



Constellation Software Inc.

INTERIM FINANCIAL REPORT

First Quarter Fiscal Year 2011

For the three month period ended
March 31, 2011
(UNAUDITED)

CONSTELLATION SOFTWARE INC.

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

The following discussion and analysis should be read in conjunction with the Unaudited Consolidated Interim Financial Statements for the three month period ended March 31, 2011, which we prepared in accordance with International Financial Reporting Standards ("IFRS") and with our Annual Consolidated Financial Statements for the year ended December 31, 2010, which we prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties".

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

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

Forward Looking Statements

Certain statements in this report, including those under 'outlook', 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, May 4, 2011. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-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 deducting finance income, finance costs, income taxes, 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 plus non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, and certain other expenses (income). The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration amortization of intangible assets, 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 flow and revenue growth during the past several years.

Our revenue consists primarily of software license fees, maintenance fees, professional service fees and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under single-year, multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable. Maintenance revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from combined software/support contracts, transaction revenues, and hosted products. Maintenance fee arrangements generally include ongoing customer support and rights to certain product updates “if and when available” and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation services, custom programming, product training and consulting. Hardware sales include the resale of third party hardware as well as sales of hardware assembled internally. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the types, mix and quantity of each varies by customer and by product.

Expenses consist primarily of personnel expenses, occupancy expenses, the cost of hardware to be resold, third party license, maintenance and professional services expenses, and other general operating expenses.

Results of Operations

(In thousands of dollars, except percentages and per share amounts)

	Three months ended March 31,		Period-Over-Period Change	
	<u>2011</u>	<u>2010</u>	<u>\$</u>	<u>%</u>
Revenue	177,632	144,846	32,786	23%
Expenses	142,598	121,004	21,594	18%
Adjusted EBITDA	35,034	23,842	11,192	47%
Depreciation	2,126	1,246	880	71%
Amortization of intangible assets	18,525	14,958	3,567	24%
Foreign exchange	2,065	(579)	2,644	-457%
Finance income	(368)	(284)	(84)	30%
Finance costs	1,161	952	209	22%
Profit before income taxes	11,525	7,549	3,976	53%
Income taxes (recovery)				
Current income tax expense	3,008	3,595	(587)	-16%
Deferred income tax recovery	(55,712)	(4,077)	(51,635)	NM
Income tax recovery	(52,704)	(482)	(52,222)	NM
Net income	64,229	8,031	56,198	700%
Adjusted net income	27,042	18,912	8,130	43%
Weighted average number of shares outstanding (000's) Basic and diluted	21,192	21,192		
Net income per share Basic and diluted	\$ 3.03	\$ 0.38	\$ 2.65	700%
Adjusted EBITDA per share Basic and diluted	\$ 1.65	\$ 1.13	\$ 0.53	47%
Adjusted net income per share Basic and diluted	\$ 1.28	\$ 0.89	\$ 0.38	43%

NM - Not meaningful

Comparison of the first quarter ended March 31, 2011 and 2010

Revenue:

Total revenue for the quarter ended March 31, 2011 was \$178 million, an increase of 23%, or \$33 million, compared to \$145 million for the comparable period in 2010. The increase was mainly attributable to growth from acquisitions, as organic growth from our existing businesses increased by approximately \$7 million or 5% for the quarter. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

Software license revenue for the quarter ended March 31, 2011 was \$15 million, an increase of 37%, or \$4 million compared to \$11 million for the comparable period in 2010. Professional services revenue for the quarter ended March 31, 2011 was \$42 million, an increase of 2%, or \$1 million in comparison to the same period in 2010. In the quarter ended March 31, 2010, an additional \$1 million in professional services revenue was recorded due to revised estimates for progress to completion on a number of acquired long-term contracts. Excluding this adjustment, professional services revenue for the quarter ended March 31, 2011 increased by 5%. Hardware and other revenue for the quarter ended March 31, 2011 increased by 43%, or \$7 million to \$24 million from \$17 million for the same period in 2010. Maintenance revenues for the quarter ended March 31, 2011 increased by 27%, or \$21 million to \$97 million, from \$76 million for the same period in 2010. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended March 31,		Period-Over-Period Change	
	<u>2011</u>	<u>2010</u>	\$	%
	(\$000, except percentages)			
Licenses	15,211	11,082	4,129	37%
Professional services and other:				
Services	41,789	41,150	639	2%
Hardware and other	24,007	16,791	7,216	43%
Maintenance	96,625	75,823	20,802	27%
	177,632	144,846	32,786	23%

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

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

	Three months ended March 31,		Period-Over-Period Change	
	<u>2011</u>	<u>2010</u>	<u>\$</u>	<u>%</u>
	(\$000, except percentages)			
Public Sector				
Licenses	10,546	8,323	2,223	27%
Professional services and other:				
Services	33,458	34,992	(1,534)	-4%
Hardware and other	21,257	15,483	5,774	37%
Maintenance	65,689	52,379	13,310	25%
	130,950	111,177	19,773	18%
Private Sector				
Licenses	4,666	2,759	1,907	69%
Professional services and other:				
Services	8,330	6,158	2,172	35%
Hardware and other	2,750	1,308	1,442	110%
Maintenance	30,936	23,444	7,492	32%
	46,682	33,669	13,013	39%

Public Sector

For the quarter ended March 31, 2011, total revenue in the public sector reportable segment increased 18%, or \$20 million, to \$131 million, compared to \$111 million for the quarter ended March 31, 2010. The increase was significant across all revenue types other than professional services which decreased 4%, or \$2 million, to \$33 million, compared to \$35 million for the quarter ended March 31, 2010. Revenue growth from acquired businesses was significant as we completed eleven acquisitions since the beginning of 2010 in our public sector segment. It is estimated that acquisitions completed since the beginning of 2010 contributed approximately \$16 million to our Q1 2011 revenues. Revenues increased organically by 4% or \$5 million in Q1 2011 compared to the same period in 2010.

The organic revenue change was primarily driven by the following:

- **Volaris operating group (formerly the Trapeze operating group)** (increase of approximately \$4 million for the three months ended March 31, 2011). The organic growth was primarily driven from strong revenue from existing clients and new customers in its transit business unit.
- **Harris operating group** (increase of approximately \$1 million for the three months ended March 31, 2011). The organic growth was primarily driven from strong revenue from existing and new clients in its utility business unit.

Private Sector

For the quarter ended March 31, 2011, total revenue in the private sector reportable segment increased 39%, or \$13 million, to \$47 million, compared to \$34 million for the quarter ended March 31, 2010. Revenue growth from acquired businesses was significant for the three month period as we completed thirteen acquisitions since the beginning of 2010 in our private sector segment. It is estimated that acquisitions completed since the

beginning of 2010 contributed approximately \$10 million to our Q1 2011 revenues. Revenues increased organically by 9% or \$3 million in Q1 2011 compared to the same period in 2010.

The organic revenue change was primarily driven by the following:

- **Jonas operating group** (increase of approximately \$2 million for the three months ended March 31, 2011). Jonas' organic growth was driven by strong sales to both existing and new customers primarily in its' fitness, construction, and food service verticals.
- **Homebuilder and Friedman operating groups** (increase of approximately \$1 million for the three months ended March 31, 2011). The organic growth was primarily driven by strong sales to both existing and new customers in Homebuilders' non-homebuilding business units.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended March 31,		Period-Over-Period Change	
	<u>2011</u>	<u>2010</u>	<u>\$</u>	<u>%</u>
	(\$000, except percentages)			
Expenses				
Staff	95,919	86,319	9,600	11%
Hardware	12,121	9,337	2,784	30%
Third party license, maintenance and professional services	12,663	7,662	5,001	65%
Occupancy	4,588	3,936	652	17%
Travel	6,268	5,259	1,009	19%
Communications	2,537	2,351	186	8%
Supplies	4,163	2,684	1,479	55%
Professional fees	2,136	1,250	886	71%
Other	2,203	2,206	(3)	0%
	142,598	121,004	21,594	18%

Overall expenses for the quarter ended March 31, 2011 increased 18%, or \$22 million, to \$143 million, compared to \$121 million during the same period in 2010. As a percentage of total revenue, expenses decreased from 84% in the quarter ended March 31, 2010 to 80% in the quarter ended March 31, 2011. The growth in expenses for the three month period is primarily due to the growth in the number of employees. Our average employee headcount grew 15% from 3,124 in the quarter ended March 31, 2010 to 3,603 in the quarter ended March 31, 2011 primarily due to acquisitions.

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		Period-Over-Period	
	March 31,			
	2011	2010	\$	%
	(\$000, except percentages)			
Professional Services	25,167	23,317	1,850	8%
Maintenance	18,609	16,398	2,211	13%
Research and Development	24,363	22,224	2,139	10%
Sales and Marketing	13,068	10,670	2,398	22%
General and Administration	14,712	13,710	1,002	7%
	95,919	86,319	9,600	11%

Professional Services – Staff expenses related to our Professional Services operating department increased 8%, or \$2 million, to \$25 million for the quarter ended March 31, 2011 compared to \$23 million for the same period in 2010. The growth in staff expenses 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 10% from 923 in the quarter ended March 31, 2010 to 1,017 in the quarter ended March 31, 2011 primarily due to acquisitions.

Maintenance – Staff expenses related to our Maintenance operating department increased 13%, or \$3 million, to \$19 million for the quarter ended March 31, 2011 compared to \$16 million for 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 16% from 721 in the quarter ended March 31, 2010 to 839 in the quarter ended March 31, 2011 primarily due to acquisitions.

Research and Development – Staff expenses related to our Research and Development operating department increased 10%, or \$2 million, to \$24 million for the quarter ended March 31, 2011 from \$22 million for 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 811 in the quarter ended March 31, 2010 to 970 in the quarter ended March 31, 2011 primarily due to acquisitions.

Sales and Marketing – Staff expenses related to our Sales and Marketing operating department increased 22%, or \$2 million, to \$13 million for the quarter ended March 31, 2011 compared to \$11 million for 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 18% from 336 in the quarter ended March 31, 2010 to 398 in the quarter ended March 31, 2011 primarily due to acquisitions.

General and Administrative – Staff expenses related to our General and Administrative operating department increased 7%, or \$1 million, to \$15 million for the quarter ended March 31, 2011 from \$14 million for 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 offset by a reduction in management bonuses. Our average employee headcount associated with our General and Administrative operating department grew 14% from 334 in the quarter ended March 31, 2010 to 379 in the quarter ended March 31, 2011 primarily due to acquisitions.

Hardware expenses – Hardware expenses for the quarter ended March 31, 2011 increased 30% or \$3 million to \$12 million, compared to \$9 million during the same period in 2010. The increase in hardware expenses is attributable to the increase in hardware and other revenue.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses for the quarter ended March 31, 2011 increased 65% or \$5 million to \$13 million, compared to \$8 million for the quarter ended March 31, 2010. The increase is primarily due to an increase in license and maintenance revenue in Q1 2011 as compared to Q1 2010 and due to an acquisition in 2010 that had a relatively high component of third party maintenance costs.

Other Expenses:

The following table displays the breakdown of our other expenses:

	Three months ended March 31,		Period-Over-Period Change	
	<u>2011</u>	<u>2010</u>	<u>\$</u>	<u>%</u>
	(\$000, except percentages)			
Depreciation	2,126	1,246	880	71%
Amortization of intangible assets	18,525	14,958	3,567	24%
Foreign exchange	2,065	(579)	2,644	-457%
Finance income	(368)	(284)	(84)	30%
Finance costs	1,161	952	209	22%
Income taxes	(52,704)	(482)	(52,222)	10834%
	(29,195)	15,811	(45,006)	-285%

Depreciation – Depreciation of property and equipment increased 71%, or \$1 million, to \$2 million in the quarter ended March 31, 2011 from \$1 million for the same period in 2010. The increase 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 to \$19 million for the quarter ended March 31, 2011 from \$15 million for the quarter ended March 31, 2010, representing a 24% increase. The increase is attributable to the increases in our intangible asset balance (on a cost basis) over the twelve month period ended March 31, 2011 as a result of the acquisitions that we completed during this period.

Foreign exchange – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended March 31, 2011, our foreign exchange loss was \$2 million compared to a gain of \$0.6 million in the quarter ended March 31, 2010. The foreign exchange loss for the three months ended March 31, 2011 is due to realized losses on settling certain non-USD liabilities and due to holding losses on certain non-USD liabilities.

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our tax rate is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses. For the quarter ended March 31, 2011, income tax recovery was \$53 million, compared to \$0.5 million for the same period in 2010. The increase in income tax recovery was primarily due to the transfer of certain intangible assets from one subsidiary to another during the period. A deferred tax asset was recorded on the increase in fair market value arising on the sale of intellectual property between entities within the Company at the rate of tax of the entity that acquired the assets notwithstanding that the gains are not otherwise recorded for

financial reporting. The deferred income tax recovery being recorded through profit or loss represents the amount of these deferred income tax deductions that the Company has determined will be utilized for income tax purposes in the future. These deductions will be available to the Company over a fifteen year period and, as such, the Company expects a reduction in current income tax rate in 2011 as a percent of Adjusted Net Income before tax as compared to 2010.

Net Income:

Net income for the quarter ended March 31, 2011 was \$64 million compared to net income of \$8 million for the same period in 2010. On a per share basis this translated into a net income per diluted share of \$3.03 in the quarter ended March 31, 2011 vs. a net income per diluted share of \$0.38 in the quarter ended March 31, 2010. Net income in the quarter ended March 31, 2011 was positively impacted by the growth in our Adjusted EBITDA and income tax recovery, offset by an increase in amortization of intangibles assets.

Adjusted EBITDA:

For Q1 2011, Adjusted EBITDA increased by \$11 million to \$35 million compared to \$24 million in Q1 2010 representing an increase of 47%. Adjusted EBITDA margin was 20% in the first quarter of 2011 compared to 16% in the comparable period in 2010. The increase in Adjusted EBITDA margin for the three months ended March 31, 2011 is largely due to a reduction in our bonus accrual, due to lower growth in Q1 2011 compared to Q1 2010, and due to a relatively greater increase in higher margin license and maintenance revenue in Q1 2011. 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 March 31,	
	2011	2010
	(\$000, except percentages)	
Total revenue	<u>\$ 177,632</u>	<u>\$ 144,846</u>
Net income	64,229	8,031
Add back:		
Income taxes	(52,704)	(482)
Foreign exchange	2,065	(579)
Finance income	(368)	(284)
Finance cost	1,161	952
Amortization of intangible assets	18,525	14,958
Depreciation	2,126	1,246
Adjusted EBITDA	35,034	23,842
Adjusted EBITDA margin	20%	16%

Adjusted net income:

For Q1 2011, Adjusted net income increased by \$8 million to \$27 million compared to \$19 million in Q1 2010, representing an increase of 43%. Adjusted net income margin was 15% in the first quarter of 2011 compared to 13% in the comparable period in 2010. The increase in Adjusted net income margin for the three

months ended March 31, 2011 is largely due to an improvement in our Adjusted EBITDA margin percentage. 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 March 31,	
	<u>2011</u>	<u>2010</u>
	(\$000, except percentages)	
Total revenue	<u>\$ 177,632</u>	<u>\$ 144,846</u>
Net income	64,229	8,031
Add back:		
Amortization of intangible assets	18,525	14,958
Deferred income tax recovery	(55,712)	(4,077)
Adjusted net income	27,042	18,912
Adjusted net income margin	15%	13%

Quarterly Results

	Quarter Ended							
	Jun. 30, <u>2009</u>	Sep. 30 <u>2009</u>	Dec. 31 <u>2009</u>	Mar. 31 <u>2010</u>	Jun. 30 <u>2010</u>	Sep. 30 <u>2010</u>	Dec. 31 <u>2010</u>	Mar. 31 <u>2011</u>
	(\$000, except per share amounts)							
	Note 1	Note 1	Note 1	Note 2	Note 1	Note 1	Note 1	Note 2
Revenue	101,515	107,279	131,894	144,846	152,682	162,814	171,468	177,632
Net Income (loss)	3,738	2,715	(10)	8,031	3,348	14,211	17,893	64,229
Net Income per share								
Basic	0.18	0.13	(0.00)	0.38	0.16	0.67	0.85	3.03
Diluted	0.18	0.13	(0.00)	0.38	0.16	0.67	0.84	3.03

Note 1 - The quarterly information is presented in accordance with GAAP.

Note 2 - The quarterly information is presented in accordance with IFRS.

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 short-term investments, marketable 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 recent history of negative cash flows. PTS is not

considered a reportable operating segment of Constellation, however management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of PTS until such time as it becomes consistently cash flow positive.

Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and purchase contract accounting under 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.

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

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.

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 \$3 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.

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 plan to contest 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 previously provided supplemental financial information on MAJES. MAJES is not considered a reportable operating segment of Constellation; however, management chose to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of the business. The Company has decided not to provide supplemental financial information on MAJES going forward as the business is now fully integrated with the Company.

Supplemental Financial Information for PTS

The table below provides certain supplemental statement of comprehensive income and cash flow information regarding PTS for the three months ended March 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 flow from operations of each business. Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and contract accounting under IFRS may result in reported earnings that differ materially from cash flow from operations.

Statement of Operations
For the three months ended March 31, 2011

(Unaudited)	Constellation Software Inc. (excluding PTS)	PTS	Consolidated
Revenue	\$ 145,136	\$ 32,496	\$ 177,632
Expenses	115,508	27,090	142,598
Adjusted EBITDA	29,628	5,406	35,034
<i>EBITDA as % Total Revenue</i>	20%	17%	20%
Depreciation	1,608	518	2,126
Amortization of intangible assets	18,525	-	18,525
Other expenses, net	2,204	654	2,858
	22,337	1,172	23,509
Income before income taxes	7,291	4,234	11,525
Income tax (recovery) expense	(53,311)	607	(52,704)
Net Income	\$ 60,602	\$ 3,627	\$ 64,229

Cash flow from operating activities
For the three months ended March 31, 2011

(Unaudited)	Constellation Software Inc. (excluding PTS)	PTS	Consolidated
Cash flows from operating activities:			
Net income	\$ 60,602	\$ 3,627	\$ 64,229
Adjustments to reconcile net income to net cash flows from operations:			
Depreciation	1,608	518	2,126
Amortization of intangible assets	18,525	-	18,525
Income tax (recovery) expense	(53,311)	607	(52,704)
Other non-cash items	2,220	638	2,858
Change in non-cash operating working capital	(339)	(13,037)	(13,376)
Income taxes paid	(1,718)	(661)	(2,379)
Cash flows from operating activities	\$ 27,587	\$ (8,308)	\$ 19,279

Adjusted EBITDA to net income reconciliation
For the three months ended March 31, 2011

(Unaudited)	Constellation Software Inc. (excluding PTS)	PTS	Consolidated
Total revenue	\$ 145,136	\$ 32,496	\$ 177,632
Net income	60,602	3,627	64,229
Add back:			
Income tax (recovery) expense	(53,311)	607	(52,704)
Other expenses, net	2,204	654	2,858
Amortization of intangible assets	18,525	-	18,525
Depreciation	1,608	518	2,126
Adjusted EBITDA	29,628	5,406	35,034
Adjusted EBITDA margin	20%	17%	20%

Liquidity

Our net cash position (cash less bank indebtedness) at March 31, 2011 decreased to negative \$55 million, from negative \$15 million at December 31, 2010. Borrowings on our line of credit increased by \$40 million and cash decreased by \$1 million.

Total assets increased \$68 million, from \$548 million at December 31, 2010 to \$616 million at March 31, 2011. The majority of the increase can be explained by an increase in deferred taxes of \$55 million resulting from the internal transfer of intellectual property (See "Income Taxes" discussion above).

Current liabilities increased \$45 million, from \$330 million at December 31, 2010 to \$375 million at March 31, 2011. The majority of the increase can be explained by an increase in borrowings on our line of credit of \$40 million and an increase in deferred revenue of \$30 million, primarily due to acquisitions and the timing of billings versus revenue recognized. This increase was offset by a decrease in accounts payable and accrued liabilities of \$24 million resulting from the payment of the 2010 bonus.

Net Changes in Cash Flows

	Three months ended March 31, 2011 (in millions of \$)
Net cash provided by operating activities	\$19
Net cash used in financing activities	(5)
Net cash used in investing activities	(14)
Effect of currency translation on cash	(1)
Net decrease in cash and cash equivalents	\$(1)

The net cash flow from operating activities was \$19 million for the three months ended March 31, 2011. The \$19 million provided by operating activities resulted from \$64 million in net income, less \$30 million of non-

cash add backs to net income, \$13 million of cash used by changes in our non-cash operating working capital and \$2 million in taxes paid.

The net cash used in financing activities in the three months ended March 31, 2011 was \$5 million. \$42 million was used in Q1 2011 to pay a dividend of \$2.00 per share and \$39 million was drawn from our bank indebtedness.

The net cash used in investing activities in the three months ended March 31, 2011 was \$14 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of \$11 million (including payments for holdbacks relating to prior acquisitions) and due to \$3 million in additions to property and equipment.

We believe we have more than sufficient cash and cash equivalents to continue to operate for the foreseeable future. Generally our VMS businesses operate with negative working capital as a result of the collection of maintenance payments and other revenues in advance of the performance of the related services. As such, management anticipates that it can continue to grow the business organically without any additional funding. If we continue to acquire VMS businesses we may need additional external funding depending upon the size and timing of the acquisitions.

Capital Resources and Commitments

We have a \$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 March 31, 2011, we had drawn \$86 million on this facility. Following the Board of Directors decision on April 4, 2011 to undertake a review of strategic alternatives for the Company with the objective of enhancing shareholder value, (See “Proposed Transactions”) the Company suspended negotiations of a new \$250 million credit facility with a new syndicate of lenders that would have replaced the existing \$160 million facility. There is no defined timeline for this strategic review and there can be no assurance that this review will result in any specific action. The negotiations for the new credit facility will not resume until the outcome of the review is completed.

Commitments include operating leases for office equipment and facilities, bank guarantees, and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with “earn out” payments based on the future performance of the acquired business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in unconsolidated companies (aside from our shareholdings in publicly traded companies included in our short term investments and our equity investment included in other assets) that would have a significant effect on our assets and liabilities as at March 31, 2011.

Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact could significantly affect future net earnings. Currently, we do not use hedging techniques to mitigate such currency risks. We cannot predict the effect of foreign exchange losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, results of operations, and financial condition.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue/expenses, as applicable, for the three month period ended March 31, 2011:

Three Months Ended Mar 31, 2011		
Currencies	% of Revenue	% of Expenses
USD	66%	52%
CAD	11%	24%
GBP	11%	10%
EURO	8%	0%
CHF	2%	11%
Others	2%	3%
Total	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. In addition, as disclosed in the Company's press release dated April 4, 2011, the Board of Directors is currently undertaking a review of strategic alternatives for the Company with the objective of enhancing shareholder value. There is no defined timeline for this strategic review and there can be no assurance that this review will result in any specific action.

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 quarter in which we have provided unaudited consolidated quarterly financial information in accordance with IFRS, including comparative figures for 2010.

The Company has adopted IFRS effective January 1, 2010 ("the transition date") and has prepared its opening IFRS balance sheet 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 will be 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 Unaudited Condensed Consolidated Interim Financial Statements for the three month period ended March 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

In October 2010, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9 which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful info to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

Share Capital

As at May 4, 2011, there were 21,191,530 total shares outstanding comprised of 17,503,530 common shares and 3,688,000 class A non-voting shares.

Outlook

For fiscal 2011, we expect gross revenue to be in the range of \$725 million to \$750 million and we expect Adjusted EBITDA to be in the range of \$145 million to \$170 million.

The above statements are "forward looking statements" and are based on the following various assumptions which management believes are reasonable under the current circumstances:

1. revenue growth will be in the range of 15%-19% for fiscal 2011, which includes the impact of all companies acquired to date and a moderate increase in organic growth over the recent performance of the Company;
2. Adjusted EBITDA margins will be in the range of 20-23% for fiscal 2011, which represents a moderate increase over the recent performance of the Company;
3. no material acquisitions will be completed during the remainder of fiscal 2011; and
4. general economic and market conditions will remain consistent with those in effect on May 4, 2011.

Although management believes the above statements are based on assumptions that are reasonable in the current circumstances, they are subject to various risks and uncertainties and there are several factors that could cause actual results to differ materially from those specified above. These factors include, but are not limited to, the following:

1. revenue can fluctuate significantly based on the demand for our software products, level of product and price competition, the geographical mix of our sales together with fluctuations in foreign currency, changes in mix and pricing of software solutions that our customers demand, our ability to successfully implement projects, order cancellations, renewal of maintenance agreements with customers, and patterns of spending and changes in budgeting cycles of our customers;
2. Adjusted EBITDA can fluctuate significantly based on the pricing and mix of software solutions that we sell, our customer demand, the geographical mix of our sales and cost base together with fluctuations in foreign currency exchange rates, and employee bonuses which are based on the performance of the Company;

The above statements have been included for the purpose of providing information about management's current expectations and plans relating to fiscal 2011. Readers are cautioned that such information may not be appropriate for other purposes.

See "Forward Looking Statements" and "Risks and Uncertainties".

Risks and Uncertainties

The statements included under "Outlook" above are subject to several risks and uncertainties, including the following: our quarterly revenues and operating results may fluctuate; any failure to manage our growth through acquisitions effectively or integrate other businesses we acquire may lead to a disruption in our operations and adversely affect our operating results; and we may acquire contingent liabilities through acquisitions, or our assessments of existing contingent liabilities could change which could adversely affect our operating results. 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 March 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 respecting certification of disclosure in issuers' interim filings, the President and Chief Financial Officer have designed or caused it to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that (i) information required to be disclosed by the Company in its quarterly filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its President and Chief Financial Officer in a timely manner.

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

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the three-month period ended March 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.

Condensed Consolidated Interim Financial Statements
(In U.S. dollars)

CONSTELLATION SOFTWARE INC.

For the three months ended March 31, 2011 and 2010
(Unaudited)

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash	\$ 30,143	\$ 30,911	\$ 33,249
Equity securities available for sale (note 5)	27,866	23,723	22,323
Accounts receivable	96,827	92,097	95,992
Work in progress	26,033	24,408	22,516
Inventories	18,155	15,945	14,320
Other assets (note 6)	26,568	26,463	26,261
	225,592	213,547	214,661
Non-current assets:			
Property and equipment	14,320	13,469	8,226
Deferred income taxes (note 9)	82,004	27,170	15,765
Other assets (note 6)	25,469	23,548	13,879
Intangible assets	268,187	269,987	222,239
	389,980	334,174	260,109
Total assets	\$ 615,572	\$ 547,721	\$ 474,770
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 7)	\$ 85,616	\$ 46,041	\$ 41,153
Accounts payable and accrued liabilities	81,544	104,905	86,639
Deferred revenue	188,305	158,025	135,299
Provisions (note 8)	2,339	2,253	8,312
Acquired contract liabilities	6,859	10,908	7,652
Acquisition holdback payments	8,503	6,920	3,587
Income taxes payable	1,596	1,424	3,757
	374,762	330,476	286,399
Non-current liabilities:			
Deferred income taxes (note 9)	29,649	29,611	27,307
Acquired contract liabilities	33,707	35,633	41,482
Acquisition holdback payments	2,402	2,744	2,537
Other liabilities	6,333	6,206	4,018
	72,091	74,194	75,344
Total liabilities	446,853	404,670	361,743
Shareholders' equity (note 10):			
Capital stock	99,283	99,283	99,283
Accumulated other comprehensive income	11,398	7,575	3,004
Retained earnings	58,038	36,193	10,740
	168,719	143,051	113,027
Total liabilities and shareholders' equity	\$ 615,572	\$ 547,721	\$ 474,770

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2011 and 2010

(Unaudited)

	2011	2010
Revenue (note 11)	\$ 177,632	\$ 144,846
Expenses		
Staff	95,919	86,319
Hardware	12,121	9,337
Third party license, maintenance and professional services	12,663	7,662
Occupancy	4,588	3,936
Travel	6,268	5,259
Telecommunications	2,537	2,351
Supplies	4,163	2,684
Professional fees	2,136	1,250
Other	2,203	2,206
Income before the undernoted	35,034	23,842
Depreciation	2,126	1,246
Amortization of intangible assets	18,525	14,958
Foreign exchange	2,065	(579)
Finance income (note 12)	(368)	(284)
Finance costs (note 12)	1,161	952
	23,509	16,293
Profit before income tax	11,525	7,549
Current income tax expense	3,008	3,595
Deferred income tax recovery	(55,712)	(4,077)
Income tax recovery (note 9)	(52,704)	(482)
Net income	64,229	8,031
Net change in fair value on available-for-sale financial assets during the period	3,325	2,074
Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period	209	(351)
Reclassification of unrealized gain upon derecognition of available-for-sale investments	-	(696)
Amounts reclassified to profit during the period related to realized gains on available-for-sale investments	(334)	-
Deferred tax expense on unrealized net gains noted above	(480)	(604)
Foreign currency translation differences from foreign operations	1,103	(10)
Other comprehensive income for the period, net of income tax	3,823	413
Total comprehensive income for the period	\$ 68,052	\$ 8,444
Earnings per share		
Basic and diluted (note 13)	\$ 3.03	\$ 0.38

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Three months ended March 31, 2011

	Capital stock	Accumulated other comprehensive income/(loss)		Accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation account	Unrealized gains/losses on available-for-sale financial assets			
Balance at January 1, 2011	\$ 99,283	\$ 432	\$ 7,143	\$ 7,575	\$ 36,193	\$ 143,051
<i>Total comprehensive income for the period</i>						
Net income					64,229	64,229
<i>Other comprehensive income (loss)</i>						
Net change in fair value on available-for-sale financial assets during the period			3,325	3,325		3,325
Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period			209	209		209
Amounts reclassified to profit during the period related to realized gains on available-for-sale investments			(334)	(334)		(334)
Deferred tax expense on unrealized net gains			(480)	(480)		(480)
Foreign currency translation adjustment		1,103		1,103		1,103
Total other comprehensive income (loss) for the period		1,103	2,720	3,823	-	3,823
Total comprehensive income for the period		1,103	2,720	3,823	64,229	68,052
Transactions with owners, recorded directly in equity						
Dividends to owners of the Company (Note 10)					(42,384)	(42,384)
Balance at March 31, 2011	\$ 99,283	\$ 1,535	\$ 9,863	\$ 11,398	\$ 58,038	\$ 168,719

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Three months ended March 31, 2010

	Capital stock	Accumulated other comprehensive income/(loss)		Accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation account	Unrealized gains/losses on available-for-sale financial assets			
Balance at January 1, 2010	\$ 99,283	\$ -	\$ 3,004	\$ 3,004	\$ 10,740	\$ 113,027
<i>Total comprehensive income for the period</i>						
Net income					8,031	8,031
<i>Other comprehensive income (loss)</i>						
Net change in fair value on available-for-sale financial assets during the period			2,074	2,074	-	2,074
Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period			(351)	(351)	-	(351)
Reclassification of unrealized gain from prior periods upon derecognition of available-for-sale investments			(696)	(696)	-	(696)
Deferred tax expense on unrealized net gains			(604)	(604)	-	(604)
Foreign currency translation adjustment		(10)	-	(10)	-	(10)
Total other comprehensive income (loss) for the period		(10)	423	413	-	413
Total comprehensive income for the period		(10)	423	413	8,031	8,444
Transactions with owners, recorded directly in equity						
Dividends to owners of the Company (Note 10)					(5,510)	(5,510)
Balance at March 31, 2010	\$ 99,283	\$ (10)	\$ 3,427	\$ 3,417	\$ 13,261	\$ 115,961

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2011 and 2010
(Unaudited)

	2011	2010
Cash flows from operating activities:		
Net income	\$ 64,229	\$ 8,031
Adjustments for:		
Depreciation	2,126	1,246
Amortization of intangible assets	18,525	14,958
Finance income	(368)	(284)
Finance costs	1,161	952
Income tax expense	(52,704)	(482)
Foreign exchange gain	2,065	(579)
Change in non-cash operating working capital (note 16)	(13,376)	(10,445)
Income taxes paid	(2,379)	(4,068)
Net cash flows from operating activities	19,279	9,329
Cash flows from financing activities:		
Interest paid	(887)	(882)
Decrease (increase) in other non current liabilities	87	53
Increase in bank indebtedness, net	38,644	15,465
Dividends paid	(42,384)	(5,510)
Net cash flows from financing activities	(4,540)	9,126
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired (note 4)	(10,391)	(15,261)
Post acquisition settlement payments, net	(1,052)	(1,018)
Purchases of equity securities	(1,249)	(7,217)
Proceeds from sale of equity securities	643	-
Decrease (increase) in restricted cash	450	(457)
Interest received	37	43
Decrease in other non-current assets	-	305
Property and equipment purchased	(2,599)	(1,590)
Cash flows used in investing activities	(14,161)	(25,195)
Effect of currency translation adjustment on cash and cash equivalents	(1,346)	(112)
Increase (decrease) in cash and cash equivalents	(768)	(6,852)
Cash, beginning of period	30,911	33,249
Cash, end of period	\$ 30,143	\$ 26,397

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

- | | |
|-----------------------------------------|----------------------------------------------------------|
| 1. Reporting entity | 10. Capital and other components of shareholders' equity |
| 2. Basis of presentation | 11. Revenue |
| 3. Significant accounting policies | 12. Finance income and Finance costs |
| 4. Business acquisitions | 13. Earnings per share |
| 5. Equity securities available-for-sale | 14. Operating segments |
| 6. Other assets | 15. Contingencies |
| 7. Bank indebtedness | 16. Changes in non-cash operating working capital |
| 8. Provisions | 17. Subsequent events |
| 9. Income taxes | 18. Explanation of transition to IFRS |

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

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 condensed consolidated interim financial statements of Constellation as at and for the three months ended March 31, 2011 comprise Constellation and its subsidiaries (together referred to as the "Company") and the Company's interest in associates. The Company, through its defined operating groups, is engaged in the development, installation and customization of software relating to the markets listed below, and in the provision of related professional services and support.

Public transit operators	Municipal systems	Metal service centres
Paratransit operators	School administration	Homebuilders
School transportation	Public safety	Lease management
Non-emergency medical	Healthcare	Winery management
Ride share	Public housing authorities	Buy here pay here dealers
Local government	Housing finance agencies	RV and marine dealers
Municipal treasury and debt	Real estate brokers and agents	Pulp and paper manufacturers
Taxi dispatch	Construction	Window manufacturers
Agri-business	Private clubs and daily fee	Cabinet manufacturers
Equipment rental	golf courses	Made-to-order manufacturers
Courts	Attractions	Window and other dealers
Fleet and facility management	Food services	Multi-carrier shipping
Electric utilities	Health clubs	Supply chain optimization
Water utilities	Outdoor equipment dealerships	Multi-channel distribution
District attorney	Leisure centers	Moving and storage

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Company's first IFRS consolidated interim financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. As these condensed consolidated interim financial statements are the Company's first financial statements prepared using IFRS, certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") have been included in these interim financial statements for the comparative annual period.

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

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2010 annual audited financial statements and in consideration of the IFRS transition disclosures included in note 18 to these financial statements and the additional disclosures included herein.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 4, 2011.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

2. Basis of preparation (continued)

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, which are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of the condensed consolidated interim 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 comprehensive income, 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:

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

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

3. Significant accounting policies

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

Companies over which the Company has control are fully consolidated from the date that control commences until the date that control ceases. Companies 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 remeasured to the functional currency at the exchange rate at that date. Foreign currency differences arising on remeasurement 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.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

3. Significant accounting policies (continued)

(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.

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.

(c) Financial Instruments

The Company's financial instruments comprise cash, restricted cash, equity securities, accounts receivables, notes receivables, share purchase warrants, 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 trade 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.

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, 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 net income 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.

Loans and receivables

Loans and receivables, which comprise trade and notes receivables, cash and restricted cash, 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.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

3. Significant accounting policies (continued)

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, attributable 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.

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.

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 3(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 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 period.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

3. Significant accounting policies (continued)

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 revenue. 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 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 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 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 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 forecast of income reflect an estimate of a fair royalty that a licensee would pay, on a percentage of revenue basis, to obtain a license to utilize the technology.

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

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 expenditure is 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 Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

3. Significant accounting policies (continued)

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
Non-compete agreements	Life of agreement
Customer assets	5 to 12 years
Trademarks	15 years
Contract related assets	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 three months ended March 31, 2011, \$24,466 (Three months ended March 31, 2010 – \$22,190) 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 \$1,103 for the three months ended March 31, 2011 (Three months ended March 31, 2010 – \$533).

(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.

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Notes to Condensed Consolidated Interim Financial Statements
(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)

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(Unaudited)

3. Significant accounting policies (continued)

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

Asset	Rate
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 expenditure 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.

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.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

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(Unaudited)

3. Significant accounting policies (continued)

(i) Other non current liabilities

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

(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.

(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.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

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(Unaudited)

3. Significant accounting policies (continued)

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 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 (the "cash-generating unit, or CGU"). 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. Corporate assets and liabilities are allocated to the CGUs based on a percentage of their maintenance revenue.

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 units, and then to reduce the carrying amounts of the other assets in the unit (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 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 finance cost.

(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, License, Hardware, Professional Services and Maintenance.

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Notes to Condensed Consolidated Interim Financial Statements

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3. Significant accounting policies (continued)

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 licence 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 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 are accounted for as product revenue. Product revenue is recognized when the Company has an executed agreement, the product has been delivered, 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 is recognized on a straight-line basis over the term of the subscription contract. Revenue not recognized in profit or loss under this policy is classified 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 transaction 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 makes some estimates in the calculation of future contract costs and related profitability, 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.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

3. Significant accounting policies (continued)

(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.

(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

Investment tax credits are accounted for as a reduction of the related 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 that the credit will be realized.

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(Unaudited)

3. Significant accounting policies (continued)

(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 above, are allocated 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 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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4. Business acquisitions

2011

- (a) During the three months ended March 31, 2011, the Company made two acquisitions for aggregate cash consideration of \$9,000 plus cash holdbacks of \$2,041, of which \$1,390 is held in escrow, resulting in total consideration of \$11,041. Of the two acquisitions the Company acquired 100% of the shares of one company and acquired the net assets of the other company. The holdbacks are payable over a one-year period and are adjusted for claims under the representations and warranties of the agreements. The acquisitions include software companies catering to the agri-business and supply chain optimisation both of which are software businesses similar to existing businesses. The acquisitions have been accounted for using the acquisition method with the results of operations included in these condensed consolidated interim financial statements from the date of each acquisition. Due to the complexity and timing of certain acquisitions, the Company is still in the process of resolving the fair value of the assumed net tangible assets and liabilities acquired as part of the acquisitions. The following table summarizes, by reportable segment, the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of each acquisition:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Accounts receivable	680	565	1,245
Other current assets	197	54	251
Property and equipment	166	4	170
Technology assets	6,779	1,344	8,123
Customer assets	4,607	628	5,235
	12,429	2,595	15,024
Liabilities assumed:			
Current liabilities	18	33	51
Deferred revenue	3,270	662	3,932
	3,288	695	3,983
Total purchase price consideration	\$ 9,141	\$ 1,900	\$ 11,041

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.

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4. Business acquisitions (continued)

- (b) During the three months ended March 31, 2010, the Company made five acquisitions for aggregate cash consideration of \$18,468 plus cash holdbacks of \$2,192 resulting in total consideration of \$20,660. Holdbacks of \$2,163 have subsequently been paid. The acquisitions include software companies catering to the pulp and paper, tourism and attractions, schools, catalog, and public transit markets, all of which are software businesses similar to existing businesses. The acquisitions have been accounted for using the acquisition method with the results of operations included in these condensed consolidated interim financial statements from the date of each acquisition. The following table summarizes by reportable segment the aggregate estimated fair value of the assets acquired and liabilities as well as deferred income taxes, assumed at the date of each acquisition:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	\$ 1,227	\$ 1,354	\$ 2,581
Accounts receivable	640	3,168	3,808
Other current assets	159	906	1,065
Property and equipment	125	269	394
Technology assets	3,244	10,982	14,226
Customer assets	1,928	3,668	5,596
Goodwill	786	-	786
	8,109	20,347	28,456
Liabilities assumed:			
Current liabilities	936	1,710	2,646
Deferred revenue	1,072	2,278	3,350
Deferred income taxes	1,235	506	1,741
Other long term liabilities	-	59	59
	3,243	4,553	7,796
Total purchase price consideration	\$ 4,866	\$ 15,794	\$ 20,660

- (c) Contingent consideration of \$3,061 (December 31, 2010 - \$2,944; January 1, 2010 - \$1,145) has been reported at its estimated fair value in the statement of financial position relating to various acquisitions since 2009. The maximum amount payable for this contingent consideration is \$5,423 based on the achievement of certain revenue targets.

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5. Equity securities available-for-sale

At March 31, 2011, the Company held investments in six (December 31, 2010 - three; January 1, 2010 - five) public companies listed in the U.K., 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.

	March 31, 2011		December 31, 2010		January 1, 2010	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Common shares	\$ 16,262	\$ 27,866	\$ 15,320	\$23,723	\$ 19,139	\$ 22,323

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6. Other Assets

	March 31, 2011	December 31, 2010	January 1, 2010
Prepaid assets	\$ 21,988	\$ 21,652	\$ 16,014
Investment tax credits recoverable	3,378	3,929	2,250
Notes receivable (ii)	-	-	3,833
Acquired contract assets	1,202	882	4,164
Total current	\$ 26,568	\$ 26,463	\$ 26,261
Restricted cash (i)	\$ 1,798	\$ 857	\$ 2,229
Investment tax credits recoverable	4,218	3,410	2,133
Long-term trade and other receivables	3,231	3,247	3,605
Share purchase warrants (ii)	-	-	200
Investment in associates	14,621	14,698	-
Acquired contract assets	1,601	1,336	5,712
Total non-current	\$ 25,469	\$ 23,548	\$ 13,879

(i) Restricted cash

Restricted cash is held in accordance with various escrow agreements related to prior and current 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 bear 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 constitutes a derivative, and accordingly, was valued separately from the value of the notes.

At December 31, 2009 the note component was recorded at amortized cost with an effective interest rate of 16.55%. 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 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.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

7. Bank indebtedness

The Company has an operating line-of-credit with a syndicate of Canadian chartered banks and a U.S. bank 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. It is secured by a general security agreement covering the majority of the assets of the Company and its subsidiaries, and is subject to various debt covenants. As at March 31, 2011, \$86,679 (December 31, 2010 - \$47,291; January 1, 2010 - \$43,100) had been drawn from this credit facility, and letters of credit totalling \$403 (December 31, 2010 - \$403; January 1, 2010 - nil) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. As the Company has consistently generated sufficient cash flows from operating activities to repay the drawn portion of the credit facility within one year and expects and has the intent to do so in the future, the amount drawn has been classified as a current liability on the statement of financial position. The Company capitalized transaction costs associated with the line-of-credit which are being amortized through profit or loss using the effective interest rate method. As at March 31, 2011, \$1,063 (December 31, 2010 - \$1,250; January 1, 2010 - \$1,947) of transaction costs are remaining. Following the Board of Directors decision on April 4, 2011 to undertake a review of strategic alternatives for the Company with the objective of enhancing shareholder value, the Company suspended negotiations of a new \$250,000 credit facility with a new syndicate of lenders that would have replaced the existing \$160,000 facility. There is no defined timeline for this strategic review and there can be no assurance that this review will result in any specific action. The negotiations for the new credit facility will not resume until the outcome of the review is completed.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

8. Provisions

	Restructuring	Other	Total
At January 1, 2010	\$ 6,290	\$ 2,022	\$ 8,312
Reversal	(4,765)	-	(4,765)
Provisions made during the period	-	847	847
Provisions used during the period	(1,064)	(1,010)	(2,074)
Effect of movements in foreign exchange	(45)	(22)	(67)
At December 31, 2010	\$ 416	\$ 1,837	\$ 2,253
At January 1, 2011	\$ 416	\$ 1,837	\$ 2,253
Provisions made during the period	-	93	93
Provisions used during the period	-	(44)	(44)
Effect of movements in foreign exchange	35	2	37
At March 31, 2011	\$ 451	\$ 1,888	\$ 2,339

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 employees terminated are development and production employees in Switzerland and the remaining workforce reductions are expected to be completed by the end of 2011.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

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(Unaudited)

9. Income taxes

Income tax expense is recognized based on management's best estimate of the actual income tax rate for the interim period applied to the pre-tax income of the interim period. As a result of foreign exchange fluctuations, acquisitions and ongoing changes to intercompany transactions, management has determined that is not meaningful to estimate a weighted average annual rate. The Company's consolidated effective tax rate in respect of continuing operating for the three months ended March 31, 2011 was negative 457 percent (Three months ended March 31, 2010 - negative 6 percent). The change in effective tax rate was primarily due to the transfer of certain intangible assets from one subsidiary to another during the period. A deferred tax assets was recorded on the increase in fair market value arising on the sale of assets between entities within the Company at the purchaser's tax rate notwithstanding that the gains are not otherwise recorded for financial reporting. The deferred income tax recovery recorded through profit or loss represents the amount of these deferred income tax deductions that the Company has determined is probable of being utilized for income tax deduction purposes in the future.

10. Capital and other components of shareholders' equity

Capital stock

The authorized share capital of the Company 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. 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
March 31, 2011 and December 31, 2010	17,503,530	\$ 86,794	3,688,000	\$ 12,489	21,191,530	\$ 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.

Unrealized gains/losses on 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 three months ended March 31, 2011, the Company declared and paid dividends of \$2.00 per common and class A non-voting share (Three months ended March 31, 2010 - \$0.26 per share).

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

11. Revenue

	Three months ended March 31,	
	2011	2010
License revenue	\$ 15,211	\$ 11,082
Professional services revenue	41,789	41,150
Hardware & other revenue	24,007	16,791
Maintenance revenue	96,625	75,823
Total	\$ 177,632	\$ 144,846

12. Finance income and Finance costs

	Three months ended March 31,	
	2011	2010
Interest income	(34)	(238)
Other investments:		
Gain on sale of equity securities and other assets	(334)	(46)
Finance income	\$ (368)	\$ (284)
Interest expense	1,161	952
Finance cost	\$ 1,161	\$ 952

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

13. Earnings per share

Basic and diluted earnings per share

	Three months ended March 31,	
	2011	2010
Numerator:		
Net income	\$ 64,229	\$ 8,031
Denominator:		
Basic and diluted shares outstanding	21,192	21,192
Earnings per share		
Basic and diluted	\$ 3.03	\$ 0.38

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

14. 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 condensed consolidated interim 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* (note 3(p)). 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 on the conclusion that differences in economic cycles and procedures for securing contracts between governmental clients and commercial clients are significant enough to warrant 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.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

14. Operating Segments (continued)

Three months ended March 31, 2011	Public Sector	Private Sector	Other	Consolidated Total
Revenue	\$ 130,950	\$ 46,682	\$ -	\$ 177,632
Expenses				
Staff	68,971	26,948	-	95,919
Hardware	10,482	1,639	-	12,121
Third party license, maintenance and professional services	8,865	3,798	-	12,663
Occupancy	3,275	1,313	-	4,588
Travel	4,922	1,346	-	6,268
Telecommunications	1,785	752	-	2,537
Supplies	3,501	662	-	4,163
Professional fees	1,568	568	-	2,136
Other	942	1,261	-	2,203
Income before the undernoted	26,639	8,395	-	35,034
Depreciation	1,693	433	-	2,126
Amortization	13,810	4,715	-	18,525
Foreign exchange	636	1,171	258	2,065
Finance income	(9)	(19)	(340)	(368)
Finance costs	60	39	1,062	1,161
Inter-company expenses (income)	4,260	1,985	(6,245)	-
	20,450	8,324	(5,265)	23,509
Profit before tax	6,189	71	5,265	11,525
Current income tax expense (recovery)	2,830	754	(576)	3,008
Deferred income tax recovery	(37,733)	(17,499)	(480)	(55,712)
Income tax recovery	(34,903)	(16,745)	(1,056)	(52,704)
Net income	\$ 41,092	\$ 16,816	\$ 6,321	\$ 64,229

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

14. Operating Segments (continued)

Three months ended March 31, 2010	Public Sector	Private Sector	Other	Total
Revenue	\$ 111,177	\$ 33,669	\$ -	\$ 144,846
Expenses				
Staff	66,191	20,128	-	86,319
Hardware	8,529	808	-	9,337
Third party license, maintenance and professional services	5,525	2,137	-	7,662
Occupancy	2,843	1,093	-	3,936
Travel	4,269	990	-	5,259
Telecommunications	1,770	581	-	2,351
Supplies	2,179	505	-	2,684
Professional fees	734	516	-	1,250
Other	1,100	1,106	-	2,206
Income before the undernoted	18,037	5,805	-	23,842
Depreciation	959	287	-	1,246
Amortization	11,864	3,094	-	14,958
Foreign exchange	384	969	(1,932)	(579)
Finance income	(45)	(45)	(194)	(284)
Finance costs	15	35	902	952
Inter-company expenses (income)	978	962	(1,940)	-
	14,155	5,302	(3,164)	16,293
Profit before tax	3,882	503	3,164	7,549
Current income tax expense (recovery)	3,382	955	(742)	3,595
Deferred income tax recovery	(2,545)	(927)	(605)	(4,077)
Income tax expense (recovery)	837	28	(1,347)	(482)
Net income	\$ 3,045	\$ 475	\$ 4,511	\$ 8,031

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2011 and 2010

(Unaudited)

15. 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, labor, 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.

On September 30, 2008, the Company acquired certain assets and liabilities of Maximus Inc.'s Asset, Justice, and Education Solutions businesses ("MAJES"). The Company also acquired certain long-term contracts that contain contingent liabilities that may, but are unlikely to, exceed \$13,000 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 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 plan to contest 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.

On November 2, 2009, the Company acquired certain assets and liabilities of the 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 \$3,000 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.

16. Changes in non-cash operating working capital

	Three months ended March 31,	
	2011	2010
Increase in accounts receivable	\$ (2,001)	\$ (164)
Increase in work in progress	(2,178)	(1,331)
Decrease (increase) in inventory	(1,873)	228
Decrease (increase) in other assets	33	(1,508)
Change in acquired contract assets and liabilities	(6,937)	155
Decrease in accounts payable and accrued liabilities	(24,699)	(23,106)
Increase in deferred revenue	24,279	15,281
	<u>\$ (13,376)</u>	<u>\$ (10,445)</u>

CONSTELLATION SOFTWARE INC.

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

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(Unaudited)

17. Subsequent events

Subsequent to March 31, 2011, the Company acquired the net assets of four separate entities for aggregate cash consideration of \$9,903 on closing plus cash holdbacks of \$1,408. In addition, in one of the acquisitions there is contingent consideration payable in the maximum amount of \$4,450 based on the achievement of certain revenue targets in the post-acquisition period. In two of the acquisitions there is contingent consideration payable based on the amount that certain financial measures exceed predetermined levels in the post-acquisition period. The business acquisitions include companies catering to moving and storage, public and private golf courses, local government and courts, all of which are software businesses similar to existing businesses. Two of the business acquisitions will be included in our public segment and two within our private segment.

18. Explanation of transition to IFRS

As stated in note 2, these are the Company's first condensed consolidated interim financial statements prepared in accordance with IAS 34.

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

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously 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.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Unaudited)

18. Explanation of transition to IFRS (continued)

Reconciliation of financial position and shareholders' equity

January 1, 2010

	Notes	Previous Canadian GAAP (reclassified, note a)	Adjustments	IFRS
Assets				
Current assets:				
Cash		\$ 33,249	\$ -	\$ 33,249
Equity securities available for sale		22,323	-	22,323
Accounts receivable	c	91,244	4,748	95,992
Work in progress	c	21,349	1,167	22,516
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	14,600	1,165	15,765
Other assets	c,e	13,478	401	13,879
Intangible assets	c,e,g,h	226,818	(4,579)	222,239
Total assets		\$ 472,637	\$ 2,133	\$ 474,770
Liabilities and Shareholders' Equity				
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
Other liabilities	c	3,751	6	3,757
		290,104	(3,705)	286,399
Non-current liabilities				
Deferred income taxes	c,j	28,121	(814)	27,307
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
		73,829	1,515	75,344
Shareholders equity:				
Capital stock		99,283	-	99,283
Accumulated other comprehensive loss	e	(157)	3,161	3,004
Retained earnings		9,578	1,162	10,740
		108,704	4,323	113,027
Total liabilities and shareholders' equity		\$ 472,637	\$ 2,133	\$ 474,770

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Unaudited)

18. Explanation of transition to IFRS (continued)

March 31, 2010

	Notes	Previous Canadian GAAP (reclassified, note a)	Adjustments	IFRS
Assets				
Current assets:				
Cash		\$ 26,397	-	\$ 26,397
Equity securities available for sale		21,230	-	21,230
Accounts receivable	c	103,669	5,084	108,753
Work in progress	c	23,074	1,219	24,293
Inventory	c	14,167	10	14,177
Other assets	c	27,967	33	28,000
		216,504	6,346	222,850
Non-current assets:				
Property and equipment	c,e,f	11,627	(2,586)	9,041
Deferred income taxes	c,j	15,354	1,646	17,000
Other assets	c,e	21,676	198	21,874
Intangible assets	c,d,e,g,h	233,211	(4,983)	228,228
		\$ 498,372	\$ 621	\$ 498,993
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank indebtedness	h	58,565	(1,771)	56,794
Accounts payable and accrued liabilities	c,e	74,373	(3,806)	70,567
Deferred revenue	c,e	159,476	2,767	162,243
Provisions		3,133	-	3,133
Acquired contract liabilities		8,430	-	8,430
Acquisition holdback payments	c	5,718	386	6,104
Other liabilities		3,280	-	3,280
		312,975	(2,424)	310,551
Non-current liabilities				
Deferred income taxes	c,j	28,353	(1,326)	27,027
Acquired contract liabilities	c,e	32,779	6,515	39,294
Acquisition holdback payments		2,054	-	2,054
Other liabilities	c,d	11,913	(7,806)	4,107
		75,099	(2,617)	72,482
Shareholders equity:				
Capital stock		99,283	-	99,283
Accumulated other comprehensive loss	e,f	634	2,783	3,417
Retained earnings		10,381	2,879	13,260
		110,298	5,662	115,960
		\$ 498,372	\$ 621	\$ 498,993

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Unaudited)

18. Explanation of transition to IFRS (continued)

December 31, 2010

	Notes	Previous Canadian GAAP (reclassified, note a)	Adjustments	IFRS
Assets				
Current assets:				
Cash		\$ 30,911	-	\$ 30,911
Equity securities available for sale		23,723	-	23,723
Accounts receivable		92,097	-	92,097
Work in progress		24,408	-	24,408
Inventory		15,945	-	15,945
Other assets		26,463	-	26,463
		213,547	-	213,547
Non-current assets:				
Property and equipment	<i>e,f</i>	16,430	(2,961)	13,469
Deferred income taxes	<i>j</i>	26,390	780	27,170
Other assets	<i>e</i>	24,519	(971)	23,548
Intangible assets	<i>d,e,g,h</i>	273,009	(3,022)	269,987
		\$ 553,895	\$ (6,174)	\$ 547,721
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank indebtedness	<i>h</i>	47,291	(1,250)	46,041
Accounts payable and accrued liabilities		104,905	-	104,905
Deferred revenue	<i>e</i>	157,240	785	158,025
Provisions		2,253	-	2,253
Acquired contract liabilities		10,908	-	10,908
Acquisition holdback payments		6,920	-	6,920
Other liabilities		1,424	-	1,424
		330,941	(465)	330,476
Non-current liabilities				
Deferred income taxes	<i>j</i>	30,915	(1,304)	29,611
Acquired contract liabilities	<i>e</i>	33,924	1,709	35,633
Acquisition holdback payments		2,744	-	2,744
Other liabilities	<i>d</i>	4,962	1,244	6,206
		72,545	1,649	74,194
Shareholders equity:				
Capital stock		99,283	-	99,283
Accumulated other comprehensive loss	<i>e,f</i>	5,292	2,283	7,575
Retained earnings		45,834	(9,641)	36,193
		150,409	(7,358)	143,051
		\$ 553,895	\$ (6,174)	\$ 547,721

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Unaudited)

18. Explanation of transition to IFRS (continued)

Reconciliation of profit for the three months ended March 31, 2010

	Notes	Canadian GAAP (reclassified note b)	IFRS adjustments	IFRS
Revenue	<i>i</i>	\$ 143,893	953	\$ 144,846
Expenses				
Staff	<i>i</i>	85,366	953	86,319
Hardware		9,337	-	9,337
Third party license, maintenance and professional services		7,662	-	7,662
Occupancy		3,936	-	3,936
Travel		5,259	-	5,259
Telecommunications		2,351	-	2,351
Supplies		2,684	-	2,684
Professional fees		1,250	-	1,250
Other	<i>d</i>	2,190	16	2,206
Income before the undernoted		23,858	(16)	23,842
Depreciation	<i>f</i>	1,047	199	1,246
Amortization of intangible assets	<i>g</i>	15,119	(161)	14,958
Foreign exchange	<i>e</i>	91	(670)	(579)
Finance income		(284)	-	(284)
Finance expense	<i>d</i>	917	35	952
		16,890	(597)	16,293
Income before taxes		6,968	581	7,549
Current income tax expense		3,595	-	3,595
Deferred income tax recovery	<i>j</i>	(2,941)	(1,136)	(4,077)
Income tax expense (recovery)		654	(1,136)	(482)
Net income		\$ 6,314	1,717	\$ 8,031
Net changed in fair value on available-for-sale financial assets during the period		2,074	-	2,074
Net unrealized foreign exchange adjustment loss on available-for-sale financial assets during the period		(351)	-	(351)
Reclassification of unrealized gain upon derecognition of available-for-sale investments		(696)	-	(696)
Deferred tax expense on unrealized net gains noted above		(604)	-	(604)
Foreign currency translation differences from foreign operations	<i>e</i>	368	(378)	(10)
Other comprehensive income for the period, net of income tax		791	(378)	413
Total comprehensive income for the period		\$ 7,105	\$ 1,339	\$ 8,444
Earnings per share				
Basic and diluted		\$ 0.30	\$ 0.08	\$ 0.38

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Unaudited)

18. Explanation of transition to IFRS (continued)

Reconciliation of profit for the year ended December 31, 2010

	Notes	Canadian GAAP (reclassified note b)	IFRS adjustments	IFRS
Revenue	<i>i</i>	\$ 630,857	\$ 3,108	\$ 633,965
Expenses				
Staff	<i>i</i>	353,431	3,108	356,539
Hardware		45,109	-	45,109
Third party license, maintenance 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	<i>d</i>	9,764	11	9,775
Income before the undernoted		116,429	(11)	116,418
Depreciation	<i>f</i>	6,036	720	6,756
Amortization of intangible assets	<i>g</i>	69,367	(1,441)	67,926
Foreign exchange	<i>e</i>	2,387	966	3,353
Finance income		(1,241)	-	(1,241)
Finance expense	<i>d</i>	5,610	173	5,783
Bargain purchase gain	<i>c</i>	-	(1,745)	(1,745)
		82,159	(1,327)	80,832
Income before taxes		34,270	1,316	35,586
Extraordinary gain	<i>c</i>	12,538	(12,538)	-
Current income tax expense		16,961	-	16,961
Deferred income tax recovery	<i>j</i>	(11,918)	(419)	(12,337)
Income tax expense (recovery)		5,043	(419)	4,624
Net income		\$ 41,765	(10,803)	\$ 30,962
Net change in fair value on available-for-sale financial assets during the period		6,071	-	6,071
Net unrealized foreign exchange adjustment gain on available-for-sale financial assets during the period		61	-	61
Reclassification of unrealized gain upon derecognition of available-for-sale investments		(733)	-	(733)
Deferred tax expense on unrealized net gains noted above		(1,260)	-	(1,260)
Foreign currency translation differences from foreign operations	<i>e</i>	1,310	(878)	432
Other comprehensive income for the period, net of income tax		5,449	(878)	4,571
Total comprehensive income for the period		\$ 47,214	(11,681)	\$ 35,533
Earnings per share				
Basic and diluted		\$ 1.97	(0.51)	\$ 1.46

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18. Explanation of transition to IFRS (continued)

Adjustments to the statement 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.

Notes to the reconciliations of the consolidated financial statements

- (a) In transitioning to IFRS, the Company has reclassified certain amounts within the consolidated statement of financial position.
- (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 unrestated 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 during the measurement period under Canadian GAAP. The statements of financial position under IFRS differs from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

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18. Explanation of transition to IFRS (continued)

	December 31, 2010	March 31, 2010	January 1, 2010
<i>Increase/(decrease) in:</i>			
Current assets:			
Accounts receivable	\$ -	\$ 5,084	\$ 4,748
Work in progress	-	1,219	1,167
Inventory	-	10	1,618
Other assets	-	33	(78)
Non-current assets:			
Property and equipment	-	(10)	(5)
Deferred income taxes	-	358	358
Other assets	-	2,107	2,404
Intangible assets	-	460	200
Current liabilities:			
Accounts payable and accrued liabilities	-	(3,794)	(8,716)
Deferred revenue	-	3,218	6,725
Acquisition holdback payments	-	386	-
Other liabilities	-	-	6
Non-current liabilities:			
Deferred income taxes	-	187	44
Acquired contract liabilities	-	7,388	7,727
Other liabilities	-	(8,917)	(6,167)
Increase in retained earnings	\$ -	\$ 10,793	\$ 10,793

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, is reported in the opening statement of financial position and, as a result, an extraordinary gain of \$10,793 which was reported under Canadian GAAP in profit or loss eliminated against retained earnings under IFRS.

Negative goodwill totalling \$1,745 has arisen on one of the 2010 acquisitions because the fair value of the separately identifiable assets and liabilities acquired exceeded the total consideration paid. Under Canadian GAAP this was reported as an extraordinary gain, while under IFRS it is reported as a bargain purchase gain.

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18. Explanation of transition to IFRS (continued)

- (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, 2010	March 31, 2010	January 1, 2010
<i>Increase/(decrease) in:</i>			
Intangible assets	\$ (86)	\$ (86)	\$ -
Accounts payable and accrued liabilities	-	-	12
Other non-current liabilities	1,244	1,111	1,134
Increase/(decrease) in retained earnings	\$ (1,330)	\$ (1,197)	\$ (1,146)

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

	Year ended December 31, 2010	Three months ended March 31, 2010
<i>Increase/(decrease) in:</i>		
Other expense	\$ 11	\$ 16
Finance expense	173	35
Decrease in income before income taxes	\$ 184	\$ 51

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18. Explanation of transition to IFRS (continued)

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

	December 31, 2010	March 31, 2010	January 1, 2010
<i>Increase/(decrease) in:</i>			
Current assets:			
Other assets	\$ -	\$ -	\$ 4
Non-current assets:			
Property and equipment	124	(26)	36
Other assets (non current)	279	(138)	(56)
Intangible assets	(552)	(1,693)	(954)
Current liabilities:			
Deferred revenue	785	(451)	215
Provisions	-	-	-
Non-current liabilities:			
Acquired contract liabilities (non current)	1,709	(873)	(365)
Cumulative translation account	(1,677)	(1,191)	(820)
Increase/(decrease) in retained earnings	\$ (966)	\$ 670	\$ -

The IFRS statement of comprehensive income differs from the amounts reported in the Canadian GAAP statement of operations by the following amounts.

	Year ended December 31, 2010	Three months ended March 31, 2010
<i>Increase/(decrease) in:</i>		
Foreign exchange	\$ 966	\$ (670)
Decrease (increase) in income before income taxes	\$ 966	\$ (670)

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.

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18. Explanation of transition to IFRS (continued)

- (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 reporting similar activity and transactions. The Company's depreciation policy is disclosed in note 3(f). The IFRS statement of financial position differs from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

	December 31, 2010	March 31, 2010	January 1, 2010
<i>Increase/(decrease) in:</i>			
Property and equipment	\$ (3,085)	\$ (2,550)	\$ (2,344)
Foreign currency translation adjustment	(21)	(7)	-
Increase/(decrease) in retained earnings	\$ (3,064)	\$ (2,543)	\$ (2,344)

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

	Year ended December 31, 2010	Three months ended March 31, 2010
<i>Increase/(decrease) in:</i>		
Depreciation	\$ 720	\$ 199
Decrease/(increase) in income before income taxes	\$ 720	\$ 199

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18. Explanation of transition to IFRS (continued)

- (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 Company's uniform intangible asset accounting policy is disclosed in note 3(d). The IFRS statements of financial position differs from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

	December 31, 2010	March 31, 2010	January 1, 2010
<i>Increase/(decrease) in:</i>			
Intangible assets	\$ (2,384)	\$ (3,664)	\$ (3,825)
Increase/(decrease) in retained earnings	\$ (2,384)	\$ (3,664)	\$ (3,825)

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

	Year ended December 31, 2010	Three months ended March 31, 2010
<i>Increase/(decrease) in:</i>		
Amortization of intangible assets	\$ (1,441)	\$ (161)
Decrease/(increase) in income before income taxes	\$ (1,441)	\$ (161)

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18. Explanation of transition to IFRS (continued)

- (h) Under Canadian GAAP direct costs associated with securing the Company's 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 (note 3 (c)). 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, 2010	March 31, 2010	January 1, 2010
<i>Increase/(decrease) in:</i>			
Other assets	\$ (1,250)	\$ (1,771)	\$ (1,947)
Bank indebtedness	(1,250)	(1,771)	(1,947)
Increase/(decrease) in retained earnings	\$ -	\$ -	\$ -

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18. Explanation of transition to IFRS (continued)

- (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. Consistent with the Company's accounting policy (note 3(l)), 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.

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

	Year ended December 31, 2010	Three months ended March 31, 2010
<i>Increase/(decrease) in:</i>		
Revenue	\$ 3,108	\$ 953
Staff expense	3,108	953
Decrease/(increase) in income before income taxes	\$ -	\$ -

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18. Explanation of transition to IFRS (continued)

- (j) Under IFRS, subsidiaries where functional currency is not their local currency, and have foreign-denominated non monetary assets, IFRS requires a deferred tax asset/liability to be recorded based on foreign exchange movements. Under Canadian GAAP this was not required. Additionally, the IFRS statements differ by the income tax effect of the IFRS adjustments discussed above. 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, 2010	March 31, 2010	January 1, 2010
<i>Increase/(decrease) in:</i>			
Contingent consideration (note d)	426	425	406
Property and equipment (note f)	304	219	193
Intangible assets (note g)	(21)	146	169
Foreign exchange on foreign-denominated non monetary assets (note j)	71	498	39
Deferred tax asset	780	1,288	807
Property and equipment (note f)	(678)	(590)	(555)
Intangible assets (note g)	(317)	17	7
Foreign exchange on foreign-denominated non monetary assets (note j)	(309)	(940)	(310)
Deferred tax liability	(1,304)	(1,513)	(858)
Increase/(decrease) in retained earnings	\$ 2,084	\$ 2,801	\$ 1,665

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

	Year ended December 31, 2010	Three months ended March 31, 2010
<i>Increase/(decrease) in:</i>		
Deferred income tax recovery	\$ (419)	\$ (1,136)
Decrease/(increase) in net income	\$ (419)	\$ (1,136)