Constellation Software Inc.

FINANCIAL REPORT

Fourth Quarter Fiscal Year 2010

For the three months and fiscal year ended
December 31, 2010

CONSTELLATION SOFTWARE INC.

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

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

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

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

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this MD&A, March 2, 2011. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-GAAP Measures

This MD&A includes certain measures which have not been prepared in accordance with Canadian GAAP such as Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted net income margin.

The term ''Adjusted EBITDA'' refers to net income before deducting interest, taxes, depreciation, other expenses (income), extraordinary gain, amortization, and foreign exchange loss (gain). The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and the other items listed above. ''Adjusted EBITDA margin'' refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

''Adjusted net income'' means net income plus non-cash expenses (income) such as amortization of intangible assets, future income taxes, and certain other expenses (income). The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration amortization of intangible assets, future income taxes, and certain other non-cash expenses (income) incurred by the Company from time to time. ''Adjusted net income margin'' refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITDA and Adjusted net income are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Adjusted EBITDA and Adjusted net income should not be construed as alternatives to net income determined in accordance with GAAP. The Company's method of calculating Adjusted EBITDA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted net income may not be comparable to similar measures presented by other issuers. See ''Results of Operations —Adjusted EBITDA'' and ''— Adjusted net income'' for a reconciliation of Adjusted EBITDA and Adjusted net income to net income.

Overview

We acquire, manage and build vertical market software ("VMS") businesses. Generally, these businesses provide mission critical software solutions that address the specific needs of our customers in particular markets. Our focus on acquiring businesses with growth potential, managing them well and then building them, has allowed us to generate significant cash flow and revenue growth during the past several years.

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

Cost of revenue consists primarily of the costs directly related to revenues including third party costs and internal costs related to the delivery of professional services, maintenance and the assembly of hardware. Cost of revenue is generally expected to increase in the future as a result of increases in revenue.

Research and development expenses include personnel and related costs associated with our research and development efforts.

Sales and marketing expenses consist primarily of personnel and related costs associated with our sales and marketing functions, including advertising, commissions, trade shows and other promotional materials.

General and administration expenses include personnel and related costs associated with the administration of our business, rental of office space, legal and professional fees and insurance.

Results of Operations

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

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

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

Revenue:

Total revenue for the quarter ended December 31, 2010 was $171 million, an increase of 30%, or $39 million, compared to $132 million for the comparable period in 2009. For the 2010 fiscal year, total revenues were $631 million, an increase of 44%, or $193 million, compared to $438 million for the comparable period in 2009. The increase for both the fourth quarter and the full year compared to the same periods in the prior year was almost entirely attributable to growth from acquisitions, as organic growth was 1% for the fourth quarter and negative 4% for the full year. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

Constellation acquired the Public Transit Solutions business ('PTS') from Continental Automotive AG ('Continental') on November 2, 2009. Given the substantial amount of non-recurring revenue historically earned by PTS, gross revenue from PTS has fluctuated significantly in the past and may continue to do so in the future. Revenue from PTS declined significantly in the twelve months following acquisition compared to revenue in the corresponding financial period preceding acquisition as PTS recognized substantial non-recurring revenue in the twelve months prior to acquisition. As such, management has chosen to provide supplemental organic growth disclosure to provide greater clarity regarding the impact of PTS on Constellation's consolidated financial results. Excluding PTS, organic growth for Constellation was 1% in Q4 2010 and 2% for 2010.

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

Organic Revenue Growth

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

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

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

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

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

The following table displays our revenue by reporting segment and the percentage change for the three and twelve months ended December 31, 2010 compared to the same periods in 2009:

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

Public Sector

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

Organic Revenue Growth

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

The organic revenue change was primarily driven by the following:

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

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

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

Private Sector

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

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

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

Gross Profit by Source:

The following table displays the breakdown of our gross profit by revenue source and as a percentage of total revenue:

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

Gross profit increased for the quarter ended December 31, 2010 to $100 million, or 58% of total revenue, from $78 million, or 59% of total revenue, for the quarter ended December 31, 2009. The increase in gross profit is attributable to the overall increase in total revenue. For the year ended December 31, 2010, our gross profit increased to $368 million or 58% of total revenue, from $271 million or 62% of total revenue for the comparable period in 2009. The decline in gross profit as a percentage of revenue for the full year 2010 compared to the full year 2009 is primarily due to lower margin revenues acquired in the PTS acquisition. Hardware and other revenue margins can fluctuate significantly, given the relatively small size of this category and its diverse product mix.

Operating Expenses:

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

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Year-Over-Year Change	
	2010	2009	$	%	2010	2009	$	%
	($000, except percentages)				($000, except percentages)			
Research and development	20,828	19,172	1,656	9%	84,880	65,632	19,248	29%
Sales and marketing	15,235	13,680	1,555	11%	58,310	45,174	13,136	29%
General and administration	30,942	23,141	7,801	34%	108,668	72,401	36,267	50%
Depreciation	1,888	1,105	783	71%	6,036	3,811	2,225	58%
	68,893	57,098	11,795	21%	257,894	187,018	70,876	38%

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

Research and development – Research and development expenses increased 9%, or $2 million, to $21 million for the quarter ended December 31, 2010 compared to $19 million for the same period in 2009. During the year ended December 31, 2010, research and development expense increased 29%, or $19 million, to $85 million, compared to $66 million over the same period in 2009. As a percentage of total revenue, research and development expense decreased by 3% from 15% in the quarter ended December 31, 2009 to 12% in the quarter ended December 31, 2010. As a percentage of total revenue, research and development expenses decreased by 2% from 15% in the year ended December 31, 2009 to 13% in the year ended December 31, 2010. The increase in expenses as a dollar amount for the three and twelve month periods is largely attributable to our growth in headcount from both acquisitions and hiring of additional employees. For Q4 2010, we averaged 889 staff compared to 775 in the same period in 2009, representing a 15% increase in headcount. Research and development expense in Q4 2010 compared to Q4 2009 did not increase proportional to headcount over the same period due to higher Research and Development tax credits received in Q4 2010 compared to Q4 2009. For the year ended December 31, 2010, we averaged 852 staff compared to 692 in the same period in 2009, representing a 23% increase in headcount. We do not have any capitalized software development costs. All of our software development costs are expensed as incurred.

Sales and marketing – Sales and marketing expenses increased 11%, or $1 million to $15 million, in the quarter ended December 31, 2010 compared to $14 million for the same period in 2009. During the year ended December 31, 2010, sales and marketing expense increased 29%, or $13 million, to $58 million, compared to $45 million during the same period in 2009. As a percentage of total revenue, sales and marketing expenses decreased to 9% in both the quarter and year ended December 31, 2010 from 10% compared to the same periods in 2009. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from both acquisitions and hiring of additional employees. For Q4 2010, we averaged 376 staff compared to 314 in the same period in 2009, representing a 20% increase in headcount. For the year ended December 31, 2010, we averaged 362 staff compared to 273 in the same period in 2009, representing a 33% increase in headcount.

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

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

Non-Operating Expenses:

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

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

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

Other expenses (income) – Other expense was $0.2 million for the quarter ended December 31, 2010 compared to other income of $0.4 million for the same period in the previous year. Other income was $0.2 million for the year ended December 31, 2010 compared to an expense of $1 million for the same period in the previous year. The decrease in other expense for the year ended December 31, 2010 is primarily due to a non-cash one time write-down of a UK sterling denominated investment that occurred in 2009. Although the investment was classified as available for sale, which requires fair value adjustments be recorded in other comprehensive income, it was determined that a holding loss relating to the depreciation of the UK sterling was other than temporary and as such a loss was recorded in the statement of operations for the decline in value of the investment relating to the depreciation of the UK sterling since the investment was made.

Interest expense – Net interest expense was $1.4 million for the quarter ended December 31, 2010 compared to $0.8 million for the same period in the previous year. For the year ended December 31, 2010, interest expense was $3.8 million compared to $2.7 million for the comparable period in 2009. The increase in interest expense for both periods is due to the increase in our borrowings under our existing line of credit to fund acquisitions.

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

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

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our tax rate is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses. For the quarter ended December 31, 2010, the income tax recovery was $2.0 million, compared to an expense of $2.5 million for the same period in 2009. For the year ended December 31, 2010, our income tax expense was $5.0 million, compared to $7.2 million in 2009. The decrease in tax expense for the quarter ended December 31, 2010 compared to the same period in 2009 was primarily due to an increase in future tax recovery resulting from timing differences relating to expenses deducted for accounting purposes but not deducted for tax purposes in the current period. The decrease in tax expense for the year ended December 31, 2010 compared to the same period in 2009 is primarily due to the large future tax recovery recorded in Q4 2010.

Net Income:

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

Adjusted EBITDA:

For Q4 2010, Adjusted EBITDA increased by $11 million to $33 million from $22 million in Q4 2009. Adjusted EBITDA margin was 19% in the fourth quarter of 2010 versus 17% in the comparable period in 2009. The increase in Adjusted EBITDA margin for the quarter ended December 31, 2010 is largely due to the improvement in the EBITDA margin in the PTS business in Q4 2010 compared to Q4 2009. For the year ended December 31, 2010, Adjusted EBITDA increased by $28 million to $116 million compared to $88 million in 2009, representing an increase of 32%. Adjusted EBITDA margin was 18% in 2010 compared to 20% in 2009. The decrease in Adjusted EBITDA margin for the year ended December 31, 2010 is largely due to the full year impact of the lower margin PTS business acquired in Q4 2009 and also due to the appreciation of the Canadian dollar vs. the U.S. dollar in 2010 versus 2009, as a significant amount of our operating expenses are originated in Canadian dollars. See "Non-GAAP measures" for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

	Three months ended December 31, 2010	Three months ended December 31, 2009	Fiscal year ended December 31, 2010	Fiscal year ended December 31, 2009
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 171,468	$ 131,894	$ 630,857	$ 437,940
Net income (loss)	17,893	(10)	41,766	10,224
Add back:				
Income taxes	(1,984)	2,523	5,043	7,237
Extraordinary gain	(9,021)	-	(12,538)	-
Foreign exchange loss	2,347	1,944	2,387	2,568
Interest expense, net	1,353	794	3,847	2,702
Other expenses (income)	218	(445)	(175)	996
Amortization of intangible assets	20,050	16,317	70,064	60,588
Depreciation	1,888	1,105	6,036	3,811
Adjusted EBITDA	32,744	22,228	116,430	88,126
Adjusted EBITDA margin	19%	17%	18%	20%

Adjusted net income:

For Q4 2010, Adjusted net income increased by $8 million to $23 million compared to $15 million in Q4 2009, representing an increase of 57%. Adjusted net income margin was 13% in the fourth quarter of 2010, compared to 11% of total revenue for the same period in 2009. The increase in Adjusted net income margin in Q4 2010 as compared to Q4 2009 is primarily due to an increase in Adjusted EBITDA. For the year ended December 31, 2010, Adjusted net income increased by $25 million to $87 million compared to $62 million during the same period in 2009, representing an increase of 40%. Adjusted net income margin was 14% in 2010 and 2009. See "Non-GAAP Measures" for a description of Adjusted net income and Adjusted net income margin.

The following table reconciles Adjusted net income to net income:

	Three months ended December 31, 2010	Three months ended December 31, 2009	Fiscal year ended December 31, 2010	Fiscal year ended December 31, 2009
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 171,468	$ 131,894	$ 630,857	$ 437,940
Net income (loss)	17,893	(10)	41,766	10,224
Add back:				
Amortization of intangible assets	20,050	16,317	70,064	60,588
Extraordinary gain	(9,021)	-	(12,538)	-
Future income taxes (recovery)	(5,911)	(1,649)	(11,918)	(8,398)
Adjusted net income	23,011	14,658	87,374	62,414
Adjusted net income margin	13%	11%	14%	14%

Quarterly Results

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

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

Acquisition of PTS from Continental

On November 2, 2009, Constellation acquired PTS from Continental for gross cash consideration of $3 million. The purchase price was a small percentage of PTS' annualized revenues, reflecting its recent history of negative cash flows. PTS is not considered a reportable operating segment of Constellation, however management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of PTS until such time as it becomes consistently cash flow positive.

Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and purchase contract accounting under GAAP may result in reported earnings that differ materially from cash flow from operations. A significant amount of working capital was acquired with the PTS business which may have a material positive impact on cash flow from operations should we be able to reduce the level of working capital required in the business.

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

As of the date of acquisition, Constellation recorded a restructuring provision of $2 million to realign operations with the future prospects of the acquired business. The majority of the restructuring charge relates to severance costs. The $0.4 million balance of the restructuring provision is included in accounts payable and accrued liabilities in the December 31, 2010 balance sheet.

A number of acquired contracts were recorded at their estimated fair value as of the date of acquisition. Under this treatment, excess profits or costs relative to normalized profitability are recorded as contract assets or liabilities and amortized against revenues over the remaining life of the contract. As a result, the revenue and costs of these contracts reflected in the statement of operations will differ from the revenue and costs that would have been recognized under normal course percentage of completion accounting and will differ from the underlying operating cash flow associated with these contracts had we recognized these contracts since their inception. The impact on cash flows will be reflected in the statement of cash flow from operating activities.

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

In Q3 2010, the Company received an assessment, from a neutral accounting firm, of the value of certain tangible net assets acquired as part of the PTS acquisition, in order to resolve an existing dispute between the Company and Continental AG. The findings indicated a reduction in the purchase price of approximately $6.8 million. The Company received payment from Continental AG on October 1, 2010. The amount was recorded as a receivable as at September 30, 2010 and the opening balance sheet was adjusted as part of the purchase price allocation.

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

Acquisition of certain software assets and liabilities from MAXIMUS Inc.

On September 30, 2008, Constellation acquired certain assets and liabilities of MAXIMUS Inc.'s Asset, Justice, and Education businesses ('MAJES') for net cash consideration of $34 million.

As part of the MAJES acquisition, Constellation also assumed certain long-term contracts that contain contingent liabilities that may, but in management's opinion are unlikely to, exceed $13 million in the aggregate. The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by MAJES and for estimated damages available to customers for breaches of such contracts by MAJES where such contracts did not contain specified penalties. The contingent liabilities represent the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

Supplemental Financial Information for MAJES and PTS

The table below provides certain supplemental statement of operations and cash flow information regarding MAJES and PTS for the three months and year ended December 31, 2010. MAJES and PTS are not considered reportable operating segments of Constellation; however, management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of each business. Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and contract accounting under GAAP may result in reported earnings that differ materially from cash flow from operations. Certain contracts acquired as part of the MAJES business are being accounted for using the completed contract method of accounting. As a result, the revenue and costs on these contracts will not be reflected in the statement of operations until such contracts and related obligations are complete. Over the course of the remaining term of the applicable contracts, the impact on cash flows will be reflected in the statement of cash flows from operating activities.

Statement of Operations
For the three months and year ended December 31, 2010

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

Cash flow from operating activities
For the three months and year ended December 31, 2010

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

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

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

Liquidity

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

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

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

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

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

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

The net cash used in investing activities in the year ended December 31, 2010 was $104 million. The cash used in investing activities was primarily used for acquisitions for an aggregate of $83 million (including payments/receipts for holdbacks/refunds relating to prior acquisitions), and $20 million in additions to short term investments, marketable securities and other assets.

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

Capital Resources and Commitments

We have a $160 million credit facility that is collateralized by substantially all of our assets including the assets of the majority of our material Canadian and U.S. subsidiaries. Certain other subsidiaries also guarantee this facility. The facility is available for acquisitions, working capital needs, and other general corporate purposes and for the needs of our subsidiaries. As of December 31, 2010, we had drawn $47 million on this facility. We are currently negotiating a new $250 million credit facility with a syndicate of lenders that will replace our existing $160 million facility.

Commitments include operating leases for office equipment and facilities, bank guarantees, and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with "earn out" payments based on the future performance of the acquired business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in unconsolidated companies (aside from our shareholdings in publicly traded companies included in our short term investments and our equity investment included in other long term assets) that would have a significant effect on our assets and liabilities as at December 31, 2010.

(in milloins of dollars)

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

Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact could significantly affect future net earnings. Currently, we do not use hedging techniques to mitigate such currency risks. We cannot predict the effect of foreign exchange losses in the future;

however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, results of operations, and financial condition.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue/expenses, as applicable, for the three and twelve month periods ending December 31, 2010:

	Three Months Ended Dec 31,2010		Full Year ended Dec 31, 2010	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	65%	49%	68%	53%
CAD	11%	25%	10%	24%
GBP	9%	10%	8%	10%
CHF	6%	11%	6%	10%
EURO	6%	1%	4%	0%
Others	3%	4%	4%	3%
Total	100%	100%	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases, bank guarantees, and letters of credit, all of our commitments are reflected on our balance sheet.

Transactions with Related Parties

Aside from our Key Employee Loan Program ("KELP"), we had no material related party transactions during 2010. The outstanding balance of loans granted under the KELP as of December 31, 2010 was $0.5 million as compared to $0.6 million as of December 31, 2009.

Proposed Transactions

We seek potential acquisition targets on an ongoing basis and may complete several acquisitions in any given fiscal year.

Critical Accounting Estimates

General

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

Our significant accounting policies are fully described in Note 1 to our annual consolidated financial statements which are available on SEDAR (www.sedar.com). We did not change our accounting policies or initially adopt new or different accounting policies during the year ended December 31, 2010, except as follows: On January 1, 2010 we adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook (CICA Handbook) Section 1582, "Business Combinations", Section 1601 "Consolidated financial statements" and Section 1602, "Noncontrolling interests in Consolidated Financial Statements".

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

Revenue Recognition

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

Software license revenue is comprised of license fees charged for the use of our software products generally licensed under single-year, multiple-year or perpetual arrangements in which the fair value of the license fee is separately determinable from maintenance and/or professional service fees. For license arrangements that do not require significant modifications or customization of the software, we recognize software license revenue when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed or determinable, and collection of the resulting receivable is probable.

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

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

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

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

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

For arrangements that do not meet the criteria described above, both license revenues and professional services revenues are recognized using the percentage-of-completion method where reasonably dependable estimates of progress toward completion of a contract can be made and the services are deemed essential to the bundled arrangement. We estimate the percentage-of-completion on contracts utilizing costs incurred to date as a percentage of the total costs at project completion. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to earnings in the period in which the facts that give rise to the revision become known. It should be noted that the majority of our license and professional services revenue are recognized under the percentage of completion method.

If the estimated costs to complete cannot be reasonably estimated, the completed-contract method of revenue recognition is used. A number of contracts acquired as part of the MAJES acquisition are accounted for using the completed-contract method of accounting.

Valuation of Identifiable Goodwill and Other Intangible Assets

Beginning in 2010, we account for our business acquisitions under the acquisition method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. As part of this fair value process, we must identify and attribute values and estimated lives to the intangible assets acquired. These determinations will affect the amount of amortization expense recognized in future periods.

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

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

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

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

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

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

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

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

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

Accounting for Income Taxes

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

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

Accounts Receivable

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

Work In Progress

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

Contingencies

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

Recent Accounting Pronouncements

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS)

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

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

Transition project

We have initiated an IFRS transition project with a formal and detailed project plan. A project team consisting of senior management from our head office and operating groups are engaged on the project. We have also engaged external IFRS consultants. Regular reporting is provided to our senior executive management team and to our Audit Committee on the project's progress.

The table below illustrates key elements of our transition plan, our major milestones and status as at December 31, 2010. Our transition plan is organized in phases over time and by area.

Activities	**Milestones**	**Status**
Financial reporting:		
• Identification of differences between Canadian GAAP and IFRS applicable to the Company. • Selection of IFRS accounting policies and IFRS 1 elections. • Quantification of differences between Canadian GAAP and IFRS. • Development of IFRS financial statement format,	• Analysis of significant differences. • Senior management and Audit Committee approval of financial statements format, including notes. • Quantification of transition effects on the 2010 opening balance sheet by Q4 2010 and 2010 comparative period by Q1 2011.	• Identification of differences and selection of IFRS accounting policies and elections completed in 2010. • Approval by senior management and the Audit Committee of the Q1 2011 financial statement format, including applicable notes and reconciliations, to occur in 2011. • Quantification of IFRS impact

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

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

Impact of transition

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

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

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

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

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

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

Changes in accounting policies

The changes listed below are the key areas where changes in accounting policies under IFRS are expected to impact our consolidated financial statements. The individual amounts disclosed, which are estimates based on management's current expectations, are on a pre-tax basis and the tax impact of all changes are discussed on an overall basis. Additionally, we have highlighted various standards under IFRS where multiple acceptable alternatives are available and have identified the alternatives we have chosen in the context of our business. The list and comments are intended to highlight those areas for which we currently believe the impact to be most significant and should not be regarded as a complete list of estimated changes that will result from our transition to IFRS.

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

Upon transition, an entity is required to apply IFRS on a retrospective basis. However, IFRS 1 has certain mandatory exceptions, as well as limited optional exemptions, in specific areas of certain standards that do not require retrospective application of IFRS. The following discusses the significant exemptions which we expect to apply in preparing our consolidated financial statements under IFRS:

Business combinations

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

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

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

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

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

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

Contingent consideration

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

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

Cumulative translation differences

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

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

IFRS to Canadian GAAP differences:

Foreign currency translation

Under IFRS, there are various indicators to be considered in determining the appropriate functional currency of an entity. When the indicators are mixed and the functional currency is not obvious, priority should be given to indicators that have a greater weighting, such as primary indicators including the currency that most influences sales prices, the currency of the market in which the goods are sold, and the currency that mainly influences expenses. Canadian GAAP has similar indicators as IFRS in determining functional currency. However, Canadian GAAP does not have a defined hierarchy of indicators under which certain indicators are given priority.

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

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

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

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

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

Revenue recognition

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

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

Amortization of property and equipment, and finite life intangible assets

Under IFRS uniform accounting policies must be used for reporting like transactions. With input from our Operating Groups we have developed uniform accounting policies. The conforming of these accounting policies resulted in a decrease to the useful life of some of our fixed assets and finite life intangible assets. IFRS requires that we retrospectively apply this change, the result being a decrease in the net book value of our depreciable assets and a decrease in our retained earnings.

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

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

Transaction costs associated with the Company's line of credit

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

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

Income taxes

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

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

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

Other differences between IFRS and Canadian GAAP

Provisions

Under IFRS a provision is recognized in the financial statements if it is probable. Probable is defined under IFRS as “more likely than not”. This is a lower threshold than “likely” under Canadian GAAP. Currently, we have approximately $17 million in contingent liabilities disclosed in our financial statements. As at December 31, 2010, we do not expect that any of these liabilities will meet the recognition thresholds for inclusion in our financial statements under IFRS.

Impairment of assets

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

Additionally, under IFRS, assets are tested separately for impairment, and where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a cash-generating unit “CGU”. A CGU is the lowest level of assets that generate largely independent cash inflows. The CGU is a lower level than under Canadian GAAP. This lower level grouping could result in identification of impairment more frequently under IFRS, but of potentially smaller amounts.

Except for goodwill, IFRS also requires reversal of impairments of long-lived assets where adverse circumstances have reversed. Under Canadian GAAP no reversals were permitted. The Company preliminarily assessed the carrying value of its assets in accordance with IAS 36 and found that no impairment losses are required to be recognized as at January 1, 2010.

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

Consolidated Balance Sheets

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

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

Consolidated Statement of Operations

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

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

Consolidated Statement of Comprehensive Income

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

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

Non-IFRS Measures

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

The term ''Adjusted EBITDA'' refers to net income before deducting interest, taxes, depreciation, other expenses (income), amortization, excess of fair value of net assets acquired over costs and foreign exchange (gain) loss. The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and the other items listed above. ''Adjusted EBITDA margin'' refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

''Adjusted net income'' means net income plus non-cash expenses (income) such as amortization of intangible assets, future income taxes, excess of fair value of net assets acquired over costs and certain other expenses (income). The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration amortization of intangible assets, future income taxes, and certain other non-cash expenses (income) incurred by the Company from time to time. ''Adjusted net income margin'' refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITDA and Adjusted net income are not recognized measures under IFRS and, accordingly, shareholders are cautioned that Adjusted EBITDA and Adjusted net income should not be construed as alternatives to net income determined in accordance with IFRS. The Company's method of calculating Adjusted EBITDA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted net income may not be comparable to similar measures presented by other issuers.

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

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

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

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

Share Capital

As at March 2, 2011, there were 21,191,530 total shares outstanding comprised of 17,503,530 common shares and 3,688,000 class A non-voting shares.

Outlook

As previously reported, management's objective was to grow each of our annual revenue per share and Adjusted EBITDA per share at an average rate, in the five year period commencing January 1, 2006 and ending

December 31, 2010, in excess of 20% per annum. Management achieved this objective by growing both revenue per share and Adjusted EBITDA per share at an average rate in excess of 20% per annum in the five year period commencing January 1, 2006. See "Forward-Looking Statements" and "Risks and Uncertainties".

Risks and Uncertainties

The risks and uncertainties affecting the Company are described in the Company's most recently filed AIF. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At December 31, 2010, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

Management is responsible for designing and maintaining internal controls over financial reporting as defined under National Instrument 52-109. At December 31, 2010, the President and Chief Financial Officer concluded that the design and operation of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework.

The President and CFO have evaluated whether there were changes to internal controls over financial reporting during the interim period ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. No such changes were identified.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING
December 31, 2010

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

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

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

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

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

March 2, 2011

Mark Leonard	John Billowits
President	Chief Financial Officer

KPMG LLP
Chartered Accountants
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Toronto ON M2P 2H3
Canada

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of Constellation Software Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations, comprehensive income, retained earnings and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Constellation Software Inc. as at December 31, 2010 and 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants licensed Public Accountants

March 2, 2011
Toronto, Canada

CONSTELLATION SOFTWARE INC.

Consolidated Balance Sheets
(In thousands of U.S. dollars)

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash	$ 30,911	$ 33,249
Short-term investments and marketable securities available for sale (note 5)	23,723	22,323
Accounts receivable	92,097	91,244
Work in progress	24,408	21,349
Inventory (note 6)	15,945	12,702
Prepaid expenses and other current assets (note 8)	22,052	19,606
Notes receivable (Note 7)	-	3,833
Investment tax credits recoverable	3,929	2,250
Future income taxes (note 18)	3,471	4,445
	216,536	211,001
Restricted cash (note 4)	857	2,229
Property and equipment (note 11)	16,430	10,539
Future income taxes (note 18)	22,919	10,155
Investment tax credits recoverable	3,410	2,133
Other long-term assets (note 8)	19,002	7,169
Intangible assets (note 12)	223,503	187,788
Goodwill (note 13)	50,756	40,977
	$ 553,413	$ 471,991
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 14)	$ 47,291	$ 43,100
Accounts payable and accrued liabilities (note 9)	118,066	111,307
Acquisition holdbacks	6,920	3,587
Deferred revenue	157,240	128,359
Income taxes payable (note 18)	1,424	3,751
	330,941	290,104
Future income taxes (note 18)	30,915	28,121
Other long-term liabilities (note 9)	41,630	45,708
Shareholders equity:		
Capital stock (note 15)	99,283	99,283
Shareholder loans (note 16)	(482)	(646)
Accumulated other comprehensive income (loss) (note 24)	5,292	(157)
Retained earnings	45,834	9,578
	149,927	108,058
Commitments and contingencies (note 25)		
Subsequent events (note 27)		
	$ 553,413	$ 471,991

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

CONSTELLATION SOFTWARE INC.

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

Years ended December 31, 2010 and 2009

	2010	2009
Revenue	$ 630,857	$ 437,940
Cost of revenue	262,569	166,607
	368,288	271,333
Research and development	84,880	65,632
Sales and marketing	58,310	45,174
General and administration	108,668	72,401
Depreciation	6,036	3,811
	257,894	187,018
Income before the undernoted	110,394	84,315
Amortization of intangible assets	70,064	60,588
Other (income) expenses (note 17)	(175)	996
Interest expense, net	3,847	2,702
Foreign exchange (gain) loss	2,387	2,568
Income before extraordinary gain and income taxes	34,271	17,461
Extraordinary gain (taxes - nil) (note 10(c),(e))	12,538	-
Income taxes (recovery) (note 18):		
Current	16,961	15,635
Future	(11,918)	(8,398)
	5,043	7,237
Net income	$ 41,766	$ 10,224
Income per share (note 19):		
Basic	$ 1.97	$ 0.48
Diluted	1.97	0.48
Weighted average number of shares outstanding (note 19):		
Basic	21,179	21,165
Diluted	21,192	21,192
Outstanding at the end of the period	21,192	21,192

See accompanying notes to consolidated financial statements.

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Retained Earnings
(In thousands of U.S. dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Retained earnings, beginning of year	$ 9,578	$ 3,931
Net income	41,766	10,224
Dividends	(5,510)	(4,577)
Retained earnings, end of year	$ 45,834	$ 9,578

Consolidated Statements of Comprehensive Income
(In thousands of U.S. dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Net income	$ 41,766	$ 10,224
Other comprehensive net income:		
Net unrealized mark-to-market adjustment gain (loss) on available-for-sale financial assets during the period	6,071	4,853
Net unrealized foreign exchange gain (loss) on available-for-sale financial assets during the period	61	426
Reclassification of unrealized gain upon derecognition of available-for-sale investments	(733)	-
Amounts reclassified to net income during the period related to other than temporary losses in available-for-sale investments	-	1,474
Future tax expense on unrealized net gains	(1,260)	-
Foreign currency translation adjustment	1,310	(9)
Comprehensive income	$ 47,215	$ 16,968

See accompanying notes to consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

Years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Net income	$ 41,766	$ 10,224
Adjustments to reconcile net income to net cash flows from operations:		
Depreciation	6,036	3,811
Amortization of intangible assets	70,064	60,588
Extraordinary gain (note 10(c),(e))	(12,538)	-
Non-cash interest	(217)	(167)
Future income taxes	(11,918)	(8,398)
Other	(62)	1,486
Foreign exchange loss	2,387	2,568
Change in non-cash operating working capital (note 23)	9,523	11,415
Cash flows from operating activities	105,041	81,527
Cash flows from (used in) financing activities:		
Increase (decrease) in other long-term liabilities	326	(661)
Increase (decrease) in bank indebtedness, net	4,191	(17,100)
Credit facility financing fees	(13)	(1,070)
Dividends paid	(5,510)	(4,577)
Repayment of shareholder loans (note 16)	207	362
Cash flows from (used in) financing activities	(799)	(23,046)
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired (note 10)	(90,627)	(37,905)
Post acquisition settlement (payments) receipts	7,697	(4,166)
Repayment of notes receivable	4,085	-
Acquisitions of short-term investments, marketable securities and other assets, net	(20,035)	(7,032)
Decrease (increase) in restricted cash	1,372	(1,479)
Decrease (increase) in other assets	52	(112)
Property and equipment purchased	(7,092)	(3,506)
Cash flows used in investing activities	(104,548)	(54,200)
Effect of foreign currency translation adjustment on cash and cash equivalents	(2,032)	(1,437)
Increase (decrease) in cash and cash equivalents	(2,338)	2,844
Cash, beginning of period	33,249	30,405
Cash, end of period	$ 30,911	$ 33,249
Supplemental cash flow information:		
Income taxes paid	$ 19,695	$ 15,526
Interest paid	4,558	3,663
Investment tax credits received	1,038	1,780
Interest received	723	752

See accompanying notes to consolidated financial statements.

Constellation Software Inc. (the "Company"), through its 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
- Paratransit operators
- School transportation
- Non-emergency medical
- Ride share
- Local government
- Criminal justice
- Law enforcement
- Agri-business
- Equipment rental
- Courts
- Asset management
- Electric utilities
- Water utilities
- Municipal systems
- School administration
- Public safety
- Healthcare
- Public housing authorities
- Housing finance agencies
- Real estate brokers
- Construction
- Private clubs and daily fee golf courses
- Attractions
- Food services
- Health clubs
- Van lines
- Metal centers
- Homebuilders
- Lease management
- Winery management
- Buy here pay here dealers
- RV and marine dealers
- Pulp and paper manufacturers
- Window manufacturers
- Cabinet manufacturers
- Made-to-order manufacturers
- Window and other dealers
- Multi-carrier shipping

1. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and all entities which are controlled by the Company, referred to as subsidiaries. Entities subject to significant influence are accounted for using equity accounting. All significant intercompany transactions and balances have been eliminated. During the year, the Company completed certain acquisitions as described in note 10 to these consolidated financial statements. The results of operations of these acquired companies have been included in these consolidated financial statements from the date of acquisition.

(b) Revenue recognition:

The Company earns revenue from licencing its products and providing related services, including professional services, maintenance and hardware.

The Company recognizes product revenue when it 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 collection of the related receivables is deemed probable from the outset of the arrangement.

Typically, software licence agreements are multiple element arrangements as they may also include maintenance, professional services, and hardware. The Company evaluates these contracts to determine whether the professional services are essential to the functionality of the software, and whether the software is essential to the functionality of the hardware. Revenue from arrangements that involve professional services that are not essential to the functionality of the software, or from arrangements where software is not essential to the functionality of the hardware, is allocated to each element based on either their relative fair values or by using the residual method and recognized when the above-noted revenue recognition criteria have been met for each element.

1. Significant accounting policies (continued):

Revenue from the licence of software products 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 either the percentage-of-completion method or if the estimated costs to complete cannot be reasonably estimated, the completed-contract method. Under the percentage-of-completion method, labour hours, costs directly related to the contract, including labour costs, or milestones are used as a measure of progress toward completion. Provisions for estimated contract losses are recognized in the year the loss becomes probable and can be reasonably estimated.

Professional services revenue is recognized as such services are performed. Maintenance and warranty revenue is recognized ratably over the term of the related maintenance agreement, which is normally one year.

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.

(c) Property and equipment:

Property and equipment are recorded at cost. Depreciation is calculated using the following methods and annual rates:

Asset	Basis	Rate
Computer hardware	Declining balance and straight line	25% - 33%
Computer software	Declining balance and straight line	25% - 100%
Furniture and equipment	Declining balance and straight line	20% - 30%
Leasehold improvements	Straight line	Shorter of the estimated useful life and the term of the lease
Building	Straight line	50 years

(d) Translation of foreign currency:

The Company's functional currency is the U.S. dollar. The Company translates transactions denominated in foreign currencies other than the U.S. dollar at the exchange rates in effect on the transaction dates. Monetary assets and liabilities of the Company denominated in foreign currencies are translated into U.S. dollars at the exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange gains and losses resulting from transactions denominated in currencies other than the U.S. dollar are included in the results of operations for the year.

1. Significant accounting policies (continued):

Self-sustaining subsidiaries, with economic activities largely independent of the Company, are accounted for using the current rate method. Under this method, assets and liabilities of subsidiaries denominated in a foreign currency are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the period. Resulting unrealized gains or losses are reported as net unrealized gains (losses) on translating financial statements of self-sustaining foreign operations, being the foreign currency translation adjustment, in the consolidated statements of comprehensive income.

The accounts of foreign subsidiaries, which are financially or operationally dependent on the Company, are accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and nonmonetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at average rates for the period. Translation exchange gains or losses of such subsidiaries are reflected in the results of operations for the year.

(e) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

The Company records an income tax expense or recovery based on the income earned or loss incurred in each tax jurisdiction and the substantively enacted tax rate applicable to that income or loss. In ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain. The final tax outcome of these matters may be different from the estimates originally made by management in determining the Company's income tax provisions. The Company recognizes a tax benefit when it is more-likely-than-not based on the Company's best estimate of the amount that will ultimately be realized. A change to those estimates could impact the income tax provision and net income.

(f) Research and development:

Research expenditures are expensed as incurred. Development costs are expensed in the year incurred unless management believes they meet the criteria set out under Canadian generally accepted accounting principles for deferral and amortization. To date, no development costs have been capitalized.

1. Significant accounting policies (continued):

(g) Investment tax credits:

Investment tax credits are accounted for as a reduction of the related expenditure for items of a current expense nature, being research and development expenses in the statement of operations, or as a reduction of property and equipment for items of a capital nature when the Company has reasonable assurance that the credit will be realized. As at December 31, 2010, investment tax credits recoverable totalled $7,339 (2009 - $4,383) and for the year ended December 31, 2010 investment tax credits received totalled $1,038 (2009 - $1,780).

(h) Investments:

Investments over which the Company does not have significant influence are classified as available-for-sale and are recorded at fair value, with temporary changes in value recognized as part of comprehensive income.

(i) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Company enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill as determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

The Company has tested goodwill for impairment at December 31, 2010 and 2009, and determined that no impairment in the carrying value of these assets existed.

1. Significant accounting policies (continued):

(j) Intangible assets:

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized on a straight-line basis, which best reflects the pattern of benefit or consumption, over their useful lives. The estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Technology assets	4 to 12 years
Non-compete agreements	Life of agreement
Customer assets	3 to 12 years
Trademarks	15 years
Backlog	Life of agreement
Contract related assets	Life of agreement

(k) Impairment of long-lived assets:

Long-lived assets, which comprise property and equipment and intangible assets, are amortized over their useful lives. The Company reviews long-lived assets for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. At December 31, 2010 and 2009, no such impairment had occurred.

(l) Inventory:

Inventory is valued on a first-in, first-out basis at the lower of cost and net realizable value. Cost includes direct materials, labor and overhead. In determining the net realizable value, the Company considers factors such as shrinkage, the aging of and future demand for the inventory, contractual arrangements with customers, and its ability to redistribute inventory to other programs or return inventory to suppliers.

(m) Deferred charges:

The direct costs paid to lenders to obtain revolving credit facilities are capitalized as a contract related intangible asset and amortized on a straight-line basis over the life of the debt to which they relate.

1. Significant accounting policies (continued):

(n) Guarantees:

The Company is required to disclose significant information about certain types of guarantees that it has provided, including certain types of indemnities and indirect guarantees of indebtedness to others, without regard to the likelihood of whether it will have to make any payments under the guarantees.

(o) Deferred leasehold inducements:

Leasehold inducements are deferred and amortized against rent expense on a straight-line basis over the terms of the lease.

(p) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Accounts receivable are reported after evaluation as to their collectibility, and an appropriate allowance for doubtful accounts is provided where considered necessary.

In connection with revenue recognition and work in progress, the Company is required to make ongoing estimates of the amount of revenue and costs related to projects to customize and install software. The Company makes these assessments by measuring labour hours, costs directly related to the contract, including labour costs, or both incurred to date and estimating the labour hours, direct costs, or both to be incurred over the life of the project.

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future demand expectations with respect to product offerings.

The Company is required to make ongoing estimates of the results of future operations as part of its assessment of the impairment of goodwill, and recoverability of intangible assets, property and equipment and future income tax assets and liabilities. Significant changes in the assumptions with respect to future business plans and cash flows could result in impairment of goodwill, intangible assets, property and equipment, and future tax assets.

The Company is required to allocate the purchase price of a business combination among the individual assets and liabilities acquired. In certain instances the size, complexity or timing of a business combination makes it impractical to complete the allocation process satisfactorily without causing undue delay in issuing the financial statements for the period in which the combination occurs. In such circumstances, the Company prepares financial statements based on the best allocations that can be made in the time and with the best information that is available and, if necessary, adjusts when the process is completed.

By their nature, these estimates are subject to measurement uncertainty and actual results could differ from these estimates.

1. Significant accounting policies (continued):

(q) Transaction costs:

Transaction costs associated with marketable securities classified as available for sale, are added to the carrying amount of the related financial asset on initial recognition.

2. Changes in accounting policies:

(a) Business combinations:

In January 2009, the CICA issued Handbook Section 1582, "Business combinations," which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. The Company elected to early adopt this standard and it has been applied to all business combinations with acquisition dates on or after January 1, 2010. The impact to the Company's consolidated financial statements as a result of adopting this new standard for the year ended December 31, 2010, was an increase in general and administration expenses of approximately $2,242, attributable to acquisition-related costs and restructuring charges.

(b) Consolidated financial statements:

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective as of January 1, 2011. Earlier adoption is permitted. The Company elected to early adopt this standard effective January 1, 2010. There was no material impact to the Company's consolidated financial statements as a result of this new standard.

(c) Noncontrolling interests in consolidated financial statements:

In January 2009, the CICA issued Handbook Section 1602, "Noncontrolling interests in Consolidated Financial Statements". This section specifies that noncontrolling interests be treated as a separate component of equity, not as a liability or other item outside of equity. Section 1602 is effective for periods beginning on or after January 1, 2011 and will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The Company elected to early adopt this standard effective January 1, 2010. There has been no material impact to the Company's consolidated financial statements as a result of this new standard.

3. Changes in accounting policies not yet adopted:

The following accounting pronouncements have been released but have not yet been adopted by the Company.

(a) International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises in Canada. Effective January 1, 2011, companies must convert from Canadian GAAP to IFRS. IFRS is effective for the Company's quarter ended March 31, 2011, being the first quarter in fiscal 2011, with comparative data also prepared under IFRS.

The Company has initiated an IFRS transition project with a formal and detailed project plan. A project team consisting of senior management from the Company's head office and operating groups are engaged on the project. The Company has also engaged external IFRS consultants. Regular reporting is provided to the Company's senior executive management and to their Audit Committee on the project’s progress. The project focuses on the key areas impacted by the conversion, including financial reporting, systems and processes, communications and training. The Company's transition plan is progressing according to its implementation schedule.

(b) Revenue arrangements with multiple deliverables:

In December 2009, the CICA issued Emerging Issue Committee Abstract (“EIC”) 175, “Revenue Arrangements with Multiple Deliverables”, an amendment to EIC 142, “Revenue Arrangements with Multiple Deliverables”. EIC 175 provides guidance on certain aspects of the accounting for arrangements under which the Company will perform multiple revenue-generating activities. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. EIC 175 also includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. EIC 175 is effective prospectively, with retrospective adoption permitted, for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. Early adoption is also permitted; however, early adoption during an interim period requires retrospective application from the beginning of the fiscal year. The Company has not early adopted this guidance in advance of the transition to IFRS.

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

4. Restricted cash:

At December 31, 2010, the Company has $857 (December 31, 2009 - $2,229) held in accordance with escrow agreements related to prior business acquisitions.

5. Short-term investments and marketable securities:

At December 31, 2010, the Company held investments in three (December 31, 2009 - 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. During the year ended December 31, 2010, the Company's investment in one entity was reclassified to an equity classified investment. In addition, the Company's accounting basis for its investment in Gladstone PLC was reclassified from an equity investee to a consolidated subsidiary (refer to note 10(b)).

	2010		2009	
	Cost	Market Value	Cost	Market Value
Common shares	$ 15,320	$ 23,723	$ 19,319	$ 22,323

6. Inventory:

	2010	2009
Raw materials	$ 8,376	$ 2,955
Work in progress	817	499
Finished goods	6,752	9,248
	$ 15,945	$ 12,702

The cost of inventories, including applicable writedowns to net realizable value, included in cost of revenue for the year ended December 31, 2010 amounted to $44,778 (2009 - $17,466).

7. Notes receivable:

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 thus must be valued separately from the value of the notes. The Company allocated the total consideration paid to the notes and warrants using the residual method.

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 as a charge to Other (income) expenses on the Statement of Operations.

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

8. Other long-term assets:

		2010		2009
Share purchase warrants	$	-	$	200
Acquired contract assets (i)		1,057		3,364
Equity investment in investee (ii)		14,698		-
Long term trade receivables and other		3,247		3,605
	$	19,002	$	7,169

(i) Long-term contracts acquired in a business combination are assigned a fair value at the date of acquisition based on the remaining amounts to be billed under the contract, reduced by the estimated costs to complete the contract and an allowance for normal profit related to the activities that will be performed after the acquisition. The resulting amount is recorded as an asset when billings are in excess of costs plus the allowance for normal profit on uncompleted contracts at the date of acquisition. The current portion which amounts to $882 (December 31, 2009 - $4,238), is included in Prepaid expenses and other current assets.

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

(ii) This investment was previously recognized as a cost investment prior to the acquisition of an additional interest during the period.

9. Other long-term liabilities:

		2010		2009
Acquisition holdbacks	$	2,744	$	2,537
Acquired contract liabilities (i)		33,924		34,120
Acquired liabilities (ii)		-		6,212
Other (iii)		4,962		2,839
	$	41,630	$	45,708

(i) Long-term contracts acquired in a business combination are assigned a fair value at the date of acquisition based on the remaining amounts to be billed under the contract, reduced by the estimated costs to complete the contract and an allowance for normal profit related to the activities that will be performed after the acquisition. The resulting amount is recorded as a liability when costs plus the allowance for normal profit are in excess of billings on uncompleted contracts at the date of acquisition. The current portion which amounts to $10,908 (December 31, 2009 - $7,652) is included in Accounts payable and accrued liabilities.

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

(ii) These liabilities are a component of the Public Transit Solutions business acquired on November 2, 2009. At December 31, 2009 the Company believed additional liabilities may have existed due to uncertainties associated with costs related to acquired contracts and, as such, retained on the balance sheet an amount equal to an estimate of those liabilities pending resolution of ongoing reviews of estimated costs to complete those arrangements. Those matters have now been resolved and reflected in the final purchase price allocation relating to the acquisition. (note 10(e)).

(iii) Other primarily consists of lease inducements, non-compete and earnout accruals to be settled over the next four years.

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

10. Business acquisitions:

2010

(a) On October 1, 2010, the Company acquired the Cogsdale group of companies ("Cogsdale") for aggregate cash consideration of $24,580 plus cash holdbacks of $2,524 resulting in total consideration of $27,104. The holdbacks are payable over a one year period and are adjusted for claims under the representations and warranties of the agreements. Cogsdale is a leading provider of service-oriented business solutions to local governments and utilities. The acquisition has been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. Due to the size and complexity of the acquisition, the Company is still in the process of resolving the fair value of the assets and liabilities acquired as part of the acquisition. The following table summarizes the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:		
Non-cash current assets	$	5,233
Property and equipment		520
Technology assets		20,985
Customer assets		6,704
Backlog		1,729
		35,171
Liabilities assumed:		
Current liabilities		3,037
Deferred revenue		3,568
Other long-term liabilities		1,462
		8,067
Total purchase price consideration	$	27,104

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

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

10. Business acquisitions (continued):

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

Assets acquired:		
Cash	$	7,653
Other current assets		3,384
Future income taxes		1,655
Property and equipment		2,281
Technology assets		12,276
Customer assets		3,791
Backlog		800
Goodwill		2,636
		34,476
Liabilities assumed:		
Current liabilities		43
Deferred revenue		3,012
Future income taxes		4,551
		7,606
Total purchase price consideration	$	26,870

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

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

10. Business acquisitions (continued):

(c) During the year ended December 31, 2010, the Company made nineteen additional acquisitions for aggregate cash consideration of $63,088 plus cash holdbacks of $6,688 resulting in total consideration of $69,776. The holdbacks are payable over a three-year period ending June 25, 2013 and are adjusted for claims under the representations and warranties of the agreements. The acquisitions include software companies catering to the pulp and paper, tourism and attractions, schools, catalog, public transit, agriculture business, health club, health care, and housing finance agency markets. The acquisitions have been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of each acquisition. 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:			
Cash	$ 5,691	$ 1,354	$ 7,045
Other current assets	11,196	6,276	17,472
Property and equipment	1,360	511	1,871
Future income taxes	5,850	141	5,991
Technology assets	21,041	20,243	41,284
Customer assets	8,778	7,309	16,087
Backlog	917	-	917
Goodwill	6,917	217	7,134
	61,750	36,051	97,801
Liabilities assumed:			
Current liabilities	5,598	2,742	8,340
Deferred revenue	8,039	4,341	12,380
Future income taxes	2,564	2,706	5,270
Other long term liabilities	131	159	290
	16,332	9,948	26,280
Excess of fair value of net assets acquired over cost	1,745	-	1,745
Total purchase price consideration	$ 43,673	$ 26,103	$ 69,776

10. Business acquisitions (continued):

(d) The goodwill recognized as a result of the 2010 acquisitions is attributable to synergies with existing businesses and other intangibles that do not qualify for separate recognition. Goodwill in the amount of $2,444 is expected to be deductible for income tax purposes.

Negative goodwill totaling $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, principally due to the acquisition of tax attributes that will benefit the Company. The excess of the fair value of net assets acquired over costs on a provisional basis has been recorded as an extraordinary gain in the statement of operations.

The 2010 acquisitions include contingent consideration payable in the maximum amount of $3,693 based on the achievement of certain revenue targets. The obligation for contingent consideration has been recorded at its estimated fair value, determined to be $1,700 at the acquisition dates.

The 2010 business acquisitions contributed revenue of $49,244 and a net loss of $2,020 during the year ended December 31, 2010. Revenue and net loss amounts from acquisitions included in the Public sector were $28,194 and $1,498 respectively. Revenue and net loss amounts from acquisitions in the Private sector were $21,050 and $521 respectively. If the acquisitions would have occurred on January 1, 2010, management estimates that consolidated revenue would have been $680,541 and consolidated net income for the period would have been $38,969. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisitions would have been the same if the acquisition had occurred on January 1, 2010. The net loss from acquisitions is primarily caused by the associated amortization of intangible asset charges included as if the acquisitions had occurred on January 1, 2010.

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

10. Business acquisitions (continued):

2009

(e) On November 2, 2009, the Company acquired the Public Transit Solutions ("PTS") business of Continental Automotive AG (“Continental”) for cash consideration of $1,471 plus transaction costs of $1,356 resulting in total consideration of $2,827. PTS is a global provider of solutions for public urban passenger transport. The division develops, produces and integrates intelligent transportation systems including operation control systems, on-board computers, and passenger information displays. The acquisition has been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the impact of the adjustments to the purchase price and the aggregate fair value of the assets acquired and liabilities assumed at the date of acquisition:

	As of December 31, 2009	Purchase Price Adjustments	As of December 31, 2010
Assets acquired:			
Cash	$ 10,527	$ -	$ 10,527
Other current assets	48,145	7,752	55,897
Property and equipment	210	-	210
Other long-term assets	9,906	2,404	12,310
	68,788	10,156	78,944
Liabilities assumed:			
Current liabilities	24,788	(8,771)	16,017
Deferred revenue	7,110	6,649	13,759
Other long-term liabilities	34,063	1,485	35,548
	65,961	(637)	65,324
Excess of fair value of net assets acquired over cost	-	10,793	10,793
Total purchase price consideration	$ 2,827	$ -	$ 2,827

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

Adjustments made to the purchase price equation relate to purchase price adjustments made within the allocation period as defined by EIC-14, Adjustment to the Purchase Equation Subsequent to the Acquisition Date.

- During the year ended December 31, 2010, the Company received an assessment, from a neutral accounting firm, of the value of certain tangible net assets acquired as part of the PTS acquisition, in order to resolve an existing dispute between the Company and Continental. The findings indicated a reduction in the purchase price of approximately $6,800. Other current assets were increased by $6,200 during the period primarily as a result of this assessment.

- Revisions to the remaining amounts to be billed and cost to complete estimates for certain long-term contracts resulted in increases to both Other long-term assets and Other long-term liabilities.

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

10. Business acquisitions (continued):

- Reversals of restructuring accrual amounts resulting from a change in estimate reduced $4,765 from Current liabilities. An adjustment to accrual provisions and a reclass to Other long-term liabilities resulted in a further $4,101 adjustment.
- Revisions to cost to complete estimates for certain in-process contracts resulted in increases to Deferred revenue.
- Negative goodwill has arisen on acquisition because the fair value of the separately identifiable assets and liabilities acquired exceeded the total consideration paid. The excess of fair value of net assets acquired over cost has been recorded in income for the year ended December 31, 2010 and shown separately as an extraordinary gain in the statement of operations.

In addition to the assets acquired and liabilities assumed as noted above, the Company also acquired contingent liabilities related to certain long-term contracts that may, but are unlikely to, exceed $4,000 in the aggregate. As the likelihood of loss is not estimable or determinable, these amounts have not been recorded in the financial statements. The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by PTS. The contingent liabilities represent the difference between the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

The Company determined that restructuring actions were required to improve the overall utilization and to reduce overhead costs at PTS. Restructuring actions primarily relate to a reduction in the workforce. The majority of the employees terminated were development and production employees in Switzerland and the workforce reductions are expected to be completed by 2011. Management is in the process of reprioritizing development efforts and assessing customer commitments, the result of which may impact the final restructuring assessment. On a quarterly basis, management has conducted an evaluation of the remaining balances relating to the workforce reduction and revised assumptions and estimates as appropriate.

The following table details the movement in the restructuring charges that were recognized in the above purchase equation. The reversal resulted from a change in estimate and was recorded as an adjustment to the purchase price allocation.

	2010	2009
Opening balance (January 1, November 2)	$ 6,290	$ 6,977
Reversals	(4,765)	-
Cash payments	(1,064)	(567)
Foreign exchange	(45)	(120)
Ending balance (December 31)	$ 416	$ 6,290

The restructuring charges are included in accounts payable and accrued liabilities acquired.

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

10. Business acquisitions (continued):

(f) On September 2, 2009, the Company acquired the Resource Management ("RM") Business from Medisolution Ltd. for aggregate cash consideration of $27,762 plus cash holdbacks of $1,359 resulting in total consideration of $29,121. The holdbacks have subsequently been paid. The RM business provides ERP software, solutions and services to healthcare and service sector customers across North America. The acquisition has been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the aggregate fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:		
Current assets	$	6,190
Property and equipment		222
Other long-term assets		72
Technology assets		18,881
Customer assets		8,153
Backlog		1,109
		34,627
Liabilities assumed:		
Current liabilities		2,045
Deferred revenue		3,223
Other long-term liabilities		238
		5,506
Total purchase price consideration	$	29,121

This acquisition has been allocated to the Public Sector.

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

10. Business acquisitions (continued):

(g) During the year ended December 31, 2009, the Company made a further eleven acquisitions for aggregate cash consideration of $18,320 plus cash holdbacks of $4,099 resulting in total consideration of $22,419. Holdbacks of $2,423 have subsequently been paid. The remaining holdbacks are payable over a two-year period ending August 3, 2012 and are adjusted for any claims under the representations and warranties of the agreements. In addition, there is contingent consideration payable in the amount of $1,800 based on the achievement of certain revenue and earnings targets. Revenue targets relating to $600 of the total payable amount have subsequently been missed resulting in no payment. The remaining contingent consideration will be recorded if and when it becomes determinable. The acquisitions have been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes by reportable segment the aggregate fair value of the assets acquired and liabilities assumed at the date of each acquisition:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	$ 40	$ 437	$ 477
Other current assets	886	3,641	4,527
Property and equipment	131	967	1,098
Future income taxes	-	267	267
Technology assets	6,570	13,828	20,398
Customer assets	2,164	3,349	5,513
Goodwill	201	849	1,050
	9,992	23,338	33,330
Liabilities assumed:			
Current liabilities	490	2,844	3,334
Deferred revenue	2,108	3,134	5,242
Future income taxes	310	2,025	2,335
	2,908	8,003	10,911
Total purchase price consideration	$ 7,084	$ 15,335	$ 22,419

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

11. Property and equipment:

2010	Cost	Accumulated depreciation	Net book value
Computer hardware	$ 24,405	$ 17,506	$ 6,899
Computer software	10,952	8,535	2,417
Furniture and equipment	13,598	10,446	3,152
Leasehold improvements	4,751	2,722	2,029
Buildings	2,067	134	1,933
	$ 55,773	$ 39,343	$ 16,430

2009	Cost	Accumulated depreciation	Net book value
Computer hardware	$ 18,612	$ 12,984	$ 5,628
Computer software	6,549	5,242	1,307
Furniture and equipment	7,399	5,320	2,079
Leasehold improvements	3,667	2,142	1,525
	$ 36,227	$ 25,688	$ 10,539

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

12. Intangible assets:

2010	Cost	Accumulated amortization	Net book value
Technology assets	$ 329,501	$ 171,513	$ 157,988
Non-compete agreements	2,680	2,197	483
Customer assets	111,314	49,865	61,449
Trademarks	133	120	13
Backlog	13,123	10,794	2,329
Contract related assets	2,923	1,682	1,241
	$ 459,674	$ 236,171	$ 223,503

2009	Cost	Accumulated amortization	Net book value
Technology assets	$ 250,774	$ 120,686	$ 130,088
Non-compete agreements	4,544	3,119	1,425
Customer assets	85,986	31,669	54,317
Trademarks	133	112	21
Backlog	7,714	7,714	-
Contract related assets	2,910	973	1,937
	$ 352,061	$ 164,273	$ 187,788

13. Goodwill:

	2010	2009
Opening balance	$ 40,977	$ 39,937
Additions due to acquisitions during the year	9,770	1,050
Adjustments relating to prior period acquisitions	9	(10)
Ending balance	$ 50,756	$ 40,977

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

14. Credit facilities:

The Company has an operating line-of-credit with a syndicate of U.S. and Canadian chartered banks in the amount of $160,000 (December 31, 2009 - $160,000). The line-of-credit bears a variable interest rate and is due in full on September 30, 2012 with no fixed repayment requirements prior to this date. 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 standard debt covenants. As at December 31, 2010, $47,291 (December 31, 2009 - $43,100) had been drawn from this credit facility, and letters of credit totalling $403 (December 31, 2009 - nil) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. As the Company consistently generates sufficient cash flows from operating activities to repay the drawn portion of the credit facility within one year, the amount drawn has been classified as a current liability on the balance sheet.

15. Capital stock:

(a) 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 existing 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.

(b) The issued share capital of the Company is as follows:

	Common shares		Class A non-voting		Total	
	Number	Amount	Number	Amount	Number	Amount
Balance, December 31, 2007 and 2008	16,903,530	$ 84,762	4,288,000	$ 14,521	21,191,530	$ 99,283
Conversion of Class A non-voting	600,000	2,032	(600,000)	(2,032)	-	-
Balance, December 31, 2009 and 2010	17,503,530	$ 86,794	3,688,000	$ 12,489	21,191,530	$ 99,283

During 2009, 600,000 Class A non-voting shares were converted to common shares on a one-for-one basis.

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

16. Shareholder loans:

Share purchase loans receivable under the Company's share purchase plan are included as a reduction of shareholders' equity. Interest rates on these loans range from 5.0% to 6.5% depending on the year the loan was advanced. The balances outstanding are secured by the shares for which they were used to purchase. At December 31, 2010, the market value of the shares held as collateral was $5,216 (December 31, 2009 - $4,551).

The following table summarizes the shareholder loan activity for the period:

		2010		2009
Balance, January 1	$	646	$	931
Repayment of shareholder loans		(207)		(362)
Interest		28		36
Currency translation adjustment		15		41
Balance, December 31	$	482	$	646

17. Other (income) expenses:

		2010		2009
(Gain) loss on sale of short-term investments, marketable securities and other assets	$	(63)	$	12
Other than temporary decline in value of available-for-sale investments		-		1,474
Equity in net earnings of equity investees		(199)		-
Reduction in fair value of VCG LLC warrants (note 7)		200		-
Other		(113)		(490)
	$	(175)	$	996

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

18. Income taxes:

The income tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities at December 31, 2010 are as follows:

	2010	2009
Future income tax assets:		
Non-capital income tax loss carryforwards	$ 10,915	$ 4,106
Scientific research and experiment development expenditure pool carryforward	2,736	1,768
Deferred revenue	2,286	2,782
Reserves	3,130	2,207
Property and equipment	2,542	571
Intangible assets	6,204	2,669
Corporate minimum tax and foreign tax credits	1,939	2,624
Contract assets	5,492	5,578
Other, including capital loss carryforwards	6,072	1,614
	41,316	23,919
Less valuation allowance	11,547	6,353
	29,769	17,566
Future income tax liabilities:		
Intangible assets	(26,038)	(23,596)
Property and equipment	(4,646)	(3,441)
Scientific research and experiment development investment tax credits	(1,382)	(1,091)
Contract liabilities	-	(1,057)
Other, including foreign exchange gains	(2,228)	(1,902)
	(34,294)	(31,087)
Net future income taxes	$ (4,525)	$ (13,521)
Current future income tax asset	$ 3,471	$ 4,445
Long-term future income tax asset	22,919	10,155
Current future income tax liability	-	-
Long-term future income tax liability	(30,915)	(28,121)
Net future income taxes	$ (4,525)	$ (13,521)

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

18. Income taxes (continued):

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax assets, and tax planning strategies in making this assessment. To the extent that management believes that the realization of the future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

Total income tax expense varies from the amounts that would be computed by applying the statutory income tax rate to income before income taxes for the following reasons:

		2010		2009
Statutory income tax rate		31.00%		33.00%
Computed income tax expense (recovery) on income (loss) before income taxes	$	14,511	$	5,762
Increase (decrease) in income taxes resulting from:				
Effect of changes in enacted tax rates		471		(633)
Change in the valuation allowance for future tax assets		227		(373)
Future tax recovery on net gains recorded in other comprehensive income		(1,260)		-
Permanent differences, including foreign exchange		2,333		5,374
Non-taxable portion of extraordinary gain		(5,146)		-
Adjustment to future tax assets		(1,322)		(1,375)
Foreign tax rate differential		(5,317)		(4,046)
Other including withholding tax		546		2,528
Actual income tax expense	$	5,043	$	7,237

As at December 31, 2010, the Company has non-capital income tax losses of $26,961 available to reduce future years' income for Canadian income tax purposes. Canadian losses expire as follows: $3,448 in 2014; $3,448 in 2015; $3,882 in 2026; $3,846 in 2027; $1,674 in 2028; $6,753 in 2029 and $3,910 in 2030.

The Company also has approximately $1,510 and $12,782 of tax losses available to reduce future years' income for tax purposes in the United States, and the rest of the world, respectively. The U.S. losses expire as follows: $89 in 2027; $0 in 2028; $320 in 2029 and $1,101 in 2030. $4,563 of losses available in the rest of the world will expire in 2017. The remainder of those losses can be carried forward indefinitely.

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

19. Income per share:

		2010		2009
Numerator:				
Net income	$	41,766	$	10,224
Denominator:				
Weighted average number of shares (in '000):				
Basic		21,179		21,165
Effect of dilutive securities:				
Shares secured by shareholder loans		13		27
Diluted		21,192		21,192
Net income per share:				
Basic	$	1.97	$	0.48
Diluted	$	1.97	$	0.48

20. Capital risk management:

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

The Company is subject to certain covenants on its credit facilities. The covenants include a leverage ratio and an interest coverage ratio, as well as a minimum net worth requirement. The Company monitors the ratios on a monthly basis. As at December 31, 2010, the Company is in compliance with the covenants on its credit facilities. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements.

The Board of Directors determine if and when dividends should be declared and paid based on all relevant circumstances, including the desirability of financing further growth of the Company and its financial position at the relevant time. There is no guarantee that dividends will continue to be paid in the future. In addition, the Company is restricted, pursuant to financial covenants under its operating line of credit, from paying dividends of more than 20% of its consolidated adjusted net income as defined in the agreement.

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

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

21. Financial risk management and financial instruments:

(a) Overview:

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

(b) Market risk:

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

The Company manages risk related to fluctuations in the market prices of its publicly traded investments by regularly conducting financial reviews of publicly available information to ensure that any risks are within established levels of risk tolerance. The Company does not routinely engage in risk management practices such as hedging, derivatives or short selling with respect to its publicly traded investments.

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

Net income	$	-
Comprehensive income		237

The Company is exposed to interest rate risk on the utilized portion of its credit facilities and does not currently hold any financial instruments that mitigate this risk. Management does not believe that the impact of interest rate fluctuations on the current level of borrowings will be significant and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net income and comprehensive income. A breakdown of the components of interest expense (income) amount recorded on the financial statements is as follows:

		2010		2009
Interest expense on credit facilities (Other financial liability)	$	4,286	$	3,553
Interest income on notes receivable (Loans and receivables)		(683)		(680)
Bank interest (Held for trading)		-		(135)
Interest income on shareholder loans		(28)		(36)
Other financing interest		272		-
		3,847		2,702

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company currently does not use derivative instruments to hedge its exposure to those risks. Most of the Company's businesses are organized geographically so that many of its expenses are incurred in the same currency as its revenues thus mitigating some of its exposure to currency fluctuations.

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

21. Financial risk management and financial instruments (continued):

Foreign currency sensitivity analysis:

The Company is mainly exposed to fluctuations in the Canadian dollar, British pound, Swiss franc, and Euro. The major currency exposures, as of December 31, 2010, are summarized in USD equivalents in the following table. The local currency amounts have been converted to USD equivalents using the period end exchange rates.

	Canadian Dollar	British Pound	Swiss Franc	Euro
Cash	$ 1,635	$ 2,110	$ 951	$ 955
Restricted cash	-	-	-	-
Short-term investments and marketable securities available for sale	4,043	3,658	-	-
Accounts receivable	15,266	11,417	5,755	4,051
Other financial assets	23,362	3,231	5,259	2,245
Accounts payable and accrued liabilities	(32,573)	(9,623)	(10,562)	(1,101)
Other financial liabilities	(69,951)	(7,559)	-	(68)
Shareholder loans	101	-	-	-
Net financial assets	$ (58,118)	$ 3,234	$ 1,403	$ 6,083

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

	Canadian Dollar	British Pound	Swiss Franc	Euro
Net income (loss)	$ (622)	$ (4)	$ 14	$ 61
Comprehensive income (loss)	(581)	32	14	61

21. Financial risk management and financial instruments (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 20 to the consolidated financial statements. The Company's growth is financed through a combination of the cash flows from operations and borrowing under the existing credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. The Company's credit facilities are disclosed in note 14 to the consolidated financial statements. As at December 31, 2010, the undrawn portion of the Company's bank credit facility was $112,306. Utilizations include advances borrowed under the bank credit facility and letters of credit outstanding.

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

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

(d) Credit risk:

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

The majority of the accounts receivable balance relates to maintenance invoices to customers that have a history of payment. In addition a large proportion of the Company's accounts receivable is with government agencies. As at December 31, 2010, 28% of the Company's accounts receivable balance is over 90 days past due versus 24% at December 31, 2009. Accounts receivable are net of allowance for doubtful accounts of $8,287 at December 31, 2010 (December 31, 2009 - $5,618).

There is no concentrations of credit risk because of the Company's diverse number of customers.

There is no significant credit risk associated with the Company's short term investments. The Company manages its credit risk related to short-term investments by conducting financial and other assessments of these investments on a regular basis.

The Company manages credit risk related to notes receivable by monitoring the results of the business to which the note relates, and maintaining security over the assets of the business.

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

21. Financial risk management and financial instruments (continued):

In the ordinary course of business the Company and its subsidiaries have provided performance bonds and other guarantees for the completion of certain customer contracts. The Company has not experienced a loss to date and future losses are not anticipated; therefore, no liability has been recorded in the consolidated balance sheets related to these types of indemnifications or guarantees at December 31, 2010.

(e) Financial instruments:

(i) Classification of financial instruments

	Classification	**Measurement**
Restricted cash	Held for trading	Fair value
Short term investments and marketable securities	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Notes receivable	Loans and receivable	Amortized cost
Long-term accounts receivable	Loans and receivables	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Holdbacks on acquisitions	Other financial liabilities	Amortized cost

(ii) Fair values of financial instruments

The carrying values of cash, restricted cash, accounts receivable, bank indebtedness, accounts payable, accrued liabilities and acquisition holdbacks, approximate their fair values due to the short-term nature of these instruments.

The fair values of short-term investments, which are publicly traded, are determined by the quoted market values for each investment (note 5).

Notes receivable are recorded at amortized cost, which approximates the fair value.

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

21. Financial risk management and financial instruments (continued):

(f) Fair value measurements:

Effective December 31, 2009, the Company adopted the amendment issued by the CICA to Handbook Section 3862, "Financial instruments - disclosures," which requires enhanced disclosures on fair value measurements of financial instruments. The amendment establishes a three-level fair value hierarchy that reflects the significance of the inputs used to measure fair value. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

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

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

Financial assets measured at fair value as at December 31, 2009 and 2010 are summarized below. The Company has no financial liabilities measured at fair value.

	2010			2009		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Restricted cash	$ 857	$ -	$ 857	$ 2,229	$ -	$ 2,229
Short term investments and marketable securities	23,723	-	23,723	22,323	-	22,323
	$ 24,580	$ -	$24,580	$ 24,552	$ -	$ 24,580

There were no transfers of fair value measurements between level 1 and level 2 of the fair value hierarchy in 2009 and 2010.

22. Segmented information:

(a) Reportable segments:

The Company has a number of operating groups, which have been aggregated into two reportable segments in accordance with CICA Handbook Section 1701. 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. Unallocated corporate expenses have been classified as Other.

The accounting policies of the segments are the same as those described in the significant accounting policies in note 1 of these annual financial statements. The Company evaluates performance of the Public Sector business units and the Private Sector business units based on several factors, of which the primary financial measures are revenue and income (loss) from operations. The Company defines income (loss) from operations as income (loss) prior to: amortization of intangible assets, (gain) loss on sale of short-term investments and marketable securities and other assets, interest expense (income), foreign exchange gains and losses, inter-company expenses and income taxes.

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.

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

22. Segmented information (continued):

2010	Public Sector	Private Sector	Other	Total
Revenue	$ 471,724	$ 159,133	$ -	$ 630,857
Cost of revenue	207,623	54,946	-	262,569
	264,101	104,187	-	368,288
Research and development	60,731	24,149	-	84,880
Sales and marketing	38,632	19,678	-	58,310
General and administration	74,333	34,335	-	108,668
Depreciation	4,477	1,559	-	6,036
	178,173	79,721	-	257,894
Income before the undernoted	85,928	24,466	-	110,394
Amortization of intangible assets	50,762	18,592	710	70,064
Other income	(63)	(1)	(111)	(175)
Interest (income) expense, net	243	(9)	3,613	3,847
Foreign exchange loss (gain)	358	2,304	(275)	2,387
Inter-company expenses (income)	7,326	4,094	(11,420)	-
Income before income taxes	27,302	(514)	7,483	34,271
Excess on acquisition of fair value of net assets of subsidiary over cost	12,538	-	-	12,538
Income taxes (recovery):				
Current	16,400	3,665	(3,104)	16,961
Future	(7,355)	(3,302)	(1,261)	(11,918)
	9,045	363	(4,365)	5,043
Net Income	$ 30,795	$ (877)	$ 11,848	$ 41,766
Other selected information:				
Goodwill acquired	$ 6,918	$ 2,852	$ -	$ 9,770
Property and equipment purchased	$ 6,029	$ 1,032	$ 31	$ 7,092
Total assets	$ 359,946	$ 79,385	$ 114,082	$ 553,413

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

22. Segmented information (continued):

2009	Public Sector	Private Sector	Other	Total
Revenue	$ 336,619	$ 101,321	$ -	$ 437,940
Cost of revenue	135,521	31,086	-	166,607
	201,098	70,235	-	271,333
Research and development	50,363	15,269	-	65,632
Sales and marketing	32,124	13,050	-	45,174
General and administration	52,995	19,406	-	72,401
Depreciation	2,781	1,030	-	3,811
	138,263	48,755	-	187,018
Income before the undernoted	62,835	21,480	-	84,315
Amortization of intangible assets	46,340	13,570	678	60,588
Other expenses	(493)	48	1,441	996
Interest (income) expense, net	(69)	(27)	2,798	2,702
Foreign exchange loss (gain)	2,227	5,122	(4,781)	2,568
Inter-company expenses (income)	3,462	3,631	(7,093)	-
Income before income taxes	11,368	(864)	6,957	17,461
Income taxes (recovery):				
Current	11,014	4,001	620	15,635
Future	(6,354)	(2,044)	-	(8,398)
	4,660	1,957	620	7,237
Net Income	$ 6,708	$ (2,821)	$ 6,337	$ 10,224
Other selected information:				
Goodwill acquired	$ 201	$ 849	$ -	$ 1,050
Property and equipment purchased	$ 2,865	$ 618	$ 23	$ 3,506
Total assets	$ 324,965	$ 104,254	$ 42,772	$ 471,991

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

22. Segmented information (continued):

(b) Geographic information:

The Company's external revenue by geographic region is based on the region in which the revenue is transacted. The property and equipment and goodwill and other intangible assets are based on the geographic region in which the Company operates:

2010	Canada	USA	UK/Europe	Other	Total
Revenue	$ 128,083	$ 348,412	$ 126,764	$ 27,598	$ 630,857
Property and equipment	5,505	5,814	4,964	147	16,430
Goodwill and other intangible assets	101,874	97,205	41,340	33,840	274,259

2009	Canada	USA	UK/Europe	Other	Total
Revenue	$ 71,440	$ 301,253	$ 45,290	$ 19,957	$ 437,940
Property and equipment	4,517	4,913	1,093	16	10,539
Goodwill and other intangible assets	111,977	84,014	3,594	29,180	228,765

23. Change in non-cash operating working capital:

	2010	2009
Decrease (increase) in accounts receivable	$ 11,646	$ 4,928
Increase in work in progress	(908)	(1,450)
(Increase) decrease in inventory	(1,029)	854
Decrease (increase) in prepaid expenses and other current assets	2,503	(1,916)
Increase (decrease) in accounts payable and accrued liabilities excluding holdbacks from acquisitions	(2,181)	11,809
Increase (decrease) in deferred revenue	3,192	(3,431)
Increase (decrease) in income taxes payable	(3,700)	621
	$ 9,523	$ 11,415

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

24. Change in accumulated other comprehensive loss

	2010	2009
Balance, January 1	$ (157)	$ (6,901)
Net unrealized mark-to-market adjustment gain (loss) on available-for-sale financial assets during the period	6,071	4,853
Net unrealized foreign exchange gain (loss) on available-for-sale financial assets during the period	61	426
Reclassification of unrealized gain from prior periods upon derecognition of available-for-sale investments (note 9(b))	(733)	-
Amounts reclassified to net income during the period related to other than temporary losses in available-for-sale investments	-	1,474
Future tax expense on unrealized net gains	(1,260)	-
Foreign currency translation adjustment	1,310	(9)
Balance, December 31	$ 5,292	$ (157)

25. Commitments and contingencies:

Commitments:

The Company and its subsidiaries lease premises and certain equipment and automobiles under operating leases. The operating rental expense in 2010 was $13,255 (2009 - $9,133). The annual minimum lease commitments are as follows:

2011	$ 13,719
2012	12,346
2013	10,707
2014	8,809
2015	7,331
Thereafter	10,758
	$ 63,670

25. Commitments and contingencies (continued):

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.

On November 2, 2009, the Company acquired certain assets and liabilities of the Public Transit Solutions ("PTS") business of Continental Automotive AG. The Company also acquired contingent liabilities related to certain long-term contracts that may, but are unlikely to, exceed $4,000 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.

26. Guarantees:

(a) In the ordinary course of business the Company and its subsidiaries have provided performance bonds and other guarantees for the completion of certain customer contracts. The total obligations of the Company pursuant to such bonds and related contingencies total approximately $25,956 (2009 - $55,789). No liability has been recorded in the consolidated financial statements.

(b) As at December 31, 2010, in the normal course of business, the Company and its subsidiaries have outstanding letters of credit totalling $403 (2009 - nil).

(c) In the normal course of business, some of the Company's subsidiaries entered into lease agreements for facilities. As the joint lessees, the subsidiaries agree to indemnify the lessor for liabilities that may arise from the use of the leased facility. The maximum amount potentially payable under the foregoing indemnity cannot be reasonably estimated. The subsidiaries have liability insurance that relates to the indemnifications.

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

27. Subsequent events:

Subsequent to December 31, 2010, the Company completed two acquisitions for cash consideration of $10,400 on closing plus holdbacks of $550.

On March 2, 2011 the Company declared a $2.00 per share dividend that is payable on March 31, 2011 to all common shareholders and Class A non-voting shareholders of record at close of business on March 17, 2011.

28. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's presentation.