Constellation Software Inc.

INTERIM FINANCIAL REPORT

First Quarter Fiscal Year 2019

For the three month period ended
March 31, 2019
(UNAUDITED)

CONSTELLATION SOFTWARE INC.

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

The following discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three month period ended March 31, 2019, 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. Due to rounding, certain totals and subtotals may not foot and certain percentages may not reconcile.

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, May 1, 2019. 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 expense (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 Total Specific Solutions (TSS) B.V. ("TSS") membership liability revaluation charge, bargain purchase gains, and certain other expenses (income), and excludes the portion of the adjusted net income of 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, bargain purchase gains, 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. 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 March 31, 2019	Three months ended March 31, 2018	Period-Over-Period Change $	Period-Over-Period Change %
Revenue	**819**	**718**	**100**	**14%**
Expenses	640	560	80	14%
Adjusted EBITA	**179**	**159**	**21**	**13%**
Adjusted EBITA margin	22%	22%		
Amortization of intangible assets	75	69	7	10%
Foreign exchange (gain) loss	1	(14)	15	NM
TSS membership liability revaluation charge	10	7	3	45%
Finance and other income	(3)	(9)	6	-67%
Bargain purchase gain	(28)	(0)	(28)	NM
Finance costs	9	5	4	74%
Income before income taxes	115	101	14	14%
Income taxes expense (recovery)				
Current income tax expense (recovery)	36	26	10	37%
Deferred income tax expense (recovery)	(8)	(8)	0	0%
Income tax expense (recovery)	28	19	10	52%
Net income	**87**	**83**	**4**	**5%**
Adjusted net income	**127**	**143**	**(16)**	**-11%**
Adjusted net income margin	15%	20%		
Weighted average number of shares outstanding				
Basic and diluted	21.2	21.2		
Net income per share				
Basic and diluted	$ 4.09	$ 3.90	$ 0.19	5%
Adjusted EBITA per share				
Basic and diluted	$ 8.45	$ 7.48	$ 0.97	13%
Adjusted net income per share				
Basic and diluted	$ 5.97	$ 6.73	$ (0.75)	-11%
Cash dividends declared per share				
Basic and diluted	$ 21.00	$ 1.00	$20.00	NM

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Comparison of the first quarter ended March 31, 2019 and 2018

Revenue:

Total revenue for the quarter ended March 31, 2019 was $819 million, an increase of 14%, or $100 million, compared to $718 million for the comparable period in 2018. The increase is primarily attributable to growth from acquisitions as the Company experienced organic growth of negative 1% in the quarter, positive 3% after adjusting for the impact of changes in the valuation 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 estimated revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

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

	Three months ended March 31,		Period-Over-Period Change		Q118 Proforma Adj. (Note 1)	Organic Growth
	2019	2018	$	%	$	%
	($M, except percentages)					
Licenses	53	44	9	20%	10	-3%
Professional services	158	142	16	11%	25	-5%
Hardware and other	36	33	4	11%	5	-4%
Maintenance and other recurring	572	500	72	14%	65	1%
	819	718	100	14%	105	-1%

$M - Millions of dollars

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Note 1: Estimated pre-acquisition revenues for the three months ended March 31, 2018 from companies acquired after December 31, 2017. (Obtained from unaudited vendor financial information.)

For comparative purposes the table below shows the quarterly organic growth as compared to the same period in the prior year by revenue type since Q1 2017.

	Quarter Ended								
	Mar. 31 2017	Jun. 30 2017	Sep. 30 2017	Dec. 31 2017	Mar. 31 2018	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019
Licenses	-13%	-6%	2%	6%	-4%	-5%	-9%	-3%	-3%
Professional services	2%	-3%	3%	7%	3%	3%	-5%	1%	-5%
Hardware and other	0%	1%	1%	17%	-16%	-11%	-20%	4%	-4%
Maintenance and other recurring	3%	2%	5%	7%	8%	6%	3%	2%	1%
Revenue	**1%**	**1%**	**4%**	**8%**	**5%**	**4%**	**-1%**	**2%**	**-1%**

The following table shows the same information adjusting for the impact of foreign exchange movements.

	Quarter Ended								
	Mar. 31 2017	Jun. 30 2017	Sep. 30 2017	Dec. 31 2017	Mar. 31 2018	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019
Licenses	-13%	-4%	1%	3%	-8%	-7%	-7%	-1%	1%
Professional services	3%	-1%	1%	3%	-3%	0%	-4%	3%	-1%
Hardware and other	2%	2%	0%	14%	-20%	-13%	-19%	5%	-1%
Maintenance and other recurring	4%	4%	3%	4%	4%	4%	4%	4%	5%
Revenue	**3%**	**2%**	**2%**	**5%**	**0%**	**1%**	**0%**	**3%**	**3%**

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. Following the guidance set out by IFRS 8, the public sector reportable segment is derived by combining our Volaris, Harris and TSS operating groups, and the private sector reportable segment is derived by combining our Vela, Jonas and Perseus operating groups. Each of our operating groups operate essentially as mini Constellations, conglomerates of small vertical market software companies with similar economic characteristics. While the operating groups in the public sector are comprised of businesses that primarily serve government and government-related customers, they also include businesses that serve commercial customers, and similarly the operating groups in the private sector are comprised of businesses that primarily serve commercial customers but also include businesses that serve government and government-related customers. We continue to report two distinct segments as we believe the information is useful to shareholders.

The following table displays our revenue by reportable segment and the percentage change for the quarter ended March 31, 2019 compared to the same period in 2018:

	Three months ended March 31,		Period-Over-Period Change		Q118 Proforma Adj. (Note 1)	Organic Growth
	2019	2018	$	%	$	%
	($M, except percentages)					
Public Sector						
Licenses	34	29	5	18%	8	-7%
Professional services	122	111	11	10%	20	-7%
Hardware and other	30	26	4	14%	4	-2%
Maintenance and other recurring	364	320	44	14%	41	1%
	549	486	64	13%	73	-2%
Private Sector						
Licenses	19	15	4	24%	3	7%
Professional services	36	31	5	15%	5	-1%
Hardware and other	6	6	(0)	-1%	1	-12%
Maintenance and other recurring	208	180	28	16%	23	2%
	269	233	36	16%	32	2%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Note 1: Estimated pre-acquisition revenues for the three months ended March 31, 2018 from companies acquired after December 31, 2017. (Obtained from unaudited vendor financial information.)

Public Sector

For the quarter ended March 31, 2019, total revenue in the public sector reportable segment increased 13%, or $64 million to $549 million, compared to $486 million for the quarter ended March 31, 2018. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2018 and 2019 was $73 million for the three months ended March 31, 2018. Organic revenue growth was negative 2% in Q1 2019 compared to the same period in 2018, and positive 2% after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

For comparative purposes the table below shows the quarterly organic growth as compared to the same period in the prior year by revenue type since Q1 2017 adjusting for the impact of foreign exchange movements.

	Quarter Ended								
	Mar. 31 2017	Jun. 30 2017	Sep. 30 2017	Dec. 31 2017	Mar. 31 2018	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019
Licenses	-17%	-11%	0%	0%	-9%	-10%	-11%	-11%	-4%
Professional services	4%	0%	2%	3%	-3%	-5%	-6%	0%	-2%
Hardware and other	4%	3%	2%	19%	-12%	-7%	-17%	14%	1%
Maintenance and other recurring	4%	4%	3%	4%	3%	4%	3%	3%	4%
Revenue	**3%**	**2%**	**3%**	**5%**	**-1%**	**0%**	**-2%**	**2%**	**2%**

Private Sector

For the quarter ended March 31, 2019, total revenue in the private sector reportable segment increased 16%, or $36 million to $269 million, compared to $233 million for the quarter ended March 31, 2018. For purposes of calculating organic growth, estimated pre-acquisition revenues included from the relevant companies acquired in 2018 and 2019 was $32 million for the three months ended March 31, 2018. Organic revenue growth was 2% in Q1 2019 compared to the same period in 2018, and 5% after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business.

For comparative purposes the table below shows the quarterly organic growth as compared to the same period in the prior year by revenue type since Q1 2017 adjusting for the impact of foreign exchange movements.

	Quarter Ended								
	Mar. 31 2017	Jun. 30 2017	Sep. 30 2017	Dec. 31 2017	Mar. 31 2018	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019
Licenses	-5%	8%	1%	11%	-6%	-1%	-1%	18%	11%
Professional services	2%	-3%	-4%	6%	-1%	16%	6%	15%	4%
Hardware and other	-4%	-5%	-11%	-5%	-41%	-33%	-25%	-34%	-9%
Maintenance and other recurring	4%	4%	3%	4%	6%	5%	6%	6%	5%
Revenue	**3%**	**3%**	**1%**	**5%**	**2%**	**4%**	**4%**	**6%**	**5%**

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended March 31,		Period-Over-Period Change	
	2019	2018	$	%
	($M, except percentages)			
Expenses				
Staff	445	389	55	14%
Hardware	21	18	3	17%
Third party license, maintenance and professional services	69	61	7	12%
Occupancy	9	19	(10)	-55%
Travel, Telecommunications, Supplies & Software and equipment	44	42	2	6%
Professional fees	11	10	1	7%
Other, net	21	13	8	59%
Depreciation	21	7	14	209%
	640	560	80	14%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Overall expenses for the quarter ended March 31, 2019 increased 14%, or $80 million to $640 million, compared to $560 million during the same period in 2018. As a percentage of total revenue, expenses equalled 78% for the quarter ended March 31, 2019 and 78% for the same period in 2018. The change in valuation of the US dollar against most major currencies in which the Company transacts business resulted in an approximate 4% decrease in expenses for the three months ended March 31, 2019 compared to the first quarter of 2018.

Staff expense – Staff expenses increased 14% or $55 million for the quarter ended March 31, 2019 over the same period in 2018. 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 March 31,		Period-Over-Period Change	
	2019	2018	$	%
	($M, except percentages)			
Professional services	96	82	14	17%
Maintenance	88	84	5	5%
Research and development	123	106	17	16%
Sales and marketing	63	54	9	17%
General and administrative	74	63	10	16%
	445	389	55	14%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

The increase in staff expenses for the quarter ended March 31, 2019 was primarily due to the growth in the number of employees compared to the same period in 2018 primarily due to acquisitions. Staff expenses in the first quarter of every year are typically higher as a percentage of revenue as compared to other quarters, largely attributable to increased payroll tax costs associated with our annual bonus payments that are made in the month of March.

Hardware expenses – Hardware expenses increased 17% or $3 million for the quarter ended March 31, 2019 over the same period in 2018, as compared to the 11% increase in hardware and other revenue for the same periods. Hardware margin for the three months ended March 31, 2019 was 43% as compared to 46% for the same period in 2018.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 12% or $7 million for the quarter ended March 31, 2019 over the same period in 2018. The increase is primarily due to third party license, maintenance and professional services expenses of acquired businesses.

Occupancy expenses – Occupancy expenses decreased 55% or $10 million for the quarter ended March 31, 2019 over the same period in 2018. The decrease is a result of the Company's adoption of IFRS 16, "Leases". (See the "New standards and interpretations adopted" section below.) The Company has adopted IFRS 16 with an initial adoption date of January 1, 2019. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 17, "Leases" and related interpretations. Under IAS 17 occupancy costs would have been approximately $21 million for the quarter ended March 31, 2019, an increase of 10% or $2 million over the same period in 2018. This increase 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 6% or $2 million for the quarter ended March 31, 2019 over the same period in 2018. The increase in these expenses is primarily due to expenses incurred by acquired businesses.

Professional fees – Professional fees increased 7% or $1 million for the quarter ended March 31, 2019 over the same period in 2018. There are no individually material reasons contributing to this variance.

Other, net – Other expenses increased 59% or $8 million for the quarter ended March 31, 2019 over the same period in 2018. The following table provides a further breakdown of expenses within this category.

	Three months ended March 31,		Period-Over-Period Change	
	2019	2018	$	%
	($M, except percentages)			
Advertising and promotion	11	10	1	10%
Recruitment and training	4	4	0	7%
Bad debt expense	1	1	0	40%
R&D tax credits	(5)	(5)	(0)	1%
Contingent consideration	5	0	5	NM
Other expense, net	4	3	1	40%
	21	13	8	59%

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

The contingent consideration expense amount recorded for Q1 2019 relates to an increase in anticipated acquisition earnout payment accruals primarily as a result of increases to revenue forecasts for the associated acquisitions. Revenue forecasts are updated on a quarterly basis and the related anticipated acquisition earnout payment accruals are updated accordingly. There are no individually material reasons contributing to the remaining variances.

Depreciation – Depreciation of property and equipment increased 209% or $14 million for the quarter ended March 31, 2019 over the same period in 2018. The increase is primarily a result of the Company's adoption of IFRS 16 as explained in the "New standards and interpretations adopted" section below. Under IAS 17 depreciation expense would have been approximately $7 million for the quarter ended March 31, 2019, an increase of 11% over the same period in 2018. This 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 March 31,		Period-Over-Period Change	
	2019	2018	$	%
	($M, except percentages)			
Amortization of intangible assets	75	69	7	10%
Foreign exchange (gain) loss	1	(14)	15	NM
TSS membership liability revaluation charge	10	7	3	45%
Finance and other expense (income)	(3)	(9)	6	-67%
Bargain purchase gain	(28)	(0)	(28)	NM
Finance costs	9	5	4	74%
Income tax expense (recovery)	28	19	10	52%
	93	76	16	22%

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Amortization of intangible assets – Amortization of intangible assets increased 10% or $7 million for the quarter ended March 31, 2019 over the same period in 2018. The increase in amortization expense is primarily attributable to an increase in the carrying amount of our intangible asset balance over the twelve-month period ended March 31, 2019 as a result of acquisitions completed during this twelve-month period.

Foreign exchange – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended March 31, 2019, we realized a foreign exchange loss of $1 million compared to a gain of $14 million for the same period in 2018. The following table provides a breakdown of these amounts.

	Three months ended March 31, 2019	2018	Period-Over-Period Change $	%
	($M, except percentages)			
Unrealized foreign exchange (gain) loss related to:				
- revaluation of intercompany loans between entities with differing functional currencies (1)	(2)	(7)	5	-68%
- revaulation of the Company's unsecured subordinated floating rate debentures as a result of the appreciation (depreciation) of the Canadian dollar against the US dollar.	4	(6)	11	NM
Remaining foreign exchange (gain) loss	(1)	(0)	(1)	115%
	1	(14)	15	NM

NM - Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

(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 5% from Q4 2018 or $10 million. The increase is primarily the result of the growth in TSS' reported trailing twelve month maintenance revenue (primarily due to acquisitions). Maintenance revenue and net tangible assets are the two main drivers in the calculation of the liability. The liability recorded on the balance sheet decreased by 3% or $5 million over the three month period ended March 31, 2019 from $184 million to $179 million as a result of the revaluation charge of $10 million and a $15 million foreign exchange gain that was recorded through other comprehensive income. The TSS membership liability is denominated in Euros and the Euro depreciated 2% versus the US dollar during Q1 2019.

Finance and other expense (income) – Finance and other income for the quarter ended March 31, 2019 was $3 million compared to $9 million for the same period in 2018. In September 2008 the Company acquired certain assets and liabilities of Maximus Inc.'s Asset, Justice, and Education Solutions businesses. As part of the acquisition, the Company recorded an accrual of $8 million for financial liabilities potentially due on a long-term acquired contract. No financial liabilities were ever assessed and the statute of limitations now restricts any legal action by the customer with regards to the acquired contract. The $8 million accrual was released into income in Q1 2018. Interest earned on cash balances was $3 million in Q1 2019 and $1 million in Q1 2018.

Bargain purchase gain – A bargain purchase gain adjustment totalling $28 million was recorded in the three month period ended March 31, 2019 relating to two of the acquisitions made during 2018 and 2019. No similar gain was recognized for the same period in 2018. In Q4 2018 the Company acquired a business that was undergoing an extensive restructuring. The seller of that business capitalized the balance sheet on closing with cash in the amount of €47 million ($53 million) that will be utilized to fund expected losses generated by the business, contributing to a bargain purchase gain of $63 million being recorded in Q4 2018. Revisions to the restructuring cost expectations have resulted in a further bargain purchase gain of $4 million being recorded in Q1 2019. The business recorded an EBITA loss of $13 million in Q1 2019, and based on current estimates an EBITA loss of approximately $20 million inclusive of restructuring costs, will be recorded in the full year 2019 results. There was no current income tax recovery recorded in Q1 2019 associated with these losses. The remaining $24 million bargain purchase gain relates to an acquisition where the seller will continue as a minority partner in the acquired business. The seller contributed $17 million into the partnership.

Finance costs – Finance costs for the quarter ended March 31, 2019 increased $4 million to $9 million, compared to $5 million for the same period in 2018. Interest on debt and debentures increased $2 million as a result of an increase in the average debt outstanding in Q1 2019 as compared to Q1 2018. The remaining increase is primarily a result of the Company's adoption of IFRS 16 as explained in the "New standards and interpretations adopted" section below. Under IFRS 16 interest expense on lease obligations totaling $2 million was recorded in Q1 2019 with no similar expense being recorded in Q1 2018.

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our effective tax rate on a consolidated basis is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses and other credits. For the quarter ended March 31, 2019, income tax expense increased $10 million to $28 million compared to $19 million for the same period in 2018. Current tax expense as a percentage of adjusted net income before tax was 25% for Q1 2019 versus 17% for Q1 2018. This rate has historically approximated our cash tax rate however the quarterly rate can sometimes fall outside of the annual range due to out of period adjustments. 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.

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

Net Income and Earnings per Share:

Net income for the quarter ended March 31, 2019 was $87 million compared to net income of $83 million for the same period in 2018. On a per share basis this translated into a net income per diluted share of $4.09 in the quarter ended March 31, 2019 compared to net income per diluted share of $3.90 for the same period in 2018. There was no change in the number of shares outstanding.

Adjusted EBITA:

For the quarter ended March 31, 2019, Adjusted EBITA increased to $179 million compared to $159 million for the same period in 2018 representing an increase of 13%. Adjusted EBITA margin was 22% for the quarter ended March 31, 2019 and 22% for the same period in 2018. See "Non-IFRS Measures" for a description of Adjusted EBITA and Adjusted EBITA margin.

The following table reconciles Adjusted EBITA to net income:

	Three months ended March 31,	
	2019	2018
	($M, except percentages)	
Total revenue	819	718
Net income	87	83
Adjusted for:		
Income tax expense (recovery)	28	19
Foreign exchange (gain) loss	1	(14)
TSS membership liability revaluation charge	10	7
Finance and other income	(3)	(9)
Bargain purchase gain	(28)	(0)
Finance costs	9	5
Amortization of intangible assets	75	69
Adjusted EBITA	179	159
Adjusted EBITA margin	22%	22%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Adjusted net income:

For the quarter ended March 31, 2019, Adjusted net income decreased to $127 million from $143 million for the same period in 2018, representing a decrease of 11%. Adjusted net income margin was 15% for the quarter ended March 31, 2019 and 20% for the same period in 2018. Excluding the impact of the $1 million unrealized foreign exchange loss in Q1 2019, and the $14 million unrealized foreign exchange gain and the $8 million financial liability accrual reversal recorded to finance and other income in Q1 2018, the margins would have been 16% and 17% for Q1 2019 and Q1 2018 respectively. 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 by us, however no adjustment has been made in the Company's Consolidated 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 months ended March 31, 2019 was $9 million as compared to $8 million for the same period in 2018.

The following table reconciles Adjusted net income to Net income:

	Three months ended March 31, 2019	Three months ended March 31, 2018
	($M, except percentages)	
Total revenue	819	718
Net income	87	83
Adjusted for:		
Amortization of intangible assets	75	69
TSS membership liability revaluation charge	10	7
Bargain purchase gain	(28)	(0)
Less non-controlling interest in the Adjusted net income of TSS	(9)	(7)
Deferred income tax expense (recovery)	(8)	(8)
Adjusted net income	127	143
Adjusted net income margin	15%	20%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Quarterly Results

	Mar. 31 2017	Jun. 30 2017	Sep. 30 2017	Dec. 31 2017	Mar. 31 2018	Jun. 30 2018	Sep. 30 2018	Dec. 31 2018	Mar. 31 2019
	Quarter Ended ($M, except per share amounts)								
Revenue	555	600	637	688	718	752	759	831	819
Net income	40	51	54	76	83	52	66	179	87
Adjusted net income	95	112	116	141	143	122	145	188	127
Adjusted net income margin	17%	19%	18%	20%	20%	16%	19%	23%	15%
Net income per share									
Basic & diluted	1.91	2.41	2.56	3.59	3.90	2.45	3.10	8.46	4.09
Adjusted net income per share									
Basic & diluted	4.46	5.30	5.45	6.63	6.73	5.75	6.85	8.85	5.97

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, foreign exchange gains and losses, 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 $178 million to $609 million in the quarter ended March 31, 2019 resulting from cash flows from operations exceeding net capital deployed on acquisitions less dividends paid. Cash increased by $128 million to $717 million at March 31, 2019 compared to $589 million at December 31, 2018 and bank indebtedness decreased by $49 million to $108 million at March 31, 2019 compared to $157 million at December 31, 2018.

Total assets increased $389 million, from $2,935 million at December 31, 2018 to $3,324 million at March 31, 2019. The increase is primarily due to an increase in cash of $128 million and $209 million of right of use assets set up in conjunction with the Company's adoption of IFRS 16. (See the "New standards and interpretations adopted" section below.) At March 31, 2019 TSS held a cash balance of $57 million and Acceo held a cash balance of $22 million. As explained in the "Capital Resources and Commitments" section below, there are limitations on the ability of TSS and Acceo to distribute funds to Constellation.

Current liabilities increased $587 million, from $1,344 million at December 31, 2018 to $1,931 million at March 31, 2019. The increase is primarily due to an increase in dividends payable of $424 million as a result of the $20 per share special dividend declared on February 13, 2019, an increase in deferred revenue of $220 million mainly due to acquisitions made since December 31, 2018 and the timing of maintenance and other billings versus performance and delivery under those customer arrangements, and lease obligations of $51 million set up in conjunction with the Company's adoption of IFRS 16. Offsetting these increases is a decrease in bank indebtedness of $50 million and a decrease in accounts payable and accrued liabilities of $75 million largely relating to the payment of bonuses accrued in 2018.

Net Changes in Cash Flows
(in $M's)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Net cash provided by operating activities	284	258
Net cash from (used in) financing activities	(103)	(84)
Cash used in the acquisition of businesses	(73)	(336)
Cash obtained with acquired businesses	25	23
Net cash from (used in) other investing activities	(5)	(4)
Net cash from (used in) investing activities	(52)	(317)
Effect of foreign currency	(1)	2
Net increase (decrease) in cash and cash equivalents	**128**	**(141)**

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

The net cash flows from operating activities were $284 million for the quarter ended March 31, 2019. The $284 million provided by operating activities resulted from $87 million in net income plus $113 million of non-cash adjustments to net income and $123 million of cash from non-cash operating working capital, offset by $38 million in taxes paid.

The net cash flows used in financing activities in the quarter ended March 31, 2019 were $103 million, which is mainly a result of dividends paid of $21 million, a net decrease in bank indebtedness of $51 million, a distribution to the minority owners of TSS of $11 million, and interest paid on bank indebtedness and the Company's unsecured subordinated floating rate debentures in the period of $8 million. In addition, lease obligation repayments of $10 million were recorded in Q1 2019 in conjunction with the Company's adoption of IFRS 16. Under IAS 17 this cash outflow would have reduced cash flows from operating activities.

The net cash flows used in investing activities in the quarter ended March 31, 2019 were $52 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $73 million (including payments for holdbacks relating to prior acquisitions) offset by $25 million of acquired cash.

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 December 19, 2018, we completed an amendment and restatement of our revolving credit facility agreement (the "CSI Facility") with a syndicate of Canadian chartered banks, U.S. banks, and a Japanese bank in the amount of $700 million, extending its maturity date to December 19, 2023. 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 March 31, 2019, no amounts were drawn on the CSI Facility, and letters of credit totalling $21 million were issued, which limits the borrowing capacity on a dollar-for-dollar basis.

On July 14, 2017, Constellation Software Netherlands Holding Cooperatief U.A. ("CNH"), a subsidiary of Constellation and the indirect owner of 100% of TSS, entered into a new credit facility (the "New CNH Facility") with a number of European financial institutions. Under this credit facility, CNH is able to borrow up to €300 million under a multicurrency revolving loan facility and up to €50 million under an additional uncommitted term loan facility. The New CNH Facility has an initial term of five years with an extension option for two additional one year periods. The New CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The New CNH Facility is collateralized by substantially all of the assets owned by CNH and its subsidiaries which includes substantially all of the assets of TSS and its subsidiaries. The New CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at March 31, 2019, no amounts had been drawn from this credit facility.

The CSI Facility and New CNH Facility are independent of each other. The New CNH Facility is not guaranteed by Constellation or its subsidiaries nor is Constellation or any subsidiary subject to the terms of the New CNH Facility other than, in each case, CNH and its subsidiaries. Similarly, CNH and its subsidiaries did not guarantee the CSI Facility and are not subject to the provisions thereof. The New CNH Facility imposes limitations on the amount of distributions that CNH and its subsidiaries may make to Constellation.

On July 6, 2018 Acceo Solutions, L.P. and its wholly-owned subsidiary Acceo Solutions Inc. (together "Acceo") entered into a C$145 million term and C$10 million revolving credit facility (the "Acceo Facility") with two North American lenders. Acceo is indirectly 100% owned by Constellation. The Acceo term facility presently bears interest at a rate calculated at CDOR plus interest rate spreads based on a leverage table. The Acceo Facility is collateralized by substantially all of the assets owned by Acceo and its material subsidiaries. The Acceo Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at March 31, 2019, $108 million (C$144 million) was drawn on the term component of the Acceo Facility. The term facility requires quarterly principal repayments of $0.3 million (C$0.4 million), with the balance of the term facility to be repaid in full on July 6, 2023. As at March 31, 2019 no amounts had been drawn on the revolving component of the Acceo Facility. The revolving component of the Acceo Facility is available for acquisitions, working capital needs, and other general corporate purposes. Transaction costs associated with the Acceo Facility have been included as part of the carrying amount of the liability and are being amortized through profit or loss using the effective interest rate method. As at March 31, 2019, the carrying amount of such costs relating to this facility totaling approximately $2 million (C$3 million) has been classified as part of Debt without recourse to Constellation Software Inc. in the consolidated statement of financial position.

The Acceo Facility is independent of each of the CSI Facility and the New CNH Facility. The obligations of Acceo are not guaranteed by Constellation or its subsidiaries, however a $18 million (C$25 million) Promissory Note issued by N. Harris Computer Corporation to Acceo Solutions Inc. (representing an amount equal to the balance of the purchase price payable by Acceo Solutions to its previous shareholders in relation to the Acceo acquisition) has been pledged under the Acceo Facility. In addition, Constellation and its subsidiaries other than Acceo and its subsidiaries are not subject to the terms of the Acceo Facility. Similarly, Acceo and its subsidiaries did not guarantee the CSI Facility or the New CNH Facility and is not subject to the provisions thereof. The Acceo Facility imposes limitations on the amount of distributions that Acceo 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 $48.5 million (€39.4 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 CNH 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 CNH will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33% of his interests in CNH over a three-year period. The valuation of the interests being purchased will be calculated at each annual payment date.

Special dividend

On February 13, 2019 the Company declared a $20.00 per share special dividend (approximately $424 million) payable on April 5, 2019 to all common shareholders of record at close of business on March 16, 2019. Constellation invested $603 million in acquisitions during 2018 at rates of return that we believe will be attractive. We are optimistic about our acquisition pace for 2019, but feel that we have capital in excess of our needs and should return the excess to shareholders.

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 $35 million at March 31, 2019. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in non-consolidated entities that would have a significant effect on our assets and liabilities as at March 31, 2019.

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 May 1, 2019. See the "Critical Accounting Estimate" section of the Company's 2018 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 2018 to 2019 suggests that the impact to Adjusted EBITA margins for the quarter ended March 31, 2019 was less than 1%. The impact to organic revenue growth for the quarter ended March 31, 2018 was approximately negative 4%. 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 quarter ended March 31, 2019, 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 months ended March 31, 2019:

	Three Months Ended March 31, 2019	
Currencies	% of Revenue	% of Expenses
USD	52%	45%
CAD	7%	11%
GBP	7%	7%
EURO	23%	23%
CHF	1%	3%
Others	10%	10%
Total	100%	100%

Off-Balance Sheet Arrangements

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

Proposed Transactions

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

New standards and interpretations adopted

IFRS 16 Leases

The Company has adopted IFRS 16 with an initial adoption date of January 1, 2019. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 17, Leases and related interpretations.

IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases. The impact of the transition to IFRS 16 is shown in Note 22 of the Company's financial statements for the three months ended March 31, 2019. The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

Share Capital

As at May 1, 2019, 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 March 31, 2019, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

The President and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its President and Chief Financial Officer in a timely manner.

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

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

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

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

CONSTELLATION SOFTWARE INC.

For the three months ended March 31, 2019 and 2018
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

	March 31, 2019	December 31, 2018*
Assets		
Current assets:		
Cash	$ 717	$ 589
Accounts receivable	362	362
Unbilled revenue	97	80
Inventories	39	34
Other assets (note 5)	165	143
	1,380	1,207
Non-current assets:		
Property and equipment	67	67
Right of use assets (note 22)	209	-
Deferred income taxes	48	47
Other assets (note 5)	65	64
Intangible assets (note 6)	1,556	1,549
	1,944	1,728
Total assets	$ 3,324	$ 2,935
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI facility (note 7)	$ -	$ -
Debt without recourse to Constellation Software Inc. (note 8)	1	51
TSS membership liability (note 9)	65	67
Accounts payable and accrued liabilities	388	464
Dividends payable (note 13)	445	21
Deferred revenue	877	657
Provisions (note 11)	19	7
Acquisition holdback payables	47	47
Lease obligations (note 22)	51	-
Income taxes payable	38	30
	1,931	1,344
Non-current liabilities:		
Debt without recourse to Constellation Software Inc. (note 8)	104	102
TSS membership liability (note 9)	114	117
Debentures (note 10)	218	215
Deferred income taxes	195	192
Acquisition holdback payables	12	25
Lease obligations (note 22)	170	-
Other liabilities (note 5)	74	74
	888	725
Total liabilities	2,820	2,069
Shareholders' equity (note 13):		
Capital stock	99	99
Accumulated other comprehensive income (loss)	(40)	(37)
Retained earnings	445	804
	505	866
Subsequent events (notes 13 and 20)		
Total liabilities and shareholders' equity	$ 3,324	$ 2,935

See accompanying notes to the condensed consolidated interim financial statements.

* The Company retrospectively applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See note 22.

CONSTELLATION SOFTWARE INC.

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

Three months ended March 31, 2019 and 2018
Unaudited

	Three months ended March 31, 2019	2018*
Revenue		
License	$ 53	$ 44
Professional services	158	142
Hardware and other	36	33
Maintenance and other recurring	572	500
	819	718
Expenses		
Staff	445	389
Hardware	21	18
Third party license, maintenance and professional services	69	61
Occupancy (note 22)	9	19
Travel, telecommunications, supplies, software and equipment	44	42
Professional fees	11	10
Other, net	21	13
Depreciation (note 22)	21	7
Amortization of intangible assets	75	69
	715	628
Foreign exchange loss (gain)	1	(14)
TSS membership liability revaluation charge (note 9)	10	7
Finance and other expense (income) (note 14)	(3)	(9)
Bargain purchase (gain) (note 4)	(28)	(0)
Finance costs (notes 14, 22)	9	5
	(11)	(11)
Income before income taxes	115	101
Current income tax expense (recovery)	36	26
Deferred income tax expense (recovery)	(8)	(8)
Income tax expense (recovery)	28	19
Net income	87	83
Earnings per share		
Basic and diluted (note 15)	$ 4.09	$ 3.90

See accompanying notes to the condensed consolidated interim financial statements.

* The Company retrospectively applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See note 22.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Comprehensive Income
(In millions of U.S. dollars, except per share amounts. Due to rounding, numbers presented may not foot.)

Three months ended March 31, 2019 and 2018
Unaudited

	Three months ended March 31, 2019	2018*
Net income	$ 87	$ 83
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation differences from foreign operations	(3)	(4)
Deferred income tax recovery (expense)	-	-
Other comprehensive (loss) income for the period, net of income tax	(3)	(4)
Total comprehensive income (loss) for the period	$ 83	$ 78

See accompanying notes to the condensed consolidated interim financial statements.

* The Company retrospectively applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See note 22.

CONSTELLATION SOFTWARE INC.

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

Unaudited

Three months ended March 31, 2019	Capital stock	Accumulated other comprehensive income/(loss) Cumulative translation account	Retained earnings	Total*
Balance at January 1, 2019	**$ 99**	**$ (37)**	**$ 804**	**$ 866**
Total comprehensive income for the period:				
Net income	-	-	87	87
Other comprehensive income (loss)				
Foreign currency translation differences from foreign operations	-	(3)	-	(3)
Total other comprehensive income (loss) for the period	**-**	**(3)**	**-**	**(3)**
Total comprehensive income (loss) for the period	**-**	**(3)**	**87**	**83**
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company (note 13)	-	-	(445)	(445)
Balance at March 31, 2019	**$ 99**	**$ (40)**	**$ 445**	**$ 505**

See accompanying notes to the condensed consolidated interim financial statements.
* The Company retrospectively applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See note 22.

CONSTELLATION SOFTWARE INC.

Condensed Consolidated Interim Statements of Changes in Equity

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

Unaudited

Three months ended March 31, 2018

	Capital stock	Accumulated other comprehensive income/(loss) Cumulative translation account	Retained earnings	Total*
Balance at January 1, 2018	**$ 99**	**$ (27)**	**$ 532**	**$ 604**
Impact of change in accounting policy	-	-	(23)	(23)
Total comprehensive income for the period:				
Net income	-	-	83	83
Other comprehensive income (loss)				
Foreign currency translation differences from foreign operations	-	(4)	-	(4)
Total other comprehensive income for the period	**-**	**(4)**	**-**	**(4)**
Total comprehensive income for the period	**-**	**(4)**	**83**	**78**
Transactions with owners, recorded directly in equity				
Dividends to shareholders of the Company (note 13)	-	-	(21)	(21)
Balance at March 31, 2018	**$ 99**	**$ (31)**	**$ 570**	**$ 638**

See accompanying notes to the condensed consolidated interim financial statements.

* The Company retrospectively applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See note 22.

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.)

Three months ended March 31, 2019 and 2018
Unaudited

	Three months ended March 31, 2019	2018*
Cash flows from operating activities:		
Net income	$ 87	$ 83
Adjustments for:		
Depreciation	21	7
Amortization of intangible assets	75	69
TSS membership liability revaluation charge	10	7
Finance and other expense (income)	(3)	(9)
Bargain purchase (gain)	(28)	(0)
Finance costs	9	5
Income tax expense (recovery)	28	19
Foreign exchange loss (gain)	1	(14)
Change in non-cash operating assets and liabilities exclusive of effects of business combinations (note 19)	123	147
Income taxes paid	(38)	(55)
Net cash flows from operating activities	284	258
Cash flows from (used in) financing activities:		
Interest paid on lease obligations (note 22)	(2)	-
Interest paid on other facilities	(8)	(5)
Increase (decrease) in New CNH Facility, net	(51)	(58)
Repayments of Acceo facility	(0)	-
Repayments of lease obligations (note 22)	(10)	-
Distribution to TSS minority owners (note 9)	(11)	-
Dividends paid	(21)	(21)
Net cash flows from (used in) in financing activities	(103)	(84)
Cash flows from (used in) investing activities:		
Acquisition of businesses (note 4)	(47)	(320)
Cash obtained with acquired businesses (note 4)	25	23
Post-acquisition settlement payments, net of receipts	(26)	(17)
Interest, dividends and other proceeds received	3	1
Property and equipment purchased	(7)	(4)
Net cash flows from (used in) investing activities	(52)	(317)
Effect of foreign currency on cash and cash equivalents	(1)	2
Increase (decrease) in cash	128	(141)
Cash, beginning of period	589	489
Cash, end of period	$ 717	$ 348

See accompanying notes to the condensed consolidated interim financial statements.

* The Company retrospectively applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See note 22.

Notes to the condensed consolidated interim financial statements

1. Reporting entity

Constellation Software Inc. ("Constellation") is a company domiciled in Canada. The address of Constellation's registered office is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada. The condensed consolidated interim financial statements of Constellation as at and for the period ended March 31, 2019 comprise Constellation and its subsidiaries (together referred to as the "Company") and the Company's interest in associates. The Company is engaged principally in the development, installation and customization of software relating to the markets listed below, and in the provision of related professional services and support.

Public Sector:

Public transit operators	Asset management	Municipal systems
Para transit operators	Fleet and facility management	School administration
School transportation	District attorney	Public safety
Non-emergency medical	Taxi dispatch	Healthcare
Ride share	Benefits administration	Rental
Local government	Insurance	Electric utilities
Agri-business	Collections management	Court
Marine asset management	Water utilities	School and special library
Communications	Credit unions	Drink distribution
Education	Financial services	Notaries
Fashion retail	Pharmacies	Long-term care
Home and community care	County systems	Research management
Retail management and distribution	Public housing authorities	Not-for-profit organizations
Automotive	Accountancy	Catering
Small and medium sized businesses	Property management	Food services
Creative agencies	Commercial printing	Horticulture
Event management	Distillery	Hospitality
Manufacturing plant performance		

Private Sector:

Private clubs and daily fee golf courses	Lease management	Window manufacturers
Construction	Winery management	Cabinet manufacturers
Food services	Buy here pay here dealers	Made-to-order manufacturers
Health clubs	RV and marine dealers	Window and other dealers
Moving and storage	Pulp and paper manufacturers	Multi-carrier shipping
Metal service centers	Agriculture equipment dealers	Supply chain optimization
Attractions	Outdoor equipment dealers	Multi-channel distribution
Leisure centers	Education	Wholesale distribution
Retail management and distribution	Healthcare electronic medical records	Homebuilders
Radiology and laboratory information systems	Pharmaceutical and biotech manufacturers	Third party logistics warehouse management systems
Product licensing	Event management	Financial services
Tire distribution	Salons and spas	Association management
Housing finance agencies	Municipal treasury and debt systems	Public housing authorities
Tour operators	Auto clubs	Real estate brokers and agents
Long-term care	Textiles and apparel	Home and community care
Hospitality	Mining	Ombudsman
Aerospace	Design and welding	Manufacturing plant performance
Oil and gas	Publishing	Marinas
Small and medium sized businesses	Healthcare	Automotive
Local government		

2. Basis of presentation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies disclosed in Note 3 of the Company's 2018 annual consolidated financial statements except as disclosed herein.

The policies applied in these condensed consolidated interim financial statements are based on International Financial Reporting Standards (IFRS), issued and outstanding as of May 1, 2019, the date the Board of Directors approved the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2018 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.

(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 2018 annual consolidated financial statements and described in these condensed consolidated interim financial statements. Actual results may differ from these estimates.

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

3. Significant accounting policies

Except for the adoption of IFRS 16 *Leases* (“IFRS 16”), the significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company’s 2018 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.

New standards and interpretations adopted

IFRS 16 Leases

The Company has adopted IFRS 16 with an initial adoption date of January 1, 2019. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 17, Leases and related interpretations.

IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases. The impact of the transition to IFRS 16 is shown in Note 22. The Company’s accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

4. Business acquisitions

(a) During the three-month period ended March 31, 2019, the Company completed a number of acquisitions for aggregate cash consideration of $47 plus cash holdbacks of $12 and contingent consideration with an estimated fair value of $10 resulting in total consideration of $70. 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 three-month period ended March 31, 2019 has been recorded at its estimated fair value at the various acquisition dates. The estimated fair value of the applicable contingent consideration is calculated using the weighted probability of the expected contingent consideration to be paid and inclusion of a discount rate as appropriate. For these arrangements, which include both maximum, or capped, and unlimited contingent consideration amounts, the estimated increase to the initial consideration is not expected to exceed a maximum of $20. Aggregate contingent consideration of $35 (December 31, 2018 - $19) 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. An expense of $5 has been recorded for the three months ended March 31, 2019, as a result of such changes (expense of $0 for the three months ended March 31, 2018).

There were no acquisitions during the three-month period that were deemed to be individually significant. 70% of the total businesses acquired during the three-month period were acquisitions of shares and the remainder were asset acquisitions. The cash holdbacks are generally payable over a two-year period and are adjusted, as necessary, for such items as working capital or net tangible asset assessments, as defined in the agreements, and claims under the respective representations and warranties of the purchase and sale agreements.

The acquisitions during the three month period ended March 31, 2019 include software companies catering to the following markets: communications, event management, automotive, public housing, local government, manufacturing plant performance, transit, distillery, healthcare, asset management, real estate brokers and agents, attractions, small and medium sized businesses, court, homebuilders, retail management and distribution, and oil and gas all of which are software businesses similar to existing businesses operated by the Company. The acquisitions have been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of each acquisition.

The goodwill recognized in connection with these acquisitions is primarily attributable to the application of Constellation's best practices to improve the operations of the companies acquired, synergies with existing businesses of Constellation, and other intangibles that do not qualify for separate recognition including assembled workforce. Goodwill in the amount of $0 is expected to be deductible for income tax purposes.

The gross contractual amounts of acquired receivables was $9; however, the Company has recorded an allowance of $0.2 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 three quarters of 2018 and first quarter of 2019. The amounts determined on a provisional basis generally relate to net asset assessments and measurement of the assumed liabilities, including acquired contract liabilities. The cash consideration associated with these provisional estimates totals $251.

The $24 million bargain purchase gain relates to an acquisition where the seller will continue as a minority partner in the business. The seller contributed $17 million into the partnership.

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the three-month period ended March 31, 2019 is as follows:

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

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	$ 25	$ 1	$ 25
Accounts receivable	7	2	9
Other current assets	2	0	2
Property and equipment	2	0	2
Other non-current assets	2	0	2
Deferred income taxes	0	-	0
Technology assets	28	13	41
Customer assets	31	9	40
	96	26	122
Liabilities assumed:			
Current liabilities	6	2	8
Deferred revenue	6	3	9
Deferred income taxes	10	2	11
Other non-current liabilities	2	0	2
	23	7	31
Goodwill	1	2	2
Bargain purchase gain	(24)	-	(24)
Total consideration	**$ 49**	**$ 20**	**$ 70**

(b) The 2019 business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income for the three months ended March 31, 2019. The materiality threshold is reviewed on a regular basis taking into account the quantitative (contribution to revenue and net income) and qualitative (size and comparability with other Constellation businesses) factors of current period acquisitions on both an individual and aggregate basis.

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

5. Other assets and other non-current liabilities

(a) Other assets

		March 31, 2019		December 31, 2018
Prepaid and other current assets	$	88	$	74
Investment tax credits recoverable		25		26
Sales tax receivable		10		10
Other receivables		42		32
Total other current assets	$	165	$	143
Investment tax credits recoverable	$	11	$	11
Costs to obtain a contract		34		34
Non-current trade and other receivables and other assets		18		17
Equity accounted investees		2		3
Total other non-current assets	$	65	$	64

(b) Other non-current liabilities

		March 31, 2019		December 31, 2018
Contingent consideration	$	21	$	13
Deferred revenue		42		43
Other non-current liabilities		11		19
Total other non-current liabilities	$	74	$	74

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

6. Intangible Assets

	Technology Assets	Customer Assets	Backlog	Non-compete agreements	Trademarks	Goodwill	Total
Cost							
Balance at January 1, 2018	$ 1,450	$ 732	$ 16	$ 3	$ 8	$ 259	$ 2,467
Acquisitions through business combinations	383	261	-	-	-	54	698
Effect of movements in foreign exchange	(39)	(29)	-	-	(0)	(11)	(80)
Balance at December 31, 2018	$ 1,793	$ 964	$ 16	$ 3	$ 7	$ 302	$ 3,085
Balance at January 1, 2019	$ 1,793	$ 964	$ 16	$ 3	$ 7	$ 302	$ 3,085
Acquisitions through business combinations	42	42	0	-	-	2	86
Effect of movements in foreign exchange	(1)	(4)	0	0	(0)	(1)	(7)
Balance at March 31, 2019	$ 1,834	$ 1,002	$ 16	$ 3	$ 7	$ 302	$ 3,164
Accumulated amortization and impairment losses							
Balance at January 1, 2018	$ 945	$ 320	$ 16	$ 3	$ 2	$ -	$ 1,286
Amortization for the period	200	79	-	-	0	-	279
Effect of movements in foreign exchange	(21)	(8)	-	-	-	-	(29)
Balance at December 31, 2018	$ 1,124	$ 391	$ 16	$ 3	$ 2	$ -	$ 1,536
Balance at January 1, 2019	$ 1,124	$ 391	$ 16	$ 3	$ 2	$ -	$ 1,536
Amortization for the period	52	23	0	(0)	0	-	75
Impairment charge	-	-	-	-	-	-	-
Effect of movements in foreign exchange	(2)	(1)	(0)	0	-	-	(3)
Balance at March 31, 2019	$ 1,174	$ 413	$ 16	$ 3	$ 2	$ -	$ 1,608
Carrying amounts							
At January 1, 2018	$ 505	$ 412	$ -	$ -	$ 6	$ 259	$ 1,181
At December 31, 2018	$ 669	$ 573	$ -	$ -	$ 6	$ 302	$ 1,549
At January 1, 2019	$ 669	$ 573	$ -	$ -	$ 6	$ 302	$ 1,549
At March 31, 2019	$ 659	$ 589	$ 0	$ -	$ 5	$ 302	$ 1,556

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

7. CSI Facility

On December 19, 2018, Constellation completed an amendment and restatement of its revolving credit facility agreement (the "CSI Facility"), with a syndicate of Canadian chartered banks, U.S. banks, and a Japanese bank in the amount of $700, extending its maturity date to December 2023. The CSI Facility bears a variable interest rate with no fixed repayments required over the term to maturity. Interest rates are calculated at standard U.S. and Canadian reference rates plus interest rate spreads based on a leverage table. The CSI Facility is currently collateralized by the majority of the Company's assets including the assets of certain material subsidiaries. The CSI Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at March 31, 2019, $nil (December 31, 2018 – $nil) had been drawn from this credit facility, and letters of credit totaling $21 (December 31, 2018 - $21) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with the CSI Facility are included in other non-current assets in the condensed consolidated interim statement of financial position and are being amortized through profit or loss using the effective interest rate method. As at March 31, 2019 the carrying amount of such costs is $2 (December 31, 2018 - $2).

8. Debt without recourse to CSI

	New CNH Facility	Acceo Facility	Total
Principal outstanding at March 31, 2019 (and equal to fair value)	$ -	$ 108	$ 108
Deduct: Carrying value of transaction costs included in debt	-	(2)	(2)
Carrying value at March 31, 2019	-	106	106
Current portion	-	1	1
Non-current portion	-	104	104

New CNH Facility:

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

The New CNH Facility is independent of each of the CSI Facility and the Acceo Facility. The New CNH Facility is not guaranteed by Constellation or its subsidiaries nor is Constellation or its subsidiaries subject to the terms of the New CNH Facility other than, in each case, CNH and its subsidiaries. Similarly, CNH and its subsidiaries did not guarantee Constellation's other credit facilities and are not subject to the provisions thereof. The New CNH Facility imposes limitations on the amount of distributions that CNH and its subsidiaries may make to Constellation.

Acceo Facility:

On July 6, 2018 Acceo Solutions, L.P. and its wholly-owned subsidiary Acceo Solutions Inc. (together “Acceo”) entered into a C$145 term and C$10 revolving credit facility (the “Acceo Facility”) with two North American lenders. Acceo is indirectly 100% owned by Constellation. The Acceo term facility presently bears interest at a rate calculated at CDOR plus interest rate spreads based on a leverage table. The Acceo Facility is collateralized by substantially all of the assets owned by Acceo and its material subsidiaries. The Acceo Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. The term facility requires quarterly principal repayments of C$0.4 with the balance of the term facility to be repaid in full on July 6, 2023. No amounts have been drawn on the revolving component of the Acceo Facility. The revolving component of the Acceo Facility is available for acquisitions, working capital needs, and other general corporate purposes.

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

9. Membership Liability

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the TSS acquisition, and on the basis of the term sheets attached thereto, Constellation and the sellers of TSS along with members of TSS’ executive management team (collectively, the “minority owners”) entered into a Members Agreement pursuant to which the minority owners acquired 33.29% of the voting interests in CNH. Total proceeds from this transaction was €39 ($49).

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

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

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

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

If any of TSS' executive management team that participate in the Members Agreement are terminated for urgent cause as defined in Section 7:678 of the Dutch Civil Code, Constellation shall have the right to purchase all of the interests beneficially owned by the terminated executive for an amount calculated in accordance with a valuation methodology described with the Members Agreement. The full purchase price will be paid within 30 business days from the date notice is given, following which the terminated executive's membership in CNH will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33% of his interests in CNH over a 3-year period. The valuation of the interests being purchased will be calculated at each reporting period. During the periods ended March 31, 2019 and December 31, 2018, no options were exercised.

10. Debentures

On October 1, 2014 and November 19, 2014, the Company issued debentures with a total principal value of C$96 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"). From and including the date of issue to but excluding March 31, 2015, the Debentures bore interest at a rate of 7.4% per annum, paid quarterly in arrears. The rate from March 31, 2015 to March 30, 2016 was 8.5% per annum. The rate from March 31, 2016 to March 30, 2017 was 7.6%. The rate from and including March 31, 2017 to but excluding March 31, 2018 is 7.9%. The rate from and including March 31, 2018 to but excluding March 31, 2019 is 8.1%. The rate from and including March 31, 2019 to but excluding March 31, 2020 is 8.8%. From and including March 31, 2020 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

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

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.

During the periods ended March 31, 2019 and December 31, 2018, no notices for redemption of the Debentures were received or given by the Company.

The fair value of the debentures as at March 31, 2019 was $270 (December 31, 2018 - $251).

11. Provisions

At January 1, 2019	$	9
Reversal		(0)
Provisions recorded during the period		14
Provisions used during the period		(2)
Effect of movements in foreign exchange and other		(0)
At March 31, 2019	$	20
Provisions classified as current liabilities		19
Provisions classified as other non-current liabilities		1

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

12. Income taxes

Income tax expense is recognized based on management’s best estimate of the actual income tax rate for the interim period applied to the pre-tax income of the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and ongoing changes due to intercompany transactions amongst entities operating in different jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined on a consolidated basis. The Company’s consolidated effective tax rate in respect of continuing operations for the three months ended March 31, 2019 was 25% (18% for the three months ended March 31, 2018).

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

Constellation is subject to tax audits in the countries in which the Company does business globally. These tax audits could result in additional tax expense in future periods relating to historical filings. Reviews by tax authorities generally focus on, but are not limited to, the validity of the Company's inter-company transactions, including financing and transfer pricing policies which generally involve subjective areas of taxation and a significant degree of judgment. If any of these tax authorities are successful with their challenges, the Company's income tax expense may be adversely affected and Constellation could also be subject to interest and penalty charges.

13. Capital and other components of equity

	Common Shares	
	Number	Amount
March 31, 2019	21,191,530	$ 99
December 31, 2018	21,191,530	$ 99

Dividends and other distributions to shareholders

During the three months ended March 31, 2019, the Company declared a $1.00 per share dividend and a $20.00 per share special dividend to all common shareholders of record at close of business on March 16, 2019. The dividends declared in the quarter ended March 31, 2019 representing $445 was paid and settled on April 5, 2019.

A dividend of $1.00 per share representing $21 was accrued as at December 31, 2018 and subsequently paid and settled on January 4, 2019.

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

14. Finance and other income and finance costs

	Three months ended March 31, 2019		2018	
Interest income on cash	$	(3)	$	(1)
Share in net (income) loss of equity investee		(0)		(0)
Finance and other income		0		(8)
Finance and other income	$	(3)	$	(9)
Interest expense on debt and debentures	$	7	$	5
Interest expense on lease obligations		2		-
Amortization of debt related transaction costs		0		0
Amortization of debenture discount (premium) and associated rights offering, net		(1)		(1)
Other finance costs		1		1
Finance costs	$	9	$	5

15. Earnings per share

Basic and diluted earnings per share

	Three months ended March 31, 2019		2018	
Numerator:				
Net income	$	87	$	83
Denominator:				
Basic and diluted shares outstanding		21,191,530		21,191,530
Earnings per share				
Basic and diluted	$	4.09	$	3.90

16. 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. Bank debt, the CSI Facility and debt without recourse to CSI is subject to market interest rates.

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

Fair value hierarchy

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

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

In the table below, the Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

Financial assets and financial liabilities measured at fair value as at March 31, 2019 and December 31, 2018 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.

	March 31, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities:								
Contingent consideration	$ -	$ -	$ 35	$ 35	$ -	$ -	$ 19	$ 19
	-	**-**	**35**	**35**	**-**	**-**	**19**	**19**

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the periods ended March 31, 2019 and December 31, 2018.

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

Balance at January 1, 2019	$ 19
Increase from business acquisitions	10
Cash recoveries (payments)	1
Charges through profit or loss	6
Foreign exchange and other movements	0
Balance at March 31, 2019	35
Contingent consideration classified as current liabilities	14
Contingent consideration classified as other non-current liabilities	21

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.

17. Operating segments

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

Reportable segments

The Company has six operating segments, referred to as Operating Groups by the Company, being Volaris, Harris, TSS, Jonas, Perseus, and Vela. The operating segments are aggregated into two reportable segments in accordance with IFRS 8 Operating Segments. The Company's Public Sector segment develops and distributes software solutions primarily to government and government-related customers. The Company's Private Sector segment develops and distributes software solutions primarily to commercial customers.

The Operating Groups exhibit similar economic characteristics (such as gross and earnings before income tax and amortization ("EBITA") margins) and are substantially similar in relation to the nature of products and services, the nature of production processes, and the methods used to distribute product; however, the determination that the Company has two reportable segments is based primarily on the assessment that differences in economic cycles and procedures for securing contracts between our governmental clients and commercial, or private sector clients, are significant, thus warranting distinct segmented disclosures. Volaris, Harris and TSS have been aggregated into the Public Sector segment. Jonas, Perseus and Vela have been aggregated into the Private Sector segment.

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

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

Three months ended March 31, 2019	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	$ 34	$ 19	$ -	$ 53
Professional services	122	36	-	158
Hardware and other	30	6	-	36
Maintenance and other recurring	364	208	-	572
	549	269	-	819
Expenses				
Staff	301	143	1	445
Hardware	17	4	-	21
Third party licenses, maintenance and professional services	43	26	-	69
Occupancy	5	3	0	9
Travel, telecommunications, supplies, software and equipment	32	12	0	44
Professional fees	8	3	0	11
Other, net	11	10	0	21
Depreciation	14	6	0	21
Amortization of intangible assets	51	24	-	75
	481	232	2	715
Foreign exchange (gain) loss	0	2	(1)	1
TSS membership liability revaluation charge	10	-	-	10
Finance and other expense (income)	(0)	0	(3)	(3)
Bargain purchase (gain)	(28)	-	-	(28)
Finance costs	5	1	4	9
Intercompany expenses (income)	4	3	(7)	-
	(9)	6	(7)	(11)
Profit before income tax	78	32	5	115
Current income tax expense (recovery)	28	10	(2)	36
Deferred income tax expense (recovery)	(9)	(2)	3	(8)
Income tax expense (recovery)	19	8	1	28
Net income	$ 59	$ 24	$ 4	$ 87

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

Three months ended March 31, 2018	Public Sector	Private Sector	Other	Consolidated Total
Revenue				
License	$ 29	$ 15	$ -	$ 44
Professional services	111	31	-	142
Hardware and other	26	6	-	33
Maintenance and other recurring	320	180	-	500
	486	233	-	718
Expenses				
Staff	262	126	1	389
Hardware	14	4	-	18
Third party licenses, maintenance and professional services	38	23	-	61
Occupancy	12	7	0	19
Travel, telecommunications, supplies, software and equipment	30	12	0	42
Professional fees	7	3	0	10
Other, net	5	8	0	13
Depreciation	5	2	0	7
Amortization of intangible assets	47	22	-	69
	421	206	2	628
Foreign exchange (gain) loss	1	(2)	(13)	(14)
TSS membership liability revaluation charge	7	-	-	7
Finance and other expense (income)	(8)	(0)	(1)	(9)
Bargain purchase (gain)	(0)	-	-	(0)
Finance costs	1	0	4	5
Intercompany expenses (income)	5	3	(8)	-
	6	2	(18)	(11)
Profit before income tax	59	26	16	101
Current income tax expense (recovery)	19	9	(2)	26
Deferred income tax expense (recovery)	(4)	(2)	(1)	(8)
Income tax expense (recovery)	15	7	(3)	19
Net income	$ 45	$ 18	$ 19	$ 83

18. Contingencies

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

19. Changes in non-cash operating assets and liabilities

	Three months ended March 31, 2019	2018
Decrease (increase) in current accounts receivable	$ 8	$ 46
Decrease (increase) in current unbilled revenue	(17)	(8)
Decrease (increase) in other current assets	(14)	(10)
Decrease (increase) in inventories	(5)	(2)
Decrease (increase) in other non-current assets	1	3
Increase (decrease) in other non-current liabilities	(1)	(8)
Increase (decrease) in current accounts payable and accrued liabilities, excluding holdbacks from acquisitions	(71)	(71)
Increase (decrease) in current deferred revenue	212	200
Increase (decrease) in current provisions	10	(2)
Change in non-cash operating working capital	$ 123	$ 147

20. Subsequent events

On May 1, 2019 the Company declared a $1.00 per share dividend that is payable on July 8, 2019 to all common shareholders of record at close of business on June 14, 2019.

21. Comparative Figures

Constellation has presented these condensed consolidated interim financial statements in millions of dollars. Prior year figures and information have been adjusted to conform to the current year presentation in millions of dollars and certain amounts presented in previous years may not agree to the current year presentation as a result of rounding. Furthermore, due to rounding, numbers presented may not foot.

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

22. Explanation of adoption of IFRS 16

The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments. Right-of-use assets and lease obligations of $216 were recorded as of January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is approximately 3%. The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

The following table reconciles the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019.

Aggregate lease commitments as disclosed at December 31, 2018	$	274
Less: Recognition exemption short-term leases (leases that expire on or prior to December 31, 2019)		(11)
Less: Recognition exemption for low-value leases		(1)
Add: Extension options reasonably certain to be exercised		13
Less: Non-lease component of contractual arrangement that has been split out and excluded from the IFRS 16 opening adjustment		(31)
Less: Foreign exchange and other adjustments		(7)
Adjusted lease commitments		237
Less: Impact of present value		(21)
Opening IFRS 16 lease liability as at January 1, 2019		216

The following tables summarizes the impacts of adopting IFRS 16 on the Company's condensed consolidated interim statement of income for the three months ended March 31, 2019:

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

	March 31, 2019 As reported	Adjustments	March 31, 2019 Without adoption of IFRS 16
Revenue			
License	$ 53	$ -	$ 53
Professional services	158	-	158
Hardware and other	36	-	36
Maintenance and other recurring	572	-	572
	819	-	819
Expenses			
Staff	445	1	445
Hardware	21	0	21
Third party license, maintenance and professional services	69	0	69
Occupancy	9	11	20
Travel, telecomunications, supplies, software and equipment	44	1	46
Professional fees	11	-	11
Other, net	21	-	21
Depreciation	21	(13)	7
Amortization of intangible assets	75	-	75
	715	1	716
Foreign exchange loss (gain)	1	(0)	1
TSS membership liability revaluation charge	10	-	10
Finance and other expense (income)	(3)	-	(3)
Bargain purchase gain	(28)	-	(28)
Finance costs	9	(2)	7
	(11)	(2)	(13)
Income before income taxes	115	1	116
Current income tax expense (recovery)	36	0	36
Deferred income tax expense (recovery)	(8)	0	(8)
Income tax expense (recovery)	28	0	29
Net income	$ 87	$ 1	$ 88
Earnings per share			
Basic and diluted	$ 4.09	$ 0.05	$ 4.14

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

As a result of adopting IFRS 16, lease payments (comprised of principal and interest payments on lease obligations) are now classified as financing cash flows instead of operating cash flows. The following table summarizes the impacts of adopting IFRS 16 on the Company's condensed consolidated interim statement of cash flow for the three months ended March 31, 2019.

	March 31, 2019 As reported	Adjustments	March 31, 2019 Without adoption of IFRS 16
Net cash flows from operating activities	$ 284	(12)	$ 273
Net cash flows from (used in) in financing activities	(103)	12	(92)