

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 and nine month periods ended September 30, 2016, 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, October 26, 2016. 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, bargain purchase gain, finance costs, income taxes, share in net income or loss of equity investees, impairment of non-financial assets, amortization, TSS membership liability revaluation charge, 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.

“Adjusted net income” means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other expenses (income), and excludes the portion of the adjusted net income of Total Specific Solutions (TSS) B.V. (“TSS”) attributable to the minority owners of TSS (see “Capital Resources and Commitments” section). 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, the TSS membership liability revaluation charge, and certain other non-cash expenses (income) incurred or recognized by the Company from time to time, and adjusts for the portion of TSS’ Adjusted net income not attributable to shareholders of Constellation. “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. Adjusted EBITA includes 100% of the Adjusted EBITA of TSS.

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)

Unaudited

	Three months ended September 30,		Period-Over- Period Change		Nine months ended September 30,		Period-Over- Period Change	
	2016 (Unaudited)	2015 (Unaudited)	\$	%	2016 (Unaudited)	2015 (Unaudited)	\$	%
Revenue	545.6	460.4	85.3	19%	1,561.3	1,326.8	234.5	18%
Expenses	405.2	340.0	65.2	19%	1,182.7	1,014.0	168.6	17%
Adjusted EBITA	140.4	120.3	20.1	17%	378.6	312.7	65.9	21%
Adjusted EBITA margin	26%	26%			24%	24%		
Amortization of intangible assets	42.7	47.8	(5.1)	-11%	132.0	132.6	(0.6)	0%
Foreign exchange (gain) loss	(1.0)	(6.0)	4.9	-83%	24.8	(8.4)	33.2	NM
TSS membership liability revaluation charge	7.1	5.8	1.3	23%	13.9	15.2	(1.2)	-8%
Share in net (income) loss of equity investees	(5.4)	0.0	(5.4)	NM	(5.7)	(0.9)	(4.8)	528%
Finance and other income	(2.9)	(2.9)	(0.0)	1%	(3.2)	(3.2)	0.0	-1%
Finance costs	5.3	6.0	(0.7)	-12%	16.4	15.0	1.4	9%
Income before income taxes	94.7	69.6	25.1	36%	200.5	162.6	37.9	23%
Income taxes expense (recovery)								
Current income tax expense (recovery)	19.2	21.1	(1.9)	-9%	59.9	47.6	12.3	26%
Deferred income tax expense (recovery)	8.0	2.7	5.3	194%	(0.6)	3.7	(4.2)	NM
Income tax expense (recovery)	27.3	23.9	3.4	14%	59.4	51.3	8.1	16%
Net income	67.5	45.7	21.8	48%	141.1	111.3	29.8	27%
Adjusted net income	120.7	98.9	21.8	22%	273.2	253.3	19.9	8%
Adjusted net income margin	22%	21%			17%	19%		
Weighted average number of shares outstanding (000's)								
Basic and diluted	21,192	21,192			21,192	21,192		
Net income per share								
Basic and diluted	\$ 3.18	\$ 2.16	\$ 1.03	48%	\$ 6.66	\$ 5.25	\$ 1.41	27%
Adjusted EBITA per share								
Basic and diluted	\$ 6.63	\$ 5.68	\$ 0.95	17%	\$ 17.87	\$ 14.76	\$ 3.11	21%
Adjusted net income per share								
Basic and diluted	\$ 5.70	\$ 4.67	\$ 1.03	22%	\$ 12.89	\$ 11.95	\$ 0.94	8%
Cash dividends declared per share								
Basic and diluted	\$ 1.00	\$ 1.00	\$ -	0%	\$ 3.00	\$ 3.00	\$ -	0%

NM - Not meaningful

Comparison of the three and nine month periods ended September 30, 2016 and 2015

Revenue:

Total revenue for the quarter ended September 30, 2016 was \$545.6 million, an increase of 19%, or \$85.3 million, compared to \$460.4 million for the comparable period in 2015. For the first nine months of 2016 total revenues were \$1,561.3 million, an increase of 18%, or \$234.5 million, compared to \$1,326.8 million for the comparable period in 2015. The increase for both the three and nine month periods compared to the same periods in the prior year is mainly attributable to growth from acquisitions as the Company experienced organic growth of 4% and 1% respectively, 5% and 3% respectively after adjusting for the impact of the net appreciation of the US dollar against most major currencies in which the Company transacts business. 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 September 30,		Period-Over- Period Change		Nine months ended September 30,		Period-Over- Period Change	
	<u>2016</u>	<u>2015</u>	\$	%	<u>2016</u>	<u>2015</u>	\$	%
	(\$M, except percentages)				(\$M, except percentages)			
Licenses	35.3	33.3	2.0	6%	103.1	96.7	6.5	7%
Professional services	109.9	92.0	17.9	19%	317.5	281.1	36.4	13%
Hardware and other	39.5	36.6	2.9	8%	109.0	99.6	9.4	9%
Maintenance and other recurring	361.0	298.5	62.5	21%	1,031.7	849.4	182.3	21%
	545.6	460.4	85.3	19%	1,561.3	1,326.8	234.5	18%

\$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 and nine months ended September 30, 2016 compared to the same periods in 2015:

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	Period-Over- Period Change		2016	2015	Period-Over- Period Change	
	(\$M, except percentages)							
Public Sector								
Licenses	21.3	22.4	(1.1)	-5%	62.5	64.0	(1.4)	-2%
Professional services	87.5	73.9	13.6	18%	250.5	228.2	22.3	10%
Hardware and other	32.8	29.1	3.7	13%	88.2	80.0	8.2	10%
Maintenance and other recurring	226.5	192.1	34.3	18%	643.4	547.0	96.4	18%
	368.1	317.6	50.5	16%	1,044.6	919.2	125.4	14%
Private Sector								
Licenses	13.9	10.9	3.1	28%	40.6	32.7	7.9	24%
Professional services	22.4	18.0	4.3	24%	67.0	52.9	14.1	27%
Hardware and other	6.7	7.5	(0.8)	-10%	20.9	19.6	1.3	6%
Maintenance and other recurring	134.5	106.4	28.1	26%	388.2	302.3	85.9	28%
	177.5	142.8	34.8	24%	516.7	407.5	109.1	27%

Public Sector

For the quarter ended September 30, 2016, total revenue in the public sector reportable segment increased 16%, or \$50.5 million to \$368.1 million, compared to \$317.6 million for the quarter ended September 30, 2015. For the nine months ended September 30, 2016, total revenue increased by 14%, or \$125.4 million to \$1,044.6 million, compared to \$919.2 million for the comparable period in 2015. For purposes of calculating organic growth, pre-acquisition revenues included from the 37 companies acquired since the beginning of 2015 were \$39 million and \$117 million for the three and nine month periods ended September 30, 2015, respectively. Organic revenue growth was 4% and 1% respectively for the three and nine months ended September 30, 2016 compared to the same periods in 2015, and 5% and 2% respectively after adjusting for the impact of the net appreciation of the US dollar against most major currencies in which the Company transacts business.

Private Sector

For the quarter ended September 30, 2016, total revenue in the private sector reportable segment increased 24%, or \$34.8 million to \$177.5 million, compared to \$142.8 million for the quarter ended September 30, 2015. For the nine months ended September 30, 2016, total revenue increased by 27%, or \$109.1 million to \$516.7 million, compared to \$407.5 million for the comparable period in 2015. For purposes of calculating organic growth, pre-acquisition revenues included from the 25 companies acquired since the beginning of 2015 were \$30 million and \$100 million for the three and nine month periods ended September 30, 2015, respectively. Organic revenue growth was 2% and 1% respectively for the three and nine months ended September 30, 2016 compared to the same periods in 2015, and 4% and 3% respectively after adjusting for the impact of the net appreciation of the US dollar against most major currencies in which the Company transacts business.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended				Nine months ended			
	September 30,		Period-Over-Period Change		September 30,		Period-Over-Period Change	
	2016	2015	\$	%	2016	2015	\$	%
	(\$M, except percentages)				(\$M, except percentages)			
Expenses								
Staff	266.1	226.1	40.0	18%	781.7	671.1	110.7	16%
Hardware	21.7	22.0	(0.3)	-1%	61.7	58.2	3.6	6%
Third party license, maintenance and professional services	51.3	40.0	11.3	28%	142.8	117.2	25.7	22%
Occupancy	13.0	10.6	2.4	23%	37.6	31.5	6.1	20%
Travel, Telecommunications, Supplies & Software and equipment	32.9	27.5	5.5	20%	95.4	81.4	13.9	17%
Professional fees	6.4	5.3	1.2	22%	19.9	16.0	4.0	25%
Other, net	8.3	4.7	3.5	75%	28.0	26.7	1.4	5%
Depreciation	5.5	3.9	1.6	40%	15.4	12.1	3.4	28%
	405.2	340.0	65.2	19%	1,182.7	1,014.0	168.6	17%

Overall expenses for the quarter ended September 30, 2016 increased 19%, or \$65.2 million to \$405.2 million, compared to \$340.0 million during the same period in 2015. As a percentage of total revenue, expenses were 74% for the quarters ended September 30, 2016 and 2015. During the nine months ended September 30, 2016, expenses increased 17%, or \$168.6 million to \$1,182.7 million, compared to \$1,014.0 million during the same period in 2015. As a percentage of total revenue, expenses were 76% for the nine months ended September 30, 2016 and 2015. Our average employee headcount grew 14% in 2016 from 10,141 for the quarter ended September 30, 2015 to 11,536 for the quarter ended September 30, 2016 primarily due to acquisitions. For the three and nine months ended September 30, 2016 the net appreciation of the US dollar against most major currencies in which the Company transacts business resulted in approximate 1% and 2% respective reductions in expenses compared to the comparable periods of 2015.

Staff expense – Staff expenses increased 18% or \$40.0 million for the quarter ended September 30, 2016 and 16% or \$110.7 million for the nine months ended September 30, 2016 over the same periods in 2015. Staff expense can be broken down into five key operating departments: Professional Services, Maintenance, Research and Development, Sales and Marketing, and General and Administrative. Included within staff expenses for each of the above five departments are personnel and related costs associated with providing the necessary services. The table below compares the period over period variances.

	Three months ended				Nine months ended			
	September 30,		Period-Over-Period Change		September 30,		Period-Over-Period Change	
	2016	2015	\$	%	2016	2015	\$	%
	(\$M, except percentages)				(\$M, except percentages)			
Professional services	60.6	52.8	7.9	15%	176.4	159.3	17.1	11%
Maintenance	52.8	43.9	9.0	20%	156.8	127.9	28.9	23%
Research and development	72.2	64.5	7.8	12%	217.8	190.2	27.6	15%
Sales and marketing	37.6	30.9	6.7	21%	109.2	91.8	17.3	19%
General and administrative	42.9	34.2	8.7	26%	121.6	101.9	19.7	19%
	266.1	226.1	40.0	18%	781.7	671.1	110.7	16%

The increase in staff expenses for the three and nine months ended September 30, 2016 was primarily due to the growth in the number of employees compared to the same periods in 2015 primarily due to acquisitions.

Hardware expenses – Hardware expenses decreased 1% or \$0.3 million for the quarter ended September 30, 2016 and increased 6% or \$3.6 million for the nine months ended September 30, 2016 over the same periods in 2015 in conjunction with the 8% and 9% increase in hardware and other revenue for the three and nine month periods ending September 30, 2016 respectively over the comparable periods in 2015. Hardware margins for the three and nine months ended September 30, 2016 were 45% and 43% respectively as compared to 40% and 42% for the comparable periods in 2015.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 28% or \$11.3 million for the quarter ended September 30, 2016 and 22% or \$25.7 million for the nine months ended September 30, 2016 over the same periods in 2015. The increase is primarily due to an increase in maintenance and other recurring revenue for the three and nine months ended September 30, 2016 compared to the same periods in 2015.

Occupancy expenses – Occupancy expenses increased 23% or \$2.4 million for the quarter ended September 30, 2016 and 20% or \$6.1 million for the nine months ended September 30, 2016 over the same periods in 2015. The increase in occupancy expenses is primarily due to the occupancy expenses of acquired businesses.

Travel, Telecommunications, Supplies & Software and equipment expenses – Travel, Telecommunications, Supplies & Software and equipment expenses increased 20% or \$5.5 million for the quarter ended September 30, 2016 and 17% or \$13.9 million for the nine months ended September 30, 2016 over the same periods in 2015. The increase in these expenses is primarily due to expenses incurred by acquired businesses.

Professional fees – Professional fees increased 22% or \$1.2 million for the quarter ended September 30, 2016 and 25% or \$4.0 million for the nine months ended September 30, 2016 over the same periods in 2015. The increase in professional fees is primarily the result of broker fees, due diligence services, and legal fees associated with acquisitions, and legal fees associated with the renewal of the Company’s credit facility.

Other, net – Other expenses increased 75% or \$3.5 million for the quarter ended September 30, 2016 and 5% or \$1.4 million for the nine months ended September 30, 2016 over the same periods in 2015. The following table provides a further breakdown of expenses within this category.

	Three months ended September 30,		Period-Over-Period Change		Nine months ended September 30,		Period-Over-Period Change	
	<u>2016</u>	<u>2015</u>	<u>\$</u>	<u>%</u>	<u>2016</u>	<u>2015</u>	<u>\$</u>	<u>%</u>
	(\$M, except percentages)							
Advertising and promotion	5.7	4.8	0.9	18%	19.1	15.8	3.3	21%
Recruitment and training	3.0	1.9	1.1	58%	8.5	6.4	2.1	33%
Bad debt expense	1.4	1.3	0.0	3%	2.8	1.5	1.3	84%
R&D tax credits	(4.6)	(3.2)	(1.4)	43%	(10.6)	(7.5)	(3.1)	41%
Contingent consideration	1.3	(1.1)	2.4	NM	1.2	7.1	(5.9)	-83%
Other expense, net	1.5	1.0	0.5	56%	7.1	3.4	3.7	108%
	8.3	4.7	3.5	75%	28.0	26.7	1.4	5%

NM - Not meaningful

The contingent consideration expense amounts recorded for the periods above relate to an increase (decrease) to acquisition earnout payments primarily as a result of increases (decreases) to revenue forecasts for the associated acquisitions. Revenue forecasts are updated on a quarterly basis and related earnout payments are

updated accordingly. The increase in other expenses per the table above for the nine months ended September 30, 2016 is primarily related to a legal settlement expense recorded in the nine months ended September 30, 2016 with no similar expense for the three or nine months ended September 30, 2015. Remaining expense increases are primarily due to expenses incurred by acquired businesses.

Depreciation – Depreciation of property and equipment increased 40% or \$1.6 million for the quarter ended September 30, 2016 and 28% or \$3.4 million for the nine months ended September 30, 2016 over the same periods in 2015. The increase is primarily due to the depreciation expense associated with acquired businesses.

Other Income and Expenses:

The following table displays the breakdown of our other income and expenses:

	Three months ended		Period-Over-Period Change		Nine months ended		Period-Over-Period Change	
	September 30, 2016	September 30, 2015	\$	%	September 30, 2016	September 30, 2015	\$	%
	(\$M, except percentages)				(\$M, except percentages)			
Amortization of intangible assets	42.7	47.8	(5.1)	-11%	132.0	132.6	(0.6)	0%
Foreign exchange (gain) loss	(1.0)	(6.0)	4.9	-83%	24.8	(8.4)	33.2	NM
TSS membership liability revaluation charge	7.1	5.8	1.3	23%	13.9	15.2	(1.2)	-8%
Share in net (income) loss of equity investees	(5.4)	0.0	(5.4)	NM	(5.7)	(0.9)	(4.8)	528%
Finance and other expense (income)	(2.9)	(2.9)	(0.0)	1%	(3.2)	(3.2)	0.0	-1%
Finance costs	5.3	6.0	(0.7)	-12%	16.4	15.0	1.4	9%
Income tax expense (recovery)	27.3	23.9	3.4	14%	59.4	51.3	8.1	16%
	73.0	74.6	(1.6)	-2%	237.5	201.4	36.1	18%

NM - Not meaningful

Amortization of intangible assets – Amortization of intangible assets decreased 11% or \$5.1 million for the quarter ended September 30, 2016 and 0.5% or \$0.6 million for the nine months ended September 30, 2016 over the same periods in 2015. The decrease in amortization expense is primarily attributable to an increase in the average remaining life of unamortized acquired intangible assets as at September 30, 2016 compared to September 30, 2015.

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 three and nine months ended September 30, 2016, we realized foreign exchange gains of \$1.0 million and foreign exchange losses of \$24.8 million respectively compared to gains of \$6.0 million and \$8.4 million for the same periods in 2015. The following table provides a breakdown of these amounts.

	Three months ended September 30,				Period-Over-Period Change				Nine months ended September 30,				Period-Over-Period Change			
	2016	2015	\$	%	2016	2015	\$	%	2016	2015	\$	%	2016	2015	\$	%
Unrealized foreign exchange (gain) loss related to:	(\$M, except percentages)															
- revaluation of intercompany loans between entities with differing functional currencies ⁽¹⁾	2.5	1.7	0.9	51%	10.9	2.3	8.7	381%								
- revaluation of the Company's unsecured subordinated floating rate debentures as a result of the appreciation (depreciation) of the Canadian dollar against the US dollar.	(3.3)	(5.8)	2.5	-43%	12.2	(10.4)	22.6	NM								
Remaining foreign exchange (gain) loss	(0.2)	(1.8)	1.6	-89%	1.7	(0.3)	2.0	NM								
	(1.0)	(6.0)	5.0	-83%	24.8	(8.4)	33.2	NM								

NM - Not meaningful

(1) Offsetting amounts recorded in other comprehensive income. Net impact to Total comprehensive income for each period is nil.

The remaining foreign exchange gains and losses per the table above are primarily related to the unrealized foreign exchange translation gains and losses of certain net Canadian dollar denominated liability balances to US dollars as a result of the Canadian dollar's depreciation or appreciation against the US dollar.

TSS membership liability revaluation charge – The valuation of the TSS membership liability that was put in place in Q4 2014 increased by approximately 11% or \$7.1 million for the quarter ended September 30, 2016 and by approximately 25% or \$13.9 million for the nine months ended September 30, 2016 primarily as a result of the growth in TSS maintenance revenue in the respective periods. Valuation increases of \$5.8 million and \$15.2 million were recorded in the three and nine months ended September 30, 2015. The liability recorded on the balance sheet increased by 29% or \$15.5 million over the nine month period as a result of a foreign exchange loss that was recorded through other comprehensive income. The TSS membership liability is denominated in Euros and the Euro appreciated 3% versus the US dollar during the first nine months of 2016.

Share in net (income) loss of equity investees – Share in the net (income) loss of equity investees was income of \$5.4 million and income of \$5.7 million for the three and nine month periods ended September 30, 2016 respectively, compared to a loss of \$0.03 million and income of \$0.9 million for the same periods in 2015 in line with the increased profitability of equity investees. The primary reason for the increase in profitability was the gain on disposal of assets realized by an equity investee in the period.

Finance and other expense (income) – Finance and other expense (income) for the three and nine months ended September 30, 2016 was \$2.9 million and \$3.2 million of income respectively compared to \$2.9 million and \$3.2 million of income for the same periods in 2015. There are no individually material reasons contributing to these variances.

Finance costs – Finance costs for the quarter ended September 30, 2016 decreased \$0.7 million to \$5.3 million, compared to \$6.0 million for the same period in 2015. During the nine months ended September 30, 2016, finance costs increased \$1.4 million to \$16.4 million, from \$15.0 million over the same period in 2015. The increase in finance costs primarily relates to interest paid on the Company's unsecured subordinated floating rate debentures. The principal amount outstanding during the nine months ended September 30, 2015 was C\$96.0 million, versus C\$282.2 million during the nine months ended September 30, 2016. The interest expense recorded on the debentures issued in October 2015 is reduced by the amortization of the 15% premium that was received when issued. The premium is being amortized over five years from the date of issuance. The increase in finance costs relating to the debentures was partially offset by reduced interest expense on our credit facilities resulting from decreased average borrowings in the three and nine month periods ended September 30, 2016 compared to the same periods in 2015. In addition, during the three month period ending September 30, 2015 the Company recorded

interest expense of \$1.2 million relating to an assessment from the Canada Revenue Agency. A similar expense was not recorded in 2016.

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 September 30, 2016, income tax expense increased \$3.4 million to \$27.3 million compared to \$23.9 million for the same period in 2015. During the nine months ended September 30, 2016, income tax expense increased \$8.1 million to \$59.4 million compared to \$51.3 million for the same period in 2015. During the nine months ended September 30, 2016 the company expensed \$6.2 million relating to withholding tax due on an annual intercompany dividend between US and Canadian domiciled entities. Current tax expense as a percentage of adjusted net income before tax was 14% and 18% for the three and nine months ended September 30, 2016 respectively, versus 18% and 16% for the same periods in 2015. This rate, which has historically approximated our cash tax rate, ranged between 10% and 12% annually from 2011 to 2013. The quarterly rate can sometimes fall outside of the annual range due to out of period adjustments. As a result of the depletion of tax credits available to certain of our Canadian entities and a proportionately higher level of profitability in the US, the rate has gradually increased since 2013 and was 16% and 15% for the fiscal years ended December 31, 2014 and 2015 respectively. Current tax expense reflects gross taxes before the application of R&D tax credits which are classified as part of “other, net” expenses in the statement of income. The deferred income tax expense increase of \$5.3 million and decrease of \$4.2 million for the three and nine months ended September 30, 2016 respectively, relates to various items including changes in recognition of certain deferred income tax assets.

Net Income and Earnings per Share:

Net income for the quarter ended September 30, 2016 was \$67.5 million compared to net income of \$45.7 million for the same period in 2015. On a per share basis this translated into a net income per diluted share of \$3.18 in the quarter ended September 30, 2016 compared to net income per diluted share of \$2.16 for the same period in 2015. For the nine months ended September 30, 2016, net income was \$141.1 million or \$6.66 per diluted share compared to \$111.3 million or \$5.25 per diluted share for the same period in 2015.

There were no changes in the number of shares outstanding.

Adjusted EBITA:

For the quarter ended September 30, 2016, Adjusted EBITA increased to \$140.4 million compared to \$120.3 million for the same period in 2015 representing an increase of 17%. Adjusted EBITA margin was 26% for the quarter ended September 30, 2016 and 26% for the same period in 2015. For the first nine months of 2016, Adjusted EBITA increased to \$378.6 million compared to \$312.7 million during the same period in 2015, representing an increase of 21%. Adjusted EBITA margin was 24% in the first nine months of 2016 and 24% for the same period in 2015. 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>545.6</u>	<u>460.4</u>	<u>1,561.3</u>	<u>1,326.8</u>
Net income	67.5	45.7	141.1	111.3
Adjusted for:				
Income tax expense (recovery)	27.3	23.9	59.4	51.3
Foreign exchange (gain) loss	(1.0)	(6.0)	24.8	(8.4)
TSS membership liability revaluation charge	7.1	5.8	13.9	15.2
Share in net (income) loss of equity investees	(5.4)	0.0	(5.7)	(0.9)
Finance and other income	(2.9)	(2.9)	(3.2)	(3.2)
Finance costs	5.3	6.0	16.4	15.0
Amortization of intangible assets	42.7	47.8	132.0	132.6
Adjusted EBITA	140.4	120.3	378.6	312.7
Adjusted EBITA margin	26%	26%	24%	24%

Adjusted net income:

For the quarter ended September 30, 2016, Adjusted net income increased to \$120.7 million from \$98.9 million for the same period in 2015, representing an increase of 22%. Adjusted net income margin was 22% for the quarter ended September 30, 2016 and 21% for the same period in 2015. For the first nine months of 2016, Adjusted net income increased to \$273.2 million from \$253.3 million during the same period in 2015, representing an increase of 8%. Adjusted net income margin was 17% in the first nine months of 2016 and 19% for the same period in 2015. See “Non-IFRS Measures” for a description of Adjusted net income and Adjusted net income margin.

Non-controlling interest in the Adjusted net income of TSS - As explained in the “Capital Resources and Commitments” section below, in Q4 2014 33.29% of the voting interests in TSS were sold, however no adjustment has been made in the Company’s Unaudited Condensed Consolidated Interim Financial Statements to reflect the 33.29% of earnings that are not attributable to Constellation shareholders. Instead, due to an option available to the minority owners to exercise a put option to sell all or a portion of their interests back to Constellation, the minority interest is accounted for as a liability on the Company’s balance sheet. The liability is revalued at each period end in accordance with an agreed upon valuation methodology with the change being included in net income. The non-controlling interest in the Adjusted net income of TSS for the three and nine months ended September 30, 2016 was \$4.5 million and \$13.3 million respectively, as compared to \$3.1 million and \$9.5 million for the same periods in 2015.

The following table reconciles Adjusted net income to Net income:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(\$M, except percentages)		(\$M, except percentages)	
Total revenue	<u>545.6</u>	<u>460.4</u>	<u>1,561.3</u>	<u>1,326.8</u>
Net income	67.5	45.7	141.1	111.3
Adjusted for:				
Amortization of intangible assets	42.7	47.8	132.0	132.6
TSS membership liability revaluation charge	7.1	5.8	13.9	15.2
Less non-controlling interest in the Adjusted net income of TSS	(4.5)	(3.1)	(13.3)	(9.5)
Deferred income tax expense (recovery)	8.0	2.7	(0.6)	3.7
Adjusted net income	120.7	98.9	273.2	253.3
Adjusted net income margin	22%	21%	17%	19%

Quarterly Results

	Quarter Ended								
	Sep. 30 <u>2014</u>	Dec. 31 <u>2014</u>	Mar. 31 <u>2015</u>	Jun. 30 <u>2015</u>	Sep. 30 <u>2015</u>	Dec. 31 <u>2015</u>	Mar. 31 <u>2016</u>	Jun. 30 <u>2016</u>	Sep. 30 <u>2016</u>
	(\$M, except per share amounts)								
Revenue	418.8	439.8	422.9	443.5	460.4	511.6	487.0	528.7	545.6
Net income	31.9	39.3	32.9	32.7	45.7	66.0	18.7	55.0	67.5
Adjusted net income	69.3	86.6	74.7	79.7	98.9	117.7	62.5	89.9	120.7
Adjusted net income margin	17%	20%	18%	18%	21%	23%	13%	17%	22%
Net income per share									
Basic & diluted	1.51	1.86	1.55	1.54	2.16	3.11	0.88	2.60	3.18
Adjusted net income per share									
Basic & diluted	3.27	4.09	3.52	3.76	4.67	5.55	2.95	4.24	5.70

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 revenue 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.

Liquidity

Our net cash position (cash less bank indebtedness excluding capitalized transaction costs) increased by \$126.6 million to \$165.4 million in the quarter ended September 30, 2016 resulting from cash flows from operations exceeding capital deployed on acquisitions. A repayment of €4 million was made in Q2 2016 on our Euro denominated credit facility however the impact of foreign exchange on this facility resulted in a net decrease in the fair value of only \$0.6 million to \$139.0 million at September 30, 2016 compared to \$139.6 million at December 31, 2015. In addition, cash increased by \$126.0 million to \$304.5 million at September 30, 2016 compared to \$178.5 million at December 31, 2015.

Total assets increased \$203.7 million, from \$1,639.3 million at December 31, 2015 to \$1,843.0 million at September 30, 2016. The increase is primarily due to an increase in cash of \$126.0 million, and an increase in intangible assets of \$46.9 primarily relating to acquisitions made since December 31, 2015. At September 30, 2016 TSS held a cash balance of \$33.2 million. As explained in the “Capital Resources and Commitments” section below, there are limitations on TSS’ ability to distribute funds to Constellation.

Current liabilities increased \$104.6 million, from \$769.8 million at December 31, 2015 to \$874.4 million at September 30, 2016. The increase is primarily due to an increase in deferred revenue of \$62.8 million mainly due to acquisitions made since December 31, 2015 and the timing of maintenance and other billings versus performance and delivery under those customer arrangements, and an increase in income taxes payable of \$30.4 million.

Net Changes in Cash Flows

(in \$M's)

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net cash provided by operating activities	357.2	281.9
Net cash from (used in) financing activities	(86.7)	19.0
Net cash from (used in) acquisition activities	(119.5)	(210.9)
Net cash from (used in) other investing activities	(25.1)	(7.7)
Net cash from (used in) investing activities	(144.6)	(218.6)
Effect of foreign currency	0.1	(4.7)
Net increase (decrease) in cash and cash equivalents	126.0	77.6

The net cash flows from operating activities were \$357.2 million for the nine months ended September 30, 2016. The \$357.2 million provided by operating activities resulted from \$141.1 million in net income plus \$252.9 million of non-cash adjustments to net income offset by \$9.2 million of cash used in non-cash operating working capital and \$27.7 million in taxes paid.

The net cash flows used in financing activities in the nine months ended September 30, 2016 were \$86.7 million, which is a result of dividends paid in the period of \$63.6 million, interest paid of \$17.4 million on bank indebtedness and the Company’s unsecured subordinated floating rate debentures, a \$4.5 million principal repayment on the CNH Facility (as defined below) and \$1.2 million in transaction costs associated with the renewal of the Company’s credit facility.

The net cash flows used in investing activities in the nine months ended September 30, 2016 were \$144.6 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of \$119.5 million

(including payments for holdbacks relating to prior acquisitions), the net purchase of available-for-sale equity securities in the amount of \$12.3 million, and property and equipment purchases of \$13.6 million.

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

Bank Indebtedness

On February 25, 2016, we completed an amendment and restatement of our revolving credit facility agreement (the “CSI Facility”), extending its maturity date to August 11, 2020. The CSI Facility limit was increased from \$300 million to \$485 million with a syndicate of new and existing Canadian chartered banks and U.S. banks. 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 our 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. The CSI Facility is available for acquisitions, distributions, working capital needs, and other general corporate purposes and for the needs of our subsidiaries. As at September 30, 2016, no amounts were drawn on the CSI Facility, and letters of credit totalling \$15.5 million were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with this CSI Facility are being amortized through profit or loss using the effective interest rate method. As at September 30, 2016, the carrying amount of such costs totalling \$1.1 million has been classified as part of other non-current assets in the statement of financial position.

On September 24, 2014 Constellation Software Netherlands Holding Cooperatief U.A. (“CNH”), a subsidiary of Constellation and the indirect owner of 100% of TSS, entered into a €150 million (approximately \$168 million) term and €10 million (approximately \$11 million) multicurrency revolving credit facility (the “CNH Facility”) with a number of European and North American financial institutions. The CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The 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 CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. At September 30, 2016, €124 million (approximately \$139 million) remains outstanding on the term component of the CNH Facility. €24 million must be repaid in instalments prior to September 24, 2020, and €100 million is non-amortizing and due on September 24, 2021. The remaining €20 million term component of the CNH Facility remains undrawn. If drawn, principal must be repaid in five equal instalments starting on September 24, 2018. As at September 30, 2016 no amounts had been drawn on the €10 million multicurrency revolving component of the CNH Facility. The revolving component of the CNH Facility is available for acquisitions, working capital needs, and other general corporate purposes until September 24, 2020. Transaction costs associated with the CNH 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 September 30, 2016, the carrying amount of such costs relating to this CNH Facility totalling \$3.9 million (€3.5 million) has been classified as part of non-current CNH Facility in the statement of financial position.

The CSI Facility and CNH Facility are independent of each other. The CNH Facility is not guaranteed by Constellation or its subsidiaries nor is Constellation or any subsidiary subject to the terms of the CNH Facility other than, in each case, CNH and its subsidiaries. Similarly, CNH and its subsidiaries did not guarantee the CSI Facility

and are not subject to the provisions thereof. The CSI Facility imposes 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 the CSI Facility. The CNH Facility imposes limitations on the amount of distributions that CNH and its subsidiaries may make to Constellation.

Debentures

On October 1, 2014 and November 19, 2014, the Company issued unsecured subordinated debentures (the “Debentures”) with a total principal value of C\$96.0 million for total proceeds of C\$91.2 million. The proceeds were used by the Company to pay down \$81.2 million of outstanding bank indebtedness.

On September 30, 2015, the Company issued an additional tranche of Debentures with a total principal value of C\$186.2 million for total proceeds of C\$214.2 million. The proceeds were used by the Company to pay down \$130.4 million of outstanding bank indebtedness. The September 30, 2015 issuance formed a single series with the outstanding C\$96.0 million aggregate principal amount of Debentures, Series 1 of the Company. The Debentures have a maturity date of March 31, 2040.

TSS 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. Proceeds from this transaction in the amount of €39.4 million (\$48.5 million) were utilized to repay, in part, outstanding bank indebtedness of Constellation. In accordance with IFRS, 100% of the financial results for TSS are included in the consolidated financial results of the Company.

Each of the minority owners may, at any time, 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 (classified as a current liability), and up to 33.33% on each of the first and second anniversary of the date the first redemption payment is made.

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 approximately 32% remaining interest can be sold via the put option described above.

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 the Coop will be terminated. There is a valuation premium if the call option is exercised versus the put option.

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 the valuation methodology described within 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 the Coop 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 annual payment date.

Other commitments

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 based on the future performance of the acquired business. The fair value of contingent consideration recorded in our statement of financial position was \$18.6 million at September 30, 2016. 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 September 30, 2016.

The TSS membership liability commitment assumes that the minority owners have exercised their put option to sell 100% of their interests back to Constellation. This option however has not been exercised as at July 27, 2016. See the "Critical Accounting Estimate" section of the Company's 2015 Annual Consolidated Financial Statements for a discussion on the valuation methodology utilized.

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 will impact future revenue and net earnings. Our analysis related to the change in average exchange rates from 2015 to 2016 suggests that the impact to Adjusted EBITA margins for both the three and nine months ended September 30, 2016 was less than 1%. The impact to organic revenue growth for both the three and nine months ended September 30, 2016 was approximately negative 1%. 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, revenues, 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 nine months ended September 30, 2016, 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 and nine months ended September 30, 2016:

Currencies	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	58%	48%	59%	49%
CAD	5%	13%	6%	14%
GBP	7%	8%	8%	8%
EURO	20%	20%	19%	19%
CHF	1%	3%	1%	2%
Others	8%	8%	8%	7%
Total	100%	100%	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases and letters of credit, all of our liabilities and commitments are reflected as part of our statement of financial position.

Proposed Transactions

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

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended September 30, 2016, 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 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 standard has a mandatory effective date for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. 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 judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has not yet selected a transition method nor determined the effect of the standard on the consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases (IAS 17) 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
- recognise 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 is assessing the impact of this standard on its consolidated financial statements.

Share Capital

As at October 26, 2016, there were 21,191,530 common shares outstanding.

Risks and Uncertainties

The Company's business is subject to a number of risk factors which are described 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.

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 September 30, 2016, 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 September 30, 2016 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.