |
| Telecommunications   | 9,992      | 9,177      |
| Supplies   | 15,314     | 11,125     |
| Professional fees  | 8,623      | 8,219      |
| Other  | 8,479      | 9,775      |
| Income before the undernoted   | 168,678    | 116,418    |
| Depreciation   | 7,868      | 6,756      |
| Amortization of intangible assets                                    | 76,650     | 67,926     |
| Impairment of non-financial assets                                   | 489        | -          |
| Foreign exchange loss  | 3,392      | 4,526      |
| Finance income (note 16)   | (7,267)    | (1,241)    |
| Finance costs (note 16)  | 5,575      | 5,783      |
| Bargain purchase gain  | -          | (1,745)    |
|  | 86,707     | 82,005     |
| Profit before income tax   | 81,971     | 34,413     |
| Current income tax expense   | 18,615     | 16,961     |
| Deferred income tax recovery   | (93,818)   | (12,564)   |
| Income tax expense (recovery) (note 12)                              | (75,203)   | 4,397      |
| Net income   | 157,174    | 30,016     |
| Net change in fair value   |            |            |
| on available-for-sale financial assets during the period             | 5,773      | 6,071      |
| Net unrealized foreign exchange adjustment                           |            |            |
| gain (loss) on available-for-sale financial assets during the period | (31)       | 61         |
| Reclassification of unrealized gain                                  |            |            |
| upon derecognition of available-for-sale investments                 | -          | (733)      |
| Amounts reclassified to profit during the period                     |            |            |
| related to realized gains on available-for-sale investments          | (6,253)    | -          |
| Foreign currency translation differences from foreign operations     | (1,188)    | 1,607      |
| Current tax expense  | (34)       | -          |
| Deferred tax recovery (expense)                                      | 172        | (1,487)    |
| Other comprehensive income for the period, net of income tax         | (1,561)    | 5,519      |
| Total comprehensive income for the period                            | \$ 155,613 | \$ 35,535  |
| Earnings per share   |            |            |
| Basic and diluted (note 17)  | \$ 7.42    | \$ 1.42    |

See accompanying notes to the consolidated financial statements.

# CONSTELLATION SOFTWARE INC.

Consolidated Statements of Changes in Equity  
(In thousands of U.S. dollars)

Year ended December 31, 2011

|   | Capital stock    | Accumulated other comprehensive income/(loss) |  | Total accumulated other comprehensive income/(loss) | Retained earnings | Total             |
|---|------------------|---|--|---|-------------------|-------------------|
|   |                  | Cumulative translation account                | Amounts related to gains/losses on available-for-sale financial assets |   |                   |                   |
| <b>Balance at January 1, 2011</b>   | <b>\$ 99,283</b> | <b>\$ 1,379</b>                               | <b>\$ 7,143</b>  | <b>\$ 8,522</b>                                     | <b>\$ 35,246</b>  | <b>\$ 143,051</b> |
| <i>Total comprehensive income for the period</i>  |                  |   |  |   |                   |                   |
| Net income  |                  |   |  |   | 157,174           | 157,174           |
| <i>Other comprehensive income (loss)</i>  |                  |   |  |   |                   |                   |
| Net change in fair value on available-for-sale financial assets during the period                               |                  |   | 5,773  | 5,773   | -                 | 5,773             |
| Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period |                  |   | (31)   | (31)  | -                 | (31)              |
| Amounts reclassified to profit during the period related to realized gains on available-for-sale investments    |                  |   | (6,253)  | (6,253)   | -                 | (6,253)           |
| Foreign currency translation differences from foreign operations  |                  | (1,188)                                       |  | (1,188)   | -                 | (1,188)           |
| Current tax expense   |                  | (34)  |  | (34)  |                   | (34)              |
| Deferred tax recovery   |                  | 25  | 147  | 172   | -                 | 172               |
| <b>Total other comprehensive income (loss) for the period</b>   |                  | <b>(1,197)</b>                                | <b>(364)</b>   | <b>(1,561)</b>                                      | <b>-</b>          | <b>(1,561)</b>    |
| <b>Total comprehensive income for the period</b>  |                  | <b>(1,197)</b>                                | <b>(364)</b>   | <b>(1,561)</b>                                      | <b>157,174</b>    | <b>155,613</b>    |
| Transactions with owners, recorded directly in equity   |                  |   |  |   |                   |                   |
| Dividends to owners of the Company (note 14)  |                  |   |  |   | (42,384)          | (42,384)          |
| <b>Balance at December 31, 2011</b>   | <b>\$ 99,283</b> | <b>\$ 182</b>                                 | <b>\$ 6,779</b>  | <b>\$ 6,961</b>                                     | <b>\$ 150,036</b> | <b>\$ 256,280</b> |

See accompanying notes to the consolidated financial statements.

# CONSTELLATION SOFTWARE INC.

Consolidated Statements of Changes in Equity  
(In thousands of U.S. dollars)

Year ended December 31, 2010

|   | Capital stock    | Accumulated other comprehensive income/(loss) |  | Total accumulated other comprehensive income/(loss) | Retained earnings | Total             |
|---|------------------|---|--|---|-------------------|-------------------|
|   |                  | Cumulative translation account                | Amounts related to gains/losses on available-for-sale financial assets |   |                   |                   |
| <b>Balance at January 1, 2010</b>   | <b>\$ 99,283</b> | <b>\$ -</b>                                   | <b>\$ 3,003</b>  | <b>\$ 3,003</b>                                     | <b>\$ 10,740</b>  | <b>\$ 113,026</b> |
| <i>Total comprehensive income for the period</i>  |                  |   |  |   |                   |                   |
| Net income  |                  |   |  |   | 30,016            | 30,016            |
| <i>Other comprehensive income (loss)</i>  |                  |   |  |   |                   |                   |
| Net change in fair value on available-for-sale financial assets during the period                               |                  |   | 6,071  | 6,071   | -                 | 6,071             |
| Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period |                  |   | 61   | 61  | -                 | 61                |
| Reclassification of unrealized gain from prior periods upon derecognition of available-for-sale investments     |                  |   | (733)  | (733)   | -                 | (733)             |
| Foreign currency translation differences from foreign operations  |                  | 1,607   | -  | 1,607   | -                 | 1,607             |
| Deferred tax expense  |                  | (227)   | (1,260)  | (1,487)   | -                 | (1,487)           |
| <b>Total other comprehensive income (loss) for the period</b>   |                  | <b>1,380</b>                                  | <b>4,139</b>   | <b>5,519</b>  | <b>-</b>          | <b>5,519</b>      |
| <b>Total comprehensive income for the period</b>  |                  | <b>1,380</b>                                  | <b>4,139</b>   | <b>5,519</b>  | <b>30,016</b>     | <b>35,535</b>     |
| Transactions with owners, recorded directly in equity   |                  |   |  |   |                   |                   |
| Dividends to owners of the Company (note 14)  |                  |   |  |   | (5,510)           | (5,510)           |
| <b>Balance at December 31, 2010</b>   | <b>\$ 99,283</b> | <b>\$ 1,380</b>                               | <b>\$ 7,142</b>  | <b>\$ 8,522</b>                                     | <b>\$ 35,246</b>  | <b>\$ 143,051</b> |

See accompanying notes to the consolidated financial statements.

# CONSTELLATION SOFTWARE INC.

Condensed Consolidated Statements of Cash Flows  
(In thousands of U.S. dollars)

|  | 2011       | 2010      |
|--|------------|-----------|
| Cash flows from operating activities:                                  |            |           |
| Net income   | \$ 157,174 | \$ 30,016 |
| Adjustments for:   |            |           |
| Depreciation   | 7,868      | 6,756     |
| Amortization of intangible assets                                      | 76,650     | 67,926    |
| Impairment of non-financial assets                                     | 489        | -         |
| Finance income   | (7,267)    | (1,241)   |
| Finance costs  | 5,575      | 5,783     |
| Bargain purchase gain  | -          | (1,745)   |
| Income tax expense (recovery)  | (75,203)   | 4,397     |
| Foreign exchange loss  | 3,392      | 4,526     |
| Change in non-cash operating working capital (note 24)                 | (15,896)   | 10,550    |
| Income taxes paid  | (15,249)   | (19,695)  |
| Net cash flows from operating activities                               | 137,533    | 107,273   |
| Cash flows from financing activities:                                  |            |           |
| Interest paid  | (4,979)    | (4,558)   |
| Decrease in other non current liabilities                              | 3,720      | 326       |
| Decrease in bank indebtedness, net                                     | (47,877)   | 4,191     |
| Dividends paid   | (42,755)   | (5,510)   |
| Net cash flows from financing activities                               | (91,891)   | (5,551)   |
| Cash flows from investing activities:                                  |            |           |
| Acquisition of businesses, net of cash acquired (note 4)               | (40,511)   | (90,627)  |
| Post-acquisition settlement payments, net of receipts                  | (5,345)    | 7,697     |
| Purchases of available-for-sale equity securities                      | (5,944)    | (20,035)  |
| Proceeds from sale of available-for-sale equity securities             | 14,268     | -         |
| Repayment of notes receivable  | -          | 4,085     |
| Decrease in restricted cash  | 557        | 1,372     |
| Interest and dividends received  | 1,113      | 838       |
| Property and equipment purchased                                       | (7,350)    | (7,092)   |
| Cash flows provided for (used in) investing activities                 | (43,212)   | (103,762) |
| Effect of currency translation adjustment on cash and cash equivalents | 151        | (298)     |
| Decrease in cash and cash equivalents                                  | 2,581      | (2,338)   |
| Cash, beginning of period  | 30,911     | 33,249    |
| Cash, end of period  | \$ 33,492  | \$ 30,911 |

See accompanying notes to the consolidated financial statements.



# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

## Notes to the consolidated financial statements

- |  |   |
|--|---|
| 1. Reporting entity                        | 15. Revenue   |
| 2. Basis of presentation                   | 16. Finance income and finance costs                    |
| 3. Significant accounting policies         | 17. Earnings per share                                  |
| 4. Business acquisitions                   | 18. Capital risk management                             |
| 5. Equity securities available-for-sale    | 19. Financial risk management and financial instruments |
| 6. Inventories                             | 20. Operating leases                                    |
| 7. Other assets                            | 21. Operating segments                                  |
| 8. Property and equipment                  | 22. Contingencies                                       |
| 9. Intangible assets                       | 23. Guarantees  |
| 10. Bank indebtedness                      | 24. Changes in non-cash operating working capital       |
| 11. Provisions                             | 25. Related parties                                     |
| 12. Income tax expense                     | 26. Subsequent events                                   |
| 13. Deferred tax assets and liabilities    | 27. Explanation of transition to IFRSs                  |
| 14. Capital and other components of equity |   |

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

## 1. Reporting entity

Constellation Software Inc. ("Constellation") is a company domiciled in Canada. The address of Constellation's registered office is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada. The consolidated financial statements of Constellation as at and for the fiscal year ended December 31, 2011 comprise Constellation and its subsidiaries (together referred to as the "Company") and the Company's interest in associates. The Company, through its operating groups, is engaged principally in the development, installation and customization of software relating to the markets listed below, and in the provision of related professional services and support.

|                         |                              |                                      |
|-------------------------|------------------------------|--------------------------------------|
| People transportation   | Healthcare                   | Moving & storage                     |
| Taxi dispatch           | School food services         | Education (UK)                       |
| Agri-business           | Public housing               | Homebuilders                         |
| Fleet management        | Housing finance agencies     | Lease management                     |
| Facility management     | Municipal treasury           | Winery management                    |
| Rental                  | Real estate brokers/agencies | Auto, RV, marine & equipment dealers |
| Justice                 | Club management              | Pulp & paper                         |
| Utilities               | Food services                | Manufacturing ERP                    |
| Public safety           | Construction                 | Shipping & logistics                 |
| Local government        | Health & leisure clubs       | Supply chain management              |
| School administration   | Attractions                  | Wholesale & distribution             |
| Property tax management | Metal service centers        |                                      |

## 2. Basis of presentation

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). These are the Company's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

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 26. This note includes reconciliations of equity and comprehensive income of the comparative year and of equity at the date of transition reported under Canadian GAAP to IFRS.

These consolidated financial statements were approved by the Board of Directors on February 29, 2012.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

## **(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, certain assets and liabilities initially recognized in connection with business combinations, and derivative financial instruments, which are measured at fair value.

## **(c) Functional and presentation of currency**

The financial statements are presented in US dollars, which is Constellation's functional currency.

## **(d) Use of estimates and judgements**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect on profit or loss, when, and if, better information is obtained.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3(l) – Revenue recognition  
Note 3(a) - Business combinations  
Note 3(n) - Accounting for income taxes  
Note 3(j) - Impairment  
Note 3(d) - Intangible assets  
Note 22 - Contingencies

## **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

The accounting policies have been applied consistently by the Company's subsidiaries.

### **(a) Basis of consolidation**

#### **(i) Business combinations**

*Acquisitions on or after January 1, 2010*

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

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

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.

## *Acquisitions prior to January 1, 2010*

As part of its transition to IFRSs, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under previous Canadian GAAP.

### **(ii) Consolidation methods**

Entities over which the Company has control are fully consolidated from the date that control commences until the date that control ceases. Entities over which the Company has significant influence (investments in "associates") are accounted for under the equity method. Significant influence is assumed when the Company's interests are 20% or more, unless qualitative factors overcome this assumption.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Investments in associates are recognized initially at cost, inclusive of transaction costs. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the income and expenses and equity movement of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases.

### **(iii) Transactions eliminated on consolidation**

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

### **(b) Foreign currency translation**

#### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of subsidiaries of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Foreign currency differences arising on re-measurement are recognized through profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### **(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to U.S. dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to U.S. dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

Since January 1, 2010, the Company's date of transition, foreign currency differences are recognized and presented in other comprehensive income and in the foreign currency translation adjustment in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest when applicable.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which its substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation differences.

## **(c) Financial Instruments**

The Company's financial instruments comprise cash, restricted cash, equity securities, accounts receivables, notes receivables, share purchase warrants, derivatives, bank indebtedness, accounts payable and accrued liabilities, and holdbacks on acquisition.

Financial assets are recognized in the consolidated statement of financial position if we have a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

All financial liabilities are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

## **(i) Non-derivative financial assets**

Non-derivative financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified within loans and receivables or financial assets at fair value through profit or loss. The Company's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses which are recognized in profit or loss, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss for the period.

The fair value of the available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

## *Loans and receivables*

Loans and receivables, which comprise trade and notes receivables, are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

## *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss which comprise warrants are classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value when the Company manages such investments and makes purchase and sale decisions based on their fair value and related investment strategy. Upon initial recognition, applicable transaction costs are recognized through profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

## **(ii) Non derivative financial liabilities**

Financial liabilities consist of bank indebtedness, accounts payable and accrued liabilities, and holdbacks on acquisitions. Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

## **(iii) Derivatives**

Derivatives are recognized initially at fair value; applicable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in profit or loss.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## **(d) Intangible assets**

### **(i) Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For measurement of goodwill at initial recognition, including the recognition of bargain purchase gains, refer to note 4(a). In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recognized under previous GAAP.

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

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

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 segments (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 unit's 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 CGU exceeds its estimated recoverable amount.

## **(ii) Acquired intangible assets**

The Company uses the income approach to value acquired technology and customer relationship intangible assets. The income approach is a valuation technique that calculates the fair value of an intangible asset based on the estimated cash flows that the asset can be expected to generate over its remaining useful life.

The Company utilizes the discounted cash flow ("DCF") methodology which is a form of the income approach that begins with a forecast of the annual cash flows that 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. 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 assets.

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

The underlying premise of the relief-from-royalty method is that the fair value of the technology is equal to the costs 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 income forecast reflects 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.

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost, being reflective of fair value, less accumulated amortization and impairment losses. Subsequent expenditures are capitalized only when it increases the future economic benefits that form part of the specific asset to which it relates. Otherwise all other expenditures are recognized in profit or loss as incurred.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are acquired and available for use, since this most closely reflects the expected usage and pattern of consumption of the future economic benefits embodied in the asset. To determine the useful life of the technology assets, the Company considers the length of time over which it expects to earn or recover the present value of the assets. The estimated useful lives for the current and comparative periods are as follows:

|                        |                   |
|------------------------|-------------------|
| Technology assets      | 2 to 12 years     |
| Customer assets        | 5 to 12 years     |
| Backlog                | 1 year            |
| Non-Compete agreements | Life of agreement |

Amortization methods, useful lives and the residual values are reviewed at least annually and are adjusted if appropriate.

## **(iii) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized only if the product or process is technically and commercially feasible, if development costs can be measured reliably, if future economic benefits are probable, if the Company intends to use or sell the asset and the Company intends and has sufficient resources to complete development. To date, no development expenditures have been capitalized.

For the year ended December 31, 2011, \$101,750 (2010 – \$84,880) of research and development costs have been expensed in profit or loss. These costs are net of investment tax credits recognized through profit or loss of \$7,081 for the year ended December 31, 2011 (2010 – \$3,752).

## **(e) Property and equipment**

### **(i) Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment at January 1, 2010, the date of transition to IFRS, was determined by reference to its carrying value as elected for deemed cost purposes. Cost includes initial and subsequent expenditures that are directly attributable to the acquisition of the related asset. When parts of an item of property, and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

### **(ii) Depreciation**

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows:



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| <b>Asset</b>            | <b>Rate</b>  |
|-------------------------|--|
| Computer hardware       | 3 Years  |
| Computer software       | 1 Year   |
| Furniture and equipment | 5 Years  |
| Leasehold improvements  | Shorter of the estimated useful life and the term of the lease |
| Building                | 50 Years   |

Depreciation methods, useful lives and residual values are reviewed at each financial year end or more frequently as deemed relevant, and adjusted where appropriate.

## **(f) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## **(g) Work in progress**

Work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date (see note 3(l)) less progress billings and recognized losses, if any.

Work in progress is presented in the statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred revenue in the statement of financial position.

## **(h) Acquired contract assets and liabilities**

Long-term customer contracts acquired in a business combination are assigned a fair value at the date of acquisition based on the remaining amounts to be billed under the contract, reduced by the estimated costs to complete the contract and an allowance for normal profit related to the activities that will be performed after the acquisition. The resulting amount is recorded as an asset when billings are in excess of costs plus the allowance for normal profit on uncompleted contracts. Conversely, the resulting amount is recorded as liability when costs plus the allowance for normal profit are in excess of billings on uncompleted contracts.

Each period subsequent to acquisition, the asset (liability) is reduced (increased) by actual billings and increased (decreased) by revenue recognized in the statement of operations.

## **(i) Other noncurrent liabilities**

Other non-current liabilities consists of the non-current portion of lease incentives, non-compete obligations, deferred revenue and contingent consideration recognized in connection with business acquisitions to be settled in cash over the next three years, which were discounted for measurement purposes.

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## **(j) Impairment**

### **(i) Financial assets (including receivables)**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired, together with receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale equity securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized through profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized through profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

### **(ii) Non-Financial assets**

The carrying amounts of the Company's non-financial assets, other than, inventories (note 3(f)) and deferred tax assets (note 3(n)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated annually on December 31 of each year.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the Company uses discounted cash flows which are determined using a pre-tax discount rate specific to the asset or CGU. The discount rate used reflects current market conditions including risks specific to the assets. Significant estimates within the cash flows include maintenance growth rates and operating expenses. For the purpose of impairment testing, assets that cannot be tested individually

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are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately and, therefore, is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been previously recognized.

## **(k) 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.

## **(l) 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 being, 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.

The Company typically sells or licenses software on a perpetual basis, but also licenses software for a specified time. Revenue from short-term time-based licenses, which usually include support services during the license period, is recognized rateably over the license term. Revenue from multi-year time based licenses that include

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support services, whether separately priced or not, is recognized rateably over the license term unless a substantive support service renewal rate exists; if this is the case, the amount allocated to the delivered software is recognized as software revenue based on the residual approach once the revenue criteria have been met.

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 contract accounting based either on the achievement of contractually defined milestones or based on 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. If for any of our product or service offerings, the Company determines at the outset of an arrangement that the amount of revenue cannot be measured reliably, the Company concludes that the inflow of economic benefits associated with the transaction is not probable, and revenue is deferred until the arrangement fee becomes due and payable by the customer. If, at the outset of an arrangement, the Company determines that collectability is not probable, the Company concludes that the inflow of economic benefits associated with the transaction is not probable, and revenue recognition is deferred until the earlier of when collectability becomes probable or payment is received. If collectability becomes unlikely before all revenue from an arrangement is recognized, the Company recognizes revenue only to the extent of the fees that are successfully collected unless collectability becomes reasonably assured again. If a customer is specifically identified as a collection risk, the Company does not recognize revenue except to the extent of the fees that have already been collected.

Maintenance revenue primarily consists of fees charged for customer support on 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 revenue remaining to be recognized in profit or loss under this policy is recognized as deferred revenue in the balance sheet when amounts have been billed in advance.

Professional Services revenue including implementation, training and customization of software is recognized by the stage of completion of the arrangement 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.

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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.

## **(m) Finance income and finance costs**

Finance income comprises interest income, gains on the disposal of available-for-sale financial assets, dividend income, and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues through profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, amortization of the discount on provisions, fair value losses on financial assets at fair value through profit or loss, and impairment losses recognized on financial assets other than trade receivables. Transaction costs attributable to our line of credit are recognized in finance costs using the effective interest method. Foreign currency gains and losses are reported on a net basis.

## **(n) Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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.

## **(o) Investment tax credits**

The Company is entitled to certain non-refundable Canadian investment tax credits for qualifying research and development activities in Canada. Investment tax credits are accounted for as a reduction of the related

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expenditure for items of a current expense nature or as a reduction of property and equipment for items of a capital nature when the amount is reliably estimable and the Company has reasonable assurance regarding compliance with the relevant conditions and that the credit will be realized.

## **(p) Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The operating results of all operating segments are reviewed regularly by the Company's President and Chairman of the Board of Directors to make decisions about resources to be allocated to the segment and assessing their performance.

The Company's has six operating segments, referred to as Operating Group's by the Company being Volaris, Harris, Emphasys, Jonas, Homebuilder, and Friedman. The operating segments are aggregated by applying the aggregation criteria in IFRS 8, Operating Segments, into two reportable segments Public (Volaris, Harris, Emphasys) and Private (Jonas, Homebuilder, Friedman).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing borrowings and expenses, and corporate assets and expenses and are included as part of the other segment when reconciling to the consolidated totals.

Segment capital expenditures are the total cost incurred during the period to acquire segment assets, being property and equipment and intangibles that are expected to be used for more than one period.

Corporate head office operating expenses, which exclude the unallocated items noted above, are allocated on a consistent basis to the Company's segments based on the segment's percentage of total consolidated revenue for the allocation period.

## **(q) Earnings per share**

The Company presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

## **(r) Short-term employee benefits**

Short-term employee benefit obligations, including wages, benefits, incentive compensation, and compensated absences are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under the Company's employee incentive compensation plan if the Company has legal or constructive obligation to pay this amount at the time bonuses are paid as a result of past service provided by the employee, and the obligation can be estimated reliably.

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## **(s) Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

## **(t) New standards and interpretations not yet adopted**

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.

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## **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.

## **4. Business acquisitions**

### **2011**

- (a) During the year ended December 31, 2011, the Company closed twenty two acquisitions for aggregate cash consideration of \$46,962 plus cash holdbacks of \$9,647, resulting in total consideration of \$56,609. There was no individually material acquisition in 2011. Of the twenty two acquisitions, the Company acquired 100% of the shares of twelve companies and acquired the net assets of the other ten companies. The holdbacks are payable over a three-year period and are adjusted, as necessary, for claims under the respective representations and warranties of the agreements.

The acquisitions include software companies catering to the agri-business, supply chain management, moving and storage, health and leisure clubs, local government, public safety, auto, RV, marine and equipment dealers, manufacturing ERP, club management, school administration, land management, and wholesale and distribution, all of which are software businesses similar to existing businesses operated by the Company. The acquisitions have been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of each acquisition. The goodwill recognized in connection with these acquisitions is primarily attributable to the application of Constellation's best practices to improve the operations of the companies acquired, and to a lesser extent, synergies with existing businesses of Constellation and other intangibles that do not qualify for



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separate recognition. Goodwill in the amount of \$6,710 is expected to be deductible for income tax purposes.

Due to the complexity and timing of certain acquisitions made in the latter part of the year, the Company is still in the process of determining and finalizing the fair value of the assets and liabilities acquired as part of the acquisitions. The amounts determined on a provisional basis generally relate to net tangible asset assessments and measurement of the assumed liabilities. Twelve of the acquisitions have been included in the private reportable segment and ten have been included in the public reportable segment. The following table summarizes, by reportable segment, the aggregate estimated fair value of the assets and liabilities acquired, as well as deferred income taxes, assumed at the date of each acquisition:

|                                 | Public Sector    | Private Sector   | Consolidated     |
|---------------------------------|------------------|------------------|------------------|
| <b>Assets acquired:</b>         |                  |                  |                  |
| Cash                            | \$ 750           | \$ 5,701         | \$ 6,451         |
| Accounts receivable             | 4,972            | 3,627            | 8,599            |
| Other current assets            | 558              | 622              | 1,180            |
| Property and equipment          | 362              | 1,313            | 1,675            |
| Other long term assets          | -                | 229              | 229              |
| Deferred income taxes           | -                | 497              | 497              |
| Technology assets               | 22,351           | 20,662           | 43,013           |
| Customer assets                 | 13,644           | 8,764            | 22,408           |
|                                 | 42,637           | 41,415           | 84,052           |
| <b>Liabilities assumed:</b>     |                  |                  |                  |
| Current liabilities             | 3,595            | 7,153            | 10,748           |
| Deferred revenue                | 15,429           | 2,572            | 18,001           |
| Deferred income taxes           | 1,712            | 1,729            | 3,441            |
| Other long term liabilities     | 2,784            | 1,239            | 4,023            |
|                                 | 23,520           | 12,693           | 36,213           |
| Goodwill                        | 7,248            | 1,522            | 8,770            |
| <b>Total cash consideration</b> | <b>\$ 26,365</b> | <b>\$ 30,244</b> | <b>\$ 56,609</b> |

During the period the Company also acquired 50% of the shares of a software company catering to private clubs for consideration of nil. This acquisition has been accounted for as an associate.

The 2011 acquisitions include contingent consideration payable on the achievement of certain revenue and income targets. The obligation for contingent consideration for acquisitions during the year ended December 31, 2011 has been recorded at its estimated fair value, which has been determined to be \$5,443 at the various acquisition dates. As part of these arrangements, which included both the maximum and unlimited contingent consideration amounts, the estimated outcome is not expected to

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exceed a maximum of \$9,000, which is representative of the Company's current assessment relative to the applicable targets. Aggregate contingent consideration of \$7,166 (December 31, 2010 - \$2,944; January 1, 2010 - \$1,145) has been reported at its estimated fair value relating to applicable acquisitions in the statement of financial position.

The 2011 business acquisitions contributed revenue of \$37,349 and net income of \$2,179 during the year ended December 31, 2011. Revenue and net income amounts from acquisitions included in the Public sector were \$24,282 and \$2,144, respectively. Revenue and net loss amounts from acquisitions included in the Private sector were \$13,067 and \$35, respectively. If the acquisitions would have occurred on January 1, 2011, management estimates that consolidated revenue would have been \$801,431 and consolidated net income for the period would have been \$154,813 as compared to the amounts reported in the statement of comprehensive income for the period. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisitions would have been the same if the acquisition had occurred on January 1, 2011. The net loss from acquisitions is primarily caused by the associated amortization of intangible assets recognized as if the acquisitions had occurred on January 1, 2011.

## 2010

- (b) On October 1, 2010, the Company acquired the Cogsdale group of companies ("Cogsdale") for aggregate cash consideration of \$24,580 plus cash holdbacks of \$2,524 resulting in total consideration of \$27,104. The holdbacks are payable over a one year period and are adjusted for claims under the representations and warranties of the agreements. Holdbacks of \$410 have subsequently been paid. The balance of the cash holdbacks accrued have yet to be settled due to disputes over the net tangible assets of the business and subsequent net tangible asset arbitration. It is unknown at this time whether additional cash holdback amounts will be paid. Cogsdale is a leading provider of service-oriented business solutions to local governments and utilities. The acquisition has been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the aggregate fair value of the assets acquired and liabilities assumed at the date of acquisition:

|                               |    |        |
|-------------------------------|----|--------|
| <hr/>                         |    |        |
| Assets acquired:              |    |        |
| Accounts receivable           | \$ | 4,904  |
| Other non-cash current assets |    | 329    |
| Property and equipment        |    | 520    |
| Technology assets             |    | 20,985 |
| Customer assets               |    | 6,704  |
| Backlog                       |    | 1,729  |
|                               |    | <hr/>  |
|                               |    | 35,171 |
| Liabilities assumed:          |    |        |
| Current liabilities           |    | 3,037  |
| Deferred revenue              |    | 3,568  |
| Other long term liabilities   |    | 1,462  |
|                               |    | <hr/>  |
|                               |    | 8,067  |
| <hr/>                         |    |        |
| Total cash consideration      | \$ | 27,104 |
| <hr/>                         |    |        |

This acquisition has been included in the Public Sector reportable segment.

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- (c) April 30, 2010, the Company acquired all of the remaining shares, not already held by the Company, of UK-based Gladstone PLC ("Gladstone") for \$17,336. As at March 31, the Company had recorded its 31% ownership in Gladstone as an equity investment with a fair value of \$9,479. The aggregate fair value determined upon acquisition was \$26,870. There was no material gain or loss resulting from the difference in equity accounting and fair value on acquisition. Gladstone is a global provider of solutions for the health and leisure and education verticals. The acquisition has been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the aggregate fair value of the assets acquired and liabilities assumed at the date of acquisition:

|                          |    |        |
|--------------------------|----|--------|
| <hr/>                    |    |        |
| Assets acquired:         |    |        |
| Cash                     | \$ | 7,653  |
| Accounts receivable      |    | 2,886  |
| Other current assets     |    | 498    |
| Deferred income taxes    |    | 1,655  |
| Property and equipment   |    | 2,281  |
| Technology assets        |    | 12,276 |
| Customer assets          |    | 3,791  |
| Backlog                  |    | 800    |
|                          |    | <hr/>  |
|                          |    | 31,840 |
| Liabilities assumed:     |    |        |
| Current liabilities      |    | 43     |
| Deferred revenue         |    | 3,012  |
| Deferred income taxes    |    | 4,551  |
|                          |    | <hr/>  |
|                          |    | 7,606  |
| Goodwill                 |    | 2,636  |
| <hr/>                    |    |        |
| Total cash consideration | \$ | 26,870 |
| <hr/>                    |    |        |

The acquisition has been included in the Private Sector reportable segment.

- (d) During the year ended December 31, 2010, the Company made nineteen additional acquisitions for aggregate cash consideration of \$63,088 plus cash holdbacks of \$6,688 resulting in total consideration of \$69,776. The holdbacks are payable over a three-year period ending June 25, 2013 and are adjusted for claims under the representations and warranties of the agreements. Holdbacks of \$1,734 remain at December 31, 2011. The acquisitions include software companies catering to the pulp and paper, tourism and attractions, schools, catalog, public transit, agriculture business, health club, health care, and housing finance agency markets. The acquisitions have been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes, by reportable segment, the aggregate fair value of the assets acquired and liabilities assumed at the date of each acquisition:

# CONSTELLATION SOFTWARE INC.

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Years ended December 31, 2011 and 2010

|   | Public Sector    | Private Sector   | Consolidated     |
|---|------------------|------------------|------------------|
| <b>Assets acquired:</b>   |                  |                  |                  |
| Cash  | \$ 5,691         | \$ 1,354         | \$ 7,045         |
| Accounts receivable   | 8,642            | 5,100            | 13,742           |
| Other current assets  | 2,554            | 1,176            | 3,730            |
| Property and equipment  | 1,360            | 511              | 1,871            |
| Deferred income taxes   | 5,850            | 141              | 5,991            |
| Technology assets   | 21,041           | 20,243           | 41,284           |
| Customer assets   | 8,778            | 7,309            | 16,087           |
| Backlog   | 917              | -                | 917              |
|   | 54,833           | 35,834           | 90,667           |
| <b>Liabilities assumed:</b>   |                  |                  |                  |
| Current liabilities   | 5,598            | 2,742            | 8,340            |
| Deferred revenue  | 8,039            | 4,341            | 12,380           |
| Deferred income taxes   | 2,564            | 2,706            | 5,270            |
| Other long term liabilities   | 131              | 159              | 290              |
|   | 16,332           | 9,948            | 26,280           |
| Goodwill  | 6,917            | 217              | 7,134            |
| Excess of fair value of net assets acquired over consideration paid | (1,745)          | -                | (1,745)          |
| <b>Total cash consideration</b>                                     | <b>\$ 43,673</b> | <b>\$ 26,103</b> | <b>\$ 69,776</b> |

- (e) The goodwill recognized as a result of the 2010 acquisitions is primarily attributable to the application of Constellation best practices to the companies acquired, and to a lesser extent, synergies with existing businesses and other intangibles that do not qualify for separate recognition. Goodwill in the amount of \$2,444 is expected to be deductible for income tax purposes.

A bargain purchase gain totalling \$1,745 arose on one of the 2010 acquisitions because the fair value of the separately identifiable assets and liabilities acquired exceeded the total consideration paid, principally due to the acquisition of tax attributes that will benefit the Company. The excess of the fair value of net assets acquired over costs totalling \$1,745 has been recorded as a bargain purchase gain in profit or loss.

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Notes to Consolidated Financial Statements

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## 5. Equity securities available-for-sale

At December 31, 2011, the Company held investments in three (December 31, 2010 - three; January 1, 2010 - five) public companies listed in the U.S. and Canada, all of which develop and sell software solutions. All investments have been designated as available-for-sale in the Company's consolidated financial statements. One investment was sold during the year and, accordingly, a gain on sale was recognized in profit or loss.

|               | December 31, 2011 |            | December 31, 2010 |            | January 1, 2010 |            |
|---------------|-------------------|------------|-------------------|------------|-----------------|------------|
|               | Cost              | Fair Value | Cost              | Fair Value | Cost            | Fair Value |
| Common shares | \$ 13,330         | \$ 21,222  | \$ 15,320         | \$ 23,723  | \$ 19,139       | \$ 22,323  |

## 6. Inventories

|                  | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|------------------|-------------------|-------------------|-----------------|
| Raw materials    | \$ 9,726          | \$ 9,126          | \$ 4,266        |
| Work in progress | 429               | 817               | 499             |
| Finished goods   | 3,384             | 6,002             | 9,555           |
| Total            | \$ 13,539         | \$ 15,945         | \$ 14,320       |

No inventories were carried at fair value less cost to sell, and the carrying amount of inventories subject to retention of title clauses was nil, at December 31, 2011 and for the comparative periods disclosed.

In 2011 raw materials and changes in finished goods and work in progress recognized as cost of sales amounted to \$57,850 (2010: \$42,737). In 2011 the write-down of inventories to net realizable value amounted to \$157 (2010: \$383). The reversal of write-downs amounted to \$764 (2010: \$115). Write-downs and reversals of write-downs are based on the Company's projected usage. The write-down and reversal are included in costs of sales.

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Notes to Consolidated Financial Statements

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Years ended December 31, 2011 and 2010

## 7. Other Assets

|                                       | December 31,<br>2011 | December<br>31, 2010 | January 1,<br>2010 |
|---------------------------------------|----------------------|----------------------|--------------------|
| Prepaid assets                        | \$ 22,432            | \$ 21,652            | \$ 16,014          |
| Investment tax credits recoverable    | 3,201                | 3,929                | 2,250              |
| Notes receivable (ii)                 | -                    | -                    | 3,833              |
| Acquired contract assets (iii)        | -                    | 882                  | 4,164              |
| Total current                         | \$ 25,633            | \$ 26,463            | \$ 26,261          |
| Restricted cash (i)                   | \$ 23                | \$ 857               | \$ 2,229           |
| Investment tax credits recoverable    | 8,271                | 3,689                | 2,133              |
| Long-term trade and other receivables | 2,485                | 3,247                | 3,605              |
| Share purchase warrants               | -                    | -                    | 200                |
| Equity accounted investees (iv)       | 14,534               | 14,698               | -                  |
| Acquired contract assets (iii)        | 2,692                | 1,057                | 5,712              |
| Total non-current                     | \$ 28,005            | \$ 23,548            | \$ 13,879          |

### (i) Restricted cash

Restricted cash is held in accordance with various escrow agreements related to prior and current period business acquisitions.

### (ii) Notes receivable and share purchase warrants

Prior to 2009 the Company entered into agreements with VCG Inc. (subsequently VCG LLC) to purchase \$4,085 senior subordinated secured notes. These notes bore interest at 12% per annum payable annually in arrears and originally matured on June 18, 2012. A note extension agreement was entered into on April 13, 2009 which extended the June 18, 2009 and June 18, 2010 interest payment dates to December 31, 2009 and December 31, 2010, respectively. The agreement also accelerated the maturity date of the principal amount of each note (together with the accrued interest on the principal amount) from June 18, 2012 to December 31, 2010 resulting in the principal amount being reclassified to current assets at December 31, 2009.

In conjunction with these notes, the Company received share purchase warrants (the "Warrants") having the right to purchase Preferred Series C-1 shares convertible into 8.9% of the fully diluted equity interest of VCG Inc. as of September 22, 2008, subject to the terms of the Warrants. The Warrant component of this instrument constituted a derivative, and accordingly, was valued separately from the value of the notes. For the year ended December 31, 2010, the Company recorded interest income related to carrying value accretion of \$252 (2009 - \$190).

On November 12, 2010, the Company increased its investment in Bond International Software plc ("Bond"). Bond utilized the proceeds of the investment to purchase VCG LLC, one of Bond's largest North American competitors. The principal value plus accrued interest outstanding to the Company on the VCG LLC notes was repaid in full on

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the closing of the transaction. The rights associated with Warrants were relinquished and the deemed fair value of \$200 was recorded in profit or loss as a charge to finance expense.

### *(iii) Acquired contract assets*

Long-term contracts acquired in a business combination are assigned a fair value at the date of acquisition based on the remaining amounts to be billed under the contract, reduced by the estimated costs to complete the contract and an allowance for normal profit related to the activities that will be performed after the acquisition. The resulting amount is recorded as an asset when billings are in excess of costs plus the allowance for normal profit on uncompleted contracts at the date of acquisition.

Each period subsequent to acquisition, the asset is reduced by actual billings and increased by revenue recognized in the statement of operations.

### *(iv) Equity accounted investees*

For 2011, the Company's share of profit in its investments currently being accounted for as equity investees was nil (2010: nil). Dividends received for the year totalled \$164 (2010: nil). The market value of the publically traded equity held in the equity accounted investee is \$7,113.

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Company is as follows:

|                   | June 30,<br>2011 | December 31,<br>2010              | January 1,<br>2010                     |
|-------------------|------------------|-----------------------------------|--|
|                   | <i>Note 1</i>    |                                   |  |
| Total assets      | 82,446           | 86,994                            | 75,319                                 |
| Total liabilities | 26,722           | 30,821                            | 25,460                                 |
|                   |                  | Six months ended<br>June 30, 2011 | Fiscal year ended<br>December 31, 2010 |
|                   |                  | <i>Note 1</i>                     |  |
| Revenue           |                  | 29,471                            | 50,011                                 |
| Expenses          |                  | 29,468                            | 50,986                                 |
| Net income (loss) |                  | 3                                 | (975)                                  |

Note 1: Based on most recently published financial information.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

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Years ended December 31, 2011 and 2010

## 8. Property and equipment

|  | Computer<br>hardware | Computer<br>software | Furniture and<br>equipment | Leasehold<br>improvements | Building | Total     |
|--|----------------------|----------------------|----------------------------|---------------------------|----------|-----------|
| <b>Cost</b>                                |                      |                      |                            |                           |          |           |
| Balance at January 1, 2010                 | \$ 19,281            | \$ 7,130             | \$ 8,414                   | \$ 4,000                  | \$ -     | \$ 38,825 |
| Additions                                  | 2,784                | 3,105                | 707                        | 496                       | -        | 7,092     |
| Acquisitions through business combinations | 914                  | 526                  | 993                        | 279                       | 1,960    | 4,672     |
| Disposals / retirements                    | (28)                 | -                    | (162)                      | (86)                      | -        | (276)     |
| Effect of movements in foreign exchange    | 244                  | 120                  | 32                         | 7                         | -        | 403       |
| Balance at December 31, 2010               | \$ 23,195            | \$ 10,881            | \$ 9,984                   | \$ 4,696                  | \$ 1,960 | \$ 50,716 |
| Balance at January 1, 2011                 | \$ 23,195            | \$ 10,881            | \$ 9,984                   | \$ 4,696                  | \$ 1,960 | \$ 50,716 |
| Additions                                  | 2,640                | 1,998                | 1,224                      | 1,488                     | -        | 7,350     |
| Acquisitions through business combinations | 995                  | 226                  | 391                        | 63                        | -        | 1,675     |
| Disposals / retirements                    | (909)                | (83)                 | (356)                      | (35)                      | -        | (1,383)   |
| Effect of movements in foreign exchange    | (161)                | (55)                 | (27)                       | (37)                      | (2)      | (282)     |
| Balance at December 31, 2011               | \$ 25,760            | \$ 12,967            | \$ 11,216                  | \$ 6,175                  | \$ 1,958 | \$ 58,076 |
| <b>Depreciation and impairment losses</b>  |                      |                      |                            |                           |          |           |
| Balance at January 1, 2010                 | \$ 15,573            | \$ 6,263             | \$ 6,474                   | \$ 2,289                  | \$ -     | \$ 30,599 |
| Depreciation charge for the year           | 2,414                | 2,724                | 1,172                      | 446                       | -        | 6,756     |
| Disposals / retirements                    | (25)                 | -                    | (142)                      | (59)                      | -        | (226)     |
| Effect of movements in foreign exchange    | 11                   | 50                   | (17)                       | 6                         | 68       | 118       |
| Balance at December 31, 2010               | \$ 17,973            | \$ 9,037             | \$ 7,487                   | \$ 2,682                  | \$ 68    | \$ 37,247 |
| Balance at January 1, 2011                 | \$ 17,973            | \$ 9,037             | \$ 7,487                   | \$ 2,682                  | \$ 68    | \$ 37,247 |
| Depreciation charge for the year           | 3,319                | 2,760                | 1,111                      | 678                       | -        | 7,868     |
| Disposals / retirements                    | (908)                | (83)                 | (352)                      | (35)                      | -        | (1,378)   |
| Effect of movements in foreign exchange    | (143)                | (76)                 | (22)                       | (11)                      | -        | (252)     |
| Balance at December 31, 2011               | \$ 20,241            | \$ 11,638            | \$ 8,224                   | \$ 3,314                  | \$ 68    | \$ 43,485 |
| <b>Carrying amounts:</b>                   |                      |                      |                            |                           |          |           |
| At January 1, 2010                         | \$ 3,708             | \$ 867               | \$ 1,940                   | \$ 1,711                  | \$ -     | \$ 8,226  |
| At December 31, 2010                       | \$ 5,222             | \$ 1,844             | \$ 2,497                   | \$ 2,014                  | \$ 1,892 | \$ 13,469 |
| At January 1, 2011                         | \$ 5,222             | \$ 1,844             | \$ 2,497                   | \$ 2,014                  | \$ 1,892 | \$ 13,469 |
| At December 31, 2011                       | \$ 5,519             | \$ 1,329             | \$ 2,992                   | \$ 2,861                  | \$ 1,890 | \$ 14,591 |



# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

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Years ended December 31, 2011 and 2010

## 9. Intangible assets and goodwill

|  | Technology<br>Assets | Customer<br>Assets | Backlog   | Non-compete<br>agreements | Goodwill  | Total      |
|--|----------------------|--------------------|-----------|---------------------------|-----------|------------|
| <b>Cost</b>                                |                      |                    |           |                           |           |            |
| Balance at January 1, 2010                 | \$ 249,961           | \$ 85,566          | \$ 7,583  | \$ 4,544                  | \$ 40,821 | \$ 388,475 |
| Acquisitions through business combinations | 74,545               | 26,582             | 3,446     |                           | 9,770     | 114,343    |
| Effect of movements in foreign exchange    | 3,199                | (1,209)            | 1,948     | (1,864)                   | (446)     | 1,628      |
| Balance at December 31, 2010               | \$ 327,705           | \$ 110,939         | \$ 12,977 | \$ 2,680                  | \$ 50,145 | \$ 504,446 |
| Balance at January 1, 2011                 | \$ 327,705           | \$ 110,939         | \$ 12,977 | \$ 2,680                  | \$ 50,145 | \$ 504,446 |
| Acquisitions through business combinations | 43,057               | 22,407             | -         | 17                        | 9,296     | 74,777     |
| Effect of movements in foreign exchange    | (550)                | (197)              | -         | (12)                      | 50        | (709)      |
| Balance at December 31, 2011               | \$ 370,212           | \$ 133,149         | \$ 12,977 | \$ 2,685                  | \$ 59,491 | \$ 578,514 |
| <b>Amortization and impairment losses</b>  |                      |                    |           |                           |           |            |
| Balance at January 1, 2010                 | \$ 123,919           | \$ 31,598          | \$ 7,583  | \$ 3,136                  | \$ -      | \$ 166,236 |
| Amortization for the year                  | 47,041               | 18,818             | 1,376     | 691                       | -         | 67,926     |
| Effect of movements in foreign exchange    | 1,511                | (1,281)            | 1,697     | (1,630)                   |           | 297        |
| Balance at December 31, 2010               | \$ 172,471           | \$ 49,135          | \$ 10,656 | \$ 2,197                  | \$ -      | \$ 234,459 |
| Balance at January 1, 2011                 | \$ 172,471           | \$ 49,135          | \$ 10,656 | \$ 2,197                  | \$ -      | \$ 234,459 |
| Amortization for the year                  | 52,952               | 21,125             | 2,329     | 244                       | -         | 76,650     |
| Impairment charge                          | 376                  | 113                | -         | -                         | -         | 489        |
| Effect of movements in foreign exchange    | (687)                | (165)              | (12)      | (12)                      | -         | (876)      |
| Balance at December 31, 2011               | \$ 225,112           | \$ 70,208          | \$ 12,973 | \$ 2,429                  | \$ -      | \$ 310,722 |
| <b>Carrying amounts</b>                    |                      |                    |           |                           |           |            |
| At January 1, 2010                         | \$ 126,042           | \$ 53,968          | \$ -      | \$ 1,408                  | \$ 40,821 | \$ 222,239 |
| At December 31, 2010                       | \$ 155,234           | \$ 61,804          | \$ 2,321  | \$ 483                    | \$ 50,145 | \$ 269,987 |
| At January 1, 2011                         | \$ 155,234           | \$ 61,804          | \$ 2,321  | \$ 483                    | \$ 50,145 | \$ 269,987 |
| At December 31, 2011                       | \$ 145,100           | \$ 62,941          | \$ 4      | \$ 256                    | \$ 59,491 | \$ 267,792 |

### Impairment testing for cash-generating units containing goodwill

The annual impairment test of goodwill was performed in Q4, 2011 and Q4, 2010 and did not result in any impairment loss. As permitted by IFRS 1, the Company elected not to restate business combinations prior to January 1, 2010 [refer to Note 3(a)(i)]. As required under this election an impairment test was performed on the January 1, 2010 statement of financial position, which did not result in the recognition of an impairment loss.

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For the purpose of impairment testing, goodwill is allocated to the Company's business units which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments. There was no goodwill allocated to the Company's business units that was deemed to be significant in comparison to the carrying amount of goodwill as at December 31, 2011.

## 10. Bank indebtedness

Constellation has an operating line-of-credit with a syndicate of Canadian chartered banks and U.S. banks in the amount of \$160,000 (December 31, 2010 - \$160,000; January 1, 2010 - \$160,000). The line-of-credit bears a variable interest rate and is due in full on September 30, 2012 with no fixed repayment required. Interest rates are calculated at prime or LIBOR plus interest rate spreads based on a leverage table. The line-of-credit is secured by a general security agreement covering the majority of Constellation and its subsidiaries' present and future real and personal property, assets and undertaking, including all shares, partnership interests and other equity interests held in the capital of any other company; and is subject to various debt covenants. As at December 31, 2011, nil (December 31, 2010 - \$47,291; January 1, 2010 - \$43,100) had been drawn from this credit facility, and letters of credit totalling \$385 (December 31, 2010 - \$403; January 1, 2010 - nil) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Capitalized transaction costs associated with the line-of-credit are being amortized through profit or loss using the effective interest rate method. As at December 31, 2011, \$644 (December 31, 2010 - \$1,250; January 1, 2010 - \$1,947), the carrying amount of such costs were in the statement of financial position and have been classified as part of other current assets.

|                                   | Years ended December 31, |          |
|-----------------------------------|--------------------------|----------|
|                                   | 2011                     | 2010     |
| Interest expense                  | \$ 4,448                 | \$ 4,286 |
| Amortization of transaction costs | 596                      | 697      |
|                                   | \$ 5,044                 | \$ 4,983 |

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Years ended December 31, 2011 and 2010

## 11. Provisions

|   | Restructuring | Other    | Total    |
|---|---------------|----------|----------|
| At January 1, 2010                      | \$ 5,874      | \$ 2,438 | \$ 8,312 |
| Reversal                                | (4,765)       | -        | (4,765)  |
| Provisions made during the year         | -             | 847      | 847      |
| Provisions used during the year         | (1,064)       | (1,010)  | (2,074)  |
| Effect of movements in foreign exchange | (45)          | (22)     | (67)     |
| At December 31, 2010                    | \$ -          | \$ 2,253 | \$ 2,253 |
| At January 1, 2011                      | \$ -          | \$ 2,253 | \$ 2,253 |
| Reversal                                |               | (37)     | (37)     |
| Provisions made during the year         |               | 3,490    | 3,490    |
| Provisions used during the year         |               | (2,152)  | (2,152)  |
| Effect of movements in foreign exchange |               | 1        | 1        |
| At December 31, 2011                    | \$ -          | \$ 3,555 | \$ 3,555 |

### *Restructuring*

The Company determined that restructuring actions were required to improve the overall utilization and reduce overhead costs at the Public Transit Solutions ("PTS") business unit. Restructuring actions include consolidating facilities and reducing the workforce. The majority of the reduction in workforce related to development and production employees.

### *Other*

Other provisions include various individual provisions for onerous contracts and other liabilities of the Company.

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## 12. Income taxes

(a) Tax recognized in profit or loss

|  | 2011            | 2010         |
|--|-----------------|--------------|
| <b>Current tax expense</b>   |                 |              |
| Current year   | \$ 17,942       | \$ 16,176    |
| Adjustment for prior years   | 673             | 785          |
|  | 18,615          | 16,961       |
| <b>Deferred tax expense</b>  |                 |              |
| Origination and reversal of temporary differences                              | (90,104)        | (13,280)     |
| Effect of change in future tax rates   | (2,563)         | 523          |
| Change in recognized deductible temporary differences and<br>prior year losses | 576             | 1,518        |
| Recognition of previously unrecognized losses                                  | (1,727)         | (1,325)      |
|  | (93,818)        | (12,564)     |
| <b>Total tax expense (recovery)</b>  | <b>(75,203)</b> | <b>4,397</b> |

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## (b) Reconciliation of effective tax rate

|  | 2011          | 2010          |
|--|---------------|---------------|
| Net income for the year  | \$ 157,174    | \$ 30,016     |
| Total tax expense  | (75,203)      | 4,397         |
| <b>Net income before tax</b>   | <b>81,971</b> | <b>34,413</b> |
| Income tax expense using the Company's statutory tax rate of 28.25% (2010 - 31%) | 23,157        | 10,668        |
| Impact on taxes from:  |               |               |
| Foreign tax rate differential  | (3,993)       | (6,133)       |
| Other, including non deductible expenses and non taxable income                  | (1,530)       | (1,639)       |
| Deferred tax benefit of inter-jurisdictional transfer of assets                  | (89,746)      | -             |
| Effect of change in future tax rates   | (2,563)       | 523           |
| Recognition of prior year tax losses   | (1,727)       | (1,325)       |
| Current year tax losses for which no deferred tax recognized                     | 526           | 1,518         |
| Under (over) provisions in prior years   | 673           | 785           |
|  | (75,203)      | 4,397         |

The significant change in the effective tax rate during the year was due to the recognition of a future tax recovery related to inter-jurisdictional transfers of certain intangible assets within the Company during the year.

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.

## 13. Deferred tax assets and liabilities

### (a) Unrecognized deferred tax liabilities

The aggregate amount of temporary differences associated with investments in subsidiaries for which we have not recognized deferred tax liabilities is \$189,000 (2010: \$54,000) as the Company ultimately controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future. The temporary differences relate to undistributed earnings of the Company's subsidiaries. Dividends declared would be subject to withholding tax in the range of 0-5% depending on the jurisdiction of the subsidiary.

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## (b) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items.

|  | 2011      | 2010      |
|--|-----------|-----------|
| Deductible temporary differences, including capital losses | \$ 20,400 | \$ 22,400 |
| Non capital tax losses                                     | 12,200    | 13,700    |

\$8,100 of the non capital tax losses expire between 2015 and 2031 and \$4,100 can be carried forward indefinitely. The deductible temporary differences and capital losses do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available in those jurisdictions against which the Company can utilize these benefits.

## (c) Recognized deferred tax assets and liabilities

|                                     | Assets         |               | Liabilities     |                 | Net           |                |
|-------------------------------------|----------------|---------------|-----------------|-----------------|---------------|----------------|
|                                     | 2011           | 2010          | 2011            | 2010            | 2011          | 2010           |
| Property, plant and equipment       | 3,551          | 3,049         | (4,036)         | (4,513)         | (485)         | (1,464)        |
| Intangible assets                   | 106,119        | 5,865         | (35,742)        | (25,705)        | 70,377        | (19,840)       |
| Reserves                            | 2,649          | 3,162         | -               | -               | 2,649         | 3,162          |
| Non capital tax losses              | 5,365          | 8,331         | -               | -               | 5,365         | 8,331          |
| SR&ED Expenditure pool              | 4,074          | 2,395         | (2,903)         | (1,587)         | 1,171         | 808            |
| Deferred revenue                    | 1,678          | 2,392         | -               | -               | 1,678         | 2,392          |
| Foreign and other tax credits       | 2,207          | 1,938         | -               | -               | 2,207         | 1,938          |
| Contract asset                      | 3,427          | 2,477         | (107)           | (184)           | 3,320         | 2,293          |
| Other                               | 2,470          | 932           | (352)           | (993)           | 2,118         | (61)           |
| <b>Tax (assets) liabilities</b>     | <b>131,540</b> | <b>30,541</b> | <b>(43,140)</b> | <b>(32,982)</b> | <b>88,400</b> | <b>(2,441)</b> |
| Reclassification                    | (31,881)       | (15,173)      | 31,881          | 15,173          | -             | -              |
| <b>Net tax (assets) liabilities</b> | <b>99,659</b>  | <b>15,368</b> | <b>(11,259)</b> | <b>(17,809)</b> | <b>88,400</b> | <b>(2,441)</b> |

The reclassification relates to the offsetting of deferred tax assets and deferred tax liabilities to the extent that they relate to the same taxing authorities and there is a legally enforceable right to do so.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

(d) Movement in deferred tax balances during the year

|                               | Balance<br>December 31,<br>2010 | Recognised<br>in profit or<br>loss | Recognised in<br>other<br>comprehensive<br>income | Acquired in<br>business<br>combinations | Other | Balance<br>December 31,<br>2011 |
|-------------------------------|---------------------------------|------------------------------------|---|---|-------|---------------------------------|
| Property, plant and equipment | (1,464)                         | 979                                | -   | -                                       | -     | (485)                           |
| Intangible assets             | (19,840)                        | 93,522                             | -   | (3,305)                                 | -     | 70,377                          |
| Reserves                      | 3,162                           | (513)                              | -   | -                                       | -     | 2,649                           |
| Non capital tax losses        | 8,331                           | (2,966)                            | -   | -                                       | -     | 5,365                           |
| SR&ED Expenditure pool        | 808                             | 363                                | -   | -                                       | -     | 1,171                           |
| Deferred revenue              | 2,392                           | (714)                              | -   | -                                       | -     | 1,678                           |
| Tax credits                   | 1,938                           | 269                                | -   | -                                       | -     | 2,207                           |
| Contract asset                | 2,293                           | 1,027                              | -   | -                                       | -     | 3,320                           |
| Other                         | (61)                            | 1,851                              | 172   | -                                       | 156   | 2,118                           |
|                               | (2,441)                         | 93,818                             | 172   | (3,305)                                 | 156   | 88,400                          |

|                               | Balance<br>January 1,<br>2010 | Recognised<br>in profit or<br>loss | Recognised in<br>other<br>comprehensive<br>income | Acquired in<br>business<br>combinations | Other | Balance<br>December 31,<br>2010 |
|-------------------------------|-------------------------------|------------------------------------|---|---|-------|---------------------------------|
| Property, plant and equipment | (2,312)                       | 848                                | -   | -                                       | -     | (1,464)                         |
| Intangible assets             | (20,794)                      | 9,171                              | -   | (8,217)                                 | -     | (19,840)                        |
| Reserves                      | 2,066                         | 1,096                              | -   | -                                       | -     | 3,162                           |
| Non capital tax losses        | 2,546                         | (153)                              | -   | 5,938                                   | -     | 8,331                           |
| SR&ED Expenditure pool        | 677                           | 131                                | -   | -                                       | -     | 808                             |
| Deferred revenue              | 2,678                         | (286)                              | -   | -                                       | -     | 2,392                           |
| Tax credits                   | 1,784                         | 154                                | -   | -                                       | -     | 1,938                           |
| Contract asset                | 2,247                         | 46                                 | -   | -                                       | -     | 2,293                           |
| Other                         | (434)                         | 1,557                              | (1,487)   | -                                       | 303   | (61)                            |
|                               | (11,542)                      | 12,564                             | (1,487)   | (2,279)                                 | 303   | (2,441)                         |

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## 14. Capital and other components of equity

### *Capital Stock*

The authorized share capital of Constellation consists of an unlimited number of common shares and an unlimited number of Class A non-voting shares. The rights and privileges of the Class A non-voting shares entitle the holders of such shares to distributions, if and when declared by the Board of Directors provided an equivalent dividend is paid rateably on the common shares at the same time. The holders of the common shares will participate rateably with the holders of the Class A non-voting shares in any distribution of assets, or liquidation, dissolution or winding up of the Company's assets. The holders of the Class A non-voting shares are entitled to convert such shares, at any time into common shares, on a one-for-one basis.

|          | Common shares |        | Class A non-voting |        | Total  |        |
|----------|---------------|--------|--------------------|--------|--------|--------|
|          | Number        | Amount | Number             | Amount | Number | Amount |
| December |               |        |                    |        |        |        |
| 31, 2011 | 17,504        | 86,794 | 3,688              | 12,489 | 21,192 | 99,283 |

### *Accumulated other comprehensive income (loss)*

Accumulated other comprehensive income (loss) is comprised of the following separate components of equity:

#### *Cumulative translation account*

The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as foreign exchange gains and losses arising from monetary items that form part of the net investment in the foreign operation.

#### *Amounts related to available-for-sale financial assets*

Available-for-sale differences comprise the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

### *Dividends*

During the year ended December 31, 2011 the Company declared and paid dividends of \$2.00 per common and class A non-voting share (2010 - \$0.26 per share).

## 15. Revenue

The Company sub-classifies revenue within the following components: license revenue, maintenance revenue, professional service revenue and hardware and other revenue. Software license revenue is comprised of license fees charged for the use of software products licensed under single-year, multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable. Professional service revenue consists of fees charged for implementation services, custom programming, product training and consulting. Hardware and other revenue includes the resale of third party hardware as part of customized solutions, as well as sales of hardware assembled internally. Maintenance revenue primarily consists of fees charged for customer support on software products post-delivery and also includes, recurring fees derived from combined software/support contracts, transaction revenues, and hosted products.



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Notes to Consolidated Financial Statements

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Years ended December 31, 2011 and 2010

|                               | Years ended December 31, |                   |
|-------------------------------|--------------------------|-------------------|
|                               | 2011                     | 2010              |
| License revenue               | \$ 61,076                | \$ 49,987         |
| Professional services revenue | 181,166                  | 169,737           |
| Hardware and other revenue    | 108,716                  | 74,602            |
| Maintenance revenue           | 422,383                  | 339,639           |
| <b>Total</b>                  | <b>\$ 773,341</b>        | <b>\$ 633,965</b> |

Revenues from contract accounting are allocated to license revenue, professional service revenue and hardware revenue based on their relative fair value and the amount recognized is determined using the percentage of completion method. During the year ended December 31, 2011 \$194,749 (December 31, 2010 - \$167,566) of contract revenue was recognized.

Advances for which the related work has not started, and billings in excess of costs incurred and recognized profits, are presented as deferred revenue.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

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## 16. Finance income and finance costs

|   | Years ended December 31, |                   |
|---|--------------------------|-------------------|
|   | 2011                     | 2010              |
| Interest income on notes receivable   | \$ -                     | \$ (683)          |
| Gain on foreign exchange forward contract                                   | (443)                    | -                 |
| Other financing interest  | (472)                    | (183)             |
| Dividend income   | (99)                     | (113)             |
| Equity in net earnings of equity investees                                  | -                        | (199)             |
| Gain on sale of available-for-sale financial assets transferred from equity | (6,253)                  | (63)              |
| <b>Finance income</b>   | <b>\$ (7,267)</b>        | <b>\$ (1,241)</b> |
| Interest expense on bank indebtedness                                       | \$ 4,448                 | \$ 4,286          |
| Amortization of transaction costs   | 596                      | 697               |
| Reduction in fair value of VCG LLC warrants                                 | -                        | 200               |
| Other financing interest  | 531                      | 600               |
| <b>Finance costs</b>  | <b>\$ 5,575</b>          | <b>\$ 5,783</b>   |

## 17. Earnings per share

*Basic and diluted earnings per share*

|                                      | Years ended December 31, |           |
|--------------------------------------|--------------------------|-----------|
|                                      | 2011                     | 2010      |
| <b>Numerator:</b>                    |                          |           |
| Net income                           | \$ 157,174               | \$ 30,016 |
| <b>Denominator:</b>                  |                          |           |
| Basic and diluted shares outstanding | 21,192                   | 21,192    |
| <b>Earnings per share</b>            |                          |           |
| Basic and diluted                    | \$ 7.42                  | \$ 1.42   |

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Notes to Consolidated Financial Statements

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## 18. Capital risk management

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company manages its capital with the objective of ensuring that there are adequate capital resources while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Company consists of cash, credit facilities and components of shareholders' equity including retained earnings and capital stock.

The Company is subject to certain covenants on its credit facilities. The covenants include a leverage ratio and an interest coverage ratio, as well as a minimum net worth requirement. The Company monitors the ratios on a monthly basis. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements.

The Board of Directors determine if and when dividends should be declared and paid based on all relevant circumstances, including the desirability of financing further growth of the Company and its financial position at the relevant time. The Board of Directors has adopted a policy to pay quarterly dividends commencing April 2, 2012. Constellation intends to declare a regular quarterly dividend to allow shareholders to participate in its free cash flow, while retaining sufficient capital to invest in acquisitions and organic growth. There is no guarantee that dividends will continue to be paid in the future.

The Company makes adjustments to its capital structure in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may increase or decrease dividends, increase or decrease the line of credit or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions not in the ordinary course of business, including significant acquisitions or other major investments.

## 19. Financial risk management and financial instruments

### *Overview*

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

### *Market risk*

Market risk is the risk that changes in market prices, such as fluctuations in the equity prices of the Company's publicly traded investments, foreign exchange rates and interest rates, will affect the Company's income or the value of its financial instruments.

The Company manages risk related to fluctuations in the market prices of its publicly traded investments by regularly conducting financial reviews of publicly available information to ensure that any risks are within

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established levels of risk tolerance. The Company does not routinely engage in risk management practices such as hedging, derivatives or short selling with respect to its publicly traded investments.

The following table details the Company's sensitivity to a 1% strengthening in the market price of the equity securities it currently holds. For a 1% weakening in the market price, there would be an equal and opposite impact on net income and comprehensive income.

|                      |    |     |
|----------------------|----|-----|
| Net income           | \$ | 212 |
| Comprehensive income | \$ | 212 |

The Company is exposed to interest rate risk on the utilized portion of its line of credit and does not currently hold any financial instruments that mitigate this risk. Management does not believe that the impact of interest rate fluctuations relative to the variable interest rate attached to the line of credit and in consideration of the current and expected level of borrowings will be significant and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net income and comprehensive income.

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates which impact sales and purchases that are denominated in a currency other than the respective functional currencies of certain of its subsidiaries. The Company currently does not typically use derivative instruments to hedge its exposure to those risks. Most of the Company's businesses are organized geographically so that many of its expenses are incurred in the same currency as its revenues thus mitigating some of its exposure to currency fluctuations.

The Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of monetary liabilities. During the year, the Company purchased a contract of this nature and has recorded its fair value at December 31, 2011 based on foreign exchange rates relative to the stated rate in the contract. The fair value adjustment has been recorded in finance income in profit or loss.

#### *Foreign currency sensitivity analysis:*

The Company is mainly exposed to fluctuations in the Canadian dollar, British pound, Swiss franc, Euro, and Australian dollar. The major currency exposures, as of December 31, 2011, are summarized in USD equivalents in the following table. The local currency amounts have been converted to USD equivalents using the period end exchange rates.

|                         | <b>Canadian Dollar</b> | <b>British Pound</b> | <b>Swiss Franc</b> | <b>Euro</b> | <b>Australian Dollar</b> |
|-------------------------|------------------------|----------------------|--------------------|-------------|--------------------------|
| Current assets          | \$ 27,648              | \$ 15,949            | \$ 22,961          | \$ 7,296    | \$ 4,237                 |
| Non-current assets      | 42,512                 | 43,556               | 2,144              | 10          | 10,252                   |
| Current liabilities     | (45,855)               | (24,488)             | (26,355)           | (4,951)     | (6,422)                  |
| Non-current liabilities | (15,479)               | (11,249)             | (11,065)           | (1,177)     | (427)                    |
| Net financial assets    | \$ 8,826               | \$ 23,768            | \$ (12,315)        | \$ 1,178    | \$ 7,640                 |

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The following table details the Company's sensitivity, with regards to the above net asset position, to a 1% strengthening of the Canadian dollar, British pound, Swiss Franc, Euro, and Australian dollar against the U.S. dollar. The sensitivity analysis includes foreign currency denominated monetary assets and liabilities and non-monetary assets and liabilities of non-USD functional subsidiaries, and adjusts their translation at period end for a 1% change in foreign currency rates. For a 1% weakening against the U.S. dollar, there would be an equal and opposite impact on net income and comprehensive income.

|                      | Canadian Dollar | British Pound | Swiss Franc | Euro  | Australian Dollar |
|----------------------|-----------------|---------------|-------------|-------|-------------------|
| Net income           | \$ 44           | \$ 238        | \$ (123)    | \$ 12 | \$ 76             |
| Comprehensive income | \$ 88           | \$ 238        | \$ (123)    | \$ 12 | \$ 76             |

## *Liquidity risk*

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 18 to the consolidated financial statements. The Company's growth is financed through a combination of the cash flows from operations and borrowing under the existing credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. The Company's credit facilities are disclosed in note 10 to the consolidated financial statements. As at December 31, 2011, available credit in respect of the Company's bank credit facility was \$159,615.

The majority of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days. Holdbacks payable are due within three years.

Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

## *Credit risk*

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument, in which the Company has an amount owing from the counterparty failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company. The carrying amount of the Company's financial assets, including receivables from customers, represents the Company's maximum credit exposure.

The majority of the accounts receivable balance relates to maintenance invoices to customers that have a history of payment. In addition a large proportion of the Company's accounts receivable is with public sector government agencies.

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The maximum exposure to credit risk for accounts receivables at the reporting date by geographic region was:

|                | December 31,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|----------------|----------------------|----------------------|--------------------|
| United States  | \$ 57,187            | \$ 47,078            | \$ 53,457          |
| Canada         | 19,446               | 18,841               | 6,858              |
| United Kingdom | 11,322               | 11,024               | 8,201              |
| Europe         | 10,012               | 12,402               | 26,769             |
| Other          | 2,431                | 1,553                | 146                |
|                | <u>\$ 100,398</u>    | <u>\$ 90,898</u>     | <u>\$ 95,431</u>   |

The maximum exposure to credit risk for accounts receivables at the reporting date by reportable segment was:

|         | December 31,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|---------|----------------------|----------------------|--------------------|
| Public  | 72,716               | 71,235               | 82,597             |
| Private | 27,682               | 19,663               | 12,834             |
|         | <u>\$ 100,398</u>    | <u>\$ 90,898</u>     | <u>\$ 95,431</u>   |

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The aging of accounts receivables at the reporting date was:

|                           | December<br>31, 2011 | December<br>31, 2010 | January 1,<br>2010 |
|---------------------------|----------------------|----------------------|--------------------|
| Current                   | 49,084               | 43,512               | 48,456             |
| 61-120 days               |                      |                      |                    |
| Gross                     | 29,585               | 29,766               | 32,431             |
| Impairment                | (77)                 | (925)                | (13)               |
| Net                       | 29,508               | 28,841               | 32,418             |
| More than 120 days        |                      |                      |                    |
| Gross                     | 28,505               | 25,907               | 20,310             |
| Impairment                | (6,699)              | (7,362)              | (5,753)            |
| Net                       | 21,806               | 18,545               | 14,557             |
| Total accounts receivable |                      |                      |                    |
| Gross                     | 107,174              | 99,185               | 101,197            |
| Impairment                | (6,776)              | (8,287)              | (5,766)            |
| Net                       | 100,398              | 90,898               | 95,431             |

An allowance account for accounts receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at which point the amounts are considered to be uncollectible and are written off against the accounts receivable directly. The number of days outstanding of an individual receivable balance is the key indicator for determining whether an account is impaired.

The movement in the allowance for impairment in respect of accounts receivables during the year ended:

|                            | 2011     | 2010     |
|----------------------------|----------|----------|
| Balance at January 1       | \$ 8,287 | \$ 5,766 |
| Impairment loss recognized | 3,737    | 5,983    |
| Impairment loss reversed   | (3,834)  | (1,810)  |
| Amounts written off        | (1,414)  | (1,652)  |
| Balance at December 31     | \$ 6,776 | \$ 8,287 |

There is no concentration of credit risk because of the Company's large individually small number of customers. In addition the Company typically requires up front deposits from customers to protect against credit risk.

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The Company manages credit risk related to cash by maintaining bank accounts with Schedule 1 banks.

In the ordinary course of business the Company and its subsidiaries have provided performance bonds and other guarantees for the completion of certain customer contracts. The Company has not experienced a loss to date and future losses are not anticipated; therefore, no liability has been recorded in the consolidated statements of financial position related to these types of indemnifications or guarantees at December 31, 2011.

## *Fair values versus carrying amounts*

The carrying values of accounts receivable, accounts payable, accrued liabilities, the majority of acquisition holdbacks and bank debt, approximate their fair values due to the short-term nature of these instruments. Bank debt is subject to market interest rates.

The Company has capitalized the transaction costs associated with negotiating the line of credit. As a result at December 31, 2011, the fair value of the line of credit is \$nil and the carrying value \$644 has been included as part of other assets. (December 31, 2010: fair value \$47,291, carrying value \$46,041).

The fair values of available-for-sale equity investments at the reporting date are determined by the quoted market values for each investment (note 5).

## *Fair value hierarchy*

The table below analyzes financial instruments carried at fair value, by valuation method.

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 inputs are inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- level 3 inputs are inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

In the table below, the Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. The Company has no financial assets or liabilities measured using level 3 inputs.

Financial assets measured at fair value as at December 31, 2011 and December 31, 2010 in the financial statements are summarized below. The Company has no financial liabilities measured at fair value initially other than those recognized in connection with business combinations.

|                                   | December 31, 2011 |         |           | December 31, 2010 |         |           |
|-----------------------------------|-------------------|---------|-----------|-------------------|---------|-----------|
|                                   | Level 1           | Level 2 | Total     | Level 1           | Level 2 | Total     |
| Assets:                           |                   |         |           |                   |         |           |
| Equity securities                 | \$ 21,222         | \$ -    | \$ 21,222 | \$ 23,723         | \$ -    | \$ 23,723 |
| Foreign exchange forward contract | 443               | -       | 443       | -                 | -       | -         |
|                                   | \$ 21,665         | \$ -    | \$ 21,665 | \$ 23,723         | \$ -    | \$ 23,723 |



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There were no transfers of fair value measurements between level 1 and level 2 of the fair value hierarchy in 2011 and 2010.

## 20. Operating leases

The Company leases premises and certain equipment and automobiles under operating leases. The operating rental expense for the year ended December 31, 2011 was \$14,849 (2010 - \$13,255). The annual minimum lease commitments are as follows:

|                       | December 31,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|-----------------------|----------------------|----------------------|--------------------|
| Less than 1 year      | \$ 14,921            | \$ 12,465            | \$ 11,661          |
| Between 1 and 5 years | 27,354               | 27,256               | 25,832             |
| More than 5 years     | 7,044                | 8,553                | 6,435              |
| Total                 | \$ 49,319            | \$ 48,274            | \$ 43,928          |

## 21. Operating Segments

Segment information is presented in respect of the Company's business and geographical segments. The accounting policies of the segments are the same as those described in the significant accounting policies section of these consolidated financial statements.

### Reportable segments

The Company has six operating segments, which have been aggregated into two reportable segments in accordance with IFRS 8 Operating Segments. The Company's Public Sector segment develops and distributes software solutions primarily to government and government-related customers. The Company's Private Sector segment develops and distributes software solutions primarily to commercial customers.

The determination that the Company has two reportable segments is based primarily on the conclusion that differences in economic cycles and procedures for securing contracts between our governmental clients and commercial, or private sector clients are significant enough to warrant distinct segmented disclosures.

Corporate head office operating expenses are allocated to the Company's segments based on the segment's percentage of total Company revenue for the allocation period.

Intercompany-expenses (income) represent management fees charged by Constellation's head office to the reportable segments.

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| Fiscal year ended December 31, 2011                         | Public<br>Sector | Private<br>Sector | Other    | Consolidated<br>Total |
|---|------------------|-------------------|----------|-----------------------|
| Revenue   | \$ 571,648       | \$ 201,693        | \$ -     | \$ 773,341            |
| Expenses  |                  |                   |          |                       |
| Staff   | 288,919          | 112,460           | -        | 401,379               |
| Hardware  | 53,665           | 7,189             | -        | 60,854                |
| Third party licenses, maintenance and professional services | 35,581           | 15,485            | -        | 51,066                |
| Occupancy   | 13,328           | 5,590             | -        | 18,918                |
| Travel  | 24,113           | 5,925             | -        | 30,038                |
| Telecommunications  | 6,762            | 3,230             | -        | 9,992                 |
| Supplies  | 12,437           | 2,877             | -        | 15,314                |
| Professional fees   | 6,037            | 2,586             | -        | 8,623                 |
| Other   | 3,349            | 5,130             | -        | 8,479                 |
| Income before the undernoted                                | 127,457          | 41,221            | -        | 168,678               |
| Depreciation  | 5,806            | 1,654             | 408      | 7,868                 |
| Amortization of intangible assets                           | 56,926           | 19,724            | -        | 76,650                |
| Impairment of non-financial assets                          | 489              | -                 | -        | 489                   |
| Foreign exchange (gain) loss                                | 1,250            | (610)             | 2,752    | 3,392                 |
| Finance income  | (318)            | (64)              | (6,885)  | (7,267)               |
| Finance costs   | 222              | 188               | 5,165    | 5,575                 |
| Inter-company expenses (income)                             | 20,205           | 9,380             | (29,585) | -                     |
|   | 84,580           | 30,272            | (28,145) | 86,707                |
| Profit before income tax                                    | 42,877           | 10,949            | 28,145   | 81,971                |
| Current income tax expense (recovery)                       | 14,843           | 5,985             | (2,213)  | 18,615                |
| Deferred income tax (recovery) expense                      | (56,380)         | (37,584)          | 146      | (93,818)              |
| Income tax recovery   | (41,537)         | (31,599)          | (2,067)  | (75,203)              |
| Net income  | 84,414           | 42,548            | 30,212   | 157,174               |

## Other selected information

| December 31, 2011       | Public<br>Sector | Private<br>Sector | Other  | Consolidated<br>Total |
|-------------------------|------------------|-------------------|--------|-----------------------|
| Current assets          | 140,517          | 43,649            | 36,362 | 220,528               |
| Current liabilities     | 232,410          | 87,540            | 886    | 320,836               |
| Goodwill                | 37,827           | 21,664            | -      | 59,491                |
| Other Intangible assets | 128,405          | 79,896            | -      | 208,301               |

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| Fiscal year ended December 31, 2010                         | Public<br>Sector | Private<br>Sector | Other    | Consolidated<br>Total |
|---|------------------|-------------------|----------|-----------------------|
| Revenue   | \$ 474,832       | \$ 159,133        | \$ -     | \$ 633,965            |
| Expenses  |                  |                   |          |                       |
| Staff   | 260,475          | 96,064            | -        | 356,539               |
| Hardware  | 40,007           | 5,102             | -        | 45,109                |
| Third party licenses, maintenance and professional services | 26,149           | 11,520            | -        | 37,669                |
| Occupancy   | 11,864           | 4,976             | -        | 16,840                |
| Travel  | 18,498           | 4,596             | -        | 23,094                |
| Telecommunications  | 6,529            | 2,648             | -        | 9,177                 |
| Supplies  | 8,810            | 2,315             | -        | 11,125                |
| Professional fees   | 5,942            | 2,277             | -        | 8,219                 |
| Other   | 5,511            | 4,264             | -        | 9,775                 |
| Income before the undemoted                                 | 91,047           | 25,371            | -        | 116,418               |
| Depreciation  | 5,144            | 1,586             | 26       | 6,756                 |
| Amortization of intangible assets                           | 50,775           | 17,151            | -        | 67,926                |
| Foreign exchange (gain) loss                                | 2,687            | 2,114             | (275)    | 4,526                 |
| Finance income  | (188)            | (80)              | (973)    | (1,241)               |
| Finance costs   | 318              | 282               | 5,183    | 5,783                 |
| Bargain purchase gain                                       | (1,745)          | -                 | -        | (1,745)               |
| Inter-company expenses (income)                             | 7,326            | 4,094             | (11,420) | -                     |
|   | 64,317           | 25,147            | (7,459)  | 82,005                |
| Profit before income tax                                    | 26,730           | 224               | 7,459    | 34,413                |
| Current income tax expense (recovery)                       | 16,400           | 3,665             | (3,104)  | 16,961                |
| Deferred income tax (recovery) expense                      | (7,681)          | (3,622)           | (1,261)  | (12,564)              |
| Income tax recovery   | 8,719            | 43                | (4,365)  | 4,397                 |
| Net income  | 18,011           | 181               | 11,824   | 30,016                |

## Other selected information:

| December 31, 2010       | Public<br>Sector | Private<br>Sector | Other  | Consolidated<br>Total |
|-------------------------|------------------|-------------------|--------|-----------------------|
| Current assets          | 144,960          | 29,566            | 39,021 | 213,547               |
| Current liabilities     | 213,449          | 66,698            | 50,329 | 330,476               |
| Goodwill                | 30,152           | 19,993            | -      | 50,145                |
| Other Intangible assets | 147,317          | 72,525            | -      | 219,842               |

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

## Geographical segments

The public and private sector segments are managed on a worldwide basis, but operate in three principal geographical areas, Canada, USA, and UK/Europe.

In presenting information on the basis of geographical segments, segment revenue is based on the region in which the revenue is transacted and intellectual property is located. Segment assets are based on the geographic locations of the assets.

| Year ended December 31, 2011 | Canada     | USA        | UK/Europe  | Other    | Total      |
|------------------------------|------------|------------|------------|----------|------------|
| Revenue                      | \$ 131,951 | \$ 467,202 | \$ 165,251 | \$ 8,937 | \$ 773,341 |
| Total assets                 | 268,484    | 250,251    | 96,415     | 15,425   | 630,575    |
| Property and equipment       | 5,573      | 4,841      | 3,608      | 569      | 14,591     |
| Acquired contract assets     | -          | 1,052      | 1,640      | -        | 2,692      |
| Intangible assets            | 113,051    | 104,929    | 39,809     | 10,003   | 267,792    |

| Year ended December 31, 2010 | Canada     | USA        | UK/Europe  | Other     | Total      |
|------------------------------|------------|------------|------------|-----------|------------|
| Revenue                      | \$ 128,083 | \$ 351,520 | \$ 126,764 | \$ 27,598 | \$ 633,965 |
| Total assets                 | 252,950    | 145,522    | 104,810    | 32,637    | 535,919    |
| Property and equipment       | 7,235      | 1,123      | 4,964      | 147       | 13,469     |
| Acquired contract assets     | -          | 1,695      | 244        | -         | 1,939      |
| Intangible assets            | 122,134    | 77,000     | 41,340     | 29,513    | 269,987    |

## Major customers

No customer represents revenue in excess of 10% of total revenue in both 2011 and 2010.

## 22. Contingencies

In the normal course of operations, the Company is subject to litigation and claims from time to time. The Company may also be subject to lawsuits, investigations and other claims, including environmental, labour, product, customer disputes and other matters. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity of the Company.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

On September 30, 2008, the Company acquired certain assets and liabilities of Maximus Inc.'s Asset, Justice, and Education Solutions businesses ("MAJES"). As part of the acquisition, the Company also acquired certain long-term contracts that contain contingent liabilities which may, but 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 difference between 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 Inc. ("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, separately 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.

On November 2, 2009, the Company acquired certain assets and liabilities of the Public Transit Solutions ("PTS") business of Continental Automotive AG. The Company also acquired contingent liabilities related to certain long-term contracts that may, but 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 difference between the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

The Company is 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 the Company's financial position. However, there can be no assurances as to the final resolution of these matters and, if the final outcome is adverse to the Company, the amounts the Company is required to pay and the loss of certain future tax deductions could be material to these financial statements.

## 23. Guarantees

- (a) In the ordinary course of business the Company and its subsidiaries have provided performance bonds and other guarantees for the completion of certain customer contracts. The total obligations of the Company pursuant to such bonds and related contingencies total \$30,077 (2010 - \$25,956). No liability has been recorded in the consolidated financial statements.
- (b) As at December 31, 2011, in the normal course of business, the Company and its subsidiaries have outstanding letters of credit totalling \$385 (2010 - 403).
- (c) In the normal course of business, some of the Company's subsidiaries entered into lease agreements for facilities. As the joint lessees, the subsidiaries agree to indemnify the lessor for liabilities that may arise from the use of the leased facility. The maximum amount potentially payable under the foregoing indemnity cannot be reasonably estimated. The subsidiaries have liability insurance that relates to the indemnifications.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

- (d) The Company and its subsidiaries have provided routine indemnifications to some of its customers against liability if the Company's product infringes on a third party's intellectual property rights. The maximum exposure from the indemnifications cannot be reasonably estimated.

## 24. Changes in non-cash operating working capital

|  | 2011        | 2010      |
|--|-------------|-----------|
| (Increase) decrease in accounts receivable   | \$ (4,420)  | \$ 11,646 |
| Increase in work in progress   | (1,282)     | (908)     |
| (Increase) decrease in other current assets  | 1,611       | (1,174)   |
| (Increase) decrease in inventory   | 2,610       | (1,029)   |
| Increase in long term assets   | (5,403)     | (1,278)   |
| Change in acquired contract assets and liabilities   | (14,150)    | (2,968)   |
| Increase in other non-current liabilities  | (1,002)     | 326       |
| Increase (decrease) in accounts payable and accrued liabilities<br>excluding holdbacks from acquisitions | (793)       | 8,802     |
| Increase in deferred revenue   | 5,618       | 3,192     |
| Increase (decrease) in provisions  | 1,315       | (6,059)   |
|  | \$ (15,896) | \$ 10,550 |

## 25. Related parties

### *Key management personnel compensation*

The key management personnel of the Company, inclusive of the operating segments, are the members of the Company's executive management team and Board of Directors, and control approximately 13% of the outstanding shares of Constellation.

|                                       | Years ended December 31, |           |
|---------------------------------------|--------------------------|-----------|
|                                       | 2011                     | 2010      |
| Salaries, bonus and employee benefits | \$ 11,812                | \$ 15,749 |
| Total                                 | \$ 11,812                | \$ 15,749 |

If terminated for other than just cause, each executive officer, is entitled to either up to 12 months prior written notice or payment in an amount equal to up to 12 month's salary (or in the case of the Chief Operating Officer, 12 month's total compensation) at the rate in effect at the time of his or her termination. There were no post-employment benefits, other long-term benefits, or share-based payments attributed to the key management personnel in 2010 and 2011.

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

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Years ended December 31, 2011 and 2010

## 26. Subsequent events

Subsequent to December 31, 2011, the Company acquired the net assets of three separate entities for aggregate cash consideration of \$7,744 on closing plus holdbacks of \$2,707. In addition, there is contingent consideration payable in connection with two of the acquisitions based on the amount that certain financial measures exceed predetermined levels in the post-acquisition period. The business acquisitions include companies catering to the facility management, education (UK), and school administration markets, and are all software businesses similar to existing businesses of the Company. Two business acquisitions will be included in our Public Sector segment and one in our Private Sector segment.

On January 3, 2012 the Company declared an initial quarterly cash dividend of \$1.00 per share payable on April 2, 2012 to all common shareholders and class A non-voting shareholders of record at the close of business on March 12, 2012.

## 27. Explanation of transition to IFRS

As stated in note 2, these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The accounting policies as set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 30, 2010, and in preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition to IFRS).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts previously reported in financial statements prepared in accordance with previous Canadian GAAP.

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

*Reconciliation of financial position and shareholders' equity*

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

January 1, 2010

|   | Notes | Previous<br>Canadian<br>GAAP<br>(reclassified,<br>note a) | Adjustments     | IFRS              |
|---|-------|---|-----------------|-------------------|
| <b>Assets</b>                                     |       |   |                 |                   |
| Current assets:                                   |       |   |                 |                   |
| Cash  |       | \$ 33,249   | \$ -            | \$ 33,249         |
| Equity securities available-for-sale              |       | 22,323  | -               | 22,323            |
| Accounts receivable                               | c     | 90,683  | 4,748           | 95,431            |
| Work in progress                                  | c     | 21,910  | 1,167           | 23,077            |
| Inventory   | c     | 12,702  | 1,618           | 14,320            |
| Other assets                                      | c,e   | 26,335  | (74)            | 26,261            |
|   |       | 207,202   | 7,459           | 214,661           |
| Non-current assets:                               |       |   |                 |                   |
| Property and equipment                            | c,e,f | 10,539  | (2,313)         | 8,226             |
| Deferred income taxes                             | c,j   | 4,318   | 461             | 4,779             |
| Other assets                                      | c,e,h | 13,478  | 401             | 13,879            |
| Intangible assets                                 | c,e,g | 226,818   | (4,579)         | 222,239           |
|   |       | 255,153   | (6,030)         | 249,123           |
| <b>Total assets</b>                               |       | <b>\$ 462,355</b>   | <b>\$ 1,429</b> | <b>\$ 463,784</b> |
| <b>Liabilities and Shareholders' Equity</b>       |       |   |                 |                   |
| Current liabilities:                              |       |   |                 |                   |
| Bank indebtedness                                 | h     | \$ 43,100   | \$ (1,947)      | \$ 41,153         |
| Accounts payable and accrued liabilities          | c,d   | 95,343  | (8,704)         | 86,639            |
| Deferred revenue                                  | c,e   | 128,359   | 6,940           | 135,299           |
| Provisions  |       | 8,312   | -               | 8,312             |
| Acquired contract liabilities                     |       | 7,652   | -               | 7,652             |
| Acquisition holdback payments                     |       | 3,587   | -               | 3,587             |
| Income taxes payable                              | c     | 3,751   | 6               | 3,757             |
|   |       | 290,104   | (3,705)         | 286,399           |
| Non-current liabilities:                          |       |   |                 |                   |
| Deferred income taxes                             | c,j   | 17,839  | (1,518)         | 16,321            |
| Acquired contract liabilities                     | c,e   | 34,120  | 7,362           | 41,482            |
| Acquisition holdback payments                     |       | 2,537   | -               | 2,537             |
| Other liabilities                                 | c,d   | 9,051   | (5,033)         | 4,018             |
|   |       | 63,547  | 811             | 64,358            |
| Shareholders' equity:                             |       |   |                 |                   |
| Capital stock                                     |       | 99,283  | -               | 99,283            |
| Accumulated other comprehensive (loss) income     | e     | (157)   | 3,161           | 3,004             |
| Retained earnings                                 |       | 9,578   | 1,162           | 10,740            |
|   |       | 108,704   | 4,323           | 113,027           |
| <b>Total liabilities and shareholders' equity</b> |       | <b>\$ 462,355</b>   | <b>\$ 1,429</b> | <b>\$ 463,784</b> |



# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

December 31, 2010

|   | Notes | Previous<br>Canadian<br>GAAP<br>(reclassified,<br>note a) | Adjustments       | IFRS              |
|---|-------|---|-------------------|-------------------|
| <b>Assets</b>                                     |       |   |                   |                   |
| Current assets:                                   |       |   |                   |                   |
| Cash  |       | \$ 30,911   | \$ -              | \$ 30,911         |
| Equity securities available-for-sale              |       | 23,723  | -                 | 23,723            |
| Accounts receivable                               |       | 90,898  | -                 | 90,898            |
| Work in progress                                  |       | 25,607  | -                 | 25,607            |
| Inventory   |       | 15,945  | -                 | 15,945            |
| Other assets                                      |       | 26,463  | -                 | 26,463            |
|   |       | 213,547   | -                 | 213,547           |
| Non-current assets:                               |       |   |                   |                   |
| Property and equipment                            | e,f   | 16,430  | (2,961)           | 13,469            |
| Deferred income taxes                             | j     | 14,918  | 450               | 15,368            |
| Other assets                                      | e,h   | 24,519  | (971)             | 23,548            |
| Intangible assets                                 | d,e,g | 273,009   | (3,022)           | 269,987           |
|   |       | 328,876   | (6,504)           | 322,372           |
| <b>Total assets</b>                               |       | <b>\$ 542,423</b>   | <b>\$ (6,504)</b> | <b>\$ 535,919</b> |
| <b>Liabilities and Shareholders' Equity</b>       |       |   |                   |                   |
| Current liabilities:                              |       |   |                   |                   |
| Bank indebtedness                                 | h     | \$ 47,291   | \$ (1,250)        | \$ 46,041         |
| Accounts payable and accrued liabilities          |       | 104,905   | -                 | 104,905           |
| Deferred revenue                                  | e     | 157,240   | 785               | 158,025           |
| Provisions  |       | 2,253   | -                 | 2,253             |
| Acquired contract liabilities                     |       | 10,908  | -                 | 10,908            |
| Acquisition holdback payments                     |       | 6,920   | -                 | 6,920             |
| Income taxes payable                              |       | 1,424   | -                 | 1,424             |
|   |       | 330,941   | (465)             | 330,476           |
| Non-current liabilities:                          |       |   |                   |                   |
| Deferred income taxes                             | j     | 19,443  | (1,634)           | 17,809            |
| Acquired contract liabilities                     | e     | 33,924  | 1,709             | 35,633            |
| Acquisition holdback payments                     |       | 2,744   | -                 | 2,744             |
| Other liabilities                                 | d     | 4,962   | 1,244             | 6,206             |
|   |       | 61,073  | 1,319             | 62,392            |
| Shareholders' equity:                             |       |   |                   |                   |
| Capital stock                                     |       | 99,283  | -                 | 99,283            |
| Accumulated other comprehensive income            | e,f   | 5,292   | 3,230             | 8,522             |
| Retained earnings                                 |       | 45,834  | (10,588)          | 35,246            |
|   |       | 150,409   | (7,358)           | 143,051           |
| <b>Total liabilities and shareholders' equity</b> |       | <b>\$ 542,423</b>   | <b>\$ (6,504)</b> | <b>\$ 535,919</b> |

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

## Reconciliation of profit for the year ended December 31, 2010

|  | Notes | Canadian<br>GAAP<br>(reclassified<br>note b) | IFRS<br>adjustments | IFRS             |
|--|-------|--|---------------------|------------------|
| Revenue  | i     | \$ 630,857                                   | \$ 3,108            | \$ 633,965       |
| Expenses   |       |  |                     |                  |
| Staff  | i     | 353,431                                      | 3,108               | 356,539          |
| Hardware   |       | 45,109                                       | -                   | 45,109           |
| Third party license, maintenance<br>and professional services  |       | 37,669                                       | -                   | 37,669           |
| Occupancy  |       | 16,840                                       | -                   | 16,840           |
| Travel   |       | 23,094                                       | -                   | 23,094           |
| Telecommunications   |       | 9,177  | -                   | 9,177            |
| Supplies   |       | 11,125                                       | -                   | 11,125           |
| Professional fees  |       | 8,219  | -                   | 8,219            |
| Other  | d     | 9,764  | 11                  | 9,775            |
| Income before the undernoted   |       | 116,429                                      | (11)                | 116,418          |
| Depreciation   | f     | 6,036  | 720                 | 6,756            |
| Amortization of intangible assets  | g     | 69,367                                       | (1,441)             | 67,926           |
| Foreign exchange loss  | e     | 2,387  | 2,139               | 4,526            |
| Finance income   |       | (1,241)                                      | -                   | (1,241)          |
| Finance costs  | d     | 5,610  | 173                 | 5,783            |
| Bargain purchase gain  | c     | -  | (1,745)             | (1,745)          |
|  |       | 82,159                                       | (154)               | 82,005           |
| Profit before income tax   |       | 34,270                                       | 143                 | 34,413           |
| Extraordinary gain   | c     | 12,538                                       | (12,538)            | -                |
| Current income tax expense   |       | 16,961                                       | -                   | 16,961           |
| Deferred income tax recovery   | j     | (11,918)                                     | (646)               | (12,564)         |
| Income tax expense (recovery)  |       | 5,043  | (646)               | 4,397            |
| <b>Net income</b>  |       | <b>\$ 41,765</b>                             | <b>\$ (11,749)</b>  | <b>\$ 30,016</b> |
| Net change in fair value on available-for-sale<br>Financial assets during the period                           |       | 6,071  | -                   | 6,071            |
| Net unrealized foreign exchange adjustment<br>gain on available-for-sale financial<br>assets during the period |       | 61   | -                   | 61               |
| Reclassification of unrealized gain upon<br>derecognition of available-for-sale investments                    |       | (733)  | -                   | (733)            |
| Foreign currency translation differences<br>from foreign operations  | e     | 1,310  | 297                 | 1,607            |
| Deferred tax expense   | j     | (1,260)                                      | (227)               | (1,487)          |
| Other comprehensive income for the period, net of income tax   |       | 5,449  | 70                  | 5,519            |
| <b>Total comprehensive income for the period</b>   |       | <b>\$ 47,214</b>                             | <b>\$ (11,679)</b>  | <b>\$ 35,535</b> |
| Earnings per share<br>Basic and diluted  |       | \$ 1.97                                      | \$ (0.55)           | \$ 1.42          |

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

## Adjustments to the statements of cash flows for 2010

Income taxes paid has been moved into the body of the statement of cash flows, whereas it was previously disclosed as supplemental information. In addition, interest paid was previously included as part of operating activities, whereas it is included within financing activities under IFRS. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

## Correction of immaterial errors related to 2010 interim periods

The Company has recast the statement of financial position and statement of comprehensive income for the year ended December 31, 2010 included herein as compared to the same reconciliation notes reported in the interim financial statements for the periods ended March 31, 2011 and June 30, 2011. For the year ended December 31, 2010 net income was reduced by \$947 and accumulated other comprehensive income was increased by \$947 primarily related to adjustments in connection with monetary items designated as part of the net investment in foreign operations. The Company reviewed the impact of these errors on the comparative periods in fiscal 2010 and determined that the errors were not material.

## Notes to the reconciliations as at and for the periods included above

- (a) In transitioning to IFRS, the Company has reclassified certain amounts within the consolidated statement of financial position. The Company recognized reclassification adjustments related to deferred income tax assets and liabilities so as to present those amounts by tax jurisdiction on a consolidated basis in the statement of financial position. This reclassification was included in the Canadian GAAP amounts reflected in the reconciliation tables above. The impact of the reclassification recognized as of January 1, 2010 and December 31, 2010 was a decrease of deferred income tax assets and liabilities of \$10,986 and \$11,802, respectively, with no corresponding impact in profit or loss.
- (b) In transitioning to IFRS, the Company has elected to present its expenses in the consolidated statement of comprehensive income according to their nature. As a result, expenses previously disclosed under Canadian GAAP within cost of revenue, research and development, sales and marketing, and general and administration are presented under IFRS based on the nature of the cost incurred.

As required by IFRS, the Company has reported finance income and finance cost on a gross basis.

- (c) IFRS 1 states that on first-time adoption, an entity may elect not to apply IFRS 3 (revised), Business Combinations ("IFRS 3") retrospectively to business combinations that occurred before the date of transition, January 1, 2010. Under Canadian GAAP the Company had early adopted the Handbook Section 1582, Business Combinations ("HB 1582"), effective January 1, 2010, the requirements of which are substantially converged with IFRS; consequently no changes were deemed applicable for our acquisitions acquired after January 1, 2010. Goodwill relating to business combinations that occurred prior to January 1, 2010 was tested for impairment. No impairment existed at the transition date.

As a result of this election, 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. Where the accounting for the purchase equation was incomplete at December 31, 2009, in respect of an un-restated business combination, the deemed cost is equal to the carrying value of such assets and liabilities acquired immediately after the business combination, inclusive of the adjustments made

# CONSTELLATION SOFTWARE INC.

Notes to Consolidated Financial Statements

(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

Years ended December 31, 2011 and 2010

during the measurement period under Canadian GAAP. The statements of financial position under IFRS differ from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

|  | December 31,<br>2010 | January 1,<br>2010 |
|--|----------------------|--------------------|
| <i>Increase/(decrease) in:</i>           |                      |                    |
| Current assets:                          |                      |                    |
| Accounts receivable                      | \$ -                 | \$ 4,748           |
| Work in progress                         | -                    | 1,167              |
| Inventory                                | -                    | 1,618              |
| Other assets                             | -                    | (78)               |
| Non-current assets:                      |                      |                    |
| Property and equipment                   | -                    | (5)                |
| Deferred income taxes                    | -                    | 358                |
| Other assets                             | -                    | 2,404              |
| Intangible assets                        | -                    | 200                |
| Current liabilities:                     |                      |                    |
| Accounts payable and accrued liabilities | -                    | (8,716)            |
| Deferred revenue                         | -                    | 6,725              |
| Acquisition holdback payments            | -                    | -                  |
| Income taxes payable                     | -                    | 6                  |
| Non-current liabilities:                 |                      |                    |
| Deferred income taxes                    | -                    | 44                 |
| Acquired contract liabilities            | -                    | 7,727              |
| Other liabilities                        | -                    | (6,167)            |
| <b>Increase in retained earnings</b>     | <b>\$ -</b>          | <b>\$ 10,793</b>   |

On November 2, 2009, the Company acquired the Public Transit Solutions business of Continental Automotive AG. Negative goodwill arose on acquisition because the fair value of the separately identifiable assets and liabilities acquired exceeded the total consideration paid. Under Canadian GAAP, the negative goodwill was recorded as an extraordinary gain during the measurement period in fiscal 2010. Under IFRS, the negative goodwill, or bargain purchase gain, has been reported in the opening statement of financial position because the carrying amount under previous Canadian GAAP of assets acquired and liabilities assumed in an un-restated business combination immediately after the business combination becomes their deemed cost at that date. As a result, an extraordinary gain of \$10,793 for the year ended December 31, 2010, which was reported under Canadian GAAP in profit or loss, is eliminated against retained earnings under IFRS.

Negative goodwill totalling \$1,745 has arisen on one of the 2010 acquisitions (fourth quarter) because the fair value of the separately identifiable assets and liabilities acquired exceeded the total

# CONSTELLATION SOFTWARE INC.

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consideration paid. Under Canadian GAAP this was reported as a extraordinary gain, while under IFRS it is reported as a bargain purchase gain.

- (d) The Company has applied IFRS 3 to all business combinations after January 1, 2010. Under IFRS, the estimated fair value of any contingent consideration outstanding at January 1, 2010 must be recognized. 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. Under Canadian GAAP the Company had elected to early adopt HB 1582 effective January 1, 2010, the requirements of which are converged with IFRS; consequently there is no impact on acquisitions acquired subsequent to January 1, 2010. The IFRS statements of financial position differs from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

|  | December 31,<br>2010 | January 1,<br>2010 |
|--|----------------------|--------------------|
| <i>Increase/(decrease) in:</i>           |                      |                    |
| Intangible assets                        | \$ (86)              | \$ -               |
| Accounts payable and accrued liabilities | -                    | 12                 |
| Other non-current liabilities            | 1,244                | 1,134              |
| <b>Decrease in retained earnings</b>     | <b>\$ (1,330)</b>    | <b>\$ (1,146)</b>  |

The IFRS statements of comprehensive income differ from the amounts reported in the Canadian GAAP statements of operations by the following amounts:

|   | Year ended<br>December 31,<br>2010 |
|---|------------------------------------|
| <i>Increase/(decrease) in:</i>                |                                    |
| Other expense                                 | \$ 11                              |
| Finance costs                                 | 173                                |
| <b>Decrease in profit before income taxes</b> | <b>\$ 184</b>                      |

- (e) 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 hierarchy of indicators under which certain indicators are given priority.

In accordance with IFRS, the Company has assessed the functional currency of foreign subsidiaries. As part of this assessment, in general the functional currency of subsidiaries has changed as sales

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prices and expenses are mainly influenced by their respective local currency. The IFRS statements of financial position differ from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

|  | December 31,<br>2010 | January 1,<br>2010 |
|--|----------------------|--------------------|
| <i>Increase/(decrease) in:</i>           |                      |                    |
| Current assets:                          |                      |                    |
| Other assets                             | \$ -                 | \$ 4               |
| Non-current assets:                      |                      |                    |
| Property and equipment                   | 124                  | 36                 |
| Other assets                             | 279                  | (56)               |
| Intangible assets                        | (552)                | (954)              |
| Current liabilities:                     |                      |                    |
| Accounts payable and accrued liabilities | -                    | -                  |
| Deferred revenue                         | 785                  | 215                |
| Non-current liabilities:                 |                      |                    |
| Acquired contract liabilities            | 1,709                | (365)              |
| Cumulative translation account           | (503)                | (820)              |
| <b>Decrease in retained earnings</b>     | <b>\$ (2,140)</b>    | <b>\$ -</b>        |

The IFRS statements of comprehensive income differ from the amounts reported in the Canadian GAAP statements of operations by the following amounts:

|   | Year ended<br>December 31,<br>2010 |
|---|------------------------------------|
| <i>Increase/(decrease) in:</i>                |                                    |
| Foreign exchange loss                         | \$ 2,140                           |
| <b>Decrease in profit before income taxes</b> | <b>\$ 2,140</b>                    |

IFRS 1 permits the cumulative translation differences for all foreign operations to be deemed nil 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. The Company has applied this election, as a result, \$3,161 has been reclassified from other comprehensive income to retained earnings.

- (f) Under Canadian GAAP certain of the Company's business units used the declining balance method to depreciate property and equipment, while other business units used the straight line method to depreciate property and equipment. Under IFRS, uniform accounting policies must be used for

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reporting similar activity and transactions. The IFRS statement of financial position differs from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

|   | December 31,<br>2010 | January 1,<br>2010 |
|---|----------------------|--------------------|
| <i>Increase/(decrease) in:</i>          |                      |                    |
| Property and equipment                  | \$ (3,085)           | \$ (2,344)         |
| Foreign currency translation adjustment | (21)                 | -                  |
| <b>Decrease in retained earnings</b>    | <b>\$ (3,064)</b>    | <b>\$ (2,344)</b>  |

The IFRS statements of comprehensive income differ from the amounts reported in the Canadian GAAP statements of operations by the following amounts:

|   | Year ended<br>December 31,<br>2010 |
|---|------------------------------------|
| <i>Increase/(decrease) in:</i>                |                                    |
| Depreciation                                  | \$ 720                             |
| <b>Decrease in profit before income taxes</b> | <b>\$ 720</b>                      |

- (g) Under Canadian GAAP certain of our business units used various methods in determining the useful lives of intangible assets. Under IFRS, uniform accounting policies must be used for reporting like transactions. The IFRS statements of financial position differs from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

|                                      | December 31,<br>2010 | January 1,<br>2010 |
|--------------------------------------|----------------------|--------------------|
| <i>Increase/(decrease) in:</i>       |                      |                    |
| Intangible assets                    | \$ (2,384)           | \$ (3,825)         |
| <b>Decrease in retained earnings</b> | <b>\$ (2,384)</b>    | <b>\$ (3,825)</b>  |

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The IFRS statements of comprehensive income differ from the amounts reported in the Canadian GAAP statements of operations by the following amounts:

|   | Year ended<br>December 31,<br>2010 |
|---|------------------------------------|
| <i>Increase/(decrease) in:</i>                |                                    |
| Amortization of intangible assets             | \$ (1,441)                         |
| <b>Decrease in profit before income taxes</b> | <b>\$ (1,441)</b>                  |

- (h) Under Canadian GAAP direct costs associated with securing the Company's revolving line of credit were capitalized to other assets and recognized in profit or loss through interest expense. Under IFRS, these transaction costs are capitalized as part of the related financial liability. The costs are amortized using the effective interest method to interest expense and included as part of finance costs. The IFRS statements of financial position differs from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

|   | December 31,<br>2010 | January 1,<br>2010 |
|---|----------------------|--------------------|
| <i>Increase/(decrease) in:</i>                  |                      |                    |
| Other assets                                    | \$ (1,250)           | \$ (1,947)         |
| Bank indebtedness                               | (1,250)              | (1,947)            |
| <b>Increase/(decrease) in retained earnings</b> | <b>\$ -</b>          | <b>\$ -</b>        |

- (i) Under Canadian GAAP, the Company accounted for certain long-term contracts using the completed contract method of accounting. Completed contract method of accounting is generally not permitted under IFRS. If the outcome of a contract is not known, then revenue is recognized only to the extent of the costs incurred that are probable of recovery and is limited to the amount of costs recognized during the period. As a result of retrospective application of this policy, \$10,125 of revenue and costs have been recognized through retained earnings in the opening IFRS balance sheet.



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The IFRS statements of comprehensive income differ from the amounts reported in the Canadian GAAP statements of operations by the following amounts:

|  | Year ended<br>December 31,<br>2010 |
|--|------------------------------------|
| <i>Increase/(decrease) in:</i>                           |                                    |
| Revenue  | \$ (3,108)                         |
| Staff expense  | (3,108)                            |
| <b>Increase/(decrease) in profit before income taxes</b> | <b>\$ -</b>                        |

- (j) Under IFRS, subsidiaries with a functional currency that is not their local currency and that have foreign-denominated non-monetary assets or liabilities, requires a deferred tax asset/liability to be recorded based on foreign exchange movements during a given period. Under Canadian GAAP this was not required. Additionally, the IFRS financial statements differ by the income tax effect of the IFRS adjustments discussed above in this note. As a result of these changes, the IFRS deferred tax asset and deferred tax liability differs from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

|  | December 31,<br>2010 | January 1,<br>2010 |
|--|----------------------|--------------------|
| <i>Increase/(decrease) in:</i>                                       |                      |                    |
| Property and equipment (note f)                                      | \$ 309               | \$ 31              |
| Intangible assets (note g)   | 70                   | 33                 |
| Foreign exchange on foreign-denominated non monetary assets (note j) | 71                   | 39                 |
| Deferred tax asset   | 450                  | 103                |
| Contingent consideration (note d)                                    | (426)                | (406)              |
| Property and equipment (note f)                                      | (416)                | (716)              |
| Intangible assets (note g)   | (483)                | (130)              |
| Foreign exchange on foreign-denominated non monetary assets (note j) | (309)                | (310)              |
| Deferred tax liability   | (1,634)              | (1,562)            |
| Decrease in accumulated other comprehensive income                   | (227)                | -                  |
| <b>Increase in retained earnings</b>                                 | <b>\$ 2,311</b>      | <b>\$ 1,665</b>    |

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Other comprehensive income under IFRS differs from the amounts reported in the Canadian GAAP financial statements by the following amounts:

|                                | Year ended<br>December 31,<br>2010 |
|--------------------------------|------------------------------------|
| <i>Increase/(decrease) in:</i> |                                    |
| Deferred income tax recovery   | \$ (646)                           |
| <b>Increase in net income</b>  | <b>\$ (646)</b>                    |

The IFRS other comprehensive income for the year ended December 31, 2010 differs from the amount reported in the Canadian GAAP statements by \$227.