Constellation Software Inc.

FINANCIAL REPORT

Fourth Quarter Fiscal Year 2012

For the three months and fiscal year ended
December 31, 2012

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, 2012, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties".

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

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

Forward Looking Statements

Certain statements in this report, including those under "Outlook" below, 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 as of the date of this MD&A, March 6, 2013. 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 "Outlook" and "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-IFRS Measures

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

The term ''Adjusted EBITDA'' refers to net income before adjusting for finance income, finance costs, income taxes, equity in net income or loss of equity investees, impairment of non-financial assets, depreciation, amortization, and foreign exchange gain or 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 amortization and the other items listed above. ''Adjusted EBITDA margin'' refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

‘‘Adjusted net income’’ means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, and certain other expenses (income). The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration amortization of intangible assets, deferred income taxes, and certain other non-cash expenses (income) incurred or recognized 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, readers are cautioned that Adjusted EBITDA and Adjusted net income should not be construed as alternatives to net income determined in accordance with IFRS. The Company’s method of calculating Adjusted EBITDA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted net income may not be comparable to similar measures presented by other issuers. See ‘‘Results of Operations —Adjusted EBITDA’’ and ‘‘— Adjusted net income’’ for a reconciliation of Adjusted EBITDA and Adjusted net income to net income.

Overview

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

Our revenue consists primarily of software license fees, maintenance and other recurring fees, professional service fees and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable, where applicable. Maintenance and other recurring 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 software as a service, subscriptions, combined software/support contracts, transaction-related revenues, and hosted products. Maintenance and other recurring fee arrangements generally include ongoing customer support and rights to certain product updates “when and if available” and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation and integration services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions, as well as sales of customized hardware assembled internally. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the type, mix and quantity of each vary by customer and by product.

Expenses consist primarily of staff costs, the cost of hardware, third party licenses, maintenance and professional services to fulfill our customer arrangements, travel and occupancy costs and other general operating expenses.

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

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,
	2012	2011	$	%	2012	2011	$	%	2010
Revenue	**260,999**	**198,357**	**62,642**	**32%**	**891,226**	**773,341**	**117,885**	**15%**	**633,965**
Expenses	206,654	150,910	55,744	37%	705,275	604,663	100,612	17%	517,547
Adjusted EBITDA	**54,345**	**47,447**	**6,898**	**15%**	**185,951**	**168,678**	**17,273**	**10%**	**116,418**
Depreciation	2,010	1,829	181	10%	7,643	7,868	(225)	-3%	6,756
Amortization of intangible assets	23,499	20,917	2,582	12%	85,142	76,650	8,492	11%	67,926
Impairment of non-financial assets	-	(29)	29	-100%	-	489	(489)	-100%	-
Bargain purchase gain	-	-	-	NM	-	-	-	NM	(1,745)
Foreign exchange (gain) loss	1,152	364	788	216%	822	3,392	(2,570)	-76%	4,526
Equity in net (income) loss of equity investees	(36)	-	(36)	NM	839	-	839	NM	-
Finance income	(19,649)	(1,100)	(18,549)	NM	(23,178)	(7,267)	(15,911)	219%	(1,241)
Finance costs	1,078	986	92	9%	4,001	5,575	(1,574)	-28%	5,783
Profit before income taxes	46,291	24,480	21,811	89%	110,682	81,971	28,711	35%	34,413
Income taxes expense (recovery)									
Current income tax expense	7,539	5,139	2,400	47%	23,626	18,615	5,011	27%	16,961
Deferred income tax (recovery) expense	(1,299)	(54)	(1,245)	NM	(5,576)	(93,818)	88,242	-94%	(12,564)
Income tax expense (recovery)	6,240	5,085	1,155	23%	18,050	(75,203)	93,253	-124%	4,397
Net income	**40,051**	**19,395**	**20,656**	**107%**	**92,632**	**157,174**	**(64,542)**	**-41%**	**30,016**
Adjusted net income	**62,251**	**40,229**	**22,022**	**55%**	**172,198**	**140,495**	**31,703**	**23%**	**83,633**
Weighted average number of shares outstanding (000's)									
Basic and diluted	21,192	21,192			21,192	21,192			21,192
Net income per share									
Basic and diluted	$ 1.89	$ 0.92	$ 0.97	107%	$ 4.37	$ 7.42	$ (3.05)	-41%	$ 1.42
Adjusted EBITDA per share									
Basic and diluted	$ 2.56	$ 2.24	$ 0.33	15%	$ 8.77	$ 7.96	$ 0.82	10%	$ 5.49
Adjusted net income per share									
Basic and diluted	$ 2.94	$ 1.90	$ 1.04	55%	$ 8.13	$ 6.63	$ 1.50	23%	$ 3.95
Cash dividends declared per share									
Basic and diluted	$ 1.00	$ -	$ 1.00		$ 4.00	$ 2.00	$ 2.00	100%	$ 0.26
Total assets					812,679	630,575	182,104	29%	535,919
Total long-term liabilities					81,334	53,459	27,875	52%	62,392

NM - Not meaningful

Comparison of the three and twelve months ended December 31, 2012 and 2011

Revenue:

Total revenue for the quarter ended December 31, 2012 was $261 million, an increase of 32%, or $63 million, compared to $198 million for the comparable period in 2011. For the 2012 fiscal year, total revenues were $891 million, an increase of 15%, or $118 million, compared to $773 million in fiscal 2011. The increase for the quarter ended December 31, 2012 relative to the same period in the prior year is largely attributed to growth from acquisitions as organic growth was 8%. The increase for the 2012 fiscal year is mainly attributed to growth from acquisitions as organic growth was 1% compared to fiscal year 2011. For acquired businesses, organic growth is calculated as the difference between actual revenues achieved by each business 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 will continue to do so in the future. As well, a number of acquired contracts were recorded at their estimated fair value as of the date of acquisition. Under this accounting treatment, excess profits or costs relative to normalized profitability are recorded as acquired contract assets or liabilities and recognized as revenues and expenses over the term to completion of the contract. As a result, the revenue and direct costs of these contracts reflected through profit or loss will differ from the revenue and costs that would have been recognized under normal course percentage of completion contract accounting. 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 7% in Q4 2012 and 2% for the year ended 2012.

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, 2012	Fiscal year ended December 31, 2012
Constellation	8%	1%
Constellation excluding PTS	7%	2%

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

Software license revenue for the quarter ended December 31, 2012 increased by 34%, or $6 million to $23 million, from $17 million compared to the same period in 2011. During the year ended December 31, 2012, software license revenue increased by 15%, or $9 million to $72 million, from $63 million compared to 2011. Professional services revenue for the quarter ended December 31, 2012 increased by 27%, or $13 million to $59 million, from $46 million compared to the same period in 2011. During the year ended December 31, 2012, professional services revenue increased by 9%, or $16 million to $197 million from $181 million in 2011. Hardware and other revenue for the quarter ended December 31, 2012 increased by 48%, or $12 million to $38 million, from $26 million in 2011. During the year ended December 31, 2012, Hardware and other revenue increased by 2%, or $2 million to $111 million, from $109 million in 2011. Maintenance and other recurring revenues for the quarter ended December 31, 2012 increased by 29%, or $32 million to $142 million, from $110 million in the same period in 2011. During the year ended December 31, 2012, Maintenance and other recurring revenues increased by 21%, or $90 million to $510 million, from $420 million in 2011. The following tables display the breakdown of our revenue according to revenue type:

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change	
	2012	2011	$	%	2012	2011	$	%
	($000, except percentages)				($000, except percentages)			
Licenses	22,683	16,943	5,740	34%	72,407	63,107	9,300	15%
Professional services	58,594	46,037	12,557	27%	197,150	181,166	15,984	9%
Hardware and other	37,944	25,558	12,386	48%	111,359	108,716	2,643	2%
Maintenance and other recurring	141,778	109,819	31,959	29%	510,310	420,352	89,958	21%
	260,999	198,357	62,642	32%	891,226	773,341	117,885	15%

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

The following tables display our revenue by reportable segment and the percentage change for the three and twelve months ended December 31, 2012 compared to the same periods in 2011:

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change	
	2012	2011	$	%	2012	2011	$	%
	($000, except percentages)				($000, except percentages)			
Public Sector								
Licenses	15,541	11,511	4,030	35%	48,851	43,748	5,103	12%
Professional services	47,335	37,081	10,254	28%	154,815	146,281	8,534	6%
Hardware and other	34,348	22,822	11,526	51%	97,800	97,133	667	1%
Maintenance and other recurring	92,230	73,205	19,025	26%	334,525	284,489	50,036	18%
	189,454	144,619	44,835	31%	635,991	571,651	64,340	11%
Private Sector								
Licenses	7,142	5,432	1,710	31%	23,556	19,359	4,197	22%
Professional services	11,259	8,956	2,303	26%	42,335	34,885	7,450	21%
Hardware and other	3,596	2,736	860	31%	13,559	11,583	1,976	17%
Maintenance and other recurring	49,548	36,614	12,934	35%	175,785	135,863	39,922	29%
	71,545	53,738	17,807	33%	255,235	201,690	53,545	27%

Public Sector

For the quarter ended December 31, 2012, total revenue in the public sector reportable segment increased by 31%, or $44 million to $189 million, compared to $145 million for the quarter ended December 31, 2011. For the year ended December 31, 2012, total revenue increased by 11%, or $64 million to $636 million, compared to $572 million in 2011. Revenue growth from acquired businesses contributed approximately $34 million to our Q4 2012 revenues and $67 million to our year ended December 31, 2012 revenues compared to the same periods in 2011. We have completed 28 acquisitions since the beginning of 2011, 10 of which were acquired in fiscal year 2011. Organic revenues increased by 7% in Q4 2012 and were unchanged in the year ended December 31, 2012 compared to the same periods in 2011. Excluding PTS, organic revenues increased 7% in Q4 2012 and 1% in the year ended December 31, 2012 respectively, compared to the same periods in 2011.

Organic Revenue Growth

	Three months ended December 31, 2012	Twelve months ended December 31, 2012
Public Sector	7%	0%
Public Sector excluding PTS	7%	1%

The organic revenue change in Q4 2012 was primarily driven by strong revenue from existing clients and new customers in our utility, local-government, transit, and asset management verticals.

Private Sector

For the quarter ended December 31, 2012, total revenue in the private sector reportable segment increased 33%, or $18 million to $72 million, compared to $54 million for the quarter ended December 31, 2011. For the year ended December 31, 2012 total revenue increased by 27%, or $53 million to $255 million, compared to $202 million for the comparable period in 2011. Revenue growth from acquired businesses contributed approximately $14 million to our Q4 2012 revenues and $42 million to our year ended December 31, 2012 revenues compared to the same periods in 2011. We have completed 29 acquisitions since the beginning of 2011, 12 of which were acquired in fiscal year 2011. Revenues increased organically by 8% in Q4 2012 and by 6% for the year ended December 31, 2012 compared to the same periods in 2011.

The organic revenue change was primarily driven by strong sales to both existing and new customers primarily in our pulp and paper, fitness, and food service verticals.

Expenses:

The following tables display the breakdown of our expenses:

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change	
	2012	2011	$	%	2012	2011	$	%
	($000, except percentages)				($000, except percentages)			
Expenses								
Staff	130,160	101,688	28,472	28%	469,677	401,379	68,298	17%
Hardware	23,960	13,247	10,713	81%	61,446	60,854	592	1%
Third party license, maintenance and professional services	17,374	13,134	4,240	32%	61,469	51,066	10,403	20%
Occupancy	5,909	4,667	1,242	27%	21,023	18,918	2,105	11%
Travel	11,360	9,359	2,001	21%	35,967	30,038	5,929	20%
Telecommunications	3,154	2,557	597	23%	10,996	9,992	1,004	10%
Supplies	4,498	3,567	931	26%	15,308	15,314	(6)	0%
Professional fees	6,985	1,835	5,150	281%	15,031	8,623	6,408	74%
Other	3,254	856	2,398	280%	14,358	8,479	5,879	69%
	206,654	150,910	55,744	37%	705,275	604,663	100,612	17%

Overall expenses for the quarter ended December 31, 2012 increased 37%, or $56 million to $207 million, compared to $151 million during the same period in 2011. As a percentage of total revenue, expenses increased to 79% in the quarter ended December 31, 2012 compared to 76% in the quarter ended December 31, 2011. The increase in expenses as a percentage of total revenue is primarily attributed to the increase in hardware associated with an acquisition completed in the quarter ended December 31, 2012, and legal and tax advisory fees, which are discussed under Professional fees below. During the year ended December 31, 2012, expenses increased 17%, or $100 million to $705 million, compared to $605 million during the same period in 2011. As a percentage of total revenue, overall expenses increased to 79% in the year ended December 31, 2012 compared to 78% in the year ended December 31, 2011. The growth in expenses for the three and twelve month periods in 2012, excluding hardware, is primarily due to the growth in the number of employees. Our average employee headcount grew 22% from 3,739 in the year ended December 31, 2011 to 4,576 in the year ended December 31, 2012 primarily due to acquisitions.

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

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change	
	2012	2011	$	%	2012	2011	$	%
	($000, except percentages)				($000, except percentages)			
Professional services	28,585	24,596	3,989	16%	105,507	100,651	4,856	5%
Maintenance	25,982	19,535	6,447	33%	94,148	76,683	17,465	23%
Research and development	34,833	27,026	7,807	29%	125,994	103,600	22,394	22%
Sales and marketing	18,710	14,384	4,326	30%	65,346	54,817	10,529	19%
General and administration	22,050	16,147	5,903	37%	78,682	65,628	13,054	20%
	130,160	101,688	28,472	28%	469,677	401,379	68,298	17%

Professional services – Staff expenses related to our Professional services operating departments increased 16%, or $4 million to $29 million, compared to $25 million for the quarter ended December 31, 2012. During the year ended December 31, 2012 staff expenses related to our Professional services operating departments increased 5%, or $5 million to $106 million, compared to $101 million in the same period in 2011. The increase in staff expenses related to our Professional services operating departments was primarily due to the growth in the number of employees compared to the same periods in 2011.

Maintenance – Staff expenses related to our Maintenance operating departments increased 33%, or $6 million to $26 million, for the quarter ended December 31, 2012 compared to $20 million for the same period in 2011. During the year ended December 31, 2012 staff expenses related to our Maintenance operating departments increased 23%, or $17 million to $94 million, compared to $77 million in the same period in 2011. The increase in staff expenses related to our Maintenance operating departments was primarily due to the growth in the number of employees compared to the same periods in 2011.

Research and development – Staff expenses related to our Research and development operating departments increased 29%, or $8 million to $35 million for the quarter ended December 31, 2012 from $27 million for the same period in 2011. During the year ended December 31, 2012 staff expenses related to our Research and development operating departments increased 22%, or $22 million to $126 million, compared to $104 million in the same period in 2011. The increase in staff expenses related to our Research and development operating departments was primarily due to the growth in the number of employees compared to the same periods in 2011.

Sales and marketing – Staff expenses related to our Sales and marketing operating departments increased 30%, or $5 million to $19 million for the quarter ended December 31, 2012 compared to $14 million for the same period in 2011. During the year ended December 31, 2012 staff expenses related to our Sales and marketing operating departments increased 19%, or $10 million to $65 million, compared to $55 million in the same period in 2011. The increase in staff expenses related to our Sales and marketing operating departments was primarily due to the growth in the number of employees compared to the same periods in 2011.

General and administration – Staff expenses related to our General and administrative operating departments increased 47%, or $6 million to $22 million for the quarter ended December 31, 2012 from $16 million for the same period in 2011. During the year ended December 31, 2012 staff expenses related to our General and administrative operating departments increased 20%, or $13 million to $79 million, compared to $66 million over the same period in 2011. The increase in staff expenses related to our General and administration operating departments was primarily due to the growth in the number of employees compared to the same periods in 2011 and due to an increase in General and Administration bonus expense in Q4 2012 compared to the same period in the prior year.

Hardware expenses – Hardware expenses for the quarter ended December 31, 2012 increased 81%, or $11 million to $24 million, compared to $13 million for the quarter ended December 31, 2011. During the year ended December 31, 2012 Hardware expenses remained unchanged at $61 million compared to the same period in 2011. The increase in Hardware expenses in the fourth quarter is attributable to an acquisition made in the Public Sector which had significant hardware and other revenue.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses for the quarter ended December 31, 2012 increased 32%, or $4 million to $17 million, compared to $13 million for the quarter ended December 31, 2011. During the year ended December 31, 2012 Third party license, maintenance and professional services expense increased 20%, or $10 million to $61 million, from $51 million over the same period in 2011. The increase is primarily due to an increase in license and maintenance revenue for the three and twelve months ended December 31, 2012 compared to the same periods in 2011.

Travel expenses – Travel expenses for the quarter ended December 31, 2012 increased 21%, or $2 million to $11 million, compared to $9 million for the quarter ended December 31, 2011. During the year ended December 31, 2012 Travel expenses increased 20%, or $6 million to $36 million, from $30 million over the same period in 2011. The increase is primarily due to increased travel expenses associated with acquisition activity and an increase in the Company's international operations.

Professional fees – Professional fees for the quarter ended December 31, 2012 increased $5 million to $7 million, compared to $2 million for the quarter ended December 31, 2011. During the year ended December 31, 2012 Professional fees increased $6 million to $15 million, from $9 million over the same period in 2011. The increase is primarily due to legal and tax advisory fees associated with acquisitions, tax planning, and legal fees associated with the customer dispute as described under "Acquisition of certain software assets and liabilities from MAXIMUS Inc."

Other – Other expenses for the quarter ended December 31, 2012 increased $2 million to $3 million, compared to $1 million for the quarter ended December 31, 2011. During the year ended December 31, 2012, Other expenses increased $6 million to $14 million, from $8 million over the same period in 2011. The increase for both the quarter and the year ended December 31, 2012 is primarily due to an increase in marketing related expenses, recruitment expenses, bad debt expense, and a reduction in tax credits recorded in respect of Canadian based research and development activities.

Other Income and Expenses:

The following tables display the breakdown of our other (income) and expenses:

	Three months ended December 31,		Period-Over-Period Change		Fiscal year ended December 31,		Period-Over-Period Change	
	2012	2011	$	%	2012	2011	$	%
	($000, except percentages)				($000, except percentages)			
Depreciation	2,010	1,829	181	10%	7,643	7,868	(225)	-3%
Amortization of intangible assets	23,499	20,917	2,582	12%	85,142	76,650	8,492	11%
Impairment of non-financial assets	-	(29)	29	-100%	-	489	(489)	-100%
Foreign exchange (gain) loss	1,152	364	788	216%	822	3,392	(2,570)	-76%
Equity in net (income) loss of equity investees	(36)	-	(36)	NM	839	-	839	NM
Finance income	(19,649)	(1,100)	(18,549)	NM	(23,178)	(7,267)	(15,911)	219%
Finance costs	1,078	986	92	9%	4,001	5,575	(1,574)	-28%
Income tax expense (recovery)	6,240	5,085	1,155	23%	18,050	(75,203)	93,253	NM
	14,294	28,052	(13,758)	-49%	93,319	11,504	81,815	711%

NM - Not meaningful

Depreciation – Depreciation of property and equipment remained unchanged at $2 million in the quarter ended December 31, 2012 compared to the same period in 2011. During the year ended December 31, 2012, depreciation of property and equipment remained unchanged at $8 million compared to the same period in 2011.

Amortization of intangible assets – Amortization of intangible assets for the quarter ended December 31, 2012 increased by 12%, or $2 million to $23 million, compared to $21 million for the quarter ended December 31, 2011. During the year ended December 31, 2012, Amortization of intangible assets increased 11%, or $8 million to $85 million, from $77 million over the same period in 2011. The increase is attributable to an increase in the carrying amount of our intangible asset balance over the twelve month period ended December 31, 2012 as a result of acquisitions completed during this period.

Foreign exchange – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended December 31, 2012, our foreign exchange loss increased to $1 million compared to $0.5 million for the quarter ended December 31, 2011. For the year ended December 31, 2012 the foreign exchange loss decreased by $2 million to $1 million, compared to $3 million for the same period in 2011. The foreign exchange loss in the prior year was due to realized losses on the settlement of certain non-USD liabilities and due to holding, or unrealized, losses on certain non-USD liabilities.

Equity in net (income) loss of equity investees – Equity in net (income) loss of equity investees was nil for both the quarter ended December 31, 2012 and the quarter ended December 31, 2011. For the year ended December 31, 2012, Equity in net (income) loss of equity investees was a loss of $1 million compared to nil for the same period in 2011. The $1 million loss for the year ended December 31, 2012 resulted primarily from our share of a goodwill impairment charge recorded by the equity investee.

Finance income – Finance income for the quarter ended December 31, 2012 increased $19 million to $20 million, compared to $1 million for the quarter ended December 31, 2011. During the year ended December 31, 2012, Finance income increased $16 million to $23 million, from $7 million over the same period in 2011. The increase in finance income for the three months and year ended December 31, 2012 is due to the gains on sales of available-for-sale financial assets.

Finance costs – Finance costs for the quarter ended December 31, 2012 remained unchanged at $1 million compared to the quarter ended December 31, 2011. During the year ended December 31, 2012, Finance costs decreased 28%, or $2 million to $4 million, from $6 million in the same period in 2011. The decrease in finance costs for the year ended December 31, 2012 is primarily due to less interest expense on our revolving line of credit resulting from decreased average borrowings in 2012 compared to 2011 and due to a lower cost of borrowing resulting from the implementation of a new credit facility in Q1 2012.

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, 2012, income tax expense increased by 23%, or $1 million to $6 million, compared to $5 million for the same period in 2011. For the year ended December 31, 2012, income tax expense was $18 million compared to income tax recovery of $75 million in 2011. The decrease in income tax recovery for the year ended December 31, 2012 compared to the same period in 2011 was primarily due to a transfer of certain intangible assets from one subsidiary to another in the same period last year. In the prior year, a deferred tax asset was recorded on the increase in fair market value arising on the sale of intellectual property between entities within the Company at the rate of tax of the entity that acquired the assets notwithstanding that the gains are not otherwise recorded for accounting and financial reporting on consolidation. The deferred income tax recovery recorded through profit or loss represented the amount of these deferred income tax deductions that the Company determined was probable of being utilized for income tax deduction purposes in the future. Excluding deferred income tax recovery, income tax expense as a percentage of net income before income taxes was 16% for the quarter ended December 31, 2012 compared to 21% for the same period in 2011. Excluding deferred income tax recovery, income tax expense as a percentage of net income before income taxes was 21% for the year ended December 31, 2012 compared to 23% for the same period in 2011.

Net Income:

Net income for the quarter ended December 31, 2012 was $40 million compared to net income of $19 million for the same period in 2011. On a per share basis this translated into a net income per diluted share of $1.89 in the quarter ended December 31, 2012 compared to net income per diluted share of $0.92 in the quarter ended December 31, 2011. For the fiscal year 2012, net income was $93 million or $4.37 per diluted share compared to $157 million or $7.42 per diluted share in fiscal year 2011. Excluding the deferred income tax recovery, Net Income increased $24 million to $87 million from $63 million in the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in net income, excluding the deferred income tax recovery, for both the year and quarter ended December 31, 2012 was primarily due to an increase in Adjusted EBITDA and the gains associated with the sales of available-for-sale financial assets.

Adjusted EBITDA:

For Q4 2012, Adjusted EBITDA increased to $54 million compared to $47 million in Q4 2011 representing an increase of 15%. Adjusted EBITDA margin decreased to 21% in the fourth quarter of 2012 compared to 24% in the fourth quarter of 2011. For the fiscal year 2012, Adjusted EBITDA increased to $186 million compared to $169 million during the same period in 2011, representing an increase of 10%. Adjusted EBITDA margin was 21% in the fiscal year 2012 compared to 22% in the fiscal year 2011. The decrease in EBITDA margins in the fourth quarter 2012 is primarily attributed to an increase in legal fees associated with the customer dispute as described under “Acquisition of certain software assets and liabilities from MAXIMUS Inc.” and from increased acquisition activity, an increase in bad debt expense, and a reduction in investment tax credits received for Canadian based research and development activities. See “Non-IFRS Measures” for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

	Three months ended December 31, 2012	Three months ended December 31, 2011	Fiscal year ended December 31, 2012	Fiscal year ended December 31, 2011
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 260,999	$ 198,357	$ 891,226	$ 773,341
Net income	40,051	19,395	92,632	157,174
Adjusted for:				
Income tax expense (recovery)	6,240	5,085	18,050	(75,203)
Foreign exchange (gain) loss	1,152	364	822	3,392
Equity in net (income) loss of equity investees	(36)	-	839	-
Finance income	(19,649)	(1,100)	(23,178)	(7,267)
Finance costs	1,078	986	4,001	5,575
Impairment of non-financial assets	-	(29)	-	489
Amortization of intangible assets	23,499	20,917	85,142	76,650
Depreciation	2,010	1,829	7,643	7,868
Adjusted EBITDA	54,345	47,447	185,951	168,678
Adjusted EBITDA margin	21%	24%	21%	22%

Adjusted net income:

For Q4 2012, Adjusted net income increased by $22 million to $62 million compared to $40 million in Q4 2011, representing an increase of 55%. Adjusted net income margin was 24% in the fourth quarter of 2012 compared to 20% in the fourth quarter 2011. For the fiscal year 2012, Adjusted net income increased by $32 million to $172 million compared to $140 million during the same period in 2011, representing an increase of 22%. Adjusted net income margin was 19% in the fiscal year 2012 compared to 18% in the fiscal year 2011. The increase in Adjusted net income for both the fourth quarter and year ended December 31, 2012 is largely due to an increase in Adjusted EBITDA and the gains associated with the sales of available-for-sale financial assets. See "Non-IFRS Measures" for a description of Adjusted net income and Adjusted net income margin.

The following table reconciles Adjusted net income to net income:

	Three months ended December 31, 2012	Three months ended December 31, 2011	Fiscal year ended December 31, 2012	Fiscal year ended December 31, 2011
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 260,999	$ 198,357	$ 891,226	$ 773,341
Net income	40,051	19,395	92,632	157,174
Adjusted for:				
Amortization of intangible assets	23,499	20,917	85,142	76,650
Impairment of non-financial assets	-	(29)	-	489
Deferred income tax (recovery) expense	(1,299)	(54)	(5,576)	(93,818)
Adjusted net income	62,251	40,229	172,198	140,495
Adjusted net income margin	24%	20%	19%	18%

Quarterly Results

	Quarter Ended							
	Mar. 31 2011	Jun. 30 2011	Sep. 30 2011	Dec. 31 2011	Mar. 31 2012	Jun. 30 2012	Sep. 30 2012	Dec. 31 2012
	($000, except per share amounts)							
Revenue	177,632	195,099	202,253	198,357	195,278	208,969	225,980	260,999
Net Income	62,488	55,986	19,305	19,395	13,924	17,592	21,065	40,051
Adjusted Net Income	27,042	33,507	39,717	40,229	31,707	36,161	42,079	62,251
Net Income per share								
Basic & diluted	2.95	2.64	0.91	0.92	0.66	0.83	0.99	1.89
Adjusted Net Income per share								
Basic & diluted	1.28	1.58	1.87	1.90	1.50	1.71	1.99	2.94

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 expenditures or gains which may include bargain purchase gains and gains or losses on the sale of available-for-sale equity securities and other assets.

Acquisition of PTS from Continental

On November 2, 2009, Constellation acquired the Public Transit Solutions business ("PTS") from Continental AG ("Continental").

Management believes cash flows from operations is useful supplemental information about the performance of the underlying business as certain acquisition related accounting adjustments and the impact of contract accounting in a business combination under IFRS, where applicable, may result in reported earnings that differ materially from cash flow from operations. Additionally, non-cash operating working capital requirements can fluctuate significantly depending on contract billings, customer deposits and inventory requirements, which may have a material impact on cash flows from operations.

A number of acquired contracts were recorded at their estimated fair value as of the date of acquisition. Under this accounting treatment, excess profits or costs relative to normalized profitability are recorded as acquired contract assets or liabilities and recognized as revenues and expenses over the term to completion of the contract. As a result, the revenue and expenses of these contracts reflected through profit or loss will differ from the revenue and expenses that would have been recognized under normal course percentage of completion contract accounting.

Cash flows from operations from PTS will fluctuate significantly from quarter to quarter due to the timing of receipt of milestone payments associated with large customer contracts. PTS has contributed $51 million in cash flows from operations since the date of acquisition and $15 million for the year ended December 31, 2012.

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 $1 million in the aggregate. These contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by PTS. The contingent liabilities represent the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

Supplemental Financial Information for PTS

The table below provides certain supplemental statements of comprehensive income and cash flows information regarding PTS for the three and twelve months ended December 31, 2012. PTS is not considered a reportable operating segment of Constellation; however, management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flows from operations of the PTS business. Management believes cash flows from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and contract accounting under IFRS may result in reported earnings that differ materially from cash flow from operations.

Supplemental financial information

	For the three months ended December 31, 2012			For the year ended December 31, 2012		
(Unaudited)	Constellation Software Inc. (excluding PTS)	PTS	Consolidated	Constellation Software Inc. (excluding PTS)	PTS	Consolidated
Revenue	$ 225,766	$ 35,233	$ 260,999	$ 760,865	$ 130,361	$ 891,226
Adjusted EBITDA	48,750	5,595	54,345	162,383	23,568	185,951
EBITDA as % Total Revenue	22%	16%	21%	21%	18%	21%
Net Income	$ 35,291	$ 4,760	$ 40,051	$ 73,185	$ 19,447	$ 92,632
Cash flows from operating activities:						
Net income	$ 35,291	$ 4,760	$ 40,051	$ 73,185	$ 19,447	$ 92,632
Adjustments to reconcile net income to net cash flows from operations, including taxes paid:	11,663	(2,828)	8,835	69,435	114	69,549
Change in non-cash operating working capital	(3,946)	15,903	11,957	(13,263)	(4,127)	(17,390)
Cash flows from operating activities	$ 43,008	$ 17,835	$ 60,843	$ 129,357	$ 15,434	$ 144,791

Adjusted EBITDA to net income reconciliation

	For the three months ended December 31, 2012			For the year ended December 31, 2012		
(Unaudited)	Constellation Software Inc. (excluding PTS)	PTS	Consolidated	Constellation Software Inc. (excluding PTS)	PTS	Consolidated
Total revenue	$ 225,766	$ 35,233	$ 260,999	$ 760,865	$ 130,361	$ 891,226
Net income	35,291	4,760	40,051	73,185	19,447	92,632
Adjusted for:						
Income tax expense	6,516	(276)	6,240	16,151	1,899	18,050
Other expenses (income)	(18,374)	919	(17,455)	(19,052)	1,536	(17,516)
Amortization of intangible assets	23,499	-	23,499	85,142	-	85,142
Depreciation	1,818	192	2,010	6,957	686	7,643
Adjusted EBITDA	48,750	5,595	54,345	162,383	23,568	185,951
Adjusted EBITDA margin	22%	16%	21%	21%	18%	21%

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 acquisition, the Company also acquired certain long-term contracts that contain contingent liabilities which may, but are unlikely to, exceed $15 million in the aggregate. The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by MAJES and for estimated damages available to customers for breaches of such contracts by MAJES where such contracts did not contain specified penalties. The contingent liabilities represent the difference between the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

In February 2011, MAXIMUS Inc. ("Maximus") and a subsidiary of Constellation received a letter from a customer initiating a dispute resolution process under the customer's contract. The customer alleged that the subsidiary of Constellation and Maximus failed to observe the most favoured customer pricing terms of the contract. The customer also alleged that the subsidiary of Constellation and Maximus failed to provide the services and products required to be delivered under the contract. The subsidiary of the Company, Maximus, and the customer have resolved the issues relating to the most favoured customer pricing terms of the contract without liability to the Company. The subsidiary of the Company, Maximus, and the customer, pursuant to the terms of the contract, entered into arbitration proceedings in respect of the customer's claims regarding service and product delivery. The potential liability was not identified with respect to these claims; however, the contract with the customer has a $9 million limitation of liability clause that the Company believes will apply to all such claims, should there be an unfavourable outcome to the Company through arbitration. In October 2012, the customer filed a claim in court alleging no contract existed between the customer and the subsidiary of Constellation and was seeking restitution of a minimum of $12 million. In December 2012, the subsidiary of Constellation obtained an arbitration ruling in relation to the customer dispute. The arbitration ruling concluded that no amounts were owed by the subsidiary to the customer for the various claims made by the customer and that the customer owes the subsidiary approximately $10 million in fees for services provided under the contract and for amounts owing due to a breach of contract by the customer. Constellation is seeking to obtain a court judgement to enforce the arbitration ruling. Until a court judgment is received to enforce the arbitration the Company still considers the payment contingent and accordingly has not recognized this amount in the consolidated financial statements.

Liquidity

Our net cash position (cash less bank indebtedness) at December 31, 2012 was negative $3 million compared to $33 million at December 31, 2011. Bank indebtedness increased to $44 million from nil at the end of 2011, and cash increased by $8 million to $41 million at December 31, 2012 compared to $33 million at December 31, 2011.

Total assets increased $182 million, from $631 million at December 31, 2011 to $813 million at December 31, 2012. The increase is primarily due to an increase in cash of $8 million, accounts receivable of $31 million, work in progress of $11 million, and intangible assets of $135 million arising from acquisitions made in 2012. This increase was partially offset by a decrease in equity securities available-for-sale of $21 million.

Current liabilities increased $152 million, from $321 million at December 31, 2011 to $473 million at December 31, 2012. The increase is due to increase in net borrowings on our line of credit of $44 million, an increase in accounts payable and accrued liabilities of $33 million, an increase in dividends payable of $21 million, an increase in deferred revenue of $43 million primarily due to acquisitions and the timing of billings versus revenue recognized and an increase in acquisition holdback payments of $9 million primarily due to an increase in acquisitions in 2012 as compared to 2011.

Net Changes in Cash Flows (in millions of $)	**Twelve months ended December 31, 2012**	**Twelve months ended December 31, 2011**
Net cash provided by operating activities	$145	$138
Net cash used in financing activities	(27)	(92)
Net cash used in investing activities	(110)	(43)
Net increase (decrease) in cash and cash equivalents	$8	$3

The net cash flows from operating activities was $145 million for the year ended December 31, 2012. The $145 million provided by operating activities resulted from approximately $93 million in net income, plus $93 million of non-cash adjustments to net income, offset by $17 million of cash used by an increase in our non-cash operating working capital and $24 million in taxes paid.

The net cash used in financing activities in the year ended December 31, 2012 was $27 million, which is mainly a result of an increase in bank indebtedness of $41 million, which was offset by dividends paid in the year of $64 million. The decrease in net cash used in financing activities in 2012 compared to the prior year is mainly attributed to an increase in bank indebtedness, which was partially offset by an increase in dividends paid. In the year ended December 31, 2011, we paid down $48 million of bank indebtedness compared to an increase of $41 million for the year ended December 31, 2012. The Company also paid $64 million of dividends in 2012 compared to $42 million in 2011.

The net cash used in investing activities in the year ended December 31, 2012 was $110 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $139 million (including payments for holdbacks relating to acquisitions closed prior to December 31, 2011) and the purchase of property and equipment of $6 million, which was offset by $35 million of proceeds from sales of available-for-sale financial assets. The increase in cash used for investing activities in the year ended December 31, 2012 compared to the same period in the prior year is mainly attributed to payments related to acquisitions. For the year ended December 31, 2011, we made $46 million in acquisition related payments (including payments for holdbacks relating to acquisitions closed in prior years) compared to payments of $139 million for the same period in 2012.

We believe we have sufficient liquidity 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

In Q1 2012, we entered into a new credit facility with a syndicate of Canadian chartered banks and U.S. banks in the amount of $300 million which replaced our previous $160 million facility. The credit facility is collateralized by substantially all of our assets including the assets of the majority of our material Canadian and U.S. subsidiaries. The credit facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. 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 until 2016. As at December 31, 2012, we had drawn $46 million on this facility. Transaction costs associated with this facility have been included as part of the carrying amount of the liability and are being amortized through profit or loss using the effective interest rate method. As at December 31, 2012, the carrying amount of such costs relating to this facility totalling $2 million has been classified as part of bank indebtedness in the statement of financial position.

Commitments include operating leases for office equipment and facilities, letters of credit 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 contingent consideration, or earn out obligations, based on the future performance of the acquired business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments (the Company does, however, enter into foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of monetary liabilities), or any equity interests in non-consolidated entities (aside from our equity investments included in other assets) that would have a significant effect on our assets and liabilities as at December 31, 2012.

Commitments

(in thousands of dollars)

	Total	< 1 yr	1-5 yrs	> 5 yrs
Operating and capital leases	66,518	19,792	38,088	8,638
Holdbacks	26,608	20,635	5,973	-
Line of credit	46,000	46,000	-	-
Total outstanding commitments	139,126	86,427	44,061	8,638

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. We cannot predict the effect of foreign exchange gains or 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 Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of financial liabilities. In entering into these forward exchange contracts, the company is exposed to the credit risk of the counterparties to such contracts and the possibility that the counterparties will default on their payment obligations under these contracts. However, given that the counterparties are Schedule 1 banks or affiliates thereof, the Company believes these risks are not material. During the period, the Company purchased contracts of this nature totaling approximately $56 million. At December 31, 2012 a single contract remains unsettled with a value of $19 million and the Company has recorded its fair value at December 31, 2012 based on foreign exchange rates relative to the stated rate in the contract. The fair value loss through profit or loss of $0.2 million has been recorded in interest expense as part of finance costs. The contract was settled on January 3, 2013.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue and expenses, as applicable, for the three and twelve month periods ended December 31, 2012:

	Three Months Ended December 31,2012		Year Ended December 31, 2012	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	65%	55%	67%	55%
CAD	11%	19%	11%	21%
GBP	10%	10%	11%	11%
EURO	8%	8%	6%	4%
CHF	1%	3%	2%	4%
Others	5%	5%	3%	5%
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 and letters of credit, all of our liabilities and commitments are reflected as part of our statement of financial position.

Proposed Transactions

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

Disposal of Assets Subsequent to 2012 Year End

On February 14, 2013, the Company sold the technology and cloud solution assets ("CSI Tech") of the previously acquired Computer Software Innovations, Inc. ("CSWI") to Encore Technology Group. The Company remains committed to the development and operation of the software business acquired as part of the acquisition of CSWI. The Company sold off the CSI Tech business as it was a hardware business that was unrelated to the software business acquired in the CSWI acquisition

The table below provides certain supplemental information for the three months ended December 31, 2012 regarding the CSI Tech that were sold subsequent to year end.

Revenue	Three months ended December 31, 2012 Constellation Software Inc.	CSI Tech (note 1)	Constellation Software Inc. (excluding CSI Tech)
Licenses	22,683	9	22,674
Professional services	58,594	739	57,855
Hardware and other	37,944	6,127	31,817
Maintenance and other recurring	141,778	218	141,560
	260,999	**7,092**	**253,907**
Expenses			
Hardware	23,960	5,224	18,736
Other	182,694	1,830	180,864
	206,654	**7,054**	**199,600**
Adjusted EBITDA	**54,345**	**39**	**54,306**
Adjusted EBITDA %	21%	1%	21%
Total Assets	**812,679**	**3,346**	**809,333**

Note 1 - CSI Tech represents the Technology and Cloud solution assets of the previously acquired Computer Software Innovations, Inc. The acquisition was completed during Q4 2012 and the sale occurred subsequent to year end.

Critical Accounting Estimates

General

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

Our significant accounting policies are fully described in Note 3 to our annual consolidated financial statements which are available on SEDAR (www.sedar.com). Certain accounting policies are particularly important to the reporting of our financial position and results of operations, and require the application of significant judgment by our management. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different, estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could have a material impact on the financial statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements. We believe that there have been no significant changes in our critical accounting estimates for the years presented in our consolidated financial statements.

Revenue Recognition

Revenue represents the fair value of consideration received or receivable from customers for goods and services provided by the Company, net of discounts and sales taxes. The Company reports revenue under four revenue categories being License, Hardware and Other, Professional Services, and Maintenance and other recurring revenue.

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

The Company typically sells or licenses software on a perpetual basis, but also licenses software for a specified period. Revenue from short-term time-based licenses, which usually include support services during the license period, is recognized rateably over the license term. Revenue from multi-year time based licenses that include support services, whether separately priced or not, is recognized rateably over the license term unless a substantive support service renewal rate exists; if this is the case, the amount allocated to the delivered software is recognized as software revenue based on the residual approach once the revenue criteria have been met. In those instances where the customer is required to renew mandatory support and maintenance in order to maintain use of the licensed software over the license term, the Company recognizes the consideration attributable to the license and support for the initial term of the arrangement attributable to the license and support over the initial one-year term and recognizes revenue for the support renewal fees in subsequent years over the respective renewal periods.

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

A portion of the Company's sales, categorized as hardware revenue, are accounted for as product revenue. Product revenue is recognized when the Company has an executed agreement, the product has been delivered and costs can be measured reliably, the amount of the fee to be paid by the customer is fixed and determinable, and the collection of the related receivable is deemed probable from the outset of the arrangement. If for any of the product or service offerings, the Company determines at the outset of an arrangement that the amount of revenue cannot be measured reliably, and the Company concludes that the inflow of economic benefits associated with the transaction is not probable, then the revenue is deferred until the arrangement fee becomes due and payable by the customer. If, at the outset of an arrangement, the Company determines that collectability is not probable, and the Company concludes that the inflow of economic benefits associated with the transaction is not probable, then revenue recognition is deferred until the earlier of when collectability becomes probable or payment is received. If collectability becomes unlikely before all revenue from an arrangement is recognized, the Company recognizes revenue only to the extent of the fees that are successfully collected unless collectability becomes reasonably assured again. If a customer is specifically identified as a collection risk, the Company does not recognize revenue except to the extent of the fees that have already been collected.

Revenue related to the customer reimbursement of travel related expenses incurred during a project implementation is included in the hardware and other revenue category. Revenue is recognized as costs are incurred which is consistent with the period in which the costs are invoiced. Reimbursable travel expenses incurred for which an invoice has not been issued, are recorded as part of work in progress on the statement of financial position.

Maintenance and other recurring revenue primarily consists of fees charged for customer support on software products post-delivery and also includes, to a lesser extent, recurring fees derived from combined software/support contracts, transaction revenues, managed services, and hosted products. Maintenance revenue remaining to be recognized in profit or loss is recognized as deferred revenue in the statement of financial position when amounts have been billed in advance.

Professional Services revenue including implementation, training and customization of software is recognized by the stage of completion of the arrangement determined using the percentage of completion method noted above or as such services are performed as appropriate in the circumstances. The revenue and profit of fixed price contracts is recognized on a percentage of completion basis when the outcome of a contract can be estimated reliably. When the outcome of the contract cannot be estimated reliably, the amount of revenue recognized is limited to the cost incurred in the period. Losses on contracts are recognized as soon as a loss is foreseen by reference to the estimated costs of completion.

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

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

Valuation of Identifiable Goodwill and Other Intangible Assets

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

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

The income approach is a valuation technique that calculates the fair value of an intangible asset based on the cash flows that the asset can be expected to generate over its remaining useful life. We utilize the discounted cash flow (“DCF”) methodology which is a form of the income approach that begins with a forecast of the annual cash flows a market participant would expect the subject intangible asset to generate over a discrete projection period. The forecasted cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets’ projected cash flows, again, from a market participant perspective. 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 estimated fair value of the subject intangible asset.

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

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

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

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

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

The impairment test methodology is based on a comparison between the higher of fair value less costs to sell and value-in-use of each of the Company's business units (considered as the grouping of cash generating units ("CGU") at which level the impairment test is performed) and the net asset carrying values (including goodwill) of the Company's business units. Within the Company's reporting structure, business units generally reflect one level below the six operating segments (Volaris, Harris, Emphasys, Jonas, Homebuilder, and Friedman Operating Groups). In determining the recoverable amount, the Company applies an estimated market valuation multiple to the business unit's most recent annual recurring revenues, which are derived from combined software/support contracts, transaction revenues, and hosted products. Valuation multiples applied by management for this purpose reflect current conditions specific to the business unit and are assessed for reasonability by comparison to the Company's current and past experience of ranges of multiples required to acquire representative software companies. In addition, in certain instances, the recoverable amount is determined using a value-in-use approach which follows the same valuation process that is undertaken for the Company’s business acquisitions. An impairment is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount.

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

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

Accounting for Income Taxes

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

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

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

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

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

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

Accounts Receivable

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

Work In Progress

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

Provisions

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

We are currently involved in various claims and legal proceedings. Quarterly, we review the status of each significant matter and assess our potential financial exposure. Because of the uncertainties related to these matters, provisions are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and, if necessary, revise our provisions. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing our consolidated financial statements. The relevant standards and the anticipated impact are highlighted below.

IFRS 9 Financial Instruments

IFRS 9 (2009) replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

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

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

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IAS 27 (2008) survives as IAS 27 (2011) Separate Financial Statements, only to carry forward the existing accounting requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

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

IFRS 11 Joint Arrangements

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

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

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

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

IFRS 13 Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other.

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the consolidated financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures

IAS 28 (2011) carries forward the requirements of IAS 28 (2008), with the following limited amendments:

Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to IAS 28 to have a material impact on the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements

The amendments require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these categories.

The existing option to present the profit or loss and other comprehensive income in two statements has remained unchanged.

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

Amendments to IAS 19 Employee Benefits

The amendments require the following:

- Recognition of actuarial gains and losses immediately in other comprehensive income
- Full recognition of past service costs immediately in profit or loss
- Recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation
- Additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

The amendments also impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 Provisions, and when the entity can no longer withdraw the offer of the termination benefits.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to IAS 19 to have a material impact on the consolidated financial statements.

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

The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

Share Capital

As at March 6, 2013, there were 21,191,530 common shares outstanding.

Outlook

For Q1 2013, the Company expects gross revenue to be in the range of $245 million to $260 million and Adjusted EBITDA margin to be in the range of 14% to 18%.

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

1. Revenue growth will be in the range of 26% to 33% for Q1 2013, which includes the impact of all companies acquired to date;

2. The European acquisitions that the Company completed during the second half of 2012 and in the first quarter of 2013 will likely have negative Adjusted EBITDA in Q1 2013, and in aggregate, the European (including UK) operations of the Company will generate single digit Adjusted EBITDA margins during the quarter;

3. North American hiring by the company during Q1 2013 will be increased to provide additional professional services capacity to address backlog and to staff new investments in growth initiatives;

4. No material acquisitions will be completed during the remainder of Q1 2013; and

5. General economic and market conditions will remain consistent with those in effect on March 6, 2013.

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

1. Revenue can fluctuate significantly based on the demand for our software products, level of product and price competition, the geographical mix of our sales together with fluctuations in foreign currency exchange rates, changes in mix and pricing of software solutions that our customers demand, our ability to successfully implement projects, order cancellations, renewal of maintenance agreements with customers, and patterns of spending and changes in budgeting cycles of our customers;

2. Adjusted EBITDA can fluctuate significantly based on the pricing and mix of software solutions that we sell, our customer demand, the geographical mix of our sales and cost base together with fluctuations in foreign currency exchange rates, acquisition related expenses, legal fees, changes in acquired assets and/or liabilities, and employee bonuses which are based on the performance of the Company;

The above statements have been included for the purpose of providing information about management's current expectations and plans relating to Q1 of fiscal 2013. Readers are cautioned that such information may not be appropriate for other purposes.

Risks and Uncertainties

The Company's business is subject to a number of risk factors, including those set forth below and also those included in our 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.

Canada Revenue Agency Reassessment and Other Tax Uncertainties

In July 2012, a subsidiary of Constellation received a notice of reassessment for the 2004 taxation year from the Canadian tax authorities ("CRA") which increased taxable income of the subsidiary by approximately $20 million relating to a gain on the sale of property between entities under common control. As a result of the notice of reassessment, the CRA has determined that the subsidiary owes approximately $6 million in federal tax and interest and approximately $5 million in provincial tax and interest. In order to appeal the reassessment, the subsidiary paid $8 million in September 2012 representing 50% of the amount owing from the federal reassessment and 100% of the amount owing from the provincial reassessment. At this stage, the Company believes the proposed reassessment is without merit and is challenging the reassessment. In Q1, 2013, the Company filed an appeal with the Tax Court of Canada. The Company believes that it has adequately provided for the probable outcome in respect of this matter and as such no additional provision has been recorded in these financial statements during the year. There is no assurance, however, that the Company's appeal will be successful and, if unsuccessful, the Company's future financial results and tax provisions could be adversely affected. The $8 million payment made in September 2012 has been recorded in other non-current assets.

The Company is subject to various other income tax audits by various authorities in respect of prior periods that could result in additional tax expense in future periods. While the outcome of such other outstanding audits and claims remains uncertain, it is expected that they will be resolved without a material impact to the Company's financial position.

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, 2012, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

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

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

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

Consolidated Financial Statements
(In U.S. dollars)

CONSTELLATION SOFTWARE INC.

For the years ended December 31, 2012 and 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

December 31, 2012

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

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

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

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

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

March 6, 2013

"Mark Leonard"	"John Billowits"
President	Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Constellation Software Inc.

We have audited the accompanying consolidated financial statements of Constellation Software Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
March 6, 2013
Toronto, Canada

CONSTELLATION SOFTWARE INC.

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

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash	$ 41,313	$ 33,492
Equity securities available-for-sale (note 5)	470	21,222
Accounts receivable	126,987	96,259
Work in progress	36,926	26,244
Inventories	18,739	13,539
Other assets (note 7)	29,178	29,772
	253,613	220,528
Non-current assets:		
Property and equipment (note 8)	21,300	14,591
Deferred income taxes (note 13)	104,307	99,659
Other assets (note 7)	31,104	28,005
Intangible assets (note 9)	402,355	267,792
	559,066	410,047
Total assets	$ 812,679	$ 630,575
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 10)	$ 44,356	$ -
Accounts payable and accrued liabilities	147,559	114,952
Dividends payable (note 14)	20,945	-
Deferred revenue	224,049	181,450
Provisions (note 11)	6,396	3,555
Acquired contract liabilities	3,535	4,750
Acquisition holdback payments	20,635	11,378
Income taxes payable	5,066	4,751
	472,541	320,836
Non-current liabilities:		
Deferred income taxes (note 13)	29,283	11,259
Acquired contract liabilities	26,073	28,051
Acquisition holdback payments	5,973	2,474
Other liabilities (note 7)	20,005	11,675
	81,334	53,459
Total liabilities	553,875	374,295
Shareholders' equity (note 14):		
Capital stock	99,283	99,283
Accumulated other comprehensive income	1,621	6,961
Retained earnings	157,900	150,036
	258,804	256,280
Subsequent events (notes 14, 16, 22, 26)		
Total liabilities and shareholders' equity	$ 812,679	$ 630,575

See accompanying notes to the consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

Years ended December 31, 2012 and 2011

	2012	2011
Revenue (note 15)	$ 891,226	$ 773,341
Expenses		
Staff	469,677	401,379
Hardware	61,446	60,854
Third party license, maintenance and professional services	61,469	51,066
Occupancy	21,023	18,918
Travel	35,967	30,038
Telecommunications	10,996	9,992
Supplies	15,308	15,314
Professional fees	15,031	8,623
Other, net	14,358	8,479
Depreciation	7,643	7,868
Amortization of intangible assets (note 9)	85,142	76,650
	798,060	689,181
Impairment of non-financial assets	-	489
Foreign exchange loss	822	3,392
Equity in net loss of equity investees	839	-
Finance income (note 16)	(23,178)	(7,267)
Finance costs (note 16)	4,001	5,575
	(17,516)	2,189
Profit before income tax	110,682	81,971
Current income tax expense	23,626	18,615
Deferred income tax recovery	(5,576)	(93,818)
Income tax expense (recovery) (note 12)	18,050	(75,203)
Net income	92,632	157,174
Net change in fair value of available-for-sale financial assets during the period	13,968	5,773
Net unrealized foreign exchange gain (loss) on available-for-sale financial assets during the period	45	(31)
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	(21,735)	(6,253)
Foreign currency translation differences from foreign operations	1,164	(1,188)
Current income tax recovery (expense)	104	(34)
Deferred income tax recovery	1,114	172
Other comprehensive loss for the period, net of income tax	(5,340)	(1,561)
Total comprehensive income for the period	$ 87,292	$ 155,613
Earnings per share Basic and diluted (note 17)	$ 4.37	$ 7.42

See accompanying notes to the consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

Year ended December 31, 2012	Capital stock	Accumulated other comprehensive income/(loss)		Total accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation account	Amounts related to gains/losses on available-for-sale financial assets			
Balance at January 1, 2012	**$ 99,283**	**$ 182**	**$ 6,779**	**$ 6,961**	**$ 150,036**	**$ 256,280**
Total comprehensive income for the period						
Net income	-	-	-	-	92,632	92,632
Other comprehensive income (loss)						
Net change in fair value of available-for-sale financial assets during the period	-	-	13,968	13,968	-	13,968
Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period	-	-	45	45	-	45
Amounts reclassified to profit during the period related to realized gains on available-for-sale investments	-	-	(21,735)	(21,735)	-	(21,735)
Foreign currency translation differences from from foreign operations	-	1,164	-	1,164	-	1,164
Current tax recovery	-	104	-	104	-	104
Deferred tax recovery	-	-	1,114	1,114	-	1,114
Total other comprehensive income (loss) for the period	**-**	**1,268**	**(6,608)**	**(5,340)**	**-**	**(5,340)**
Total comprehensive income (loss) for the period	**-**	**1,268**	**(6,608)**	**(5,340)**	**92,632**	**87,292**
Transactions with owners, recorded directly in equity						
Dividends to shareholders of the Company (note 14)	-	-	-	-	(84,768)	(84,768)
Balance at December 31, 2012	**$ 99,283**	**$ 1,450**	**$ 171**	**$ 1,621**	**$ 157,900**	**$ 258,804**

See accompanying notes to the consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

Year ended December 31, 2011

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

See accompanying notes to the consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Net income	$ 92,632	$ 157,174
Adjustments for:		
Depreciation	7,643	7,868
Amortization of intangible assets	85,142	76,650
Impairment of non-financial assets	-	489
Equity in net loss of equity investees	839	-
Finance income	(23,178)	(7,267)
Finance costs	4,001	5,575
Income tax expense (recovery)	18,050	(75,203)
Foreign exchange loss	822	3,392
Change in non-cash operating working capital exclusive of effects of business combinations (note 24)	(17,390)	(15,896)
Income taxes paid	(23,770)	(15,249)
Net cash flows from operating activities	144,791	137,533
Cash flows from (used in) financing activities:		
Interest paid	(1,761)	(4,979)
Increase (decrease) in other non current liabilities	(973)	3,720
Increase (decrease) in bank indebtedness, net	41,052	(47,877)
Credit facility transaction costs	(2,077)	-
Dividends paid	(63,576)	(42,384)
Net cash flows used in financing activities	(27,335)	(91,520)
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired (note 4)	(121,154)	(40,511)
Post-acquisition settlement payments, net of receipts	(17,445)	(5,345)
Purchases of equity securities available-for-sale	(211)	(5,944)
Proceeds from sale of equity securities available-for-sale	34,977	14,268
Proceeds from sale of intangible assets	101	-
Decrease in restricted cash	-	557
Interest received	5	1,113
Property and equipment purchased	(6,100)	(7,350)
Cash flows used in investing activities	(109,827)	(43,212)
Effect of foreign currency on cash and cash equivalents	192	(220)
Increase in cash and cash equivalents	7,821	2,581
Cash, beginning of period	33,492	30,911
Cash, end of period	$ 41,313	$ 33,492

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

1. Reporting entity

Constellation Software Inc. ("Constellation") is a company domiciled in Canada. The address of Constellation's registered office is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada. The consolidated financial statements of Constellation as at and for the fiscal year ended December 31, 2012 comprise Constellation and its subsidiaries (together referred to as the "Company") and the Company's interest in associates. The Company is engaged principally in the development, installation and customization of software relating to the markets listed below, and in the provision of related professional services and support.

Public Sector:

Public transit operators	Asset management	Public safety
Para transit operators	Criminal justice	Healthcare
School transportation	Law enforcement	Public housing authorities
Non-emergency medical	Taxi dispatch	Housing finance agencies
Ride share	Electric utilities	Municipal treasury & debt systems
Local government	Water utilities	Real estate brokers and agents
Agri-business	Municipal systems	Court
Rental	School administration	Marine asset management
Collections management	COBRA Billing & Administration	

Private Sector:

Private clubs & daily fee golf courses	Homebuilders	Cabinet manufacturers
Construction	Lease management	Made-to-order manufacturers
Food services	Winery management	Window and other dealers
Health clubs	Buy here pay here dealers	Multi-carrier shipping
Moving and storage	RV and marine dealers	Supply chain optimization
Metal service centers	Pulp & paper manufacturers	Multi-channel distribution
Attractions	Real estate brokers and agents	Wholesale distribution
Leisure centers	Outdoor equipment dealerships	Third party logistics
Education	Agriculture equipment dealerships	Retail management and distribution
Radiology & Laboratory Information Systems	Window manufacturers	Direct debit and collection management services
Pharmaceutical and Biological manufacturing	Consumer product licensing	

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), issued and outstanding as of March 6, 2013, the date the Board of Directors approved such financial statements.

(b) Basis of measurement

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

(c) Functional and presentation of currency

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

(d) Use of estimates and judgements

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

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

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

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

Critical judgements that management has made in the process of applying accounting policies disclosed herein and that have a significant effect on the amounts recognized in the consolidated financial statements relates to the (i) determination of functional currencies for Constellation’s subsidiaries and, most notably, in respect of businesses acquired during the period; (ii) assessment as to whether certain customer contract obligations and deliverables related to multiple-element arrangements have stand-alone value to the customer; (iii) recognition of deferred tax assets; and (iv) recognition of provisions.

- Functional currency - management applies judgement in situations where primary and secondary indicators are mixed. Primary indicators such as the currency that mainly influence sales prices are given priority before considering secondary indicators.

- Revenue recognition and separation of customer contract obligations and deliverables – management applies judgement when assessing whether certain deliverables in a customer arrangement should be included or excluded from a unit of account to which contract accounting is applied. The judgement is typically related to the sale and inclusion of third party hardware and licenses in a customer arrangement and involves an assessment that principally addresses whether the deliverable has stand-alone to the customer that is not dependent upon other components of the arrangement.

- Deferred tax assets - The recognition of deferred tax assets is based on forecasts of future taxable profit. The measurement of future taxable profit for the purposes of determining whether or not to recognize deferred tax assets depends on many factors, including the Company's ability to generate such profits and the implementation of effective tax planning strategies. The occurrence or non-occurrence of such events in the future may lead to significant changes in the measurement of deferred tax assets.

- Provisions - In recognizing provisions, the Company evaluates the extent to which it is probable that it has incurred a legal or constructive obligation in respect of past events and the probability that there will be an outflow of benefits as a result. The estimates used to recognize provisions are based on currently known factors which may vary over time, resulting in changes in the measurement of recorded amounts.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise indicated.

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

(a) Basis of consolidation

(i) Business combinations

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

The Company uses its best estimates and assumptions to accurately value assets and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. Upon conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to profit or loss. For a given acquisition, the Company may identify certain pre-acquisition contingencies as of the acquisition date and may extend its review and evaluation of these pre-acquisition contingencies throughout the measurement period in order to obtain sufficient information to assess these contingencies as part of acquisition accounting, as applicable.

(ii) Consolidation methods

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

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency translation

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of subsidiaries of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Foreign currency differences arising on re-measurement are recognized through profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency gains and losses are reported on a net basis. The effect of currency translation adjustments on cash and cash equivalents is presented separately in the statements of cash flows and separated from investing and financing activities when deemed significant.

(ii) Foreign operations

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

Foreign currency differences are recognized and presented in other comprehensive income and in the foreign currency translation adjustment in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest when applicable.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which its substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation differences. If, and when, settlement plans change or deemed likely to occur, then the accounting process in (b)(i) above is applied. When a foreign operation payable or receivable classified as a net investment is partially or fully disposed, the proportionate share of the cumulative amount in the translation reserve related to that foreign operation is transferred to profit or loss as part of the profit or loss on disposal. The Company has elected not to treat repayments of monetary items receivable or payable to a foreign operation as a disposition.

(c) Financial Instruments

The Company's financial instruments comprise cash, restricted cash, equity securities, accounts receivables, derivatives in the form of foreign exchange forward contracts, bank indebtedness, accounts payable and accrued liabilities, and holdback liabilities on acquisitions.

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

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

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

(i) Non-derivative financial assets

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

Available-for-sale financial assets

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

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

Loans and receivables

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

Financial assets at fair value through profit or loss

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

(ii) Non derivative financial liabilities

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

(iii) Capital Stock

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of tax.

(iv) Derivatives

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

(d) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For measurement of goodwill at initial recognition, including the recognition of bargain purchase gains, refer to note 4. After initial recognition, goodwill is measured at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee. No such losses have been recognized during the year.

The impairment test methodology is based on a comparison between the higher of fair value less costs to sell and value-in-use of each of the Company's business units (considered as the grouping of cash generating units ("CGU") at which level the impairment test is performed) and the net asset carrying values (including goodwill) of the Company's business units. Within the Company's reporting structure, business units generally reflect one level below the six operating segments (Volaris, Harris, Emphasys, Jonas, Homebuilder, and Friedman Operating Groups). In determining the recoverable amount, the Company applies an estimated market valuation multiple to the business unit's most recent annual recurring revenues, which are derived from combined software/support contracts, transaction revenues, and hosted products. Valuation multiples applied by management for this purpose reflect current conditions specific to the business unit and are assessed for reasonability by comparison to the Company's current and past experience of ranges of multiples required to acquire representative software companies. In addition, in certain instances, the recoverable amount is determined using a value-in-use approach which follows the same valuation process that is undertaken for the Company’s business acquisitions. An impairment is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount.

(ii) Acquired intangible assets

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

The Company utilizes the discounted cash flow ("DCF") methodology which is a form of the income approach that begins with a forecast of the annual cash flows that a market participant would expect the subject intangible asset to generate over a discrete projection period. The forecasted cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows, again, from a market participant perspective. The present value of the forecasted cash flows are then added to the present value of the residual value of the intangible asset (if any) at the end of the discrete projection period to arrive at a conclusion with respect to the estimated fair value of the subject intangible assets.

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

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

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

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

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

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

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

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

(iii) Research and development

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

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

For the year ended December 31, 2012, $123,622 (2011 – $101,750) of research and development costs have been expensed in profit or loss. These costs are net of investment tax credits, primarily arising from applicable activities in Canada, recognized as part of other, net expenses through profit or loss of $5,199 for the year ended December 31, 2012 (2011 – $7,081).

(e) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes initial and subsequent expenditures that are directly attributable to the acquisition of the related asset. When component parts of an item of property, and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment, where applicable.

(ii) Depreciation

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

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

Asset	**Rate**
Computer hardware	3 Years
Computer software	1 Year
Furniture and equipment	5 Years
Leasehold improvements	Shorter of the estimated useful life and the term of the lease
Building	50 Years

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

(f) Inventories

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

(g) Work in progress

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

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

(h) Acquired contract assets and liabilities

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

Each period subsequent to the acquisition date of an applicable business, the asset (liability) is reduced (increased) by actual billings and increased (decreased) by revenue recognized in profit or loss.

(i) Other non-current liabilities

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

(j) Impairment

(i) Financial assets (including receivables)

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

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

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

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

Impairment losses on available-for-sale equity securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized through profit or loss is the difference between the acquisition cost, and the current fair value, less any impairment loss previously recognized through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(ii) Non-financial assets

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the Company uses discounted cash flows which are determined using a pre-tax discount rate specific to the asset or CGU. The discount rate used reflects current market conditions including risks specific to the assets. Significant estimates within the cash flows include recurring revenue growth rates and operating expenses. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, which for the Company's purposes is typically representative of the business unit level within the corporate and management structure. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination.

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

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

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

(k) Provisions

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

(l) Revenue recognition

Revenue represents the fair value of consideration received or receivable from customers for goods and services provided by the Company, net of discounts and sales taxes. The Company reports revenue under four revenue categories being, License, Hardware, Professional Services, and Maintenance and other recurring revenue.

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

The Company typically sells or licenses software on a perpetual basis, but also licenses software for a specified period. Revenue from short-term time-based licenses, which usually include support services during the license period, is recognized rateably over the license term. Revenue from multi-year time based licenses that include support services, whether separately priced or not, is recognized rateably over the license term unless a substantive support service renewal rate exists; if this is the case, the amount allocated to the delivered software is recognized as software revenue based on the residual approach once the revenue criteria have been met. In those instances where the customer is required to renew mandatory support and maintenance in order to maintain use of the licensed software over the license term, the Company recognizes the consideration attributable to the license and support for the initial term of the arrangement attributable to the license and support over the initial one-year term and recognizes revenue for the support renewal fees in subsequent years over the respective renewal periods.

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

A portion of the Company's sales, categorized as hardware revenue, are accounted for as product revenue. Product revenue is recognized when the Company has an executed agreement, the product has been delivered and costs can be measured reliably, the amount of the fee to be paid by the customer is fixed and determinable, and the collection of the related receivable is deemed probable from the outset of the arrangement. If for any of the product or service offerings, the Company determines at the outset of an arrangement that the amount of revenue cannot be measured reliably, and the Company concludes that the inflow of economic benefits associated with the transaction is not probable, then the revenue is deferred until the arrangement fee becomes due and payable by the customer. If, at the outset of an arrangement, the Company determines that collectability is not probable, and the Company concludes that the inflow of economic benefits associated with the transaction is not probable, then revenue recognition is deferred until the earlier of when collectability becomes probable or payment is received. If collectability becomes unlikely before all revenue from an arrangement is recognized, the Company recognizes revenue only to the extent of the fees that are successfully collected unless collectability becomes reasonably assured again. If a customer is specifically identified as a collection risk, the Company does not recognize revenue except to the extent of the fees that have already been collected.

Revenue related to the customer reimbursement of travel related expenses incurred during a project implementation is included in the hardware and other revenue category. Revenue is recognized as costs are incurred which is consistent with the period in which the costs are invoiced. Reimbursable travel expenses incurred for which an invoice has not been issued, are recorded as part of work in progress on the statement of financial position.

Maintenance and other recurring revenue primarily consists of fees charged for customer support on software products post-delivery and also includes, to a lesser extent, recurring fees derived from combined software/support contracts, transaction revenues, managed services, and hosted products. Maintenance revenue remaining to be recognized in profit or loss is recognized as deferred revenue in the statement of financial position when amounts have been billed in advance.

Professional Services revenue including implementation, training and customization of software is recognized by the stage of completion of the arrangement determined using the percentage of completion method noted above or as such services are performed as appropriate in the circumstances. The revenue and profit of fixed price contracts is recognized on a percentage of completion basis when the outcome of a contract can be estimated reliably. When the outcome of the contract cannot be estimated reliably, the amount of revenue recognized is limited to the cost incurred in the period. Losses on contracts are recognized as soon as a loss is foreseen by reference to the estimated costs of completion.

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

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

(m) Finance income and finance costs

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

Finance costs comprise interest expense on borrowings, amortization of the discount on provisions, fair value losses on financial assets at fair value through profit or loss, and impairment losses recognized on financial assets other than trade receivables. Transaction costs attributable to the Company's line of credit are recognized in finance costs using the effective interest method.

(n) Income taxes

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

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

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

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

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

(o) Investment tax credits

The Company is entitled to both non-refundable and refundable Canadian investment tax credits for qualifying research and development activities in Canada. Investment tax credits are accounted for as a reduction of the related expenditure for items of a period expense nature or as a reduction of property and equipment for items of a capital nature when the amount is reliably estimable and the Company has reasonable assurance regarding compliance with the relevant objective conditions and that the credit will be realized.

(p) Segment reporting

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

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

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

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

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

(q) Earnings per share

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

(r) Short-term employee benefits

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

(s) Lease payments

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

(t) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements. The relevant standards are listed below.

IFRS 9 Financial Instruments

IFRS 9 (2009) replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

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

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

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IAS 27 (2008) survives as IAS 27 (2011) Separate Financial Statements, only to carry forward the existing accounting requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

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

IFRS 11 Joint Arrangements

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

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

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity’s interest in other entities, and the effects of those interests on the entity’s financial position, financial performance and cash flows.

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

IFRS 13 Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other.

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the consolidated financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures

IAS 28 (2011) carries forward the requirements of IAS 28 (2008), with the following limited amendments:

Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to IAS 28 to have a material impact on the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements

The amendments require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these categories.

The existing option to present the profit or loss and other comprehensive income in two statements has remained unchanged.

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

Amendments to IAS 19 Employee Benefits

The amendments require the following:

- Recognition of actuarial gains and losses immediately in other comprehensive income
- Full recognition of past service costs immediately in profit or loss
- Recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation
- Additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

The amendments also impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 Provisions, and when the entity can no longer withdraw the offer of the termination benefits.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to IAS 19 to have a material impact on the consolidated financial statements.

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

The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

4. Business acquisitions

During the year ended December 31, 2012, the Company closed thirty-five acquisitions for aggregate cash consideration of $141,178 plus cash holdbacks of $28,646 and contingent consideration with an estimated fair value of $10,440 resulting in total consideration of $180,264. The contingent consideration is payable on the achievement of certain financial targets in the post-acquisition period. The obligation for contingent consideration for acquisitions during the year ended December 31, 2012 has been recorded at its estimated fair value, which has been determined to be $10,440 at the various acquisition dates. Estimated fair value of the contingent consideration is calculated using the weighted probability of the expected contingent consideration and inclusion of a discount rate as appropriate. As part of these arrangements, which included both maximum, or capped, and unlimited contingent consideration amounts, the estimated increase to the initial consideration is not expected to exceed a maximum of $15,745. Aggregate contingent consideration of $15,209 (December 31, 2011 - $7,166) has been reported in the statement of financial position at its estimated fair value relating to applicable acquisitions completed in the current and prior periods. Changes made to the estimated fair value of contingent consideration are included in other expenses in the statement of comprehensive income. A credit of $973 has been recorded for the year ended December 31, 2012 as a result of such changes (2011: nil).

There were no acquisitions during the period that were deemed to be individually material. Of the thirty-five acquisitions, the Company acquired 100% of the shares of 23 companies and acquired the net assets of the other 12 companies. The cash holdbacks are payable over periods ranging from six months to three years and are adjusted, as necessary, for such items as working capital or net tangible asset adjustments and claims under the respective representations and warranties of the agreements.

The acquisitions during the year include software companies catering to the following markets; health clubs, school administration, asset management, radiology and laboratory information systems, utilities, lease management, local government, rental, real estate brokers and agents, public transit operators, construction, agriculture equipment dealerships, retail management and distribution, marine asset management, education, consumer product licensing, direct debit and collection management services, collections management, healthcare, pharmaceutical and biological manufacturing, and COBRA billing and administration, all of which are software businesses similar to existing businesses operated by the Company. The acquisitions have been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of each acquisition. Seventeen of the acquisitions have been included in the Private reportable segment and eighteen have been included in the Public reportable segment.

The goodwill recognized in connection with these acquisitions is primarily attributable to the application of Constellation's best practices to improve the operations of the companies acquired, synergies with existing businesses of Constellation, and other intangibles that do not qualify for separate recognition including assembled workforce. Goodwill in the amount of $14,660 is expected to be deductible for income tax purposes.

The gross contractual amounts of acquired receivables was $28,907 however the Company has set up an allowance of $1,819 as part of the acquisition accounting to reflect contractual cash flows that are not expected to be collected.

Due to the complexity and timing of certain acquisitions made in the fourth quarter of the year ended December 31, 2012, the Company is in the process of determining and finalizing the estimated fair value of the net assets acquired as part of the acquisitions. The amounts determined on a provisional basis generally relate to net tangible asset assessments and measurement of the assumed liabilities, including acquired contract liabilities. The cash consideration associated with these provisional estimates totals $61,792.

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

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	$ 10,351	$ 9,673	$ 20,024
Accounts receivable	21,450	5,638	27,088
Other current assets	12,801	2,671	15,472
Property and equipment	6,998	1,279	8,277
Other long term assets	253	-	253
Deferred income taxes	1,264	-	1,264
Technology assets	91,232	42,286	133,518
Customer assets	33,167	16,433	49,600
Backlog	1,764	-	1,764
	179,280	77,980	257,260
Liabilities assumed:			
Bank indebtedness	4,948	-	4,948
Current liabilities	23,478	6,879	30,357
Deferred revenue (a)	33,765	8,051	41,816
Deferred income taxes	13,466	7,517	20,983
Other non-current liabilities	8,627	640	9,267
	84,284	23,087	107,371
Goodwill	18,439	11,936	30,375
Total consideration	**$ 113,435**	**$ 66,829**	**$ 180,264**

(a) Includes acquired contract liabilities of $13,281.

The 2012 business acquisitions contributed revenue of $81,111 and net loss of $4,071 during the year ended December 31, 2012. Revenue and net loss amounts from acquisitions included in the Public sector were $58,870 and $6,199, respectively. Revenue and net income amounts from acquisitions included in the Private sector were $22,241 and $2,128, respectively. If these acquisitions would have occurred on January 1, 2012, management estimates that consolidated revenue would have been $1,039,416 and consolidated net income for the year would have been $92,292 as compared to the amounts reported in the statement of comprehensive income for the same period. In determining these amounts, management has assumed that the fair value adjustments that arose on the dates of acquisition would have been the same if the acquisitions had occurred on January 1, 2012. The net income from acquisitions includes the associated amortization of acquired intangible assets recognized as if the acquisitions had occurred on January 1, 2012.

5. Equity securities available-for-sale

At December 31, 2012, the Company held an investment in one (December 31, 2011 – three) public company listed in the U.S., which develops and sells software solutions. The investment has been designated as available-for-sale. The Company sold 100% of two investments during the year ended December 31, 2012 for cash consideration totalling $34,977 that were previously held as of December 31, 2011 and, accordingly, an aggregate gain on sale of $21,735 was recognized in profit or loss.

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

	December 31, 2012				December 31, 2011			
		Cost		Fair Value		Cost		Fair Value
Common shares	$	300	$	470	$	13,330	$	21,222

6. Inventories

		December 31, 2012		December 31, 2011
Raw materials	$	12,533	$	9,726
Work in progress		268		429
Finished goods		5,938		3,384
Total	$	18,739	$	13,539

No inventories were carried at fair value less cost to sell, and the carrying amount of inventories subject to retention of title clauses was nil as at December 31, 2012 and 2011.

Raw materials and changes in finished goods and work in progress recognized as hardware expenses amounted to $58,673 (2011: $57,850). The write-down of inventories to net realizable value amounted to $1,477 (2011: $157). The reversal of write-downs amounted to nil (2011: $764). Write-downs and reversals of write-downs are based on the Company's projected usage. The write-down and reversal are included in hardware expenses.

7. Other assets and liabilities

(a) Other assets

		December 31, 2012		December 31, 2011
Prepaid assets	$	19,961	$	22,432
Investment tax credits recoverable		3,726		3,201
Acquired contract assets		1,586		-
Sales tax receivable		414		621
Other receivables		3,491		3,518
Total current	$	29,178	$	29,772
Investment tax credits recoverable	$	8,316	$	8,271
Non-current trade and other receivables		9,013		2,508
Equity accounted investees (i)		13,456		14,534
Acquired contract assets		319		2,692
Total non-current	$	31,104	$	28,005

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

(i) Equity accounted investees

The Company's share of net loss in its investments currently being accounted for as equity investees was $839 (2011: nil). Dividends received for the year totalled $240 (2011: $164). The market value of the publicly traded equity held in the equity accounted investee is $10,694.

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

	June 30, 2012	December 31, 2011
	Note 1	
Total assets	79,708	80,610
Total liabilities	27,244	28,159

	Six months ended June 30, 2012	Fiscal year ended December 31, 2011
	Note 1	
Revenue	27,500	58,962
Expenses	27,221	62,025
Net income (loss)	279	(3,063)

Note 1: Based on most recently published financial information for one of the Company's equity investee's.

(b) Other liabilities

	December 31, 2012	December 31, 2011
Contingent consideration	$ 12,175	$ 5,340
Other long liabilities	7,830	6,335
Total non-current liabilities	$ 20,005	$ 11,675

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

8. Property and equipment

	Computer hardware	Computer software	Furniture and equipment	Leasehold improvements	Building	Total
Cost						
Balance at January 1, 2011	$ 23,195	$ 10,881	$ 9,984	$ 4,696	$ 1,960	$ 50,716
Additions	2,640	1,998	1,224	1,488	-	7,350
Acquisitions through business combinations	995	226	391	63	-	1,675
Disposals / retirements	(909)	(83)	(356)	(35)	-	(1,383)
Effect of movements in foreign exchange	(161)	(55)	(27)	(37)	(2)	(282)
Balance at December 31, 2011	$ 25,760	$ 12,967	$ 11,216	$ 6,175	$ 1,958	$ 58,076
Balance at January 1, 2012	$ 25,760	$ 12,967	$ 11,216	$ 6,175	$ 1,958	$ 58,076
Additions	2,221	2,030	1,335	514	-	6,100
Acquisitions through business combinations	2,869	180	1,800	105	3,170	8,124
Disposals / retirements	(1,297)	(93)	(328)	(164)	(250)	(2,132)
Effect of movements in foreign exchange	222	191	267	47	120	847
Balance at December 31, 2012	$ 29,775	$ 15,275	$ 14,290	$ 6,677	$ 4,998	$ 71,015
Depreciation and impairment losses						
Balance at January 1, 2011	$ 17,973	$ 9,037	$ 7,487	$ 2,682	$ 68	$ 37,247
Depreciation charge for the year	3,319	2,760	1,111	678	-	7,868
Disposals / retirements	(908)	(83)	(352)	(35)	-	(1,378)
Effect of movements in foreign exchange	(143)	(76)	(22)	(11)	-	(252)
Balance at December 31, 2011	$ 20,241	$ 11,638	$ 8,224	$ 3,314	$ 68	$ 43,485
Balance at January 1, 2012	$ 20,241	$ 11,638	$ 8,224	$ 3,314	$ 68	$ 43,485
Depreciation charge for the year	3,386	1,902	1,466	754	135	7,643
Disposals / retirements	(1,297)	(93)	(328)	(164)	(83)	(1,965)
Effect of movements in foreign exchange	165	150	210	17	10	552
Balance at December 31, 2012	$ 22,495	$ 13,597	$ 9,572	$ 3,921	$ 130	$ 49,715
Carrying amounts:						
At January 1, 2011	$ 5,222	$ 1,844	$ 2,497	$ 2,014	$ 1,892	$ 13,469
At December 31, 2011	$ 5,519	$ 1,329	$ 2,992	$ 2,861	$ 1,890	$ 14,591
At January 1, 2012	$ 5,519	$ 1,329	$ 2,992	$ 2,861	$ 1,890	$ 14,591
At December 31, 2012	$ 7,280	$ 1,678	$ 4,718	$ 2,756	$ 4,868	$ 21,300

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

9. Intangible assets and goodwill

	Technology Assets	Customer Assets	Backlog	Non-compete agreements	Goodwill	Total
Cost						
Balance at January 1, 2011	$ 327,705	$ 110,939	$ 12,977	$ 2,680	$ 50,145	$ 504,446
Acquisitions through business combinations	43,057	22,407	-	17	9,296	74,777
Effect of movements in foreign exchange	(550)	(197)	-	(12)	50	(709)
Balance at December 31, 2011	$ 370,212	$ 133,149	$ 12,977	$ 2,685	$ 59,491	$ 578,514
Balance at January 1, 2012	$ 370,212	$ 133,149	$ 12,977	$ 2,685	$ 59,491	$ 578,514
Acquisitions through business combinations	134,570	49,345	1,764	-	31,076	216,755
Effect of movements in foreign exchange	3,267	593	57	41	658	4,616
Balance at December 31, 2012	$ 508,049	$ 183,087	$ 14,798	$ 2,726	$ 91,225	$ 799,885
Amortization and impairment losses						
Balance at January 1, 2011	$ 172,471	$ 49,135	$ 10,656	$ 2,197	$ -	$ 234,459
Amortization for the year	52,952	21,125	2,329	244	-	76,650
Impairment charge	376	113	-	-	-	489
Effect of movements in foreign exchange	(687)	(165)	(12)	(12)	-	(876)
Balance at December 31, 2011	$ 225,112	$ 70,208	$ 12,973	$ 2,429	$ -	$ 310,722
Balance at January 1, 2012	$ 225,112	$ 70,208	$ 12,973	$ 2,429	$ -	$ 310,722
Amortization for the year	60,172	24,205	565	200	-	85,142
Impairment charge	-	-	-	-	-	-
Effect of movements in foreign exchange	1,235	357	60	14	-	1,666
Balance at December 31, 2012	$ 286,519	$ 94,770	$ 13,598	$ 2,643	$ -	$ 397,530
Carrying amounts						
At January 1, 2011	$ 155,234	$ 61,804	$ 2,321	$ 483	$ 50,145	$ 269,987
At December 31, 2011	$ 145,100	$ 62,941	$ 4	$ 256	$ 59,491	$ 267,792
At January 1, 2012	$ 145,100	$ 62,941	$ 4	$ 256	$ 59,491	$ 267,792
At December 31, 2012	$ 221,530	$ 88,317	$ 1,200	$ 83	$ 91,225	$ 402,355

Impairment testing for cash-generating units containing goodwill

The annual impairment test of goodwill was performed as of December 31, 2012 and 2011 and did not result in any impairment loss. For the purpose of impairment testing, goodwill is allocated to the Company's business units which represent the lowest level within the Company at which goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments. There was no goodwill allocated to the

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

Company's business units that was deemed to be significant in comparison to the carrying amount of goodwill as at December 31, 2012.

10. Bank indebtedness

On March 13, 2012, Constellation entered into a new credit facility with a syndicate of Canadian chartered banks and U.S. banks in the amount of $300,000 (December 31, 2011 - $160,000). The revolving line-of-credit bears a variable interest rate and is due in full on February 29, 2016 with no fixed repayments required over the term to maturity. Interest rates are calculated at prime or LIBOR plus interest rate spreads based on a leverage table that considers Constellation's indebtedness at that time. The line-of-credit is secured by a general security agreement covering the majority of Constellation's and its subsidiaries' present and future real and personal property, assets and undertaking, including all shares, partnership interests and other equity interests held in the capital of any other company; and is subject to various debt covenants. As at December 31, 2012, $46,000 (December 31, 2011 - nil) had been drawn from this credit facility, and letters of credit totalling $280 (December 31, 2011 - $385) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with the new line-of-credit have been included as part of the carrying amount of the liability and are being amortized through profit or loss using the effective interest rate method. Amortized costs recognized in the year ended December 31, 2012 relating to this line-of-credit amounted to $433. As at December 31, 2012, the carrying amount of such costs totalling $1,644 has been classified as part of bank indebtedness in the statement of financial position. Capitalized costs relating to the operating line-of-credit in place at December 31, 2011 amounted to $644, and have been expensed to finance costs during the year.

11. Provisions

At January 1, 2012	$	3,555
Reversal		(221)
Provisions recorded during the period		4,869
Provisions used during the period		(1,970)
Effect of movements in foreign exchange		163
At December 31, 2012	$	6,396

The provisions balance is comprised of various individual provisions for onerous contracts and other estimated liabilities of the Company of uncertain timing or amount.

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

12. Income taxes

(a) Tax recognized in profit or loss

	2012	2011
Tax recognized in profit or loss		
Current tax expense		
Current year	$ 23,324	$ 17,942
Adjustment for prior years	302	673
	23,626	18,615
Deferred tax recovery		
Origination and reversal of temporary differences	4,120	(90,104)
Effect of change in future tax rates	(3,259)	(2,563)
Change in recognized deductible temporary differences and prior year losses	(3,035)	576
Recognition of previously unrecognized losses	(3,402)	(1,727)
	(5,576)	(93,818)
Income tax expense (recovery)	**18,050**	**(75,203)**

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

(b) Reconciliation of effective tax rate

	2012	2011
Net income for the year	$ 92,632	$ 157,174
Income tax expense	18,050	(75,203)
Net income before tax	110,682	81,971
Income tax expense using Constellation's statutory tax rate of 26.5% (2011 - 28.25%)	29,331	23,157
Impact on taxes from:		
Foreign tax rate differential	(2,824)	(3,993)
Other, including non deductible expenses and non taxable income	945	(1,530)
Change in recognized deductible temporary differences	(3,464)	(89,746)
Effect of change in future tax rates	(3,259)	(2,563)
Recognition of prior year tax losses	(3,402)	(1,727)
Current year tax losses for which no deferred tax recognized	421	526
Under (over) provisions in prior years	302	673
	18,050	(75,203)

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

The change in the company's statutory tax rate from the prior year arises as a result of tax rate changes in Canada becoming enacted during the year.

13. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

The aggregate amount of temporary differences associated with investments in subsidiaries for which we have not recognized deferred tax liabilities is $165,599 (2011: $189,000) as the Company ultimately controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future. The temporary differences relate to undistributed earnings of that Company's subsidiaries. Dividends declared would be subject to withholding tax in the range of 0-5% depending on the jurisdiction of the subsidiary.

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

(b) Unrecognized deferred tax assets

	2012	2011
Deductible temporary differences, including capital losses	$ 20,697	$ 20,400
Non capital tax losses	$ 15,876	$ 12,200

$5,810 of the non capital tax losses expire between 2013 and 2032 and $10,066 can be carried forward indefinitely. The deductible temporary differences and capital losses do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of those items because it is not probable that future taxable profit will be available in those jurisdictions against which the Company can utilize these benefits.

(c) Recognized deferred tax assets and liabilities

	Assets		**Liabilities**		**Net**	
	2012	2011	2012	2011	2012	2011
Property, plant and equipment	20,528	3,551	(1,972)	(4,036)	18,556	(485)
Intangible assets	76,265	106,119	(42,037)	(35,742)	34,228	70,377
Reserves	4,191	2,649	-	-	4,191	2,649
Non capital loss carryforwards	13,991	5,365	-	-	13,991	5,365
SR&ED expenditure pool	1,712	4,074	(2,774)	(2,903)	(1,062)	1,171
Deferred revenue	2,327	1,678	-	-	2,327	1,678
Foreign and other tax credits	1,439	2,207	-	-	1,439	2,207
Contract asset	2,856	3,427	-	(107)	2,856	3,320
Other, including capital losses	3,193	2,470	(4,695)	(352)	(1,502)	2,118
	-				-	
Tax assets (liabilities)	126,502	131,540	(51,478)	(43,140)	75,024	88,400
Reclassification	(22,196)	(31,881)	22,196	31,881		-
Net tax assets (liabilities)	104,306	99,659	(29,282)	(11,259)	75,024	88,400

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

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

(d) Movement in deferred tax balances during the year

	Balance January 1, 2012	Recognised in profit or loss	Recognised in other comprehensive income	Acquired in business combinations	Other	Balance December 31, 2012
Property, plant and equipment	(485)	19,041	-	-	-	18,556
			-	-		-
Intangible assets	70,377	(15,166)	-	(20,983)	-	34,228
Reserves	2,649	1,542	-	-	-	4,191
Non-capital loss carryforwards	5,365	7,362	-	1,264	-	13,991
SR&ED expenditure pool	1,171	(2,233)	-	-	-	(1,062)
Deferred revenue	1,678	649	-	-	-	2,327
Tax credits	2,207	(768)	-	-	-	1,439
Contract assets	3,320	(464)	-	-	-	2,856
Other, including capital losses	1,851	(4,387)	1,114	-	(347)	(1,769)
Other	267	-	-	-	-	267
	88,400	5,576	1,114	(19,719)	(347)	75,024

	Balance January 1, 2011	Recognised in profit or loss	Recognised in other comprehensive income	Acquired in Business combinations	Other	Balance December 31, 2011
Property, plant and equipment	(1,464)	979	-	-		(485)
						-
Intangible assets	(19,840)	93,522	-	(3,305)		70,377
Reserves	3,162	(513)	-	-		2,649
Non-capital loss carryforwards	8,331	(2,966)	-	-		5,365
SR&ED expenditure pool	808	363	-	-		1,171
Deferred revenue	2,392	(714)	-	-		1,678
Tax credits	1,938	269	-	-		2,207
Contract assets	2,293	1,027	-	-		3,320
Other, including capital losses	-	1,851	-	-		1,851
Other	(61)		172	-	156	267
	(2,441)	93,818	172	(3,305)	156	88,400

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

14. Capital and other components of equity

Capital Stock

At December 31, 2011, the authorized share capital of Constellation consisted of an unlimited number of common shares and an unlimited number of Class A non-voting shares. The rights and privileges of the Class A non-voting shares entitled the holders of such shares to distributions, if and when declared by the Board of Directors provided an equivalent dividend was paid rateably on the common shares at the same time. The holders of the common shares would participate rateably with the holders of the Class A non-voting shares in any distribution of assets, or liquidation, dissolution or winding up of the Company's assets. The holders of the Class A non-voting shares were entitled to convert such shares, at any time into common shares, on a one-for-one basis.

On April 3, 2012, 100% of the Class A non-voting shares were converted to common shares, on a one-for-one basis.

	Common Shares		Class A non-voting		Total	
	Number	Amount	Number	Amount	Number	Amount
December 31, 2011	17,503,530	$ 86,794	3,688,000	$ 12,489	21,191,530	$ 99,283
December 31, 2012	21,191,530	$ 99,283	-	$ -	21,191,530	$ 99,283

Accumulated other comprehensive income (loss)

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

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

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

Dividends

During the year ended December 31, 2012 the Board of Directors approved and the Company declared dividends of $4.00 per common and class A non-voting share, up to April 3, 2012 (2011 - $2.00 per share). A dividend of $1.00 per share representing $21,192 was paid and settled on April 2, 2012, a second dividend of $1.00 per share representing $21,192 was paid and settled on July 4, 2012, a third dividend of $1.00 per share representing $21,192 was paid and settled on October 3, 2012, and a fourth dividend of $1.00 per share representing $21,192 was accrued as at December 31, 2012 and subsequently paid and settled on January 4, 2013.

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

15. Revenue

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

	Years ended December 31,	
	2012	2011
License revenue	$ 72,407	$ 63,107
Professional services revenue	197,150	181,166
Hardware and other revenue	111,359	108,716
Maintenance and other recurring revenue	510,310	420,352
Total	**$ 891,226**	**$ 773,341**

Revenues from the application of contract accounting are typically allocated to license revenue, professional service revenue and hardware revenue based on their relative fair values when the amount recognized in the period is determined using the percentage of completion method under contract accounting. During the year ended December 31, 2012 $208,563 (December 31, 2011 - $194,749) of contract revenue was recognized.

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

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

16. Finance income and finance costs

	Years ended December 31, 2012	2011
Gain on sale of available-for-sale financial assets transferred from other comprehensive income	$ (21,735)	$ (6,253)
Gain on sale of intangible assets	(321)	-
Other finance income	(1,122)	(1,014)
Finance income	$ (23,178)	$ (7,267)
Interest expense on bank indebtedness	$ 1,589	$ 4,448
Amortization of debt related transaction costs	1,077	596
Other finance costs	1,335	531
Finance costs	$ 4,001	$ 5,575

The Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of financial liabilities. During the period, the Company purchased contracts of this nature totaling approximately $56 million. At December 31, 2012 a single contract remains unsettled with a value of $19 million and the Company has recorded its fair value at December 31, 2012 based on foreign exchange rates relative to the stated rate in the contract. The fair value loss through profit or loss of $233 has been recorded as part of finance costs. The contract was settled on January 3, 2013.

17. Earnings per share

Basic and diluted earnings per share

	Years ended December 31, 2012	2011
Numerator:		
Net income	$ 92,632	$ 157,174
Denominator:		
Basic and diluted shares outstanding	21,191,530	21,191,530
Earnings per share		
Basic and diluted	$ 4.37	$ 7.42

18. Capital risk management

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

The Company is subject to certain covenants on its credit facilities. The covenants include a leverage ratio and an interest coverage ratio, as well as a minimum level of earnings for entities over which the lenders have security. The Company monitors the ratios on a quarterly basis. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements.

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

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

19. Financial risk management and financial instruments

Overview

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

Market risk

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

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

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

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

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

The Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of monetary liabilities. During the year, the Company purchased three contracts of this nature and has recorded the one unsettled contract at its fair value at December 31, 2012 based on foreign exchange rates relative to the stated rate in the contract. The fair value adjustment has been recorded in finance costs in net income.

Foreign currency sensitivity analysis:

The Company is mainly exposed to fluctuations in the Canadian dollar, British pound, Swiss franc, Euro, and Australian dollar. The major currency exposures, as of December 31, 2012, are summarized in U.S. dollar equivalents in the following table. The local currency amounts have been converted to U.S. dollar equivalents using the period end exchange rates.

	Canadian Dollar	British Pound	Swiss Franc	Euro	Australian Dollar
Current assets	$ 29,493	$ 21,687	$ 20,959	$ 16,506	$ 7,806
Non-current assets	74,328	56,747	2,263	29,467	21,301
Current liabilities	(39,294)	(30,493)	(25,795)	(11,481)	(10,829)
Non-current liabilities	(7,299)	(12,013)	(9,742)	(7,550)	(890)
Net financial assets	$ 57,228	$ 35,928	$ (12,315)	$ 26,942	$ 17,388

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

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

	Canadian Dollar	British Pound	Swiss Franc	Euro	Australian Dollar
Net and comprehensive income	$ 572	$ 359	$ (123)	$ 269	$ 174

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 18 to the consolidated financial statements. The Company's growth is financed through a combination of 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 from operations. The details of the Company's credit facilities are disclosed in note 10 to the consolidated financial statements. As at December 31, 2012, available credit in respect of the Company's bank credit facility was $253,720.

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

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

Credit risk

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

The majority of the accounts receivable balance relates to maintenance invoices to customers that have a history of payment. In addition, a large proportion of the Company's accounts receivable is with public sector government agencies where the credit risk has historically been assessed to be low.

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

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

	December 31, 2012	December 31, 2011
United States	$ 70,916	$ 53,332
Canada	23,401	20,229
United Kingdom	12,139	10,987
Europe	14,614	9,585
Other	5,917	2,126
	$ 126,987	$ 96,259

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

	December 31, 2012	December 31, 2011
Public	95,005	70,400
Private	31,982	25,859
	$ 126,987	$ 96,259

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

The aging of accounts receivables at the reporting date was:

	December 31, 2012	December 31, 2011
Current	91,475	44,945
61-120 days		
Gross	19,553	29,585
Impairment	(959)	(77)
Net	18,594	29,508
More than 120 days		
Gross	24,528	28,505
Impairment	(7,610)	(6,699)
Net	16,918	21,806
Total accounts receivable		
Gross	135,556	103,035
Impairment	(8,569)	(6,776)
Net	126,987	96,259

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

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

	2012	2011
Balance at January 1	$ 6,776	$ 8,287
Impairment loss recognized	6,936	3,737
Impairment loss reversed	(3,198)	(3,834)
Amounts written off	(1,945)	(1,414)
Balance at December 31	$ 8,569	$ 6,776

There is no concentration of credit risk because of the Company's diverse and disparate number of customers with individual receivables that are not significant to the Company on a consolidated basis. In addition the Company typically requires up front deposits from customers to protect against credit risk.

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

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

In the ordinary course of business the Company and its subsidiaries have provided performance bonds and other guarantees for the completion of certain customer contracts. The Company has not experienced a loss to date and future losses are not anticipated; therefore, no liability has been recorded in the consolidated statements of financial position related to these types of indemnifications or guarantees at December 31, 2012.

Fair values versus carrying amounts

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

The Company has capitalized transaction costs associated with its current line of credit. As a result at December 31, 2012, the fair value of the line of credit is $46,000 and the carrying value $44,356. (December 31, 2011: fair value nil, carrying value $644 – included as part of other assets).

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

Fair value hierarchy

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

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

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

Financial assets and financial liabilities measured at fair value as at December 31, 2012 and December 31, 2011 in the financial statements are summarized below. The Company has no additional financial liabilities measured at fair value initially other than those recognized in connection with business combinations.

	December 31, 2012			December 31, 2011		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Equity securities	$ 470	$ -	$ 470	$ 21,222	$ -	$ 21,222
Foreign exchange forward contract	-	-	-	443	-	443
	$ 470	$ -	$ 470	$ 21,665	$ -	$ 21,665
Liabilities:						
Foreign exchange forward contract	$ 233	$ -	$ 233	$ -	$ -	$ -
	$ 233	$ -	$ 233	$ -	$ -	$ -

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

There were no transfers of fair value measurements between level 1 and level 2 of the fair value hierarchy in 2012 and 2011.

20. Operating leases

The Company leases premises and certain equipment and automobiles under operating leases. The operating rental expense for the year ended December 31, 2012 was $16,472 (2011 - $14,849). The annual minimum lease commitments are as follows:

	December 31, 2012	December 31, 2011
Less than 1 year	$ 19,749	$ 14,921
Between 1 and 5 years	37,488	27,354
More than 5 years	9,032	7,044
Total	$ 66,269	$ 49,319

21. Operating segments

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

Reportable segments

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

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

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

Intercompany expenses (income) represent Constellation head office management fees and intercompany interest charged to the reportable segments.

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

Fiscal year ended December 31, 2012	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 635,991	$ 255,235	$ -	$ 891,226
Expenses				
Staff	331,027	138,650	-	469,677
Hardware	53,269	8,177	-	61,446
Third party licenses, maintenance and professional services	39,509	21,960	-	61,469
Occupancy	14,734	6,289	-	21,023
Travel	28,627	7,340	-	35,967
Telecommunications	7,258	3,738	-	10,996
Supplies	11,545	3,763	-	15,308
Professional fees	11,147	3,884	-	15,031
Other, net	7,548	6,810	-	14,358
Depreciation	5,389	1,867	387	7,643
Amortization of intangible assets	58,909	26,233	-	85,142
	568,962	228,711	387	798,060
Foreign exchange (gain) loss	2,339	(247)	(1,270)	822
Equity in net loss of equity investees	-	-	839	839
Finance income	(1,394)	(109)	(21,675)	(23,178)
Finance costs	332	734	2,935	4,001
Inter-company expenses (income)	19,439	8,172	(27,611)	-
	20,716	8,550	(46,782)	(17,516)
Profit before income tax	46,313	17,974	46,395	110,682
Current income tax expense (recovery)	18,692	7,865	(2,931)	23,626
Deferred income tax expense (recovery)	(3,374)	(3,317)	1,115	(5,576)
Income tax expense (recovery)	15,318	4,548	(1,816)	18,050
Net income	30,995	13,426	48,211	92,632

December 31, 2012	Public Sector	Private Sector	Other	Consolidated Total
Current assets	179,512	58,938	15,163	253,613
Current liabilities	283,869	113,514	75,158	472,541
Goodwill	56,754	34,471	-	91,225
Other Intangible assets	196,608	114,522	-	311,130

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

Fiscal year ended December 31, 2011	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 571,651	$ 201,690	$ -	$ 773,341
Expenses				
Staff	288,919	112,460	-	401,379
Hardware	53,665	7,189	-	60,854
Third party licenses, maintenance and professional services	35,581	15,485	-	51,066
Occupancy	13,328	5,590	-	18,918
Travel	24,113	5,925	-	30,038
Telecommunications	6,762	3,230	-	9,992
Supplies	12,437	2,877	-	15,314
Professional fees	6,037	2,586	-	8,623
Other, net	3,349	5,130	-	8,479
Depreciation	5,806	1,654	408	7,868
Amortization of intangible assets	56,926	19,724	-	76,650
	506,923	181,850	408	689,181
Impairment of non-financial assets	489	-	-	489
Foreign exchange (gain) loss	1,250	(610)	2,752	3,392
Finance income	(318)	(64)	(6,885)	(7,267)
Finance costs	222	188	5,165	5,575
Inter-company expenses (income)	20,205	9,380	(29,585)	-
	21,848	8,894	(28,553)	2,189
Profit before income tax	42,880	10,946	28,145	81,971
Current income tax expense (recovery)	14,843	5,985	(2,213)	18,615
Deferred income tax expense (recovery)	(56,380)	(37,584)	146	(93,818)
Income tax recovery	(41,537)	(31,599)	(2,067)	(75,203)
Net income	84,417	42,545	30,212	157,174

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

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

Geographical segments

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

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

Year ended December 31, 2012	Canada	USA	UK/Europe	Other	Total
Revenue	$ 172,171	$ 517,787	$ 172,081	$ 29,187	$ 891,226
Total assets	158,103	434,012	186,515	34,049	812,679
Property and equipment	5,788	6,433	8,177	902	21,300
Acquired contract assets	-	1,740	165	-	1,905
Intangible assets	53,587	242,333	84,762	21,673	402,355

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

Major customers

No customer represents revenue in excess of 10% of total revenue in both 2012 and 2011.

22. Contingencies

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

On September 30, 2008, Constellation acquired certain assets and liabilities of Maximus Inc.'s Asset, Justice, and Education Solutions businesses ("MAJES"). As part of the acquisition, the Company also acquired certain long-term contracts that contain contingent liabilities which may, but are unlikely to, exceed $15 million in the aggregate. The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by MAJES and for estimated damages available to customers for breaches of such contracts by MAJES where such contracts did not contain specified penalties. The contingent liabilities represent the difference between the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

In February 2011, MAXIMUS Inc. ("Maximus") and a subsidiary of Constellation received a letter from a customer initiating a dispute resolution process under the customer's contract. The customer alleged that the subsidiary of Constellation and Maximus failed to observe the most favoured customer pricing terms of the contract. The subsidiary of the Company, Maximus, and the customer have resolved the issues relating to the most favoured customer pricing terms of the contract without liability to the Company. The customer also alleged that the subsidiary of Constellation and Maximus failed to provide the services and products required to be delivered under the contract. The subsidiary of the Company, Maximus, and the customer, pursuant to the terms of the contract, entered into arbitration proceedings in respect of the customer's claims. The potential liability was undefined with respect to the claims in arbitration, however, the contract with the customer has a $9 million limitation of liability clause that the Company believes will apply to all of the claims in arbitration, should there be an unfavourable outcome to the Company. In October 2012, the customer filed a claim in court alleging no contract existed between the customer and the subsidiary of Constellation and was seeking restitution of a minimum of $12 million. In December 2012, the subsidiary of Constellation obtained an arbitration ruling in relation to the customer dispute. The arbitration ruling concluded that no amounts were owed by the subsidiary to the customer for the various claims made by the customer and that the customer owes the subsidiary approximately $10 million in fees for services provided under the contract and for amounts owing due to a breach of contract by the customer. Constellation is seeking to obtain a court judgement to enforce the arbitration ruling. The gains based on this ruling have deemed to be contingent and, accordingly, have not been recognized in these consolidated financial statements.

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 $1 million in the aggregate. The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by PTS. The contingent liabilities represent the difference between the maximum financial liabilities potentially due to customers less the estimated fair value amounts accrued in connection with the contracts assumed on acquisition.

In July 2012, a subsidiary of Constellation received a notice of reassessment for the 2004 taxation year from the Canadian tax authorities ("CRA") which increased taxable income of the subsidiary by approximately $20 million relating to a gain on the sale of property between entities under common control. As a result of the notice of reassessment, the CRA has determined that the subsidiary owes approximately $6 million in federal tax and interest and approximately $5 million in provincial tax and interest. In order to appeal the reassessment, the subsidiary paid $8 million in September 2012 representing 50% of the amount owing from the federal reassessment and 100% of the amount owing from the provincial reassessment. At this stage, the Company believes the proposed reassessment is without merit and is challenging the reassessment. In Q1, 2013, the Company filed an appeal with the Tax Court of Canada. The Company believes that it has adequately provided for the probable outcome in respect of this matter and as such no additional provision has been recorded in these financial statements during the year. There is no assurance, however, that the Company's appeal will be successful and, if unsuccessful, the Company's future financial results and tax provisions could be adversely affected. The $8 million payment made in September 2012 has been recorded in other non-current assets.

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

23. Guarantees

(a) In the ordinary course of business the Company and its subsidiaries have provided performance bonds and other guarantees for the completion of certain customer contracts. The total obligations of the Company pursuant to such bonds and related contingencies total $38,279 (2011 - $30,077). No liability has been recorded in the consolidated financial statements.

(b) As at December 31, 2012, in the normal course of business, the Company and its subsidiaries have outstanding letters of credit totalling $280 (2011 - $385).

(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.

24. Changes in non-cash operating working capital

	2012	2011
Increase in accounts receivable	$ (3,786)	$ (4,420)
Increase in work in progress	(6,758)	(1,282)
Decrease in other current assets	4,215	1,611
Decrease in inventory	2,812	2,610
Increase in non-current assets	(3,635)	(5,403)
Change in acquired contract assets and liabilities	(4,585)	(14,150)
Decrease in other non-current liabilities	(9,921)	(1,002)
Increase (decrease) in accounts payable and accrued liabilities excluding holdbacks from acquisitions	4,707	(793)
(Decrease) increase in deferred revenue	(877)	5,618
Increase in provisions	438	1,315
	$ (17,390)	$ (15,896)

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

25. Related parties

Key management personnel compensation

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

	Years ended December 31, 2012	2011
Salaries, bonus and employee benefits	$ 13,087	$ 11,812
Total	$ 13,087	$ 11,812

If terminated for other than just cause, each executive officer, is entitled to either up to 12 months prior written notice or payment in an amount equal to up to 12 months salary (or in the case of the Chief Operating Officer, 12 months total compensation) at the rate in effect at the time of his or her termination. There were no post-employment benefits, other long-term benefits, or share-based payments attributed to the key management personnel in 2012 and 2011.

26. Subsequent events

On March 6, 2013 the Company declared a $1.00 per share dividend that is payable on April 4, 2013 to all common shareholders of record at close of business on March 18, 2013.

On March 6, 2013 the Company's board of directors approved an employee share purchase plan that is expected to be made available to employees in the second quarter of 2013. The purpose of the plan is to enable employees of the Company to acquire shares of Constellation in the market through payroll deduction contributions. The participation of an employee in the plan is entirely voluntary and not obligatory.

On February 14, 2013, the Company sold the Technology and Cloud solution assets of the previously acquired Computer Software Innovations, Inc. ("CSWI") to Encore Technology Group.

Subsequent to December 31, 2012, the Company acquired the net assets of two entities and acquired 100% of the shares of four additional entities for aggregate cash consideration of $35,463 on closing plus cash holdbacks of $3,154 and contingent consideration with an estimated fair value of $650 resulting in total consideration of $39,267. The contingent consideration is payable on the achievement of certain financial targets in the post-acquisition period. The business acquisitions include companies catering to the healthcare, glass and fenestration, transit, school administration, financial services, and radiology & laboratory information systems markets, and are all software companies similar to the existing business of the Company. Three of the businesses will be included in the Company's Public Sector segment, and three in the Private Sector segment. Due to the complexity and timing of certain acquisitions completed subsequent to December 31, 2012, the Company is unable to provide additional disclosure as the accounting for these business combinations is incomplete.

27. Comparative Figures

Certain comparative figures included in the consolidated statement of cash flows, and current assets, as disclosed in note 7, have been reclassified to conform to the current period's presentation.