



CONSTELLATION
SOFTWARE
INC.

Constellation Software Inc.

INTERIM FINANCIAL REPORT

First Quarter Fiscal Year 2014

For the three month period ended
March 31, 2014
(UNAUDITED)

CONSTELLATION SOFTWARE INC.

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

The following discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three month period ended March 31, 2014 and with our Annual Consolidated Financial statements for the year ended December 31, 2013, 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. Certain totals, subtotals and percentages may not reconcile due to rounding.

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

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance as of the date of this MD&A, April 30, 2014. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-IFRS Measures

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

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

period. Prior to December 2013, the Company had reported “Adjusted EBITDA” in its MD&A. Adjusted EBITDA refers to Adjusted EBITA as defined above then further excludes depreciation. The Company uses depreciation as a proxy for the cash flows used to purchase property and equipment required to support the Company’s main business activities. As such, the Company believes Adjusted EBITA is a more useful measure than Adjusted EBITDA.

“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 EBITA and Adjusted net income are not recognized measures under IFRS and, accordingly, readers are cautioned that Adjusted EBITA 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 EBITA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITA and Adjusted net income may not be comparable to similar measures presented by other issuers. See “Results of Operations —Adjusted EBITA” and “— Adjusted net income” for a reconciliation of Adjusted EBITA 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 millions of dollars, except percentages and per share amounts)

	Three months ended March 31,		Period-Over-Period Change	
	<u>2014</u>	<u>2013</u>	<u>\$</u>	<u>%</u>
	(Unaudited)			
Revenue	394.8	256.4	138.4	54%
Expenses	332.0	216.0	116.0	54%
Adjusted EBITA	62.8	40.4	22.4	56%
Amortization of intangible assets	42.8	26.5	16.3	62%
Foreign exchange (gain) loss	0.2	1.8	(1.6)	-90%
Share in net (income) loss of equity investees	(0.1)	(0.3)	0.2	-65%
Finance and other income	(0.5)	(0.5)	0.0	-4%
Finance costs	3.3	1.1	2.2	197%
Income before income taxes	17.1	11.9	5.3	44%
Income taxes expense (recovery)				
Current income tax expense (recovery)	6.6	5.0	1.6	33%
Deferred income tax expense (recovery)	1.6	(2.3)	3.9	NM
Income tax expense (recovery)	8.2	2.7	5.6	208%
Net income	8.9	9.2	(0.3)	-3%
Adjusted net income	53.3	33.3	20.0	60%
Weighted average number of shares outstanding (000's)				
Basic and diluted	21,192	21,192		
Net income per share				
Basic and diluted	\$ 0.42	\$ 0.43	\$ (0.01)	-3%
Adjusted EBITA per share				
Basic and diluted	\$ 2.96	\$ 1.91	\$ 1.06	56%
Adjusted net income per share				
Basic and diluted	\$ 2.52	\$ 1.57	\$ 0.94	60%
Cash dividends declared per share				
Basic and diluted	\$ 1.00	\$ 1.00	\$ -	0%

NM - Not meaningful

Comparison of the first quarter ended March 31, 2014 and 2013

Revenue:

Total revenue for the quarter ended March 31, 2014 was \$394.8 million, an increase of 54%, or \$138.4 million, compared to \$256.4 million for the comparable period in 2013. The increase is mainly attributable to growth from acquisitions, however, the Company did experience organic growth of 7%. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

The following table displays the breakdown of our revenue according to revenue type:

	Three months ended March 31,		Period-Over- Period Change	
	<u>2014</u>	<u>2013</u>	<u>\$</u>	<u>%</u>
	(\$M, except percentages)			
Licenses	26.5	20.7	5.8	28%
Professional services	91.8	55.1	36.7	67%
Hardware and other	33.8	25.8	8.0	31%
Maintenance and other recurring	242.8	154.9	87.9	57%
	394.8	256.4	138.4	54%

\$M - Millions of dollars

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

The following table displays our revenue by reportable segment and the percentage change for the three months ended March 31, 2014 compared to the same period in 2013:

	Three months ended March 31,		Period-Over- Period Change	
	<u>2014</u>	<u>2013</u>	\$	%
	(\$M, except percentages)			
Public Sector				
Licenses	16.2	12.7	3.5	27%
Professional services	75.2	42.2	33.0	78%
Hardware and other	28.6	22.1	6.5	30%
Maintenance and other recurring	157.8	93.9	63.9	68%
	277.8	170.9	106.9	63%
Private Sector				
Licenses	10.3	7.9	2.4	30%
Professional services	16.6	12.9	3.7	29%
Hardware and other	5.2	3.7	1.5	39%
Maintenance and other recurring	84.9	61.0	24.0	39%
	117.1	85.6	31.5	37%

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

Public Sector

For the quarter ended March 31, 2014, total revenue in the public sector reportable segment increased by 63%, or \$106.9 million to \$277.8 million, compared to \$170.9 million for the quarter ended March 31, 2013. Total revenue growth from acquired businesses contributed approximately \$94 million to our Q1 2014 revenues compared to the same period in 2013, as we completed 23 acquisitions since the beginning of 2013. Organic revenue growth was 7% in Q1 2014 compared to the same period in 2013.

Private Sector

For the quarter ended March 31, 2014, total revenue in the private sector reportable segment increased 37%, or \$31.5 million to \$117.1 million, compared to \$85.6 million for the quarter ended March 31, 2013. Total revenue growth from acquired businesses contributed approximately \$26 million to our Q1 2014 revenues compared to the same period in 2013, as we completed 13 acquisitions since the beginning of 2013. Organic revenue growth was 7% for the three months ended March 31, 2014 compared to the same period in 2013.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended March 31,		Period-Over- Period Change	
	<u>2014</u>	<u>2013</u>	<u>\$</u>	<u>%</u>
	(\$M, except percentages)			
Expenses				
Staff	225.7	148.1	77.6	52%
Hardware	18.7	16.0	2.7	17%
Third party license, maintenance and professional services	35.3	18.4	16.9	92%
Occupancy	10.0	6.6	3.4	51%
Travel	11.4	9.5	1.9	20%
Telecommunications	3.9	3.1	0.9	28%
Supplies	8.7	4.6	4.1	87%
Professional fees	5.0	3.5	1.6	46%
Other, net	9.1	4.0	5.2	129%
Depreciation	4.1	2.2	1.9	85%
	332.0	216.0	116.0	54%

Overall expenses for the quarter ended March 31, 2014 increased 54%, or \$116.0 million to \$332.0 million, compared to \$216.0 million during the same period in 2013. As a percentage of total revenue, expenses remained consistent at 84% for both the quarters ended March 31, 2014 and March 31, 2013. Our average employee headcount grew 50% in 2014 from 5,697 for the quarter ended March 31, 2013 to 8,521 for the quarter ended March 31, 2014 primarily due to acquisitions.

Staff expense – Staff expenses increased 52% or \$77.6 million for the quarter ended March 31, 2014 over the same period in 2013. 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. Maintenance staff expenses include personnel and related costs associated with providing maintenance services on the products we sell. 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 March 31,		Period-Over- Period Change	
	<u>2014</u>	<u>2013</u>	<u>\$</u>	<u>%</u>
	(\$M, except percentages)			
Professional services	57.8	34.6	23.3	67%
Maintenance	39.3	28.9	10.4	36%
Research and development	63.9	39.0	24.9	64%
Sales and marketing	29.2	21.2	8.0	38%
General and administration	35.5	24.4	11.1	45%
	225.7	148.1	77.6	52%

The increase in staff expenses across all of our operating departments was primarily due to the growth in the number of employees compared to the same period in 2013 primarily due to acquisitions, however severance of approximately \$3 million relating to a restructuring program at Total Specific Solutions (TSS) B.V. (“TSS”) was also expensed in the quarter. The TSS acquisition made in December 2013, has a proportionately higher number of professional services headcount and related revenue than our typical VMS businesses, which is contributing to the disproportionate increase to the expense in that department. Also, TSS currently has more headcount dedicated to research and development than our typical VMS businesses and their level of investment in research and development initiatives is an area we are focusing on as part of the TSS integration.

Hardware expenses – Hardware expenses increased 17% or \$2.7 million for the quarter ended March 31, 2014 over the same period in 2013. Hardware margins for the quarter ended March 31, 2014 were 45% as compared to 38% for the same period in 2013. The hardware expense increase relates to strong sales in our ITS business offset by the impact of the February 14, 2013 sale of the Technology and Cloud solution assets (“CSI Tech”) of the previously acquired Computer Software Innovations, Inc. (“CSWI”). The CSI Tech business was sold as it was a hardware business that was unrelated to the software business acquired in the CSWI acquisition. Hardware expenses of \$5.2 million were recorded for the quarter ended March 31, 2013 related to the CSI Tech business and the associated sales margin was 15%.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 92% or \$16.9 million for the quarter ended March 31, 2014 over the same period in 2013. The increase is primarily due to an increase in maintenance and other recurring revenue for the three months ended March 31, 2014 compared to the same period in 2013. Expenses have increased at a rate in excess of the growth in revenue as a result of the payment processing activities associated with the Club Solutions acquisition which closed on March 14, 2013. This business is highly dependent on the provision of services by third party payment processors.

Occupancy expenses – Occupancy expenses increased 51% or \$3.4 million for the quarter ended March 31, 2014 over the same period in 2013. The increase is primarily due to the occupancy expenses of acquired businesses.

Travel, Telecommunications and Supplies expenses – Travel, Telecommunications and Supplies expenses increased 40% or \$6.8 million for the quarter ended March 31, 2014 over the same period in 2013. The increase in these expenses is primarily due to expenses incurred by acquired businesses.

Professional fees – Professional fees increased 46% or \$1.6 million for the quarter ended March 31, 2014 over the same period in 2013. The increase in professional fees for the quarter ended March 31, 2014 is primarily due to fees associated with ongoing litigation, and the Company’s efforts to refinance the debt used to acquire TSS.

Other, net – Other expenses increased 129% or \$5.2 million for the quarter ended March 31, 2014 over the same period in 2013. The following table provides a further breakdown of expenses within this category.

	Three months ended March 31,		Period-Over-Period Change	
	<u>2014</u>	<u>2013</u>	\$	%
	(\$M, except percentages)			
Advertising and promotion	4.2	2.4	1.9	79%
Recruitment and training	2.2	1.2	1.0	80%
Bad debt expense	1.1	0.1	1.0	710%
Other expense, net	1.6	0.3	1.3	533%
	9.1	4.0	5.2	129%

Advertising and promotion, and recruitment and training costs primarily increased due to expenses incurred by acquired businesses. The period over period percentage increases exceed the growth in revenue due to a disproportionate level of spending at TSS. The increase in bad debt expense relates to the timing of adjustments made to provisions for uncollectable accounts receivable, and the other expense increase is primarily caused by a \$0.6 million adjustment in Q1 2013 which reversed a deferred revenue liability set up as part of the initial accounting for an acquisition made in 2011. No such adjustment was required during Q1 2014. The remaining other expense increase is mainly caused by expenses incurred by acquired businesses.

Depreciation – Depreciation of property and equipment increased 85% or \$1.9 million for the quarter ended March 31, 2014 over the same period in 2013. The increase in depreciation expense is primarily attributable to an increase in the carrying amount of our property and equipment asset balance over the twelve month period ended March 31, 2014 as a result of acquisitions completed during this period.

Other Income and Expenses:

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

	Three months ended March 31,		Period-Over- Period Change	
	<u>2014</u>	<u>2013</u>	\$	%
	(\$M, except percentages)			
Amortization of intangible assets	42.8	26.5	16.3	62%
Foreign exchange (gain) loss	0.2	1.8	(1.6)	-90%
Share in net (income) loss of equity investees	(0.1)	(0.3)	0.2	-65%
Finance and other income	(0.5)	(0.5)	0.0	-4%
Finance costs	3.3	1.1	2.2	197%
Income tax expense (recovery)	8.2	2.7	5.6	208%
	53.9	31.2	22.7	73%

Amortization of intangible assets – Amortization of intangible assets increased 62% or \$16.3 million for the quarter ended March 31, 2014 over the same period in 2013. The increase in amortization expense is

attributable to an increase in the carrying amount of our intangible asset balance over the twelve month period ended March 31, 2014 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 March 31, 2014, we realized a foreign exchange loss of \$0.2 million compared to a loss of \$1.8 million for the quarter ended March 31, 2013. The foreign exchange gains and losses are due to realized gains and losses on the settlement of certain non-US denominated liabilities and due to holding, or unrealized, losses on certain non-US denominated liabilities.

Share in net (income) loss of equity investees – Share in the net (income) loss of equity investees was income of \$0.1 million for the quarter ended March 31, 2014 compared to income of \$0.3 million for the quarter ended March 31, 2013.

Finance and other income – Finance and other income for the quarter ended March 31, 2014 was unchanged at \$0.5 million compared to \$0.5 million for the quarter ended March 31, 2013.

Finance costs – Finance costs for the quarter ended March 31, 2014 increased \$2.2 million to \$3.3 million, compared to \$1.1 million for the quarter ended March 31, 2013. The increase in finance costs primarily relates to increased interest expense on our credit facilities resulting from increased average borrowings in 2014 compared to 2013.

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our effective tax rate on a consolidated basis 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 and other credits. For the quarter ended March 31, 2014, income tax expense increased \$5.6 million to \$8.2 million compared to \$2.7 million for the quarter ended March 31, 2013. The current income tax expense increase of \$1.6 million relates to the increase in profitability. The deferred income tax expense increase of \$3.9 million relates to various items including changes in recognition of certain deferred income tax assets, and withholding taxes expected to be incurred on planned intra-company dividends.

Net Income and Earnings per Share:

Net income for the quarter ended March 31, 2014 was \$8.9 million compared to net income of \$9.2 million for the same period in 2013. On a per share basis this translated into a net income per diluted share of \$0.42 in the quarter ended March 31, 2014 compared to net income per diluted share of \$0.43 in the quarter ended March 31, 2013. There were no changes in the number of shares outstanding.

Adjusted EBITA:

For the quarter ended March 31, 2014, Adjusted EBITA increased to \$62.8 million compared to \$40.4 million in the quarter ended March 31, 2013 representing an increase of 56%. Adjusted EBITA margin was 16% for both the quarters ended March 31, 2014 and March 31, 2013. A general improvement in EBITA margins across business units was offset by low EBITA margins realized by TSS. TSS generated a 5% EBITA margin for the quarter ended March 31, 2014. See “Non-IFRS Measures” for a description of Adjusted EBITA and Adjusted EBITA margin.

The following table reconciles Adjusted EBITA to net income:

	Three months ended March 31,	
	2014	2013
	(\$M, except percentages)	
Total revenue	<u>394.8</u>	<u>256.4</u>
Net income	8.9	9.2
Adjusted for:		
Income tax expense (recovery)	8.2	2.7
Foreign exchange (gain) loss	0.2	1.8
Share in net (income) loss of equity investees	(0.1)	(0.3)
Finance and other income	(0.5)	(0.5)
Finance costs	3.3	1.1
Amortization of intangible assets	42.8	26.5
Adjusted EBITA	62.8	40.4
Adjusted EBITA margin	16%	16%

Adjusted net income:

For the quarter ended March 31, 2014, Adjusted net income increased to \$53.3 million from \$33.3 million for the quarter ended March 31, 2013, representing an increase of 60%. Adjusted net income margin was 14% for the quarter ended March 31, 2014, compared to 13% for the quarter ended March 31, 2013. A general improvement in Adjusted net income margins across business units was offset by low Adjusted net income margins realized by TSS. TSS generated a 5% Adjusted net income margin for the quarter ended March 31, 2014. See “Non-IFRS Measures” for a description of Adjusted net income and Adjusted net income margin.

The following table reconciles Adjusted net income to net income:

	Three months ended March 31,	
	<u>2014</u>	<u>2013</u>
	(\$M, except percentages)	
Total revenue	<u>394.8</u>	<u>256.4</u>
Net income	8.9	9.2
Adjusted for:		
Amortization of intangible assets	42.8	26.5
Deferred income tax expense (recovery)	1.6	(2.3)
Adjusted net income	53.3	33.3
Adjusted net income margin	14%	13%

Quarterly Results (unaudited)

	Quarter Ended							
	<u>Jun. 30</u> <u>2012</u>	<u>Sep. 30</u> <u>2012</u>	<u>Dec. 31</u> <u>2012</u>	<u>Mar. 31</u> <u>2013</u>	<u>Jun. 30</u> <u>2013</u>	<u>Sep. 30</u> <u>2013</u>	<u>Dec. 31</u> <u>2013</u>	<u>Mar. 31</u> <u>2014</u>
	(\$M, except per share amounts)							
Revenue	209.0	226.0	261.0	256.4	298.2	315.9	340.3	394.8
Net Income (loss)	17.6	21.1	40.1	9.2	19.2	22.2	42.5	8.9
Adjusted Net Income	36.2	42.1	62.3	33.3	50.1	54.1	69.2	53.3
Net Income (loss) per share								
Basic & diluted	0.83	0.99	1.89	0.43	0.91	1.05	2.00	0.42
Adjusted Net Income (loss) per share								
Basic & diluted	1.71	1.99	2.94	1.57	2.36	2.55	3.26	2.52

We experience seasonality in our operating results in that Adjusted Net Income margins in the first quarter of every year are typically lower than margins achieved in the second, third and fourth quarters. The key drivers for the lower margins are increased payroll tax costs associated with our annual bonus payments that are made in the month of March, and the fact that historically there has been a consistent focus at year end to complete sales implementation projects which generally translates into increased professional services revenue in the fourth quarter and decreased professional services in the first quarter. Our quarterly results may also 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 expenses or gains, which may include changes in provisions, acquired contract liabilities, bargain purchase gains and gains or losses on the sale of financial and other assets.

Acquisition of Total Specific Solutions (TSS) B.V. (“TSS”)

On December 31, 2013, the Company acquired 100% of the shares of TSS for aggregate cash consideration of approximately \$342 million (€248 million). The tables below provide certain supplemental income statement and cash flow information of TSS for the quarter ended March 31, 2014. TSS is not considered a reportable operating segment of Constellation, however, management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of TSS.

(\$M, except percentages)

(Unaudited)	For the three months ended March 31, 2014		
	Constellation Software Inc. (excluding TSS)	TSS	Consolidated
Revenue			
Licenses	\$ 24.8	\$ 1.7	\$ 26.5
Professional services	70.1	21.7	91.8
Hardware and other	33.4	0.4	33.8
Maintenance and other recurring	208.6	34.2	242.8
	<u>336.8</u>	<u>58.0</u>	<u>394.8</u>
Expenses	277.0	55.0	332.0
Adjusted EBITA	59.8	3.0	62.8
Adjusted EBITA margin	18%	5%	16%
Net Income	<u>\$ 15.6</u>	<u>\$ (6.7)</u>	<u>\$ 8.9</u>

Cash flows from operating activities:

Net income	\$ 15.6	\$ (6.7)	\$ 8.9
Adjustments to reconcile net income to net cash flows from operations, including taxes paid:	42.2	10.5	52.7
Change in non-cash operating working capital	(9.3)	47.2	37.9
Cash flows from operating activities	<u>\$ 48.5</u>	<u>\$ 51.0</u>	<u>\$ 99.5</u>

(\$M, except percentages)

(Unaudited)	For the three months ended March 31, 2014		
	Constellation Software Inc. (excluding TSS)	TSS	Consolidated
Total revenue	<u>\$ 336.8</u>	<u>\$ 58.0</u>	<u>\$ 394.8</u>
Net income	15.6	(6.7)	8.9
Adjusted for:			
Income tax expense	10.2	(2.0)	8.2
Other expenses (income)	1.2	1.7	2.9
Amortization of intangible assets	32.8	10.0	42.8
Adjusted EBITA	59.8	3.0	62.8
Adjusted EBITA margin	18%	5%	16%

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 Solutions businesses ("MAJES") including certain long-term contracts that contained contingent liabilities that the Company believed were unlikely to exceed \$16 million in the aggregate. The contingent liabilities related 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. Beginning in February 2011, MAXIMUS Inc. ("Maximus") and a subsidiary of Constellation, as a result of receiving a letter from a customer, initiated the dispute resolution process under the customer's contract. The customer alleged that the subsidiary of Constellation and Maximus failed to provide the services and products required to be delivered under the contract. In December 2012, the subsidiary of Constellation obtained a favorable arbitration ruling in the amount of \$10 million which was subsequently reduced in July 2013 to \$6 million by a court judgment. The July 2013 court ruling also resolved an additional claim filed by the customer alleging no contract existed between the parties. In September 2013 the customer initiated the appeals process in relation to the July 2013 court ruling. The gains based on this ruling have been deemed to be contingent in nature and, accordingly, have not been recognized in the condensed consolidated interim financial statements. The contract with the customer has a \$9 million limitation of liability clause that the Company believes applies to all claims.

Liquidity

Our net borrowings (bank indebtedness excluding capitalized transaction costs less cash) decreased by \$58.0 million to \$342.6 million in the quarter ended March 31, 2014 resulting from cash flows from operations exceeding capital deployed on acquisitions. The amount drawn on our credit facilities increased by \$6.4 million to \$485.0 million at March 31, 2014 from \$478.6 million at the end of 2013, and cash increased by \$64.5 million to \$142.4 million at March 31, 2014 compared to \$78.0 million at December 31, 2013.

Total assets increased \$55.3 million, from \$1,537.7 million at December 31, 2013 to \$1,593.1 million at March 31, 2014. The increase is primarily due to an increase in cash of \$64.5 million, an increase in accounts receivable of \$12.5 million mainly due to acquisitions, offset by a decrease in intangible assets of \$26.8 relating to the amortization of intangible assets for accounting purposes. At March 31, 2014 TSS held a cash balance of \$78.3. As the Company is in the process of negotiating with certain financial institutions about providing stand-alone debt financing for TSS, this cash was retained by TSS rather than being returned to Constellation's corporate head office for application against outstanding bank indebtedness.

Current liabilities increased \$76.3 million, from \$1,108.9 million at December 31, 2013 to \$1,185.1 million at March 31, 2014. The increase is primarily due to an increase in deferred revenue of \$107.2 million mainly due to acquisitions and the timing of maintenance and other billings versus performance and delivery under those customer arrangements, offset by a decrease in accounts payable and accrued liabilities of \$38.3 million resulting from the payment of the 2013 accrued bonus during the quarter ended March 31, 2014. The Company has elected to present the amounts drawn under its revolving facility of \$158.8 million as a current liability notwithstanding that the amounts are not due to be repaid until February 2016 on the basis that it is expected to be repaid by the Company using cash flows from operations generated in the following year.

Net Changes in Cash Flows

(in \$M's)

	Three months ended March 31, 2014
Net cash provided by operating activities	99.5
Net cash from (used in) financing activities	(16.8)
Net cash from (used in) acquisition activities	(13.2)
Net cash from (used in) other investing activities	(3.7)
Net cash from (used in) investing activities	(16.9)
Effect of foreign currency	(1.4)
Net increase (decrease) in cash and cash equivalents	64.5

The net cash flows from operating activities were \$99.5 million for the quarter ended March 31, 2014. The \$99.5 million provided by operating activities resulted from \$8.9 million in net income, plus \$58.0 million of non-cash adjustments to net income, \$37.9 million of cash generated by a decrease in our non-cash operating working capital, offset by \$5.3 million in taxes paid.

The net cash flows used in financing activities in the quarter ended March 31, 2014 was \$16.8 million, which is mainly a result of dividends paid in the period of \$21.2 million offset by an increase in bank indebtedness of \$6.6 million.

The net cash flows used in investing activities in the quarter ended March 31, 2014 was \$16.9 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of \$13.2 million (including payments for holdbacks relating to prior acquisitions).

We believe we have sufficient cash and available credit capacity 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 potential acquisitions.

Capital Resources and Commitments

On March 13, 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 March 31, 2014, we had drawn \$158.8 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 March 31, 2014, the carrying amount of such costs relating to this facility totalling \$1.0 million has been classified as part of bank indebtedness in the statement of financial position.

On December 6, 2013, we amended our credit facility to facilitate the acquisition of TSS. A new one year \$350 million term facility was added solely for the purposes of funding the TSS acquisition and related expenses (the “TSS Facility”). The TSS Facility is non-amortizing and bears interest at a rate calculated at US prime or LIBOR plus interest rate spreads based on a leverage table consistent with the spreads applicable to Constellation’s credit facility. The TSS Facility is subject to the existing security requirements of the credit facility, which includes security covering the majority of Constellation’s and its subsidiaries’ present and future real and personal property, assets and undertakings, and is subject to various debt covenants. As at March 31, 2014, \$326.2 million had been drawn from the TSS Facility and the unused balance of the TSS Facility was cancelled. Transaction costs associated with the TSS Facility were 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 March 31, 2014, the carrying amount of such costs totaling \$0.3 million has been classified as part of bank indebtedness in the statement of financial position. We are in discussions with a number of European and North American financial institutions about providing stand-alone debt financing for TSS to replace a portion of the TSS Facility. In addition, in accordance with the terms of the purchase and sale agreement and preliminary agreed upon terms sheets, Constellation and the sellers of TSS are currently negotiating in good faith to reach agreement on a shareholder’s agreement pursuant to which the sellers and members of TSS’ executive management team could acquire a significant minority stake in TSS.

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, or any equity interests in non-consolidated entities that would have a significant effect on our assets and liabilities as at March 31, 2014.

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. Our analysis related to the change in average exchange rates from 2013 to 2014 suggests that the impact to EBITA for the quarter ended March 31, 2014 was not material. 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 quarter ended March 31, 2014, the Company did not purchase any contracts of this nature.

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 month period ended March 31, 2014:

Three Months Ended March 31, 2014		
Currencies	% of Revenue	% of Expenses
USD	59%	52%
CAD	6%	10%
GBP	8%	8%
EURO	20%	22%
CHF	2%	3%
Others	5%	5%
Total	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases 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.

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2014, and have not been applied in preparing our consolidated financial statements. The relevant standards are listed below.

IFRS 9 Financial Instruments

IFRS 9 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 also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management.

The mandatory effective date is not yet determined, however, early adoption of the new standard is still permitted. The Company does not intend to early adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015.

Annual Improvements to IFRS

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards. Most of the amendments will apply prospectively for annual periods beginning on or after July 1, 2014. The Company intends to apply these amendments in its financial statements for the annual periods beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

Share Capital

As at April 30, 2014, there were 21,191,530 common shares outstanding.

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 February 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 period. There is no assurance, however, that the Company's appeal will be successful and, if unsuccessful, the Company's future financial results and tax expense could be adversely affected. The \$8 million payment made in September 2012 has been recorded in other non-current assets, representative of the deposit on account.

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 March 31, 2014, 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:

The President and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that 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. The President and Chief Financial Officer have been advised that 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 period ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

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

**CONSTELLATION
SOFTWARE INC.**

For the three months ended March 31, 2014 and 2013

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash	\$ 142,444	\$ 77,967
Equity security available-for-sale	469	780
Accounts receivable	203,949	191,446
Work in progress	61,913	53,682
Inventories	23,704	21,145
Other assets (note 5)	69,691	67,161
	<u>502,170</u>	<u>412,181</u>
Non-current assets:		
Property and equipment	36,378	36,017
Deferred income taxes	61,849	71,673
Other assets (note 5)	35,317	36,171
Intangible assets (note 6)	954,862	981,662
	<u>1,088,406</u>	<u>1,125,523</u>
Total assets	\$ 1,590,576	\$ 1,537,704
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7 and 14)	\$ 483,773	\$ 477,170
Accounts payable and accrued liabilities	219,836	260,585
Dividends payable (note 10)	21,233	21,031
Deferred revenue	413,431	306,213
Provisions (note 8)	13,693	11,887
Acquisition holdback payments	23,531	26,496
Income taxes payable	7,074	5,474
	<u>1,182,571</u>	<u>1,108,856</u>
Non-current liabilities:		
Deferred income taxes	106,746	112,780
Acquisition holdback payments	4,255	4,203
Other liabilities (note 5)	43,129	45,866
	<u>154,130</u>	<u>162,849</u>
Total liabilities	1,336,701	1,271,705
Shareholders' equity (note 10):		
Capital stock	99,283	99,283
Accumulated other comprehensive income	621	449
Retained earnings	153,971	166,267
	<u>253,875</u>	<u>265,999</u>
Subsequent events (notes 10 and 18)		
Total liabilities and shareholders' equity	\$ 1,590,576	\$ 1,537,704

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2014 and 2013

(Unaudited)

	2014	2013
Revenue (note 11)	\$ 394,849	\$ 256,431
Expenses		
Staff	225,672	148,104
Hardware	18,739	16,011
Third party license, maintenance and professional services	35,319	18,440
Occupancy	9,958	6,580
Travel	11,415	9,506
Telecommunications	3,945	3,093
Supplies	8,707	4,648
Professional fees	5,039	3,461
Other, net	9,141	3,990
Depreciation	4,087	2,212
Amortization of intangible assets	42,802	26,461
	374,824	242,506
Foreign exchange loss (gain)	172	1,775
Share in net (income) loss of equity investee (note 5)	(120)	(344)
Finance and other income (note 12)	(468)	(490)
Finance costs (note 12)	3,314	1,116
	2,898	2,057
Income before income taxes	17,127	11,868
Current income tax expense (recovery)	6,611	4,980
Deferred income tax expense (recovery)	1,620	(2,311)
Income tax expense (recovery) (note 9)	8,231	2,669
Net income	8,896	9,199
Earnings per share		
Basic and diluted (note 13)	\$ 0.42	\$ 0.43

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2014 and 2013

(Unaudited)

	2014	2013
Net income	\$ 8,896	9,199
Items that are or may be reclassified subsequently to net income:		
Net change in fair value of available-for-sale financial asset during the period	93	111
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial asset	(264)	-
Foreign currency translation differences from foreign operations	320	(2,611)
Current income tax recovery (expense)	35	(52)
Deferred income tax recovery (expense)	(12)	-
Other comprehensive (loss) income for the period, net of income tax	172	(2,552)
Total comprehensive income for the period	\$ 9,068	\$ 6,647

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Three months ended March 31, 2014

	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, 2014	\$ 99,283	\$ (32)	\$ 481	\$ 449	\$ 166,267	\$ 265,999
<i>Total comprehensive income for the period</i>						
Net income	-	-	-	-	8,896	8,896
<i>Other comprehensive income (loss)</i>						
Net change in fair value of available-for-sale financial asset during the period	-	-	93	93	-	93
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	-	-	(264)	(264)	-	(264)
Foreign currency translation differences from foreign operations	-	320	-	320	-	320
Current tax recovery (expense)	-	35	-	35	-	35
Deferred tax recovery (expense)	-	(12)	-	(12)	-	(12)
Total other comprehensive income (loss) for the period	-	343	(171)	172	-	172
Total comprehensive income (loss) for the period	-	343	(171)	172	8,896	9,068
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company (note 10)	-	-	-	-	(21,192)	(21,192)
Balance at March 31, 2014	\$ 99,283	\$ 311	\$ 310	\$ 621	\$ 153,971	\$ 253,875

See accompanying notes to the condensed consolidated interim financial statements

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

Three months ended March 31, 2013

	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, 2013	\$ 99,283	\$ 1,450	\$ 171	\$ 1,621	\$ 157,900	\$ 258,804
<i>Total comprehensive income for the period</i>						
Net income	-	-	-	-	9,199	9,199
<i>Other comprehensive income (loss)</i>						
Net change in fair value of available-for-sale financial assets during the period	-	-	111	111	-	111
Amounts reclassified to profit during the period related to realized gains on available-for-sale financial assets	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(2,611)	-	(2,611)	-	(2,611)
Current tax recovery (expense)	-	(52)	-	(52)	-	(52)
Deferred tax recovery (expense)	-	-	-	-	-	-
Total other comprehensive income for the period	-	(2,663)	111	(2,552)	-	(2,552)
Total comprehensive income for the period	-	(2,663)	111	(2,552)	9,199	6,647
Transactions with owners, recorded directly in equity						
Dividends to shareholders of the Company (note 10)	-	-	-	-	(21,192)	(21,192)
Balance at March 31, 2013	\$ 99,283	\$ (1,213)	\$ 282	\$ (931)	\$ 145,907	\$ 244,259

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2014 and 2013
(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	\$ 8,896	\$ 9,199
Adjustments for:		
Depreciation	4,087	2,212
Amortization of intangible assets	42,802	26,461
Share in net (income) loss of equity investee	(120)	(344)
Finance and other income	(468)	(490)
Finance costs	3,314	1,116
Income tax expense	8,231	2,669
Foreign exchange loss (gain)	172	1,775
Change in non-cash operating working capital exclusive of effects of business combinations (note 17)	37,896	(4,124)
Income taxes paid	(5,285)	(4,562)
Net cash flows from operating activities	99,525	33,912
Cash flows from (used in) financing activities:		
Interest paid	(2,215)	(505)
Increase (decrease) in other non current liabilities	-	(23)
Increase (decrease) in bank indebtedness, net	6,601	63,000
Dividends paid	(21,192)	(21,192)
Net cash flows from (used in) in financing activities	(16,806)	41,280
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired (note 4)	(10,834)	(69,893)
Post-acquisition settlement payments, net of receipts	(2,344)	(5,221)
Proceeds from sale of available-for-sale equity securities	404	-
Interest and dividends received	130	-
Proceeds from sale of assets	-	5,423
Property and equipment purchased	(4,218)	(2,111)
Net cash flows used in investing activities	(16,862)	(71,802)
Effect of foreign currency on cash and cash equivalents	(1,380)	(390)
Increase (decrease) in cash and cash equivalents	64,477	3,000
Cash, beginning of period	77,967	41,313
Cash, end of period	\$ 142,444	\$ 44,313

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2014 and 2013

(Unaudited)

Notes to the condensed consolidated interim financial statements

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| 1. Reporting entity | 10. Capital and other components of equity |
| 2. Basis of presentation | 11. Revenue |
| 3. Significant accounting policies | 12. Finance and other income and finance costs |
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| 5. Other assets and liabilities | 14. Financial instruments |
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CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2014 and 2013

(Unaudited)

1. Reporting entity

Constellation Software Inc. ("Constellation") is a company domiciled in Canada. The address of Constellation's registered office is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada. The condensed consolidated interim financial statements of Constellation as at and for the period ended March 31, 2014 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	Municipal systems
Para transit operators	Fleet and facility management	School administration
School transportation	District attorney	Public safety
Non-emergency medical	Taxi dispatch	Healthcare
Ride share	Benefits administration	Rental
Local government	Insurance	Electric utilities
Agri-business	Collections management	Court
Marine asset management	Water utilities	School and special library

Private Sector:

Private clubs & daily fee golf courses	Lease management	Window manufacturers
Construction	Winery management	Cabinet manufacturers
Food services	Buy here pay here dealers	Made-to-order manufacturers
Health clubs	RV and marine dealers	Window and other dealers
Moving and storage	Pulp & paper manufacturers	Multi-carrier shipping
Metal service centers	Real estate brokers and agents	Supply chain optimization
Attractions	Outdoor equipment dealers	Multi-channel distribution
Leisure centers	Pharmaceutical and biotech manufacturers	Wholesale distribution
Education	Healthcare electronic medical records	Third party logistics warehouse management systems
Radiology & laboratory information systems	Homebuilders	Retail management and distribution
Product licensing	Event management	Association management
Tire distribution	Salons and spas	Public housing authorities
Housing finance agencies	Municipal treasury & debt systems	Real estate brokers and agents

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)
Three months ended March 31, 2014 and 2013
(Unaudited)

2. Basis of presentation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies disclosed in Note 3 of the Company's 2013 annual consolidated financial statements.

The policies applied in these condensed consolidated interim financial statements are based on International Financial Reporting Standards (IFRS), issued and outstanding as of April 30, 2014, the date the Board of Directors approved the condensed consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2014 could result in a restatement of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2013 annual consolidated financial statements.

(b) Basis of measurement

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

(c) Functional and presentation of currency

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

(d) Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, consistent with those disclosed in the 2013 annual consolidated financial statements. 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.

3. Significant accounting policies

Except as disclosed below, the significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2013 annual consolidated financial statements, and have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)
Three months ended March 31, 2014 and 2013
(Unaudited)

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

(a) New standards and interpretations adopted

Amendments to IAS 32, Offsetting Financial Assets and Liabilities

IAS 32 has been amended to include additional presentation requirements for financial assets and liabilities that can be offset in the statement of financial position. The Company adopted the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The adoption of the amendments did not have a material impact on the financial statements.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). The amendments apply retrospectively for annual periods beginning on or after January 1, 2014. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2014. As the amendments impact certain disclosure requirements only, the adoption of the amendments did not have a material impact on the financial statements.

(b) New standards and interpretations not yet adopted

IFRS 9 Financial Instruments

IFRS 9 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 also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management.

The mandatory effective date is not yet determined, however, early adoption of the new standard is still permitted. The Company does not intend to early adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015.

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Annual Improvements to IFRS

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards. Most of the amendments will apply prospectively for annual periods beginning on or after July 1, 2014. The Company intends to apply these amendments in its financial statements for the annual periods beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

4. Business acquisitions

(a) During the three month period ended March 31, 2014, the Company closed six acquisitions for aggregate cash consideration of \$15,212 plus cash holdbacks of \$1,576 and contingent consideration with an estimated fair value of \$1,695 resulting in total consideration of \$18,483. 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 period ended March 31, 2014 has been recorded at its estimated fair value at the various acquisition dates. The estimated fair value of the applicable contingent consideration is calculated using the weighted probability of the expected contingent consideration to be paid 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 \$1,695. Aggregate contingent consideration of \$20,287 (December 31, 2013 - \$18,452) 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, net in the statements of income. A recovery of \$31 has been recorded for the three months ended March 31, 2014, as a result of such changes (recovery of \$23 for the three months ended March 31, 2013).

There were no acquisitions during the period that were deemed to be individually significant. Of the six acquisitions, the Company acquired 100% of the shares of three businesses and acquired the net assets of the other three businesses. The cash holdbacks are payable over one year period and are adjusted, as necessary, for such items as working capital or net tangible asset assessments, as defined in the agreements, and claims under the respective representations and warranties of the purchase and sale agreements.

The acquisitions during the period include software companies catering to the following markets; fleet and facility management, local government, fitness, asset management, and para transit operators 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 condensed consolidated interim financial statements from the date of each acquisition. Five of the acquisitions have been included in the Public reportable segment and one has been included in the Private 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 \$nil is expected to be deductible for income tax purposes.

The gross contractual amounts of acquired receivables was \$1,961; however the Company has recorded an allowance of \$25 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, the Company is in the process of determining and finalizing the estimated fair value of the net assets acquired as part of the acquisitions closed during 2014 and the final three quarters of 2013. The amounts determined on a provisional basis generally relate to net asset

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assessments and measurement of the assumed liabilities, including acquired contract liabilities. The cash consideration associated with these provisional estimates totals \$501,434.

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the three month period ended March 31, 2014 is as follows:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	\$ 4,293	\$ 85	\$ 4,378
Accounts receivable	1,830	106	1,936
Other current assets	880	7	887
Property and equipment	376	6	382
Technology assets	8,446	813	9,259
Customer assets	6,568	263	6,831
	22,393	1,280	23,673
Liabilities assumed:			
Current liabilities	1,685	-	1,685
Deferred revenue (i)	2,063	-	2,063
Deferred income taxes	2,356	-	2,356
	6,104	-	6,104
Goodwill	914	-	914
Total consideration	\$ 17,203	\$ 1,280	\$ 18,483

(i) Includes acquired contract liabilities of \$16.

(b) The 2014 business acquisitions contributed revenue of \$1,880 and net loss of \$312 during the three month period ended March 31, 2014. Revenue and net loss amounts from acquisitions included in the Public sector were \$1,602 and \$269, respectively. Revenue and net loss amounts from acquisitions included in the Private sector were \$278 and \$43, respectively. If these acquisitions had occurred on January 1, 2014, management estimates that consolidated revenue would have been \$396,908 and consolidated net income for the three-month period ended March 31, 2014 would have been \$8,766 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 values of the net assets acquired that were estimated and accounted for on the dates of acquisition would have been the same as if the acquisitions had occurred on January 1, 2014. The net income from acquisitions includes the associated amortization of acquired intangible assets recognized as if the acquisitions had occurred on January 1, 2014.

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5. Other assets and other liabilities

(a) Other assets

	March 31, 2014	December 31, 2013
Prepaid and other current assets	\$ 45,628	\$ 40,814
Investment tax credits recoverable	11,821	11,178
Acquired contract assets	1,970	2,046
Sales tax receivable	3,981	5,777
Other receivables	6,291	7,346
Total current assets	\$ 69,691	\$ 67,161
Investment tax credits recoverable	\$ 9,514	\$ 10,900
Non-current trade and other receivables	11,343	11,235
Equity accounted investees (i)	14,006	13,886
Acquired contract assets	454	150
Total non-current assets	\$ 35,317	\$ 36,171

(i) The Company's share of net income in its investments currently being accounted for as equity investees for the three month period ended March 31, 2014 was \$120 (2013 – income of \$344).

(b) Other liabilities

	March 31, 2014	December 31, 2013
Contingent consideration	\$ 16,505	\$ 15,810
Acquired contract liabilities	9,311	8,934
Other non-current liabilities	17,313	21,122
Total non-current liabilities	\$ 43,129	\$ 45,866

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6. Intangible assets

	Technology Assets	Customer Assets	Backlog	Non- compete agreements	Trademarks	Goodwill	Total
Cost							
Balance at January 1, 2014	\$ 791,824	\$ 456,718	\$ 16,513	\$ 2,684	\$ 8,673	\$ 220,969	\$ 1,497,381
Acquisitions through business combinations	8,517	6,871	2	-	-	(1,249)	14,141
Effect of movements in foreign exchange	1,348	419	1	(19)	(1)	316	2,064
Balance at March 31, 2014	\$ 801,689	\$ 464,008	\$ 16,516	\$ 2,665	\$ 8,672	\$ 220,036	\$ 1,513,586
Accumulated amortization and impairment losses							
Balance at January 1, 2014	\$ 372,492	\$ 124,745	\$ 15,798	\$ 2,684	\$ -	\$ -	\$ 515,719
Amortization for the year	31,486	10,644	490	-	182	-	42,802
Effect of movements in foreign exchange	149	68	5	(19)	-	-	203
Balance at March 31, 2014	\$ 404,127	\$ 135,457	\$ 16,293	\$ 2,665	\$ 182	\$ -	\$ 558,724
Carrying amounts							
At January 1, 2014	\$ 419,332	\$ 331,973	\$ 715	\$ -	\$ 8,673	\$ 220,969	\$ 981,662
At March 31, 2014	\$ 397,562	\$ 328,551	\$ 223	\$ -	\$ 8,490	\$ 220,036	\$ 954,862

7. Bank indebtedness

On March 13, 2012, Constellation entered into a credit facility with a syndicate of Canadian chartered banks and U.S. banks in the amount of \$300,000 (December 31, 2013 - \$300,000). 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 March 31, 2014, \$158,775 (December 31, 2013 - \$149,200) had been drawn from this credit facility, and letters of credit totaling \$4,700 (December 31, 2013 - \$5,000) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with the line-of-credit were 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 three month period ended March 31, 2014 relating to this line-of-credit amounted to \$129 (March 31, 2013 - \$129). As at March 31, 2014, the carrying amount of such costs totaling \$996 (December 31, 2013 - \$1,125) has been classified as part of bank indebtedness in the consolidated statement of financial position.

On December 6, 2013, Constellation amended the credit facility to facilitate the acquisition of Total Specific Solutions B.V. ("TSS"). A new one year \$350,000 term facility was added solely for the purposes of funding the TSS acquisition and related expenses (the "TSS Facility"). The TSS Facility is non-amortizing and bears interest at a rate calculated at US prime or LIBOR plus interest rate spreads based on a leverage table consistent with the spreads applicable to Constellation's credit facility. The TSS Facility is subject to the existing security requirements of the credit facility, which includes security covering the majority of Constellation's and its subsidiaries' present and future real and personal property, assets and undertakings, and is subject to various debt covenants. As at March 31, 2014, \$326,251 (December 31, 2013 - \$329,438) had been drawn from the TSS Facility and the unused balance of the TSS Facility was cancelled. Transaction costs associated with the TSS

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Facility were 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 three month period ended March 31, 2014 relating to this line-of-credit amounted to \$86. As at March 31, 2014 the carrying amount of such costs totaling \$257 (December 31, 2013 - \$343) has been classified as part of bank indebtedness in the consolidated statement of financial position.

8. Provisions

At January 1, 2014	\$	11,959
Reversal		(157)
Provisions recorded during the period		4,667
Provisions used during the period		(2,711)
Effect of movements in foreign exchange and other		(6)
At March 31, 2014	\$	13,752

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

9. Income taxes

Income tax expense is recognized on management's best estimate of the actual income tax rate for the interim period applied to the pre-tax income of the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and ongoing changes due to intercompany transactions amongst entities operating in different jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined on a consolidated basis. The Company's consolidated effective tax rate in respect of continuing operations for the three months ended March 31, 2014 was 48% respectively (three months ended March 31, 2013 was 22%).

10. Capital and other components of equity

	Common Shares	
	Number	Amount
December 31, 2013	21,191,530	\$ 99,283
March 31, 2014	21,191,530	\$ 99,283

Dividends

During the three months ended March 31, 2014 the Board of Directors approved and the Company declared dividends of \$1.00 per common share. The dividend declared in the quarter ended March 31, 2014 representing \$21,192 was paid and settled on April 4, 2014. The dividend declared in the quarter ended March 31, 2013 representing \$21,192 was paid and settled on April 4, 2013.

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A dividend of \$1.00 per share representing \$21,192 was accrued as at December 31, 2013 and subsequently paid and settled on January 3, 2014.

11. 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-based fees, managed services, and hosted products.

	Three months ended March 31,	
	2014	2013
License revenue	\$ 26,481	\$ 20,668
Professional services revenue	91,810	55,099
Hardware and other revenue	33,792	25,808
Maintenance and other recurring revenue	242,766	154,856
Total	\$ 394,849	\$ 256,431

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. Otherwise, revenues are recognized based on the stated amounts in the applicable customer arrangements.

Advances from customers for which the related services have not yet started or performance obligations are not yet completed and billings in excess of costs incurred and recognized profits are recognized and presented as deferred revenue.

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12. Finance and other income and finance costs

	Three months ended March 31,	
	2014	2013
Gain on sale of available-for-sale financial assets transferred from other comprehensive income	\$ (264)	\$ -
Gain on sale of non-current assets	-	(369)
Other finance income	(204)	(121)
Finance income	\$ (468)	\$ (490)
Interest expense on bank indebtedness	\$ 2,507	\$ 585
Amortization of debt related transaction costs	215	129
Other finance costs	592	402
Finance costs	\$ 3,314	\$ 1,116

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 did not purchase any additional forward foreign exchange contracts. The Company had one forward contract outstanding as at December 31, 2013 with a value of \$19,343 and the contract was settled on January 3, 2014.

13. Earnings per share

Basic and diluted earnings per share

	Three months ended March 31,	
	2014	2013
Numerator:		
Net income	\$ 8,896	\$ 9,199
Denominator:		
Basic and diluted shares outstanding	21,192	21,192
Earnings per share		
Basic and diluted	\$ 0.42	\$ 0.43

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14. Financial instruments

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 transaction costs associated with its current line of credit. As a result at March 31, 2014, the fair value of the line of credit is \$158,775 and the carrying value is \$157,779. (December 31, 2013: fair value of \$149,200, carrying value of \$148,075). The fair value of the TSS facility is \$326,251 and the carrying value is \$325,994 (December 31, 2013: fair value of \$329,438 and carrying value of \$329,095).

The fair values of available-for-sale financial assets, being equity investments, at the reporting date are determined by the quoted market values for each investment.

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 2 inputs.

Financial assets and financial liabilities measured at fair value as at March 31, 2014 and December 31, 2013 in the consolidated financial statements are summarized below. The Company has no additional financial liabilities measured at fair value after initial recognition other than those recognized in connection with business combinations.

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	March 31, 2014			December 31, 2013		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Assets:						
Equity securities	\$ 469	\$ -	\$ 469	\$ 780	\$ -	\$ 780
	\$ 469	\$ -	\$ 469	\$ 780	\$ -	\$ 780
Liabilities:						
Contingent consideration	\$ -	\$ 20,287	\$ 20,287	\$ -	\$ 18,452	\$ 18,452
Foreign exchange forward contract	\$ -	\$ -	\$ -	\$ 179	\$ -	\$ 179
	\$ -	\$ 20,287	\$ 20,287	\$ 179	\$ 18,452	\$ 18,631

There were no transfers of fair value measurement between level 1 and 3 of the fair value hierarchy in the periods ended March 31, 2014 and 2013.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

Balance at January 1, 2014	18,452
Increase from business acquisitions	1,695
Cash payments	(242)
Charges through profit or loss	307
Foreign exchange	75
Balance at March 31, 2014	20,287

Estimates of the fair value of contingent consideration is performed by the Company on a quarterly basis. Key unobservable inputs include revenue growth rates and the discount rates applied (8% to 11%). The estimated fair value increases as the annual growth rate increases and as the discount rate decreases and vice versa.

15. Operating segments

Segment information is presented in respect of the Company's business. Except as described below, the accounting policies of the segments are the same as those described in the significant accounting policies section of these condensed consolidated interim financial statements.

Reportable segments

The Company has six operating segments, referred to as Operating Groups by the Company, being Volaris, Harris, Total Specific Solutions, Jonas, Homebuilder, and Vela. The operating segments are 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

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Company's Private Sector segment develops and distributes software solutions primarily to commercial customers.

During fiscal 2013, the Company had seven operating segments. During 2014, two of the Company's operating groups (Friedman and Emphasys) have been combined to form a new operating segment, Vela. During 2014, the operating results of Friedman and Emphasys are reviewed by the Company's President and Chairman of the Board of Directors as a single operating group to make decisions about resources to be allocated to that operating group and assessing its performance. Vela has been included in the Private Sector. Comparatives have been restated to reflect this change.

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 on related borrowings to the reportable segments.

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Three months ended March 31, 2014	Public Sector	Private Sector	Other	Consolidated Total
Revenue	\$ 277,780	\$ 117,069	\$ -	\$ 394,849
Expenses				
Staff	163,261	62,411	-	225,672
Hardware	15,692	3,047	-	18,739
Third party licenses, maintenance and professional services	20,282	15,037	-	35,319
Occupancy	6,904	3,054	-	9,958
Travel	8,271	3,144	-	11,415
Telecommunications	2,408	1,537	-	3,945
Supplies	7,143	1,564	-	8,707
Professional fees	3,652	1,387	-	5,039
Other, net	5,446	3,695	-	9,141
Depreciation	3,327	746	14	4,087
Amortization of intangible assets	29,237	13,565	-	42,802
	265,623	109,187	14	374,824
Foreign exchange (gain) loss	369	(621)	424	172
Equity in net (income) loss of equity investees	-	-	(120)	(120)
Finance income	(31)	(23)	(414)	(468)
Finance costs	248	332	2,734	3,314
Intercompany expenses (income)	5,978	3,392	(9,370)	-
	6,564	3,080	(6,746)	2,898
Profit (loss) before income tax	5,593	4,802	6,732	17,127
Current income tax expense (recovery)	4,557	3,412	(1,358)	6,611
Deferred income tax expense (recovery)	322	(169)	1,467	1,620
Income tax expense (recovery)	4,879	3,243	109	8,231
Net income (loss)	714	1,559	6,623	8,896

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Three months ended March 31, 2013	Public Sector	Private Sector	Other	Consolidated Total
Revenue	\$ 170,850	\$ 85,581	\$ -	\$ 256,431
Expenses				
Staff	97,786	50,318	-	148,104
Hardware	13,951	2,060	-	16,011
Third party licenses, maintenance and professional services	10,926	7,514	-	18,440
Occupancy	4,507	2,073	-	6,580
Travel	7,245	2,261	-	9,506
Telecommunications	2,007	1,086	-	3,093
Supplies	3,544	1,104	-	4,648
Professional fees	2,607	854	-	3,461
Other, net	1,735	2,255	-	3,990
Depreciation	1,545	658	9	2,212
Amortization of intangible assets	16,893	9,568	-	26,461
	162,746	79,751	9	242,506
Foreign exchange (gain) loss	(973)	709	2,039	1,775
Equity in net (income) loss of equity investees	-	-	(344)	(344)
Finance income	(38)	(403)	(49)	(490)
Finance costs	196	205	715	1,116
Intercompany expenses (income)	4,500	2,478	(6,978)	-
	3,685	2,989	(4,617)	2,057
Profit (loss) before income tax	4,419	2,841	4,608	11,868
Current income tax expense (recovery)	2,425	3,369	(814)	4,980
Deferred income tax expense (recovery)	(1,044)	(1,267)	-	(2,311)
Income tax expense (recovery)	1,381	2,102	(814)	2,669
Net income (loss)	3,038	739	5,422	9,199

16. 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.

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(Unaudited)

On September 30, 2008, Constellation acquired certain assets and liabilities of Maximus Inc.'s Asset, Justice, and Education Solutions businesses ("MAJES") including certain long-term contracts that contained contingent liabilities that the Company believed were unlikely to exceed \$16,000 in the aggregate. The contingent liabilities related 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. Beginning in February 2011, MAXIMUS Inc. ("Maximus") and a subsidiary of Constellation, as a result of receiving a letter from a customer, initiated the dispute resolution process under the customer's contract. The customer alleged that the subsidiary of Constellation and Maximus failed to provide the services and products required to be delivered under the contract. In December 2012, the subsidiary of Constellation obtained a favorable arbitration ruling in the amount of \$10,000 which was subsequently reduced in July 2013 to \$6,000 by a court judgment. The July 2013 court ruling also resolved an additional claim filed by the customer alleging no contract existed between the parties. In September 2013 the customer initiated the appeals process in relation to the July 2013 court ruling. The gains based on this ruling have been deemed to be contingent in nature and, accordingly, have not been recognized in the condensed consolidated interim financial statements. The contract with the customer has a \$9,000 limitation of liability clause that the Company believes applies to all claims.

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 \$20,000 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 \$6,000 in federal tax and interest and approximately \$5,000 in provincial tax and interest. In order to appeal the reassessment, the subsidiary paid \$8,000 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 February 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 period. There is no assurance, however, that the Company's appeal will be successful and, if unsuccessful, the Company's future financial results and tax expense could be adversely affected. The \$8,000 payment made in September 2012 has been recorded in other non-current assets, representative of the deposit on account.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2014 and 2013

(Unaudited)

17. Changes in non-cash operating working capital

	Three months ended	
	March 31,	
	2014	2013
Decrease (increase) in accounts receivable	\$ (9,729)	\$ 5,305
Decrease (increase) in work in progress	(8,246)	(1,853)
Decrease (increase) in other current assets	(1,649)	(7,094)
Decrease (increase) in inventory	(2,492)	(177)
Decrease (increase) in non-current assets	660	(1,695)
Increase (decrease) in other non-current liabilities	(2,782)	116
Increase (decrease) increase in accounts payable and accrued liabilities, excluding holdbacks from acquisitions	(43,927)	(25,384)
Increase (decrease) in deferred revenue	104,242	26,746
Increase (decrease) in provisions	1,819	(88)
	<u>\$ 37,896</u>	<u>\$ (4,124)</u>

18. Subsequent events

On April 30, 2014 the Company declared a \$1.00 per share dividend that is payable on July 3, 2014 to all common shareholders of record at close of business on June 17, 2014.