

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

**CONSTELLATION
SOFTWARE INC.**

For the three and nine months ended September 30, 2018 and 2017
Unaudited

CONSTELLATION SOFTWARE INC.

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

Unaudited

	September 30, 2018	December 31, 2017*
Assets		
Current assets:		
Cash	\$ 456,033	\$ 488,964
Accounts receivable	330,455	316,538
Unbilled revenue	89,140	64,109
Inventories	31,995	23,196
Other assets (note 5)	158,175	100,098
	<u>1,065,798</u>	<u>992,905</u>
Non-current assets:		
Property and equipment	58,382	53,817
Deferred income taxes	47,300	38,362
Other assets (note 5)	58,896	21,801
Intangible assets (note 6)	1,506,252	1,181,333
	<u>1,670,830</u>	<u>1,295,313</u>
Total assets	\$ 2,736,628	\$ 2,288,218
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility (note 7)	\$ -	\$ -
Debt without recourse to Constellation Software Inc. (note 8)	63,455	96,398
TSS Membership Liability (note 9)	61,106	49,215
Accounts payable and accrued liabilities	384,840	379,573
Dividends payable (note 13)	21,353	21,575
Deferred revenue	681,139	541,108
Provisions (note 11)	5,484	10,377
Acquisition holdback payables	56,905	42,867
Income taxes payable	34,835	31,028
	<u>1,309,117</u>	<u>1,172,141</u>
Non-current liabilities:		
Debt without recourse to Constellation Software Inc. (note 8)	108,317	-
TSS Membership Liability (note 9)	107,492	86,575
Debentures (note 10)	227,497	236,462
Deferred income taxes	179,282	148,961
Acquisition holdback payables	15,337	6,480
Other liabilities (note 5)	77,030	33,521
	<u>714,955</u>	<u>511,999</u>
Total liabilities	2,024,072	1,684,140
Shareholders' equity (note 13):		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(31,615)	(26,739)
Retained earnings	644,888	531,534
	<u>712,556</u>	<u>604,078</u>
Total liabilities and shareholders' equity	\$ 2,736,628	\$ 2,288,218
Subsequent events (notes 13 and 20)		
Total liabilities and shareholders' equity	\$ 2,736,628	\$ 2,288,218

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 21.

CONSTELLATION SOFTWARE INC.

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

Three and nine months ended September 30, 2018 and 2017

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017*	2018	2017*
Revenue				
License	\$ 49,216	\$ 44,478	\$ 140,896	\$ 120,482
Professional services	148,034	125,530	442,848	358,648
Hardware and other	40,378	43,852	116,362	117,208
Maintenance and other recurring	521,445	422,599	1,529,471	1,195,531
	759,073	636,459	2,229,577	1,791,869
Expenses				
Staff	383,568	312,667	1,163,421	898,751
Hardware	22,452	24,208	64,210	63,619
Third party license, maintenance and professional services	65,792	55,059	193,874	155,601
Occupancy	19,494	15,584	58,411	43,454
Travel	19,298	18,546	58,571	52,438
Telecommunications	6,152	5,716	18,598	16,051
Supplies	4,551	4,103	13,763	11,583
Software and equipment	14,024	11,200	40,103	30,556
Professional fees	9,140	7,921	28,219	21,614
Other, net	11,367	14,126	39,768	35,112
Depreciation	6,599	5,768	19,997	16,388
Amortization of intangible assets	70,244	59,829	208,774	167,852
	632,681	534,727	1,907,709	1,513,019
Foreign exchange loss (gain)	8,440	7,567	3,136	10,926
TSS membership liability revaluation charge (note 9)	16,920	11,781	37,632	40,311
Share in net (income) loss of equity investee	(554)	(80)	(787)	(206)
Finance and other expense (income) (note 14)	(2,531)	(1,291)	(12,575)	(1,720)
Bargain purchase (gain)	(500)	(5,008)	(619)	(5,008)
Finance costs (note 14)	7,853	8,725	18,074	19,456
	29,628	21,694	44,861	63,759
Income before income taxes	96,764	80,038	277,007	215,091
Current income tax expense (recovery)	31,683	25,975	93,138	80,191
Deferred income tax expense (recovery)	(624)	(206)	(16,375)	(10,952)
Income tax expense (recovery)	31,059	25,769	76,763	69,239
Net income	65,705	54,269	200,244	145,852
Earnings per share				
Basic and diluted (note 15)	\$ 3.10	\$ 2.56	\$ 9.45	\$ 6.88

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 21.

CONSTELLATION SOFTWARE INC.

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

Three and nine months ended September 30, 2018 and 2017

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017*	2018	2017*
Net income	\$ 65,705	\$ 54,269	\$ 200,244	\$ 145,852
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	-	-	-	(1,314)
Net change in fair value of derivatives designated as hedges during the period	-	193	-	538
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	-	1,288
Foreign currency translation differences from foreign operations	1,932	857	(4,876)	8,704
Deferred income tax recovery (expense)	-	(58)	-	(152)
Other comprehensive (loss) income for the period, net of income tax	1,932	992	(4,876)	9,064
Total comprehensive income (loss) for the period	\$ 67,637	\$ 55,261	\$ 195,368	\$ 154,916

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 21.

CONSTELLATION SOFTWARE INC.

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

Unaudited

Nine months ended September 30, 2018

	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	Amounts related to gains/(losses) on derivatives designated as hedges			
Balance at January 1, 2018	\$ 99,283	\$ (26,739)	\$ -	\$ -	\$ (26,739)	\$ 531,534	\$ 604,078
Impact of change in accounting policy (note 21)	-	-	-	-	-	(23,314)	(23,314)
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	200,244	200,244
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	-	-	-	-	-
Net change in fair value of derivatives designated as hedges during the period	-	-	-	-	-	-	-
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	-	-	-	-	-
Foreign currency translation differences from foreign operations	-	(4,876)	-	-	(4,876)	-	(4,876)
Deferred tax recovery (expense)	-	-	-	-	-	-	-
Total other comprehensive income (loss) for the period	-	(4,876)	-	-	(4,876)	-	(4,876)
Total comprehensive income (loss) for the period	-	(4,876)	-	-	(4,876)	200,244	195,368
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company (note 13)	-	-	-	-	-	(63,576)	(63,576)
Balance at September 30, 2018	\$ 99,283	\$ (31,615)	\$ -	\$ -	\$ (31,615)	\$ 644,888	\$ 712,556

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 21.

CONSTELLATION SOFTWARE INC.

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

Unaudited

Nine months ended September 30, 2017

	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	Amounts related to gains/(losses) on derivatives designated as hedges			
Balance at January 1, 2017	\$ 99,283	\$ (35,748)	\$ 17	\$ (377)	\$ (36,108)	\$ 394,334	\$ 457,509
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	145,852	145,852
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	(1,314)	-	(1,314)	-	(1,314)
Net change in fair value of derivatives designated as hedges during the period	-	-	-	538	538	-	538
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	1,288	-	1,288	-	1,288
Foreign currency translation differences from foreign operations	-	8,704	-	-	8,704	-	8,704
Deferred tax recovery (expense)	-	-	9	(161)	(152)	-	(152)
Total other comprehensive income for the period	-	8,704	(17)	377	9,064	-	9,064
Total comprehensive income for the period	-	8,704	(17)	377	9,064	145,852	154,916
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company (note 13)	-	-	-	-	-	(63,576)	(63,576)
Balance at September 30, 2017	\$ 99,283	\$ (27,044)	\$ -	\$ -	\$ (27,044)	\$ 476,610	\$ 548,849

See accompanying notes to the condensed consolidated interim financial statements.

* The Company initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 21.

CONSTELLATION SOFTWARE INC.

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

Three and nine months ended September 30, 2018 and 2017
Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017*	2018	2017*
Cash flows from operating activities:				
Net income	\$ 65,705	\$ 54,269	\$ 200,244	\$ 145,852
Adjustments for:				
Depreciation	6,599	5,768	19,997	16,388
Amortization of intangible assets	70,244	59,829	208,774	167,852
TSS membership liability revaluation charge	16,920	11,781	37,632	40,311
Share in net (income) loss of equity investee	(554)	(80)	(787)	(206)
Finance and other expense (income)	(2,531)	(1,291)	(12,575)	(1,720)
Bargain purchase gain	(500)	(5,008)	(619)	(5,008)
Finance costs	7,853	8,725	18,074	19,456
Income tax expense (recovery)	31,059	25,769	76,763	69,239
Foreign exchange loss (gain)	8,440	7,567	3,136	10,926
Change in non-cash operating assets and liabilities exclusive of effects of business combinations (note 19)	(26,601)	(28,069)	18,656	(28,421)
Income taxes paid	(33,626)	(16,539)	(115,716)	(69,517)
Net cash flows from operating activities	143,008	122,721	453,579	365,152
Cash flows from (used in) financing activities:				
Interest paid	(6,591)	(5,572)	(17,126)	(16,707)
Increase (decrease) in New CNH Facility, net	-	74,608	(34,503)	74,608
Proceeds from issuance of Acceo facility	110,401	-	110,401	-
Repayments of Acceo facility	(276)	-	(276)	-
Repayments of CNH facility	-	(134,248)	-	(138,177)
Credit facility transaction costs	(2,733)	(1,942)	(2,733)	(1,942)
Dividends paid	(21,192)	(21,192)	(63,576)	(63,576)
Net cash flows from (used in) in financing activities	79,609	(88,346)	(7,813)	(145,794)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired (note 4)	(83,465)	(41,863)	(406,219)	(156,062)
Post-acquisition settlement payments, net of receipts	(21,456)	(4,723)	(53,281)	(21,611)
Proceeds from sale of available-for-sale equity securities	-	-	-	2,828
Interest, dividends and other proceeds received	1,680	1,152	3,157	21,607
Property and equipment purchased	(6,283)	(5,450)	(18,316)	(14,382)
Net cash flows from (used in) investing activities	(109,524)	(50,884)	(474,659)	(167,620)
Effect of foreign currency on cash and cash equivalents	(626)	1,331	(4,038)	9,349
Increase (decrease) in cash	112,467	(15,178)	(32,931)	61,087
Cash, beginning of period	343,566	429,764	488,964	353,499
Cash, end of period	\$ 456,033	\$ 414,586	\$ 456,033	\$ 414,586

See accompanying notes to the condensed consolidated interim financial statements.

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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 and nine months ended September 30, 2018 and 2017

(Unaudited)

Notes to the condensed consolidated interim financial statements

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|---|--|
| 1. Reporting entity | 12. Income taxes |
| 2. Basis of presentation | 13. Capital and other components of equity |
| 3. Significant accounting policies | 14. Finance and other income and finance costs |
| 4. Business acquisitions | 15. Earnings per share |
| 5. Other assets and other non-current liabilities | 16. Financial instruments |
| 6. Intangible assets | 17. Operating segments |
| 7. CSI facility | 18. Contingencies |
| 8. Debt without recourse to CSI | 19. Changes in non-cash operating assets and liabilities |
| 9. TSS Membership liability | 20. Subsequent events |
| 10. Debentures | 21. Explanation of adoption of IFRS 15 |
| 11. Provisions | |

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 and nine months ended September 30, 2018 and 2017

(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 September 30, 2018 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
Communications	Credit unions	Drink distribution
Education	Financial services	Notaries
Fashion retail	Pharmacies	Long-term care
Home and community care	County systems	Research management
Retail management and distribution	Public housing authorities	Not-for-profit organizations
Automotive	Accountancy	Catering
Small and medium sized businesses	Property management	Food services
Creative agencies	Commercial printing	

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 and nine months ended September 30, 2018 and 2017
(Unaudited)

Private Sector:

Private clubs and 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 and paper manufacturers	Multi-carrier shipping
Metal service centers	Agriculture equipment dealers	Supply chain optimization
Attractions	Outdoor equipment dealers	Multi-channel distribution
Leisure centers	Education	Wholesale distribution
Retail management and distribution	Healthcare electronic medical records	Homebuilders
Radiology and laboratory information systems	Pharmaceutical and biotech manufacturers	Third party logistics warehouse management systems
Product licensing	Event management	Financial services
Tire distribution	Salons and spas	Association management
Housing finance agencies	Municipal treasury and debt systems	Public housing authorities
Tour operators	Auto clubs	Real estate brokers and agents
Long-term care	Textiles and apparel	Home and community care
Hospitality	Mining	Ombudsman
Aerospace	Design and welding	Manufacturing plant performance
Oil and gas	Publishing	Marinas
Automotive	Local government	

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 2017 annual consolidated financial statements except as disclosed herein.

The policies applied in these condensed consolidated interim financial statements are based on International Financial Reporting Standards (IFRS), issued and outstanding as of October 25, 2018, the date the Board of Directors approved the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company’s 2017 annual consolidated financial statements.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for 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.

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 and nine months ended September 30, 2018 and 2017
(Unaudited)

(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 2017 annual consolidated financial statements and described in these condensed consolidated interim 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 for the adoption of IFRS 15 and IFRS 9, the significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2017 annual consolidated financial statements and have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

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

Revenue recognition

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company reports revenue under four revenue categories being, License, Hardware and other, Professional services, and Maintenance and other recurring revenue.

Contracts with multiple products or services

Typically, the Company enters into contracts that contain multiple products and services such as software licenses, hosted software-as-a-service, maintenance, professional services, and hardware. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and Constellation's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

Where a contract consists of more than one performance obligation, revenue is allocated to each based on their estimated standalone selling price ("SSP").

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 and nine months ended September 30, 2018 and 2017
(Unaudited)

Nature of products and services

The Company sells on-premise software licenses on both a perpetual and specified-term basis. Revenue from the license of distinct software is recognized at the time that both the right-to-use the software has commenced and the software has been made available to the customer. Certain of the Company's contracts with customers contain provisions that require the customer to renew optional support and maintenance in order to maintain the active right to use a perpetual or term license. The renewal payments after the initial bundled support and maintenance term in these cases apply to both the continued right-to-use the license and the support and maintenance renewal. Where the fees payable for the initial term are incremental to the fees for the renewal terms, the excess is treated as a prepayment for expected renewals and allocated (amortized) evenly over the expected customer renewals, up to the estimated life of the software that is typically 4-6 years.

Revenue from the license of software that involves complex implementation or customization that is not distinct, and/or includes sales of hardware that is not distinct, is recognized as a combined performance obligation using the percentage-of-completion method based either on the achievement of contractually defined milestones or based on labour hours.

A portion of the Company's sales, categorized as hardware and other revenue, are accounted for as product revenue. Product revenue is recognized when control of the product has transferred under the terms of an enforceable contract.

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

Maintenance and other recurring revenue primarily consists of fees charged for customer support on software products post-delivery and also includes, to a lesser extent, recurring fees derived from software licenses that are not distinct from maintenance, transaction revenues, managed services, and hosted products.

Revenue from software-as-a-service (SaaS) arrangements, which allows customers to use hosted software over a term without taking possession of the software, are provided on a subscription basis. Revenue from the SaaS subscription, which includes the hosted software and maintenance is recognized rateably over the term of the subscription. Significant incremental payments for SaaS in an initial term are recognized rateably over the expected renewal periods, up to the estimated life of the software.

Professional Services revenue including installation, implementation, training and customization of software is recognized by the stage of completion of the performance obligation determined using the percentage of completion method noted above or as such services are performed as appropriate in the circumstances. The revenue and profit of fixed price contracts is recognized on a percentage of completion basis when the outcome of a contract can be estimated reliably. When the outcome of the contract cannot be estimated reliably but the Company expects to recover its costs, the amount of expected costs is treated as variable consideration and the transaction price is updated as more information becomes known.

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 and nine months ended September 30, 2018 and 2017
(Unaudited)

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

Significant judgments and estimates

The Company uses judgment to assess whether multiple products and services sold in a contract are considered distinct and should be accounted as separate performance obligations or together. Estimates are required to determine the SSP for each distinct performance obligation in order to allocate revenue where multiple performance obligations exist in a contract.

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

New standards and interpretations 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. IFRS 9 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.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except 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") ("FVOCI"). The election is available on an individual investment-by-investment 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.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets at amortized cost, contract assets and debt investments measured at FVOCI.

The Company adopted this standard on January 1, 2018 and it had a nominal impact on the Company's disclosures.

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 and nine months ended September 30, 2018 and 2017
(Unaudited)

IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15 Revenue from Contracts with Customers with an initial adoption date of January 1, 2018. The Company utilized the cumulative effect method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. See note 21 for further details.

New standards and interpretations not yet adopted

IFRS 16 Leases

In January 2016, the IASB issued the final publication of the IFRS 16 Leases standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17.

The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either:

- apply IFRS 16 with full retrospective effect; or
- recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application.

The Company will be adopting IFRS 16 on January 1, 2019 and is assessing the impact of this standard on its consolidated financial statements; however, the Company believes that on adoption of the standard there will be an increase to assets and liabilities, as the Company will be required to record a right-of-use asset and a corresponding lease liability on its Consolidated Statements of Financial Position, as well as a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation (due to depreciation of the right-of-use asset).

4. Business acquisitions

(a) During the nine-month period ended September 30, 2018, the Company completed a number of acquisitions for aggregate cash consideration of \$454,142 plus cash holdbacks of \$72,815 and contingent consideration with an estimated fair value of \$3,799 resulting in total consideration of \$530,756. The contingent consideration is payable on the achievement of certain financial targets in the post-acquisition periods. The obligation for contingent consideration for acquisitions during the nine-month period ended September 30, 2018 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. For these arrangements, which include both maximum, or capped, and unlimited contingent consideration amounts, the estimated increase to the initial consideration is not expected to exceed a maximum of \$19,117. Aggregate contingent consideration of \$19,982 (December 31, 2017 - \$24,734) has been reported in the condensed consolidated interim statement of financial position at its estimated fair value

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

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, net in the condensed consolidated interim statements of income. An expense of \$460 and \$1,380 has been recorded for the three and nine months ended September 30, 2018 respectively, as a result of such changes (expense of \$4,247 and \$4,129 for the three and nine months ended September 30, 2017 respectively).

There were no acquisitions during the nine-month period that were deemed to be individually significant. 60% of the total businesses acquired during the nine-month period were acquisitions of shares and the remainder were asset acquisitions. The cash holdbacks are generally payable over a two-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 nine month period ended September 30, 2018 include software companies catering to the following markets; insurance, healthcare, financial services, small and medium sized businesses, health clubs, communications, marinas, oil and gas, pulp and paper manufacturers, retail management and distribution, real estate brokers and agents, public housing authorities, fashion retail, mining, salons and spas, automotive, education, food services, property management, construction, homebuilders, local government, rental, outdoor equipment dealers, creative agencies, commercial printing, school and special library, aerospace, moving and storage, publishing, and marine asset management all of which are software businesses similar to existing businesses operated by the Company. The acquisitions have been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of each acquisition.

The goodwill recognized in connection with these acquisitions is primarily attributable to the application of Constellation's best practices to improve the operations of the companies acquired, synergies with existing businesses of Constellation, and other intangibles that do not qualify for separate recognition including assembled workforce. Goodwill in the amount of \$710 is expected to be deductible for income tax purposes.

The gross contractual amounts of acquired receivables was \$88,406; however, the Company has recorded an allowance of \$2,260 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 the last quarter of 2017 and first three quarters of 2018. The amounts determined on a provisional basis generally relate to net asset assessments and measurement of the assumed liabilities, including acquired contract liabilities. The cash consideration associated with these provisional estimates totals \$538,086.

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the nine-month period ended September 30, 2018 is as follows:

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	\$ 28,224	\$ 19,699	\$ 47,923
Accounts receivable	60,508	25,638	86,146
Other current assets	37,045	7,114	44,159
Property and equipment	4,386	3,530	7,916
Other non-current assets	1,047	295	1,342
Deferred income taxes	2,114	8,794	10,908
Technology assets	240,201	90,306	330,507
Customer assets	121,471	63,509	184,980
	494,996	218,885	713,881
Liabilities assumed:			
Current liabilities	71,019	19,246	90,265
Deferred revenue	49,172	26,477	75,649
Deferred income taxes	50,300	9,244	59,544
Other non-current liabilities	1,641	2,692	4,333
	172,132	57,659	229,791
Goodwill	45,320	1,346	46,666
Total consideration	\$ 368,184	\$ 162,572	\$ 530,756

(b) The 2018 business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income for the nine months ended September 30, 2018. The materiality threshold is reviewed on an annual basis taking into account the quantitative (contribution to revenue and net income) and qualitative (size and comparability with other Constellation businesses) factors of current period acquisitions on both an individual and aggregate basis.

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

5. Other assets and other non-current liabilities

(a) Other assets

	September 30, 2018	December 31, 2017
Prepaid and other current assets	\$ 78,918	\$ 56,520
Investment tax credits recoverable	32,692	19,095
Sales tax receivable	10,376	15,696
Other receivables	36,189	8,787
Total other current assets	\$ 158,175	\$ 100,098
Investment tax credits recoverable	\$ 10,581	\$ 10,646
Costs to obtain a contract (note 21)	33,113	-
Non-current trade and other receivables and other assets	14,635	8,896
Equity accounted investees	567	2,259
Total other non-current assets	\$ 58,896	\$ 21,801

(b) Other non-current liabilities

	September 30, 2018	December 31, 2017
Contingent consideration	\$ 11,152	\$ 12,406
Acquired contract liabilities	-	1,580
Deferred revenue	46,708	1,827
Other non-current liabilities	19,170	17,708
Total other non-current liabilities	\$ 77,030	\$ 33,521

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

6. Intangible Assets

	Technology Assets	Customer Assets	Backlog	Non-compet agreements	Trademarks	Goodwill	Total
Cost							
Balance at January 1, 2017	\$ 1,176,847	\$ 584,056	\$ 16,181	\$ 2,566	\$ 6,667	\$ 226,502	\$ 2,012,819
Acquisitions through business combinations	226,559	111,289	-	-	-	8,010	345,858
Effect of movements in foreign exchange	46,619	36,060	101	33	923	24,694	108,430
Balance at December 31, 2017	\$ 1,450,025	\$ 731,405	\$ 16,282	\$ 2,599	\$ 7,590	\$ 259,206	\$ 2,467,107
Balance at January 1, 2018	\$ 1,450,025	\$ 731,405	\$ 16,282	\$ 2,599	\$ 7,590	\$ 259,206	\$ 2,467,107
Acquisitions through business combinations	331,281	184,602	-	-	-	45,919	561,802
Effect of movements in foreign exchange	(22,467)	(17,784)	57	(14)	(179)	(6,183)	(46,570)
Balance at September 30, 2018	\$ 1,758,839	\$ 898,223	\$ 16,339	\$ 2,585	\$ 7,411	\$ 298,942	\$ 2,982,339
Accumulated amortization and impairment losses							
Balance at January 1, 2017	\$ 746,860	\$ 252,433	\$ 16,181	\$ 2,566	\$ 1,036	\$ -	\$ 1,019,076
Amortization for the period	171,994	57,984	-	-	516	-	230,494
Effect of movements in foreign exchange	26,470	9,600	101	33	-	-	36,204
Balance at December 31, 2017	\$ 945,324	\$ 320,017	\$ 16,282	\$ 2,599	\$ 1,552	\$ -	\$ 1,285,774
Balance at January 1, 2018	\$ 945,324	\$ 320,017	\$ 16,282	\$ 2,599	\$ 1,552	\$ -	\$ 1,285,774
Amortization for the period	151,613	56,874	2	-	285	-	208,774
Effect of movements in foreign exchange	(13,456)	(5,046)	55	(14)	-	-	(18,461)
Balance at September 30, 2018	\$ 1,083,481	\$ 371,845	\$ 16,339	\$ 2,585	\$ 1,837	\$ -	\$ 1,476,087
Carrying amounts							
At January 1, 2017	\$ 429,987	\$ 331,623	\$ -	\$ -	\$ 5,631	\$ 226,502	\$ 993,743
At December 31, 2017	\$ 504,701	\$ 411,388	\$ -	\$ -	\$ 6,038	\$ 259,206	\$ 1,181,333
At January 1, 2018	\$ 504,701	\$ 411,388	\$ -	\$ -	\$ 6,038	\$ 259,206	\$ 1,181,333
At September 30, 2018	\$ 675,358	\$ 526,378	\$ -	\$ -	\$ 5,574	\$ 298,942	\$ 1,506,252

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

7. CSI Facility

On October 27, 2017, Constellation completed an amendment and restatement of its revolving credit facility agreement (the “CSI Facility”), with a syndicate of Canadian chartered banks and U.S. banks in the amount of \$460,000, extending its maturity date to October 27, 2022. The CSI Facility bears a variable interest rate with no fixed repayments required over the term to maturity. Interest rates are calculated at standard U.S. and Canadian reference rates plus interest rate spreads based on a leverage table. The CSI Facility is currently collateralized by the majority of the Company’s assets including the assets of certain material subsidiaries. The CSI Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at September 30, 2018, \$nil (December 31, 2017 – \$nil) had been drawn from this credit facility, and letters of credit totaling \$16,079 (December 31, 2017 - \$17,092) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with the CSI Facility are included in other non-current assets in the consolidated statement of financial position and are being amortized through profit or loss using the effective interest rate method. As at September 30, 2018 the carrying amount of such costs is \$1,036 (December 31 2017 - \$1,229).

8. Debt without recourse to CSI

	New CNH Facility	Acceo Facility	Total
Principal outstanding at September 30, 2018 (and equal to fair value)	63,813	112,045	175,858
Deduct: Carrying value of transaction costs	(1,481)	(2,605)	(4,086)
Carrying value at September 30, 2018	62,332	109,440	171,772
Current portion	62,332	1,123	63,455
Non-current portion	-	108,317	108,317

New CNH Facility:

On July 14, 2017, CNH entered into a new credit facility (the “New CNH Facility”) with a number of European financial institutions. Under this credit facility, CNH will be able to borrow up to €300,000 under a multicurrency revolving loan facility and up to €50,000 under an additional uncommitted term loan facility. The New CNH Facility has an initial term of five years with an extension option for two additional one-year periods. The New CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The New CNH Facility is collateralized by substantially all of the assets owned by CNH and its subsidiaries which includes substantially all of the assets of TSS and its subsidiaries. The New CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance.

The New CNH Facility is independent of each of the CSI Facility and the Acceo Facility. The New CNH Facility is not guaranteed by Constellation or its subsidiaries nor is Constellation or its subsidiaries subject to the terms of the New CNH Facility other than, in each case, CNH and its subsidiaries. Similarly, CNH and its subsidiaries did not guarantee Constellation’s other credit facilities and are not subject to the provisions thereof. Constellation’s credit facilities impose limitations on the aggregate amount of investment that Constellation may make in CNH and its subsidiaries and the financial results of CNH and its subsidiaries are not included for the purposes of determining compliance by Constellation with the financial covenants in Constellation’s other credit facilities. The New CNH Facility imposes limitations on the amount of distributions that CNH and its subsidiaries may make to Constellation.

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

Acceo Facility:

On July 6, 2018 Acceo Solutions, L.P. and its wholly-owned subsidiary Acceo Solutions Inc. (together “Acceo”) entered into a C\$145,000 term and C\$10,000 revolving credit facility (the “Acceo Facility”) with two North American lenders. Acceo is indirectly 100% owned by Constellation. The Acceo term facility presently bears interest at a rate calculated at CDOR plus interest rate spreads based on a leverage table. The Acceo Facility is collateralized by substantially all of the assets owned by Acceo and its material subsidiaries. The Acceo Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. The term facility requires quarterly principal repayments of C\$363 with the balance of the term facility to be repaid in full on July 6, 2023. No amounts have been drawn on the revolving component of the Acceo Facility. The revolving component of the Acceo Facility is available for acquisitions, working capital needs, and other general corporate purposes.

The Acceo Facility is independent of each of the CSI Facility and the New CNH Facility. The obligations of Acceo are not guaranteed by Constellation or its subsidiaries, however a C\$25,000 Promissory Note issued by N. Harris Computer Corporation to Acceo Solutions Inc. (representing an amount equal to the balance of the purchase price payable by Acceo Solutions to its previous shareholders in relation to Acceo acquisition) has been pledged under the Acceo Facility. In addition, Constellation and its subsidiaries other than Acceo and its subsidiaries are not subject to the terms of the Acceo Facility. Similarly, Acceo and its subsidiaries did not guarantee the CSI Facility or the New CNH Facility and are not subject to the provisions thereof. The Acceo Facility imposes limitations on the amount of distributions that Acceo may make to Constellation.

9. Membership Liability

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the TSS acquisition, and on the basis of the term sheets attached thereto, Constellation and the sellers of TSS along with members of TSS’ executive management team (collectively, the “minority owners”) entered into a Members Agreement pursuant to which the minority owners acquired 33.29% of the voting interests in CNH. Total proceeds from this transaction was €39,375 (\$48,503).

Commencing any time after December 31, 2014, each of the minority owners may exercise a put option to sell all or a portion of their interests in CNH back to Constellation for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Accordingly, the Company classified the proceeds from the Members Agreement as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of CNH. Upon the exercise of a put option, Constellation would be obligated to redeem up to 33.33% of the minority owners’ interests put, no later than 30 business days from the date notice is received, and up to 33.33% on each of the first and second anniversary of the date the first redemption payment is made. In determining the valuation of the liability at each reporting period, the Company assumes the minority owners exercised their put option on the last day of the current reporting period, and redeemed 33.33% of their interests on exercise (which is classified as a current liability), and will redeem 33.33% on each of the first and second anniversary dates. Maintenance and recurring revenue of CNH for the trailing twelve months determined at the end of the current reporting period was used as the basis for valuing the interests at each redemption date. Any increase or decrease in the value of the membership liability is recorded as an expense or income in the consolidated statements of income for the period.

The seller of TSS also has an option available to it to sell approximately 68% of its interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement, in the event that Robin Van Poelje, TSS’ CEO, is no longer employed by TSS. The remaining interest of approximately 32% can be sold via the put option described above.

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

In the event of a change of control in Constellation, the minority owners would have the option to sell 100% of their interests in CNH for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Constellation would be obligated to remit payment in respect thereof no later than 30 business days from the date notice is given.

Commencing at any time after December 31, 2023, Constellation may exercise a call option to purchase all of the minority owners' interests in CNH, for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Upon exercise of the call option, the full purchase price will be paid within 30 business days of the notice date, following which the minority owners' membership in CNH will be terminated.

If any of TSS' executive management team that participate in the Members Agreement are terminated for urgent cause as defined in Section 7:678 of the Dutch Civil Code, Constellation shall have the right to purchase all of the interests beneficially owned by the terminated executive for an amount calculated in accordance with a valuation methodology described with the Members Agreement. The full purchase price will be paid within 30 business days from the date notice is given, following which the terminated executive's membership in CNH will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33% of his interests in CNH over a 3-year period. The valuation of the interests being purchased will be calculated at each reporting period. During the periods ended September 30, 2018 and December 31, 2017, no options were exercised.

10. Debentures

On October 1, 2014 and November 19, 2014, the Company issued debentures with a total principal value of C\$96,038 for total proceeds of C\$91,236. On September 30, 2015, the Company issued another tranche of debentures (collectively with the 2014 issuances called the "Debentures") with a total principal value of C\$186,249 for total proceeds of C\$214,186.

The Debentures have a maturity date of March 31, 2040 (the "Maturity Date"). From and including the date of issue to but excluding March 31, 2015, the Debentures bore interest at a rate of 7.4% per annum, paid quarterly in arrears. The rate from March 31, 2015 to March 30, 2016 was 8.5% per annum. The rate from March 31, 2016 to March 30, 2017 was 7.6%. The rate from and including March 31, 2017 to but excluding March 31, 2018 is 7.9%. The rate from and including March 31, 2018 to but excluding March 31, 2019 is 8.1%. From and including March 31, 2019 to but excluding the Maturity Date, the interest rate applicable to the Debentures will be reset on an annual basis on March 31 of each year, at a rate equal to the annual average percentage change in the All-items Consumer Price Index during the 12-month period ending on December 31 in the prior year (which amount may be positive or negative) plus 6.5%. Notwithstanding the foregoing, the interest rate applicable to the debentures will not be less than 0%. The Company may, subject to certain approvals, elect the Payment in Kind election ("PIK Election"), in lieu of paying interest in cash, to satisfy all or any portion of its interest obligation payable on an interest payment date by issuing to each Debenture holder PIK Debentures equal to the amount of the interest obligation to be satisfied. The PIK Debentures will have the same terms and conditions as the Debentures and will form part of the principal amount of the Debentures. If, on any interest payment date, the Company fails to pay the amount of interest owing on the Debentures in full in cash, the Company will not (A) declare or pay dividends of any kind on the Common Shares, nor (B) participate in any share buyback or redemption involving the Common Shares, until the date on which the Company pays such interest (or the unpaid portion thereof) in cash to holders of the Debentures; however, where the Company has issued PIK Debentures in respect of all or a portion of the amount of interest owing on the Debentures on an interest payment date, the Company may resume declaring or paying dividends of any kind on the Common Shares and participating in any share buyback or redemption involving the Common Shares beginning on the next earlier of (i) the interest payment date of which the Company pays the amount of interest owing on the Debentures in full in cash and (ii) the date on which the Company repays all amounts owing under the PIK Debenture. All payments in respect of the Debentures will be subordinated in right of payment to the prior payment in full of all senior indebtedness of the Company.

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

The Debentures will be redeemable in certain circumstances at the option of the Company or the holder. During the period beginning on March 16 and ending on March 31 of each year, the Company will have the right, at its option, to give notice to holders of Debentures of its intention to redeem the Debentures, in whole or in part, on March 31 in the year that is five years following the year in which notice is given, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date fixed for redemption. During the period beginning on March 1 and ending on March 15 of each year, holders of Debentures will also have the right, at their option, to give notice to the Company of their intention to require the Company to repurchase (or to “put”) the Debentures, in whole or in part, on March 31 in the year that is five years following the year in which notice is given, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date fixed for repurchase.

During the periods ended September 30, 2018 and December 31, 2017, no notices for redemption of the Debentures were received or given by the Company.

The fair value of the debentures as at September 30, 2018 was \$277,170 (December 31, 2017 - \$266,478)

11. Provisions

At January 1, 2018	\$	11,456
Reversal		(3,445)
Provisions recorded during the period		6,077
Provisions used during the period		(7,487)
Effect of movements in foreign exchange and other		214
At September 30, 2018	\$	6,815
<hr/>		
Provisions classified as current liabilities		5,484
Provisions classified as other non-current liabilities		1,331

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

12. Income taxes

Income tax expense is recognized based on management’s best estimate of the actual income tax rate for the interim period applied to the pre-tax income of the interim period 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 and nine months ended September 30, 2018 was 32% and 28% (three and nine months ended September 30, 2017 was 32% and 32% respectively).

Constellation is subject to tax audits in the countries in which the Company does business globally. These tax audits could result in additional tax expense in future periods relating to historical filings. Reviews by tax authorities generally focus on, but are not limited to, the validity of the Company’s inter-company transactions, including financing and transfer pricing policies which generally involve subjective areas of taxation and a significant degree

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 and nine months ended September 30, 2018 and 2017
(Unaudited)

of judgment. If any of these tax authorities are successful with their challenges, the Company's income tax expense may be adversely affected and Constellation could also be subject to interest and penalty charges.

13. Capital and other components of equity

	Common Shares	
	Number	Amount
September 30, 2018	21,191,530	\$ 99,283
December 31, 2017	21,191,530	\$ 99,283

Dividends and other distributions to shareholders

During the three months ended March 31, 2018 the Board of Directors approved and the Company declared a dividend of \$1.00 per common share. The dividend declared in the quarter ended March 31, 2018 representing \$21,192 was paid and settled on April 5, 2018. During the three months ended June 30, 2018 the Board of Directors approved and the Company declared a dividend of \$1.00 per common share. The dividend declared in the quarter ended June 30, 2018 representing \$21,192 was paid and settled on July 5, 2018. During the three months ended September 30, 2018 the Board of Directors approved and the Company declared a dividend of \$1.00 per common share. The dividend declared in the quarter ended September 30, 2018 representing \$21,192 was paid and settled on October 3, 2018.

A dividend of \$1.00 per share representing \$21,192 was accrued as at December 31, 2017 and subsequently paid and settled on January 5, 2018.

14. Finance and other income and finance costs

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Losses (gains) on sale of available-for-sale financial assets transferred from other comprehensive income	\$ -	\$ -	\$ -	\$ 1,540
Interest income on cash	(1,652)	(1,142)	(3,157)	(2,812)
Finance and other income	(879)	(149)	(9,418)	(448)
Finance and other income	\$ (2,531)	\$ (1,291)	\$ (12,575)	\$ (1,720)
Interest expense on debt and debentures	\$ 7,449	\$ 5,315	\$ 18,181	\$ 15,940
Amortization of debt related transaction costs	290	3,523	624	4,080
Amortization of debenture discount (premium) and associated rights offering, net	(1,023)	(1,073)	(3,073)	(3,089)
Other finance costs	1,137	960	2,342	2,525
Finance costs	\$ 7,853	\$ 8,725	\$ 18,074	\$ 19,456

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

Included in finance and other income is a \$7,859 adjustment which was made during the nine months ended September 30, 2018 relating to the acquired net tangible assets of an acquisition which closed in a previous year.

15. Earnings per share

Basic and diluted earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income	\$ 65,705	\$ 54,269	\$ 200,244	\$ 145,852
Denominator:				
Basic and diluted shares outstanding	21,192	21,192	21,192	21,192
Earnings per share				
Basic and diluted	\$ 3.10	\$ 2.56	\$ 9.45	\$ 6.88

16. Financial instruments

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The Company has classified the majority its financial assets and financial liabilities as subsequently measured under amortized cost under IFRS 9.

Fair values versus carrying amounts

The carrying values of cash, accounts receivable, accounts payable, accrued liabilities, dividends payable, income taxes payable, and the majority of acquisition holdbacks, approximate their fair values due to the short-term nature of these instruments. The fair value of the TSS Membership liability approximates carrying value.

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.

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

Financial assets and financial liabilities measured at fair value as at September 30, 2018 and December 31, 2017 in the condensed consolidated interim 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.

	September 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities:								
Contingent consideration	\$ -	\$ -	\$ 19,982	\$ 19,982	\$ -	\$ -	\$ 24,734	\$ 24,734
	-	-	19,982	19,982	-	-	24,734	24,734

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the periods ended September 30, 2018 and December 31, 2017.

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, 2018	24,734
Increase from business acquisitions	3,799
Cash payments	(10,635)
Charges through profit or loss	2,300
Foreign exchange and other movements	(216)
Balance at September 30, 2018	19,982
Contingent consideration classified as current liabilities	8,830
Contingent consideration classified as other non-current liabilities	11,152

Estimates of the fair value of contingent consideration are 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.

17. Operating segments

Segment information is presented in respect of the Company's business. 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, TSS, Jonas, Perseus, 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

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

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

The Operating Groups exhibit similar economic characteristics (such as gross and earnings before income tax and amortization ("EBITA") margins) and are substantially similar in relation to the nature of products and services, the nature of production processes, and the methods used to distribute product; however, 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. Volaris, Harris and TSS have been aggregated into the Public Sector segment. Jonas, Perseus and Vela have been aggregated into the Private Sector segment.

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

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

Three months ended September 30, 2018	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	30,780	18,436	-	49,216
Professional services	114,486	33,548	-	148,034
Hardware and other	32,594	7,784	-	40,378
Maintenance and other recurring	327,704	193,741	-	521,445
	505,564	253,509	-	759,073
Expenses				
Staff	252,926	130,390	252	383,568
Hardware	17,641	4,811	-	22,452
Third party licenses, maintenance and professional services	40,263	25,529	-	65,792
Occupancy	12,199	7,223	72	19,494
Travel	13,942	5,282	74	19,298
Telecommunications	3,685	2,448	19	6,152
Supplies	3,547	998	6	4,551
Software and equipment	10,805	3,196	23	14,024
Professional fees	6,471	2,286	383	9,140
Other, net	4,096	6,969	302	11,367
Depreciation	5,084	1,506	9	6,599
Amortization of intangible assets	46,897	23,347	-	70,244
	417,556	213,985	1,140	632,681
Foreign exchange (gain) loss	2,185	1,457	4,798	8,440
TSS membership liability revaluation charge	16,920	-	-	16,920
Equity in net (income) loss of equity investees	(554)	-	-	(554)
Finance and other expense (income)	(712)	(181)	(1,638)	(2,531)
Bargain purchase gain	-	(500)	-	(500)
Finance costs	3,216	268	4,369	7,853
Inter-company expenses (income)	4,888	3,136	(8,024)	-
	25,943	4,180	(495)	29,628
Profit before income tax	62,065	35,344	(645)	96,764
Current income tax expense (recovery)	19,121	12,495	67	31,683
Deferred income tax expense (recovery)	(1,674)	(1,407)	2,457	(624)
Income tax expense (recovery)	17,447	11,088	2,524	31,059
Net income	44,618	24,256	(3,169)	65,705

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

Nine months ended September 30, 2018	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	87,910	52,986	-	140,896
Professional services	339,337	103,511	-	442,848
Hardware and other	94,980	21,382	-	116,362
Maintenance and other recurring	969,297	560,174	-	1,529,471
	1,491,524	738,053	-	2,229,577
Expenses				
Staff	774,428	386,056	2,937	1,163,421
Hardware	50,972	13,238	-	64,210
Third party licenses, maintenance and professional services	119,149	74,725	-	193,874
Occupancy	37,308	20,881	222	58,411
Travel	41,432	16,900	239	58,571
Telecommunications	11,140	7,412	46	18,598
Supplies	10,714	3,016	33	13,763
Software and equipment	30,917	9,098	88	40,103
Professional fees	20,164	6,964	1,091	28,219
Other, net	16,171	22,708	889	39,768
Depreciation	14,965	5,022	10	19,997
Amortization of intangible assets	140,100	68,674	-	208,774
	1,267,460	634,694	5,555	1,907,709
Foreign exchange (gain) loss	2,533	(421)	1,024	3,136
TSS membership liability revaluation charge	37,632	-	-	37,632
Equity in net (income) loss of equity investees	(787)	-	-	(787)
Finance and other expense (income)	(9,325)	(130)	(3,120)	(12,575)
Bargain purchase gain	(119)	(500)	-	(619)
Finance costs	5,493	864	11,717	18,074
Intercompany expenses (income)	15,094	9,664	(24,758)	-
	50,521	9,477	(15,137)	44,861
Profit before income tax	173,543	93,882	9,582	277,007
Current income tax expense (recovery)	57,451	34,600	1,087	93,138
Deferred income tax expense (recovery)	(8,454)	(7,650)	(271)	(16,375)
Income tax expense (recovery)	48,997	26,950	816	76,763
Net income	124,546	66,932	8,766	200,244

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

Three months ended September 30, 2017	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	28,499	15,979	-	44,478
Professional services	101,396	24,134	-	125,530
Hardware and other	36,853	6,999	-	43,852
Maintenance and other recurring	269,296	153,303	-	422,599
	\$ 436,044	\$ 200,415	\$ -	\$ 636,459
Expenses				
Staff	211,233	100,111	1,323	312,667
Hardware	19,854	4,354	-	24,208
Third party licenses, maintenance and professional services	33,975	21,084	-	55,059
Occupancy	10,118	5,404	62	15,584
Travel	13,644	4,846	56	18,546
Telecommunications	3,472	2,231	13	5,716
Supplies	3,332	761	10	4,103
Software and equipment	8,789	2,325	86	11,200
Professional fees	4,732	2,704	485	7,921
Other, net	7,559	6,309	258	14,126
Depreciation	4,374	1,394	-	5,768
Amortization of intangible assets	41,944	17,885	-	59,829
	363,026	169,408	2,293	534,727
Foreign exchange (gain) loss	411	3,635	3,521	7,567
TSS membership liability revaluation charge	11,781	-	-	11,781
Equity in net (income) loss of equity investees	(80)	-	-	(80)
Finance and other expense (income)	(143)	(19)	(1,129)	(1,291)
Bargain purchase gain	(5,008)	-	-	(5,008)
Finance costs	4,948	(27)	3,804	8,725
Inter-company expenses (income)	8,878	3,406	(12,284)	-
	20,787	6,995	(6,088)	21,694
Profit before income tax	52,231	24,012	3,795	80,038
Current income tax expense (recovery)	18,171	8,779	(975)	25,975
Deferred income tax expense (recovery)	(1,177)	(1,414)	2,385	(206)
Income tax expense (recovery)	16,994	7,365	1,410	25,769
Net income	35,237	16,647	2,385	54,269

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

Nine months ended September 30, 2017	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	74,957	45,525	-	120,482
Professional services	286,610	72,038	-	358,648
Hardware and other	96,074	21,134	-	117,208
Maintenance and other recurring	758,886	436,645	-	1,195,531
	\$ 1,216,527	\$ 575,342	\$ -	\$ 1,791,869
Expenses				
Staff	606,679	288,096	3,976	898,751
Hardware	50,470	13,149	-	63,619
Third party licenses, maintenance and professional services	93,653	61,948	-	155,601
Occupancy	28,077	15,137	240	43,454
Travel	38,295	13,943	200	52,438
Telecommunications	9,597	6,409	45	16,051
Supplies	9,180	2,366	37	11,583
Software and equipment	24,111	6,260	185	30,556
Professional fees	14,460	5,796	1,358	21,614
Other, net	17,669	16,583	860	35,112
Depreciation	12,332	4,056	-	16,388
Amortization of intangible assets	117,050	50,802	-	167,852
	1,021,573	484,545	6,901	1,513,019
Foreign exchange (gain) loss	551	6,873	3,502	10,926
TSS membership liability revaluation charge	40,311	-	-	40,311
Equity in net (income) loss of equity investees	(206)	-	-	(206)
Finance and other expense (income)	(278)	(169)	(1,273)	(1,720)
Bargain purchase gain	(5,008)	-	-	(5,008)
Finance costs	8,219	457	10,780	19,456
Intercompany expenses (income)	26,294	10,128	(36,422)	-
	69,883	17,289	(23,413)	63,759
Profit before income tax	125,071	73,508	16,512	215,091
Current income tax expense (recovery)	56,270	25,798	(1,877)	80,191
Deferred income tax expense (recovery)	(13,139)	(2,008)	4,195	(10,952)
Income tax expense (recovery)	43,131	23,790	2,318	69,239
Net income	81,940	49,718	14,194	145,852

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

18. 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, income and sales tax, 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.

19. Changes in non-cash operating assets and liabilities

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Decrease (increase) in current accounts receivable	\$ 6,979	\$ (26,855)	\$ 58,598	\$ (12,146)
Decrease (increase) in current unbilled revenue	(1,833)	(5,785)	(7,749)	(1,069)
Decrease (increase) in other current assets	708	540	(15,775)	(15,672)
Decrease (increase) in inventory	(2,314)	1,748	(8,084)	(1,986)
Decrease (increase) in other non-current assets	(2,104)	534	829	1,969
Increase (decrease) in other non-current liabilities	(3,623)	(4,547)	(10,636)	(6,030)
Increase (decrease) in current accounts payable and accrued liabilities, excluding holdbacks from acquisitions	28,971	40,204	(51,642)	(13,559)
Increase (decrease) in current deferred revenue	(52,631)	(35,180)	58,391	19,301
Increase (decrease) in current provisions	(754)	1,272	(5,276)	771
Change in non-cash operating working capital	\$ (26,601)	\$ (28,069)	\$ 18,656	\$ (28,421)

20. Subsequent events

On October 25, 2018 the Company declared a \$1.00 per share dividend that is payable on January 4, 2019 to all common shareholders of record at close of business on December 14, 2018.

21. Explanation of adoption of IFRS 15 Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced, which may affect the amount and timing of revenue recognized. The Company has adopted IFRS 15, effective January 1, 2018, using the cumulative effect method. Under the cumulative effect method, the Company has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

The details of the primary changes on adoption of IFRS 15 are set out below.

A. Software license arrangements (including subscription arrangements):

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

Under the Company's previous revenue recognition policies, license revenue from term-based licenses was generally deferred and amortized on a ratable basis over the license term. Under IFRS 15, the Company has deemed the licenses to be generally distinct from other performance obligations. Revenue allocated to the distinct license is recognized at the time that both the right-to-use the software has commenced for the term and the software has been made available to the customer.

Certain of the Company's contracts with customers contain provisions that require the customer to renew optional support and maintenance in order to maintain the active right-to-use a perpetual or term license. The renewal payments after the initial bundled support and maintenance term in these cases apply to both the continued right-to-use the license and the support and maintenance renewal. Where the fees payable for the initial term are incremental to the fees for the renewal terms, the excess is treated as a prepayment for expected renewals and allocated (amortized) evenly over the expected customer renewals, up to the estimated life of the software, that is typically 4-6 years. The Company's previous policy with respect to such incremental upfront license fees was to recognize the fee primarily over the initial first year term of the arrangements.

B. Costs to Obtain a Contract

Under the Company's previous accounting policies, the Company generally expensed incremental commission costs paid to employees or third parties to obtain customer contracts as incurred. Under IFRS 15, the Company allocates these incremental commission costs to the various performance obligations to which they relate using the expected-based allocation for bundled commissions (relative expected margins). For those performance obligations that are expected to be renewed at the end of the initial period without a further commission (such as post-contract customer support), the Company has considered expected renewals over the life of the intellectual property when determining the expected margins from the arrangement. For performance obligations not delivered upfront, the allocated commissions are deferred and amortized over the pattern of transfer of the related performance obligation. For commissions allocated to term-based license arrangements and post-contract customer support, the amortization period is expected to be approximately 4-6 years. Capitalized costs to obtain a contract are included in other non-current assets on the consolidated balance sheet (note 5).

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

The following table details the impact on our opening balance sheet as a result of adopting the new standard.

	January 1, 2018 prior to adoption of IFRS 15		Adjustments	January 1, 2018 after adoption of IFRS 15
Assets				
Current assets:				
Unbilled revenue	\$	64,109	\$ 6,651	\$ 70,760
Other assets		100,098	2,569	102,667
Non-current assets:				
Deferred income taxes		38,362	8,757 *	47,119
Other assets		21,801	37,878	59,679
Total assets	\$	2,288,218	\$ 55,855	\$ 2,344,073
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$	379,573	\$ 1,571	\$ 381,144
Deferred revenue		541,108	22,478 *	563,586
Non-current liabilities:				
Deferred income taxes		148,961	2,110 *	151,071
Other liabilities (adjustment impacted non-current deferred revenue)		33,521	53,010 *	86,531
Total liabilities		1,684,140	79,169	1,763,309
Shareholders' equity:				
Retained earnings		531,534	(23,314) *	508,220
		604,078	(23,314)	580,764
Total liabilities and shareholders' equity	\$	2,288,218	\$ 55,855	\$ 2,344,073

* As part of its adoption of IFRS 15, the Company identified that deferred revenue originally reported under IAS 18 was understated by \$25 million as at January 1, 2018 (approximately \$19 million as at January 1, 2017) and the corresponding license revenue previously reported was overstated by approximately \$6 million in 2017 and \$2 million in 2016. The issue had accumulated over a number of years and its impact on individual prior period financial statements was immaterial. Accordingly, in conjunction with the adoption of IFRS 15, the Company recorded an increase to deferred revenues of \$25 million, an adjustment to deferred income taxes of \$6 million and a decrease to retained earnings of \$19 million as at January 1, 2018.

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

The following tables summarizes the impacts of adopting IFRS 15 on the Company's consolidated financial statements for the three and nine months ended September 30, 2018:

	September 30, 2018		September 30, 2018
	As reported	Adjustments	without adoption of IFRS 15
Assets			
Current assets:			
Unbilled revenue	\$ 89,140	\$ (5,179)	\$ 83,961
Other assets	158,175	(642)	157,533
Non-current assets:			
Deferred income taxes	47,300	(6,173)	41,127
Other assets	58,896	(36,561)	22,335
Total assets	\$ 2,736,628	\$ (48,555)	\$ 2,688,073
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	384,840	(1,790)	\$ 383,050
Deferred revenue	681,139	(20,214)	660,925
Non-current liabilities:			
Deferred income taxes	179,282	1,328	180,610
Other liabilities	77,030	(45,920)	31,110
Total liabilities	2,024,072	(66,596)	1,957,476
Shareholders' equity:			
Accumulated other comprehensive income (loss)	(31,615)	331	(31,284)
Retained earnings	644,888	17,710	662,598
Total liabilities and shareholders' equity	\$ 2,736,628	\$ (48,555)	\$ 2,688,073

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

	Three months ended September 30 2018 As reported	Adjustments	Three months ended September 30, 2018 without adoption of IFRS 15
Revenue			
License	\$ 49,216	\$ (994)	\$ 48,222
Professional services	148,034	34	148,068
Hardware and other	40,378	-	40,378
Maintenance and other recurring	521,445	1,444	522,889
	759,073	484	759,557
Expenses	632,681	(194)	632,487
Income before income taxes	96,764	678	97,442
Current income tax expense (recovery)	31,683	539	32,222
Deferred income tax expense (recovery)	(624)	(345)	(969)
Income tax expense (recovery)	31,059	194	31,253
Net income	65,705	484	66,189
Earnings per share			
Basic and diluted	3.10	0.02	\$ 3.12

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 and nine months ended September 30, 2018 and 2017

(Unaudited)

	Nine months ended September 2018		Nine months ended September 30, 2018 without adoption of IFRS 15
	As reported	Adjustments	
Revenue			
License	\$ 140,896	\$ (5,405)	\$ 135,491
Professional services	442,848	138	442,986
Hardware and other	116,362	-	116,362
Maintenance and other recurring	1,529,471	(1,343)	1,528,128
	2,229,577	(6,610)	2,222,967
Expenses			
	1,907,709	(16)	1,907,693
Income before income taxes	277,007	(6,594)	270,413
Current income tax expense (recovery)	93,138	(2,163)	90,975
Deferred income tax expense (recovery)	(16,375)	1,173	(15,202)
Income tax expense (recovery)	76,763	(990)	75,773
Net income	200,244	(5,604)	194,640
Earnings per share			
Basic and diluted	\$ 9.45	\$ (0.26)	\$ 9.18

The adoption of IFRS 15 had no impact to cash from or used in operating, financing, or investing on our condensed consolidated statement of cash flows.