

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

# **CONSTELLATION SOFTWARE INC.**

For the three and nine months ended September 30, 2022 and 2021  
Unaudited

# CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Financial Position

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Unaudited

	September 30, 2022	December 31, 2021	September 30, 2021
<b>Assets</b>			
Current assets:			
Cash	\$ 665	\$ 763	\$ 961
Accounts receivable	744	600	512
Unbilled revenue	219	140	144
Inventories	46	35	32
Other assets (note 5)	473	296	278
	2,146	1,835	1,929
Non-current assets:			
Property and equipment	121	93	91
Right of use assets	274	245	252
Deferred income taxes (note 11)	155	66	63
Other assets (note 5)	160	99	94
Intangible assets (note 6)	4,469	3,428	3,006
	5,179	3,931	3,506
<b>Total assets</b>	<b>\$ 7,325</b>	<b>\$ 5,766</b>	<b>\$ 5,434</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Debt with recourse to Constellation Software Inc. (note 7)	\$ 364	\$ 143	\$ 137
Debt without recourse to Constellation Software Inc. (note 8)	234	60	54
Redeemable preferred securities (note 9)	-	7	7
Accounts payable and accrued liabilities	917	832	720
Dividends payable (note 12)	21	22	21
Deferred revenue	1,545	1,158	1,168
Provisions (note 10)	9	11	11
Acquisition holdback payables	148	94	92
Lease obligations	89	79	81
Income taxes payable (note 11)	99	56	86
	3,425	2,461	2,377
Non-current liabilities:			
Debt with recourse to Constellation Software Inc. (note 7)	522	561	550
Debt without recourse to Constellation Software Inc. (note 8)	705	354	325
Deferred income taxes (note 11)	465	436	393
Acquisition holdback payables	62	68	49
Lease obligations	206	190	195
Other liabilities (note 5)	239	175	145
	2,200	1,784	1,656
<b>Total liabilities</b>	<b>5,625</b>	<b>4,245</b>	<b>4,034</b>
Shareholders' equity (note 12):			
Capital stock	99	99	99
Other equity	-	(179)	(162)
Accumulated other comprehensive income (loss)	(227)	(66)	(69)
Retained earnings	1,632	1,206	1,103
Non-controlling interests (notes 1, 9 and 18)	196	460	429
	1,700	1,521	1,401
Subsequent events (notes 12 and 19)			
<b>Total liabilities and shareholders' equity</b>	<b>\$ 7,325</b>	<b>\$ 5,766</b>	<b>\$ 5,434</b>

See accompanying notes to the condensed consolidated interim financial statements.

# CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Income (loss)

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenue				
License	\$ 79	\$ 69	\$ 220	\$ 206
Professional services	375	256	985	747
Hardware and other	54	45	151	127
Maintenance and other recurring	1,217	929	3,418	2,643
	1,725	1,299	4,774	3,724
Expenses				
Staff	925	676	2,581	1,982
Hardware	31	25	88	71
Third party license, maintenance and professional services	167	113	443	317
Occupancy	12	10	35	30
Travel, telecommunications, supplies, software and equipment	80	46	215	129
Professional fees	26	21	78	53
Other, net	64	21	132	41
Depreciation	38	31	105	90
Amortization of intangible assets (note 6)	177	134	491	376
	1,521	1,077	4,167	3,087
Foreign exchange loss (gain)	(57)	(5)	(98)	(3)
IRGA/TSS Membership liability revaluation charge (note 7)	33	25	89	107
Finance and other expense (income) (note 13)	8	(4)	24	(9)
Bargain purchase gain	(3)	(1)	(4)	(1)
Impairment of intangible and other non-financial assets (note 6)	-	1	1	7
Redeemable preferred securities expense (income) (note 9)	-	-	-	295
Finance costs (note 13)	29	18	73	50
	11	34	86	446
Income (loss) before income taxes	193	188	521	190
Current income tax expense (recovery)	113	70	322	209
Deferred income tax expense (recovery)	(63)	(4)	(189)	(43)
Income tax expense (recovery)	50	67	133	166
Net income (loss)	143	121	388	24
Net income (loss) attributable to:				
Common shareholders of Constellation Software Inc. (notes 1 and 18)	136	107	360	186
Non-controlling interests (notes 1 and 18)	7	15	28	(162)
Net income (loss)	143	121	388	24
Earnings per common share of Constellation Software Inc.				
Basic and diluted (note 14)	\$ 6.42	\$ 5.04	\$ 16.99	\$ 8.79

See accompanying notes to the condensed consolidated interim financial statements.

## CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income (loss)

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

### Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 143	\$ 121	\$ 388	\$ 24
Items that are or may be reclassified subsequently to net income (loss):				
Foreign currency translation differences from foreign operations and other, net of tax	(93)	(21)	(184)	(39)
Other comprehensive income (loss) for the period, net of income tax	(93)	(21)	(184)	(39)
Total comprehensive income (loss) for the period	\$ 50	\$ 100	\$ 204	\$ (15)
Total other comprehensive income (loss) attributable to:				
Common shareholders of Constellation Software Inc. (notes 1 and 18)	(80)	(13)	(156)	(19)
Non-controlling interests (notes 1 and 18)	(13)	(8)	(27)	(19)
Total other comprehensive income (loss)	\$ (93)	\$ (21)	\$ (184)	\$ (39)
Total comprehensive income (loss) attributable to:				
Common shareholders of Constellation Software Inc. (notes 1 and 18)	56	93	204	167
Non-controlling interests (notes 1 and 18)	(6)	7	1	(182)
Total comprehensive income (loss)	\$ 50	\$ 100	\$ 204	\$ (15)

See accompanying notes to the condensed consolidated interim financial statements.

# CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statement of Changes in Equity

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Unaudited

Nine months ended September 30, 2022

	Equity Attributable to Common Shareholders of CSI				Total	Non-controlling interests	Total equity
	Capital stock	Other equity	Accumulated other comprehensive income (loss)	Retained earnings			
<b>Balance at January 1, 2022</b>	\$ 99	\$ (179)	\$ (66)	\$ 1,206	\$ 1,061	\$ 460	\$ 1,521
<i>Total comprehensive income (loss) for the period:</i>							
Net income (loss)	-	-	-	360	360	28	388
<i>Other comprehensive income (loss)</i>							
Foreign currency translation differences from foreign operations and other, net of tax	-	-	(156)	-	(156)	(27)	(184)
<b>Total other comprehensive income (loss) for the period</b>	-	-	(156)	-	(156)	(27)	(184)
<b>Total comprehensive income (loss) for the period</b>	-	-	(156)	360	204	1	204
Transactions with owners, recorded directly in equity							
Conversion of redeemable preferred securities to subordinate voting shares of Topicus.com Inc. and ordinary units of Topicus Coop (note 1 and 9) and other related movements	-	305	(5)	-	301	(301)	-
Non-controlling interests arising from business combinations (note 4)	-	-	-	-	-	41	41
Other movements in non-controlling interests	-	-	-	2	2	(5)	(2)
Dividends to shareholders of the Company (note 12)	-	-	-	(64)	(64)	-	(64)
Reclassification of other equity to retained earnings	-	(127)	-	127	-	-	-
<b>Balance at September 30, 2022</b>	\$ 99	\$ -	\$ (227)	\$ 1,632	\$ 1,504	\$ 196	\$ 1,700

See accompanying notes to the condensed consolidated interim financial statements.

# CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statement of Changes in Equity  
(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Unaudited

Nine months ended September 30, 2021

	Equity Attributable to Common Shareholders of CSI					Non-controlling interests	Total equity
	Capital stock	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
<b>Balance at January 1, 2021</b>	\$ 99	\$ -	\$ (31)	\$ 980	\$ 1,048	\$ -	\$ 1,048
<i>Total comprehensive income (loss) for the period:</i>							
Net income (loss)	-	-	-	186	186	(162)	24
<i>Other comprehensive income (loss)</i>							
Foreign currency translation differences from foreign operations and other, net of tax	-	-	(19)	-	(19)	(19)	(39)
<b>Total other comprehensive income (loss) for the period</b>	-	-	(19)	-	(19)	(19)	(39)
<b>Total comprehensive income (loss) for the period</b>	-	-	(19)	186	167	(182)	(15)
Transactions with owners, recorded directly in equity							
Special dividend of Topicus Subordinated Voting Shares	-	(141)	(16)	-	(157)	157	-
Issuance of Topicus Coop Ordinary Units to non-controlling interests	-	(21)	(2)	-	(23)	23	-
Net acquisition of non-controlling interest associated with acquisitions and other movements	-	1	-	1	1	1	3
Dividends to shareholders of the Company (note 12)	-	-	-	(64)	(64)	-	(64)
Reclassification of Redeemable preferred securities of Topicus Coop from liabilities to non-controlling interest	-	-	-	-	-	434	434
Accrued dividends to preference unit holders of Topicus Coop (note 9)	-	-	-	-	-	(5)	(5)
<b>Balance at September 30, 2021</b>	\$ 99	\$ (162)	\$ (69)	\$ 1,103	\$ 972	\$ 429	\$ 1,401

See accompanying notes to the condensed consolidated interim financial statements.

# CONSTELLATION SOFTWARE INC.

## Condensed Consolidated Interim Statements of Cash Flows

(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

### Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Cash flows from (used in) operating activities:				
Net income (loss)	\$ 143	\$ 121	\$ 388	\$ 24
Adjustments for:				
Depreciation	38	31	105	90
Amortization of intangible assets	177	134	491	376
IRGA/TSS Membership liability revaluation charge	33	25	89	107
Finance and other expense (income) (note 13)	8	(4)	24	(9)
Bargain purchase (gain)	(3)	(1)	(4)	(1)
Impairment of intangible and other non-financial assets	-	1	1	7
Redeemable preferred securities expense (income) (note 9)	-	-	-	295
Finance costs	29	18	73	50
Income tax expense (recovery)	50	67	133	166
Foreign exchange loss (gain)	(57)	(5)	(98)	(3)
Change in non-cash operating assets and liabilities exclusive of effects of business combinations (note 17)	(8)	(47)	(27)	53
Income taxes paid	(89)	(48)	(279)	(196)
Net cash flows from (used in) operating activities	321	292	897	959
Cash flows from (used in) financing activities:				
Interest paid on lease obligations	(3)	(2)	(8)	(7)
Interest paid on debt	(23)	(12)	(49)	(30)
Increase (decrease) in CSI facility	(32)	-	205	-
Increase (decrease) in Topicus revolving credit debt facility without recourse to CSI	7	12	112	24
Proceeds from issuance of debt facilities without recourse to CSI	22	6	447	140
Repayments of debt facilities without recourse to CSI	(17)	(2)	(30)	(4)
Other financing activities	3	-	4	-
Credit facility transaction costs	(0)	(0)	(3)	(4)
Payments of lease obligations	(24)	(21)	(69)	(61)
Distribution to the Joday Group (note 7)	-	-	(23)	(22)
Dividends paid to redeemable preferred security holders (note 9)	-	-	(7)	-
Dividends paid to common shareholders of the Company	(21)	(21)	(64)	(64)
Net cash flows from (used in) financing activities	(89)	(41)	516	(29)
Cash flows from (used in) investing activities:				
Acquisition of businesses (note 4)	(207)	(130)	(1,421)	(736)
Cash obtained with acquired businesses (note 4)	42	28	190	112
Post-acquisition settlement payments, net of receipts	(39)	(16)	(98)	(101)
Receipt of additional subscription amount from the sellers of Topicus.com B.V. (note 4)	-	-	-	33
Purchases of other investments	(0)	(14)	(96)	(15)
Proceeds from sales of other investments	-	8	3	8
Interest, dividends and other proceeds received	1	1	4	4
Property and equipment purchased	(8)	(7)	(27)	(18)
Net cash flows from (used in) investing activities	(211)	(131)	(1,445)	(713)
Effect of foreign currency on cash and cash equivalents	(32)	(10)	(67)	(13)
Increase (decrease) in cash	(11)	110	(99)	203
Cash, beginning of period	\$ 676	\$ 851	\$ 763	\$ 758
Cash, end of period	\$ 665	\$ 961	\$ 665	\$ 961

See accompanying notes to the condensed consolidated interim financial statements.

# CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Due to rounding, numbers presented may not foot)

Three and nine months ended September 30, 2022 and 2021

(Unaudited)

## Notes to the condensed consolidated interim financial statements

- |   |  |
|---|--|
| 1. Reporting entity                               | 11. Income taxes   |
| 2. Basis of presentation                          | 12. Capital and other components of equity               |
| 3. Significant accounting policies                | 13. Finance and other expense (income) and finance costs |
| 4. Business acquisitions                          | 14. Earnings per share                                   |
| 5. Other assets and other non-current liabilities | 15. Financial instruments                                |
| 6. Intangible assets                              | 16. Contingencies  |
| 7. Debt with recourse to CSI                      | 17. Changes in non-cash operating assets and liabilities |
| 8. Debt without recourse to CSI                   | 18. Non-controlling interests                            |
| 9. Redeemable preferred securities                | 19. Subsequent events                                    |
| 10. Provisions                                    |  |



# CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Due to rounding, numbers presented may not foot)

Three and nine months ended September 30, 2022 and 2021

(Unaudited)

## 1. Reporting entity

Constellation Software Inc. is a company domiciled in Canada. The address of Constellation Software Inc.'s registered office is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada. The condensed consolidated interim financial statements of Constellation Software Inc. as at and for the three and nine month period ended September 30, 2022 comprise Constellation Software Inc. and its subsidiaries (together referred to as "Constellation", "CSI", or the "Company") and the Company's interest in associates. The Company is engaged principally in the development, installation and customization of software as well as in the provisioning of related professional services and support for customers globally across over 100 diverse markets.

### Preferred Share Investment in Topicus.com Inc. ("Topicus")

At the beginning of the period, the Company owned 39,412,385 Topicus Preferred Shares. The Topicus Preferred Shares were non-voting and under certain conditions, prior to the Notification of Conversion, were redeemable at the option of CSI for a redemption price of approximately EUR 19.06 per share. The redemption price was either to be settled in cash or through the issuance of a variable number of Topicus Subordinate Voting Shares based on the terms of the Topicus Preferred Shares, or any combination thereof. The Topicus Preferred Shares were also convertible into Topicus Subordinate Voting Shares at a conversion ratio of 1:1. The Topicus Preferred Shares entitled CSI to a fixed annual cumulative dividend of 5% per annum on the initial Topicus Preferred Share value of approximately EUR 19.06 per share.

On February 1, 2022, the Topicus Preferred Shares were converted to Topicus Subordinate Voting Shares. Subsequent to the conversion, CSI continues to consolidate Topicus and now reflects an equity interest of 60.65% (December 31, 2021 – 30.3%) in Topicus and a non-controlling interest of 39.35% (December 31, 2021 – 69.7%).

## 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 2021 annual consolidated financial statements except as disclosed herein.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 4, 2022.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2021 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 millions of U.S. dollars, except per share amounts and as otherwise indicated)

(Due to rounding, numbers presented may not foot)

Three and nine months ended September 30, 2022 and 2021

(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 2021 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.

The Company is closely monitoring the impact of COVID-19 on all aspects of its business. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has had disruptive effects in countries in which the Company operates and has adversely impacted many of its business units' operations to date, including through the cancellation by certain customers of their ongoing software maintenance contracts and the suspension or cancellation of new software purchases. The pandemic may also have an adverse impact on many of the Company's customers, including their ability to satisfy ongoing payment obligations to the Company, which could increase the Company's bad debt exposure. The future impacts of the pandemic and any resulting economic impact are largely unknown and rapidly evolving. It is possible that the COVID-19 pandemic, the measures taken by the governments of countries affected and the resulting economic impact may continue to adversely affect the Company's results of operations, cash flows and financial position as well as its customers in future periods, and this impact could be material. During the three and nine months ended September 30, 2022, the Company recorded income of \$0 and \$1 (\$1 and \$16 for the three and nine months ended September 30, 2021) relating to government grants from various government authorities relating to the pandemic within "Other, net" expenses in the condensed consolidated interim statements of income (loss).

## **3. Significant accounting policies**

Unless otherwise noted in the condensed consolidated interim financial statements, the significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2021 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.

# CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Due to rounding, numbers presented may not foot)

Three and nine months ended September 30, 2022 and 2021

(Unaudited)

## 4. Business acquisitions

(a) On May 2, 2022, the Company completed an agreement with Allscripts Healthcare Solutions (“Allscripts”) to acquire 100% of the net assets of Allscripts’ Hospitals and Large Physician Practices business segment (“Altera”). The Company paid cash of \$731 less a cash holdback receivable of \$5 for aggregate consideration of \$726. Contingent consideration of up to \$30 could be payable based on performance of the business during the two years following transaction closing.

Altera is a software provider based in the United States and primarily operates in the healthcare market and is a software business similar to existing businesses operated by the Company. The acquisition has been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of the acquisition.

The goodwill recognized in connection with this acquisition is primarily attributable to the application of the Company’s best practices to improve the operations of Altera, synergies with existing businesses of the Company, and other intangible assets that do not qualify for separate recognition including assembled workforce. The goodwill is not expected to be deductible for income tax purposes.

The gross contractual amount of acquired receivables was \$187; however, the Company has recorded an allowance of \$42 as part of the acquisition accounting to reflect contractual cash flows that are not expected to be collected.

Due to the complexity of the acquisition, the Company is in the process of determining and finalizing the estimated fair value of the net assets acquired as part of the Altera acquisition. The amounts determined on a provisional basis generally relate to net asset assessments and measurement of the assumed liabilities. The provisional purchase price allocations may differ from the final purchase price allocations, and these differences may be material. Revisions to the allocations will occur as additional information about the fair value of assets and liabilities becomes available. During the three-month period ended September 30, 2022, the Company made changes to provisional estimates of prior quarter preliminary purchase price allocations of intangible assets and corresponding deferred income taxes. The significant changes include a reduction to current assets of \$23, a decrease of technology assets of \$16, decrease in customer assets of \$33, an increase to goodwill of \$44 and an increase of deferred tax assets of \$24. The impact of these provisional changes to the purchase price allocation did not have a significant impact on the Condensed Consolidated Interim Statements of Income (Loss).

# CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

The impact of acquisition accounting applied on a provisional basis in connection with the acquisition of Altera is as follows:

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Assets acquired:		
Cash	\$	61
Accounts receivable		144
Other current assets		82
Property and equipment		26
Right of use assets		34
Other non-current assets		31
Deferred income taxes		31
Technology assets		224
Customer assets		395
		<hr/>
		1,028
Liabilities assumed:		
Current liabilities		96
Deferred revenue		286
Deferred income taxes		25
Long-term lease obligations		30
Other non-current liabilities		7
		<hr/>
		444
Goodwill		142
<b>Total consideration</b>	<b>\$</b>	<b>726</b>
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The acquisition of Altera contributed revenue of \$219 and \$359 for the three and nine months ended September 30, 2022 and net income of \$11 and \$5 during the three and nine months ended September 30, 2022. If this acquisition had occurred on January 1, 2022, the Company estimates that pro-forma consolidated revenue and pro-forma consolidated net income (loss) would have been \$5,064 and \$390 compared to the actual amounts reported in the consolidated statement of income (loss) for the actual period for the nine months ended September 30, 2022.

(b) During the nine-month period ended September 30, 2022, the Company completed a number of additional acquisitions for aggregate cash consideration of \$689 plus cash holdbacks of \$140 and contingent consideration with an estimated acquisition date fair value of \$43. The total consideration resulting from the additional acquisitions in the nine-month period ended September 30, 2022 was \$872. 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, 2022 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 estimated financial outcome and resulting expected contingent consideration to be paid and

# CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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Three and nine months ended September 30, 2022 and 2021

(Unaudited)

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 \$81. As of September 30, 2022, aggregate contingent consideration of \$158 (December 31, 2021 - \$104) has been reported in the condensed consolidated interim statement of financial position at its estimated fair value relating to applicable acquisitions completed in the current and prior periods. Changes made to the estimated fair value of contingent consideration are included in other, net in the condensed consolidated interim statements of income (loss). An expense of \$33 and \$45 has been recorded for the three and nine months ended September 30, 2022, as a result of such changes (expense of \$3 and \$9 for the three and nine months ended September 30, 2021).

There were no additional acquisitions during the nine-month period that were deemed to be individually significant. The majority of the businesses acquired during the 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.

On January 3, 2022, the Company acquired a controlling interest of 63.51% in Adapt IT Holdings Limited ("Adapt IT"), a Company based in South Africa. The remaining 36.49% represents non-controlling interest. The total current assets of Adapt IT on the acquisition date and recorded on the opening balance sheet were \$30, the total long-lived assets were \$114, the total current liabilities were \$23 and the total long-term liabilities were \$59. The total revenue recorded during the nine months ended September 30, 2022 was \$77 and the net income for the nine months ended September 30, 2022 was \$2.

On May 16, 2022, Topicus acquired a controlling interest of 72.68% in Sygnity S.A. ("Sygnity"), a Company based in Poland. The remaining 27.32% represents non-controlling interest. The total current assets of Sygnity on the acquisition date and recorded on the opening balance sheet were \$19, the total long-lived assets were \$80, the total current liabilities were \$18 and the total long-term liabilities were \$20. The total revenue recorded during the nine months ended September 30, 2022 was \$18 and the net loss for the nine months ended September 30, 2022 was \$1.

The additional acquisitions during the nine-month period ended September 30, 2022 include software companies catering to the following markets: accounting, automotive, communications, financial services, education, data management, fitness, fleet and facility management, healthcare, homebuilders, horticulture, legal, logistics, mining, oil and gas, moving and storage, notaries, pulp and paper manufacturers, real estate brokers and agents, retail management and distribution, speech recognition, third party logistics warehouse management systems, transit, agribusiness, airport, auctions, compliance, construction, data management, human capital, information services, public libraries, local government, manufacturing, not for profit organizations, public housing, public safety, publishing, software development, property management, hospitality, document management, performance management, trucking, schools, small and medium sized businesses, engineering, travel, automated explosive tracking, risk management, textiles and apparel, asset management, public safety, and utilities 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 additional 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 intangible assets that do not qualify for separate recognition including assembled workforce. Goodwill in the amount of \$12 is expected to be deductible for income tax purposes.

# CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Due to rounding, numbers presented may not foot)

Three and nine months ended September 30, 2022 and 2021

(Unaudited)

The gross contractual amounts of acquired receivables from the additional acquisitions was \$104; however, the Company has recorded an allowance of \$6 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 2021 and the first three quarters of 2022. The amounts determined on a provisional basis generally relate to net asset assessments and measurement of the assumed liabilities, including acquired contract liabilities. The provisional purchase price allocations may differ from the final purchase price allocations, and these differences may be material. Revisions to the allocations will occur as additional information about the fair value of assets and liabilities becomes available. The cash consideration associated with these provisional estimates totals \$1,177.

The aggregate impact of acquisition accounting applied in connection with the additional business acquisitions in the nine-month period ended September 30, 2022 is as follows:

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(Unaudited)

<hr/>		
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Assets acquired:		
Cash	\$	129
Accounts receivable		98
Other current assets		62
Property and equipment		21
Right of use assets		52
Other non-current assets		7
Deferred income taxes		9
Trademarks		0
Technology assets		464
Customer assets		490
		<hr/>
		1,332
Liabilities assumed:		
Current liabilities		134
Deferred revenue		130
Deferred income taxes		188
Long-term debt		22
Long-term lease obligations		39
Other non-current liabilities		16
		<hr/>
		528
Non-controlling interest		41
Goodwill		112
Bargain purchase gain		(3)
<hr/>		
<b>Total consideration</b>	<b>\$</b>	<b>872</b>
<hr/>		

The 2022 additional business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income (loss) for the nine months ended September 30, 2022. The materiality threshold is reviewed on a regular basis taking into account the quantitative (contribution to revenue and net income (loss)) and qualitative (size and comparability with other Constellation businesses) factors of current period acquisitions on both an individual and aggregate basis.

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## 5. Other assets and other non-current liabilities

### (a) Other assets

	September 30, 2022	December 31, 2021
Prepaid expenses and other current assets	\$ 226	\$ 155
Investment tax credits recoverable	37	27
Sales tax receivable	26	25
Equity securities held for trading	94	39
Other receivables	89	50
Total other current assets	473	\$ 296
Investment tax credits recoverable	\$ 17	\$ 11
Costs to obtain a contract	50	46
Non-current trade and other receivables and other assets	92	39
Equity accounted investees	2	2
Total other non-current assets	\$ 160	\$ 99

### (b) Other non-current liabilities

	September 30, 2022	December 31, 2021
Contingent consideration	\$ 117	\$ 72
Deferred revenue	69	52
Other non-current liabilities	54	51
Total other non-current liabilities	\$ 239	\$ 175



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## 6. Intangible Assets

	Technology Assets	Customer Assets	Backlog	Non-compete agreements	Trademarks	Goodwill	Total
<b>Cost</b>							
Balance at January 1, 2021	\$ 2,568	\$ 1,640	\$ 17	\$ 3	\$ 8	\$ 435	\$ 4,671
Acquisitions through business combinations	728	780	-	-	25	199	1,732
Effect of movements in foreign exchange	(70)	(64)	0	(0)	(2)	(21)	(158)
Balance at December 31, 2021	\$ 3,226	\$ 2,356	\$ 17	\$ 3	\$ 30	\$ 614	\$ 6,245
Balance at January 1, 2022	\$ 3,226	\$ 2,356	\$ 17	\$ 3	\$ 30	\$ 614	\$ 6,245
Acquisitions through business combinations	690	883	0	-	0	251	1,824
Effect of movements in foreign exchange and other	(220)	(186)	0	(1)	(4)	(62)	(472)
Balance at September 30, 2022	\$ 3,696	\$ 3,052	\$ 17	\$ 2	\$ 27	\$ 803	\$ 7,598
<b>Accumulated amortization and impairment losses</b>							
Balance at January 1, 2021	\$ 1,662	\$ 659	\$ 17	\$ 3	\$ 3	\$ 4	\$ 2,346
Amortization for the period	313	203	0	0	1	-	518
Impairment charge	3	6	-	-	-	0	10
Effect of movements in foreign exchange	(38)	(19)	0	(0)	0	-	(57)
Balance at December 31, 2021	\$ 1,941	\$ 849	\$ 17	\$ 2	\$ 4	\$ 4	\$ 2,817
Balance at January 1, 2022	\$ 1,941	\$ 849	\$ 17	\$ 2	\$ 4	\$ 4	\$ 2,817
Amortization for the period	286	203	0	0	1	-	491
Impairment charge	0	0	-	-	-	1	1
Effect of movements in foreign exchange	(119)	(61)	0	(0)	-	-	(180)
Balance at September 30, 2022	\$ 2,108	\$ 992	\$ 17	\$ 2	\$ 5	\$ 4	\$ 3,129
<b>Carrying amounts</b>							
At January 1, 2021	\$ 907	\$ 981	\$ (0)	\$ 0	\$ 5	\$ 432	\$ 2,325
At December 31, 2021	\$ 1,285	\$ 1,507	\$ 0	\$ 0	\$ 26	\$ 610	\$ 3,428
At January 1, 2022	\$ 1,285	\$ 1,507	\$ 0	\$ 0	\$ 26	\$ 610	\$ 3,428
At September 30, 2022	\$ 1,588	\$ 2,060	\$ 0	\$ (0)	\$ 22	\$ 799	\$ 4,469

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## 7. Debt with recourse to CSI

	CSI Facility	Liability of CSI under the IRGA	Debentures	Term Loan	Total
Principal outstanding at September 30, 2022 (and, except for debentures, equal to fair value)	\$ 205	\$ 405	\$ 205	\$ 72	\$ 888
Deduct: Carrying value of transaction costs included in debt balance	(2)	-	-	(0)	(2)
Carrying value at September 30, 2022	203	405	205	72	886
Current portion	203	161	-	-	364
Non-current portion	-	244	205	72	522

### CSI Facility

On November 5, 2021, 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 \$700, extending its maturity date to November 2026. 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 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, 2022, \$205 (December 31, 2021 – \$nil) had been drawn from this credit facility, and letters of credit totaling \$13 (December 31, 2021 – \$79) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with the CSI Facility are being amortized through profit or loss using the effective interest rate method. As at September 30, 2022, the carrying amount of such costs is \$2 (December 31, 2021 – \$2).

### Liability of CSI under the terms of the IRGA/TSS Members Agreement

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the initial acquisition of TSS by CSI, and on the basis of the term sheets attached thereto, Constellation and the Joday Group, among others, entered into a Members Agreement (the “TSS Members Agreement”) pursuant to which the Joday Group acquired 33.29% of the voting interests in Constellation Software Netherlands Holding Coöperatief U.A. (which was renamed to Topicus.com Coöperatief U.A., (“Topicus Coop”), a subsidiary of Constellation and the indirect owner of 100% of TSS at the time of the acquisition. Total proceeds from this transaction was EUR 39.

On January 5, 2021, the TSS Members Agreement was terminated in conjunction with the acquisition of Topicus.com B.V., the reorganization of Topicus Coop and the execution of the Investors Rights and Governance Agreement (“IRGA”). The IRGA was established to create certain contractual obligations of the parties in respect of the governance of Topicus and Topicus Coop. The Joday Group’s interest in Topicus Coop now comprises 39,331,284 Topicus Coop Ordinary Units resulting in an interest of 30.29% in Topicus Coop. The IRGA provides for transfer restrictions in respect of the Topicus Coop Units.

Any time after January 5, 2021, any member of the Joday Group has the right, at their option, to sell any number of its Topicus Coop Units to CSI at a cash price per Topicus Coop Unit determined in accordance with the IRGA. Upon the exercise of such option by a member of the Joday Group, CSI will be obligated to purchase 33.33% of such

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Topicus Coop Units within 30 days, and an additional 33.33% on each of the first and the second anniversary of such initial purchase. Notwithstanding the foregoing, CSI can offer Topicus the right to purchase such Topicus Coop Units in lieu of CSI.

In the event of a change of control of CSI, any member of the Joday Group has the right, at their option, to sell all of its Topicus Coop Units to CSI at a cash price per Topicus Coop Unit determined in accordance with the IRGA. Upon the exercise of such option by a member of the Joday Group, CSI will be obligated to purchase all such Topicus Coop Units. Notwithstanding the foregoing, CSI can offer Topicus the right to purchase such Topicus Coop Units in lieu of CSI.

If CSI reduces its economic interest in Topicus by a sale or transfer of its economic interest (and not due to any additional issuance of any shares or equity by Topicus) by more than one-third (calculated on a fully converted basis in accordance with the IRGA), any member of the Joday Group has the right, at their option, to sell to CSI one-third of its Topicus Coop Units at a cash price per Topicus Coop Unit determined in accordance with the IRGA. Upon the exercise of such put option by a member of the Joday Group, CSI will be obligated to purchase all such put Topicus Coop Units. Notwithstanding the foregoing, CSI can offer Topicus the right to purchase such Topicus Coop Units in lieu of CSI. Any member of the Joday Group has a similar right to sell one-half or all of its remaining Topicus Coop Units, respectively, at its option, if CSI further reduces its remaining fully-diluted economic interest in Topicus by a sale or transfer of its economic interest by one-half and again if CSI sells its entire remaining economic interest in Topicus.

All of the Topicus Coop Ordinary Units held by the Joday Group and Ijssel B.V. (collectively, the "Topicus Coop Exchangeable Units") are exchangeable, directly or indirectly, for Topicus Subordinate Voting Shares. All of the above rights of members of the Joday Group apply to any Topicus Subordinate Voting Shares issued on an exchange of Topicus Coop Exchangeable Units.

At any time after December 31, 2023, CSI has the right, at its option, to buy all of the Topicus Coop Units and shares of Topicus held by certain members of the Joday Group (excluding Joday) at a cash price per Topicus Coop Unit (or share of Topicus, as applicable) determined in accordance with the IRGA. After December 31, 2043, CSI has the same right to buy all of the Topicus Coop Units and shares of Topicus held by the remaining members of the Joday Group, including Joday.

In addition, if certain individuals affiliated with Joday are terminated from their employment with Topicus Coop or an affiliate thereof for urgent cause (as defined in the Dutch Civil Code), CSI has the right, at its option, to buy all of Topicus Coop Units held by such individuals at a cash price per Topicus Coop Unit determined in accordance with the IRGA.

The Company has continued to classify the above obligations of CSI under the terms of the IRGA as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of Topicus. Maintenance and recurring revenue of Topicus for the trailing twelve months on a pro-forma basis 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 such liability is recorded as an expense or income in the consolidated statements of income (loss) for the period.

During the periods ended September 30, 2022 and December 31, 2021, no options were exercised. During the nine months ended September 30, 2022, a distribution in the amount of \$23 (September 30, 2021 - \$22) was paid to the Joday Group.

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## *Debentures*

On October 1, 2014 and November 19, 2014, the Company issued debentures with a total principal value of C\$96 for total proceeds of C\$91. 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 for total proceeds of C\$214.

The Debentures have a maturity date of March 31, 2040 (the “Maturity Date”).

The interest rate from and including:

- March 31, 2019 but excluding March 31, 2020 was 8.8%
- March 31, 2020 but excluding March 31, 2021 was 8.4%
- March 31, 2021 but excluding March 31, 2022 was 7.2%
- March 31, 2022 but excluding March 31, 2023 is 9.9%

Subsequent from and including March 31, 2023 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.

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.

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During the periods ended September 30, 2022 and December 31, 2021, no notices for redemption of the Debentures were received or given by the Company.

The fair value of the debentures as at September 30, 2022 was \$285 (December 31, 2021 - \$308).

## *Term Loan*

One of CSI's subsidiaries has entered into a GBP 65 term debt facility with a financial institution for which CSI has guaranteed the debt. The facility bears a fixed rate of interest. The term loan contains events of default that, if not remedied, allow the loan note holder to require repayment of the loan principal and interest. The loan is due in 2028.

## **8. Debt without recourse to CSI**

Certain of CSI's subsidiaries have entered into term debt facilities and revolving credit facilities with various financial institutions. CSI does not guarantee the debt of these subsidiaries, nor are there any cross-guarantees between subsidiaries. The credit facilities are collateralized by substantially all of the assets of the borrowing entity and its subsidiaries. The credit facilities typically bear interest at a rate calculated using an interest rate index plus a margin. The financing arrangements for each subsidiary typically contain certain restrictive covenants, which may include limitations or prohibitions on additional indebtedness, payment of cash dividends, redemption of capital, capital spending, making of acquisitions and sales of assets. In addition, certain financial covenants must be met by those subsidiaries that have outstanding debt.

Debt without recourse to CSI comprises the following:

	Topicus Revolving Credit Facility	Debt Facilities	Total
Principal outstanding at September 30, 2022 (and equal to fair value)	147	\$ 802	949
Deduct: Carrying value of transaction costs included in debt balance	-	(9)	(9)
Carrying value at September 30, 2022	147	792	939
Current portion	147	87	234
Non-current portion	-	705	705

The expected annual minimum repayment requirements for the debt facilities without recourse to CSI (excluding the Topicus revolving credit facility) are as follows:

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Year	Debt Facilities
2022	37
2023	56
2024	45
2025	177
2026	131
2027	297
2028	59
	802

## 9. Redeemable Preferred Securities

In conjunction with the acquisition of Topicus.com B.V. in 2021, Topicus Coop issued 5,842,882 Topicus Coop Preference Units to Ijssel B.V. The Topicus Coop Preference Units were non-voting and prior to the Notification of Conversion were redeemable at the option of the holder for a redemption price of approximately EUR 19.06 per unit. The redemption price would have either been settled in cash or through the issuance of a variable number of Topicus Coop Ordinary Units. The number of Topicus Coop Ordinary Units would have been determined based on the terms of the Topicus Coop Preference Units. The Topicus Coop Preference Units were convertible into Topicus Coop Ordinary Units (note 18) at a conversion ratio of 1:1. The Topicus Coop Preference Unit holders were entitled to a fixed annual cumulative dividend of 5% per annum on the initial Topicus Coop Preference Unit value of approximately EUR 19.06 per unit.

On February 1, 2022, the Topicus Coop Preference Units were converted to Topicus Coop Ordinary Units.

## 10. Provisions

At January 1, 2022	\$	21
Reversal		(1)
Provisions recorded during the period		10
Provisions used during the period		(10)
Effect of movements in foreign exchange and other		(1)
At September 30, 2022	\$	19
Provisions classified as current liabilities		9
Provisions classified as other non-current liabilities		10

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

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## 11. 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, 2022 was 26% and 26% (35% and 87% for the three and nine months ended September 30, 2021). The 2021 year to date effective tax rate was impacted by the redeemable preferred securities expense, which is not deductible for tax purposes.

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 intercompany transactions, including financing and transfer pricing policies which generally involve subjective areas of taxation and a significant degree 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.

## 12. Capital and other components of equity

	Common Shares	
	Number	Amount
September 30, 2022	21,191,530	\$ 99
December 31, 2021	21,191,530	\$ 99

### *Dividends and other distributions to shareholders*

During the three months ended March 31, 2022, the Company declared a \$1.00 per share dividend to all common shareholders of record at close of business on March 16, 2022. The dividend declared in the quarter ended March 31, 2022 representing \$21 was paid and settled on April 12, 2022. During the three months ended June 30, 2022, the Company declared a \$1.00 per share dividend to all common shareholders of record at close of business on June 20, 2022. The dividend declared in the quarter ended June 30, 2022 representing \$21 was paid and settled on July 11, 2022. During the three months ended September 30, 2022, the Company declared a \$1.00 per share dividend to all common shareholders of record at close of business on September 20, 2022. The dividend declared in the quarter ended September 30, 2022 representing \$21 was paid and settled on October 11, 2022.

The dividend declared in the quarter ended December 31, 2021 representing \$21 was paid and settled on January 11, 2022.

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## 13. Finance and other expense (income) and finance costs

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Interest income on cash	\$ (0)	\$ (1)	\$ (1)	\$ (2)
(Increase) decrease in the fair value of equity securities held for trading	13	(1)	38	(3)
Share in net (income) loss of equity investee	0	(1)	0	(0)
Finance and other income	(5)	(2)	(14)	(3)
<b>Finance and other expense (income)</b>	<b>\$ 8</b>	<b>\$ (4)</b>	<b>\$ 24</b>	<b>\$ (9)</b>
Interest expense on debt and debentures	\$ 22	\$ 12	\$ 51	\$ 33
Interest expense on lease obligations	3	2	8	7
Amortization of debt related transaction costs	1	1	2	1
Amortization of debenture discount (premium) and associated rights offering, net	-	-	-	(1)
Other finance costs	4	4	12	10
<b>Finance costs</b>	<b>\$ 29</b>	<b>\$ 18</b>	<b>\$ 73</b>	<b>\$ 50</b>

## 14. Earnings per share

### Basic and diluted earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<b>Numerator:</b>				
Net income (loss) attributable to common shareholders of CSI	\$ 136	\$ 107	\$ 360	\$ 186
<b>Denominator:</b>				
Basic and diluted shares outstanding	21,191,530	21,191,530	21,191,530	21,191,530
<b>Earnings per share</b>				
Basic and diluted	\$ 6.42	\$ 5.04	\$ 16.99	\$ 8.79

## 15. Financial instruments

### Fair values versus carrying amounts

The carrying values of cash, accounts receivable, accounts payable, accrued liabilities, dividends payable, income taxes payable, the majority of acquisition holdbacks, and the CSI Facility, approximate their fair values due to the short-term nature of these instruments. The carrying value of the debt without recourse to CSI approximate their fair values as the debt is subject to market interest rates. The carrying value of the IRGA liability approximates fair value.

### Fair value hierarchy



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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.

Financial assets and financial liabilities measured at fair value as at September 30, 2022 and December 31, 2021 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 and the redeemable preferred securities.

	September 30, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Equity securities held for trading	\$ 94	\$ -	\$ -	\$ 94	\$ 39	\$ -	\$ -	\$ 39
	<b>94</b>	<b>-</b>	<b>-</b>	<b>94</b>	<b>39</b>	<b>-</b>	<b>-</b>	<b>39</b>
<b>Liabilities:</b>								
Redeemable preferred securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7	\$ 7
Contingent consideration	-	-	158	158	-	-	104	104
	<b>-</b>	<b>-</b>	<b>158</b>	<b>158</b>	<b>-</b>	<b>-</b>	<b>110</b>	<b>110</b>

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, 2022 and December 31, 2021.

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

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## *Contingent Consideration*

Balance at January 1, 2022	104
Increase from business acquisitions	43
Cash recoveries (payments)	(28)
Charges through profit or loss	51
Foreign exchange and other movements	(12)
Balance at September 30, 2022	158
Contingent consideration classified as current liabilities	41
Contingent consideration classified as other non-current liabilities	117

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

## *Redeemable Preferred Securities*

Balance at January 1, 2022	\$	7
Foreign exchange and other movements		(0)
Payments		(7)
Balance at September 30, 2022		-

## **16. Contingencies**

In the normal course of operations, the Company is subject to litigation and claims from time to time. The Company may also be subject to lawsuits, investigations and other claims, including environmental, labour, 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.

# CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

(Due to rounding, numbers presented may not foot)

Three and nine months ended September 30, 2022 and 2021

(Unaudited)

## 17. Changes in non-cash operating assets and liabilities

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Decrease (increase) in current accounts receivable	\$ 38	\$ 7	\$ 25	\$ 40
Decrease (increase) in current unbilled revenue	(17)	(15)	(48)	(26)
Decrease (increase) in other current assets	26	2	(45)	(25)
Decrease (increase) in inventories	(3)	0	(11)	(1)
Decrease (increase) in other non-current assets	(11)	(9)	(20)	(18)
Increase (decrease) in other non-current liabilities	26	8	32	(5)
Increase (decrease) in current accounts payable and accrued liabilities, excluding holdbacks from acquisitions	53	36	(31)	(16)
Increase (decrease) in current deferred revenue	(121)	(75)	75	104
Increase (decrease) in current provisions	(1)	(1)	(3)	(1)
Change in non-cash operating working capital	\$ (8)	\$ (47)	\$ (27)	\$ 53

## 18. Non-controlling interests

The Company's significant non-controlling interests at September 30, 2022 were associated with Topicus, a company whose operations are based in the Netherlands. Constellation's equity interest in Topicus is 60.65% (39.35% being non-controlling interest) as at September 30, 2022. On May 16, 2022, Topicus also acquired a controlling interest of 72.68% in Sygnity S.A. ("Sygnity"), a Company based in Poland. The remaining 27.32% represents non-controlling interest. The acquisition of Sygnity is outlined in note 4.

The following tables summarize the information relating to the Company's non-controlling interests in Topicus before and after intercompany eliminations:

	As at September 30, 2022 39.35%	Intra-Group Eliminations	Total
Non-controlling interest			
Current assets	294		
Non-current assets	978		
Total assets	1,272		
Current liabilities	523		
Non-current liabilities	313		
Total liabilities	836		
Less: Non-controlling interest of Topicus Coop subsidiaries, including interests held by CSI	47		
Net assets after allocation of non-controlling interests (including interests held by CSI)	389	16	404
Net assets allocated to the non-controlling interests of Topicus			159
Add: Non-controlling interest of Topicus Coop subsidiaries not owned by CSI			17
Total non-controlling interest			176

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(Unaudited)

	Three months ended September 30, 2022	Intra-Group Eliminations	Total
Revenue	230		
Expenses	206		
Income (loss) before income taxes	<u>24</u>		
Income tax expense	5		
Net income (loss) prior to non-controlling interest allocation	<u>18</u>		
Less: Non-controlling interest of Topicus Coop subsidiaries, including interests held by CSI	(1)		
Less: Income allocated to Preference Units of Topicus Coop	-		
Net income (loss) after allocation of non-controlling interest of Topicus Coop subsidiaries	<u>19</u>	<u>(1)</u>	<u>18</u>
Net income (loss) attributable to non-controlling interests of Topicus			7
Add: Non-controlling interest of Topicus Coop subsidiaries not owned by CSI			(0)
Add: Income allocated to Preference Units of Topicus Coop			-
Total non-controlling interest			<u>7</u>

	Nine months ended September 30, 2022	Intra-Group Eliminations	Total
Revenue	694		
Expenses	613		
Income (loss) before income taxes	<u>81</u>		
Income tax expense	18		
Net income (loss) prior to non-controlling interest allocation	<u>63</u>		
Less: Non-controlling interest of Topicus Coop subsidiaries, including interests held by CSI	(1)		
Less: Income allocated to Preference Units of Topicus Coop classified as non-controlling interest	1		
Net income (loss) after allocation of non-controlling interest of Topicus Coop subsidiaries	<u>64</u>	<u>(3)</u>	<u>60</u>
Net income (loss) attributable to non-controlling interests of Topicus			27
Add: Non-controlling interest of Topicus Coop subsidiaries not owned by CSI			(0)
Add: Income allocated to Preference Units of Topicus Coop classified as non-controlling interest			1
Total non-controlling interest			<u>27</u>

Financial information on the statement of cash flows for Topicus is as follows:

	Three months ended September 30, 2022	Nine months ended September 30, 2022
Cash flows from (used in) operating activities	11	175
Cash flows from (used in) financing activities	1	22
Cash flows from (used in) investing activities	(36)	(125)

On January 3, 2022, the Company also acquired a controlling interest of in Adapt IT Holdings Limited ("Adapt IT"), a Company based in South Africa. The acquisition of Adapt IT is outlined in note 4. As of September 30, 2022, the Company has an interest of 64.20% and the remaining 35.80% represents non-controlling interest in Adapt IT.

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(Unaudited)

## **19. Subsequent events**

On November 4, 2022 the Company declared a \$1.00 per share dividend that is payable on January 11, 2023 to all common shareholders of record at close of business on December 20, 2022.