

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

**CONSTELLATION
SOFTWARE INC.**

For the three and nine months ended September 30, 2017 and 2016
Unaudited

CONSTELLATION SOFTWARE INC.

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

Unaudited

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash	\$ 414,586	\$ 353,499
Equity securities available-for-sale (note 5)	-	4,236
Accounts receivable, net	298,798	243,554
Work in progress	68,602	56,541
Inventories	29,240	19,667
Other assets (note 6)	107,499	96,181
	<u>918,725</u>	<u>773,678</u>
Non-current assets:		
Property and equipment	53,006	46,395
Deferred income taxes (note 12)	34,494	49,863
Other assets (note 6)	21,436	19,782
Intangible assets (note 7)	1,139,435	993,743
	<u>1,248,371</u>	<u>1,109,783</u>
Total assets	\$ 2,167,096	\$ 1,883,461
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility (note 8)	\$ -	\$ -
New CNH Facility (note 8)	74,881	-
CNH Facility (note 8)	-	7,361
TSS Membership Liability (note 10)	45,063	26,435
Accounts payable and accrued liabilities	328,304	291,697
Dividends payable (note 13)	20,794	21,051
Deferred revenue	556,190	460,975
Provisions (note 11)	9,336	7,955
Acquisition holdback payments	34,968	17,056
Income taxes payable (note 12)	55,537	40,634
	<u>1,125,073</u>	<u>873,164</u>
Non-current liabilities:		
CNH Facility (note 8)	-	115,336
TSS Membership Liability (note 10)	79,271	46,502
Debentures (note 9)	238,693	223,870
Deferred income taxes (note 12)	139,657	129,585
Acquisition holdback payments	4,965	855
Other liabilities (note 6)	30,588	36,640
	<u>493,174</u>	<u>552,788</u>
Total liabilities	1,618,247	1,425,952
Shareholders' equity (note 13):		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(27,044)	(36,108)
Retained earnings	476,610	394,334
	<u>548,849</u>	<u>457,509</u>
Subsequent events (notes 13 and 20)		
Total liabilities and shareholders' equity	\$ 2,167,096	\$ 1,883,461

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Three and nine months ended September 30, 2017 and 2016

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue				
License	\$ 44,478	\$ 35,285	\$ 120,482	\$ 103,110
Professional services	125,530	109,872	358,648	317,464
Hardware and other	43,852	39,515	117,208	109,030
Maintenance and other recurring	422,599	360,974	1,195,531	1,031,692
	636,459	545,646	1,791,869	1,561,296
Expenses				
Staff	312,667	266,142	898,751	781,744
Hardware	24,208	21,660	63,619	61,725
Third party license, maintenance and professional services	55,059	51,264	155,601	142,848
Occupancy	15,584	13,047	43,454	37,590
Travel	18,546	15,678	52,438	44,999
Telecommunications	5,716	5,376	16,051	16,198
Supplies	4,103	2,304	11,583	6,991
Software and equipment	11,200	9,590	30,556	27,180
Professional fees	7,921	6,438	21,614	19,932
Other, net	14,126	8,263	35,112	28,029
Depreciation	5,768	5,454	16,388	15,436
Amortization of intangible assets	59,829	42,676	167,852	131,987
	534,727	447,892	1,513,019	1,314,659
Foreign exchange loss (gain)	7,567	(1,026)	10,926	24,778
TSS membership liability revaluation charge (note 10)	11,781	7,070	40,311	13,937
Share in net (income) loss of equity investee (note 6)	(80)	(5,410)	(206)	(5,717)
Finance and other expense (income) (note 14)	(1,291)	(2,929)	(1,720)	(3,201)
Bargain purchase gain	(5,008)	-	(5,008)	-
Finance costs (note 14)	8,725	5,332	19,456	16,353
	21,694	3,037	63,759	46,150
Income before income taxes	80,038	94,717	215,091	200,487
Current income tax expense (recovery)	25,975	19,244	80,191	59,915
Deferred income tax expense (recovery)	(206)	8,011	(10,952)	(556)
Income tax expense (recovery) (note 12)	25,769	27,255	69,239	59,359
Net income	54,269	67,462	145,852	141,128
Earnings per share				
Basic and diluted (note 15)	\$ 2.56	\$ 3.18	\$ 6.88	\$ 6.66

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Three and nine months ended September 30, 2017 and 2016

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income	\$ 54,269	\$ 67,462	\$ 145,852	\$ 141,128
Items that are or may be reclassified subsequently to net income:				
Net change in fair value of available-for-sale financial asset during the period	-	6,612	(1,314)	6,946
Net change in fair value of derivatives designated as hedges during the period	193	157	538	134
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	(2,539)	1,288	(2,539)
Foreign currency translation differences from foreign operations	857	1,264	8,704	4,301
Deferred income tax recovery (expense)	(58)	(541)	(152)	(578)
Other comprehensive (loss) income for the period, net of income tax	992	4,953	9,064	8,264
Total comprehensive income (loss) for the period	\$ 55,261	\$ 72,415	\$ 154,916	\$ 149,392

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Unaudited

Nine months ended September 30, 2017

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

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Unaudited

Nine months ended September 30, 2016

	Capital stock	Accumulated other comprehensive income/(loss)			Total accumulated other comprehensive income/(loss)	Retained earnings	Total
		Cumulative translation account	Amounts related to gains/losses on available-for-sale financial assets	Amounts related to gains/(losses) on derivatives designed as hedges			
Balance at January 1, 2016	\$ 99,283	\$ (33,614)	\$ -	\$ (705)	\$ (34,319)	\$ 272,318	\$ 337,282
<i>Total comprehensive income for the period:</i>							
Net income	-	-	-	-	-	141,128	141,128
<i>Other comprehensive income (loss)</i>							
Net change in fair value of available-for-sale financial asset during the period	-	-	6,946	-	6,946	-	6,946
Net change in fair value of derivatives designated as hedges during the period	-	-	-	134	134	-	134
Amounts reclassified to profit during the period related to realized losses (gains) on available-for-sale financial assets	-	-	(2,539)	-	(2,539)	-	(2,539)
Foreign currency translation differences from foreign operations	-	4,301	-	-	4,301	-	4,301
Deferred tax recovery (expense)	-	-	(545)	(33)	(578)	-	(578)
Total other comprehensive income for the period	-	4,301	3,862	101	8,264	-	8,264
Total comprehensive income for the period	-	4,301	3,862	101	8,264	141,128	149,392
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company (note 13)	-	-	-	-	-	(63,576)	(63,576)
Balance at September 30, 2016	\$ 99,283	\$ (29,313)	\$ 3,862	\$ (604)	\$ (26,055)	\$ 349,870	\$ 423,098

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

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

Three and nine months ended September 30, 2017 and 2016

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cash flows from operating activities:				
Net income	\$ 54,269	\$ 67,462	\$ 145,852	\$ 141,128
Adjustments for:				
Depreciation	5,768	5,454	16,388	15,436
Amortization of intangible assets	59,829	42,676	167,852	131,987
TSS membership liability revaluation charge	11,781	7,070	40,311	13,937
Share in net (income) loss of equity investee	(80)	(5,410)	(206)	(5,717)
Finance and other income	(1,291)	(2,929)	(1,720)	(3,201)
Bargain purchase gain	(5,008)	-	(5,008)	-
Finance costs	8,725	5,332	19,456	16,353
Income tax expense (recovery)	25,769	27,255	69,239	59,359
Foreign exchange loss (gain)	7,567	(1,026)	10,926	24,778
Change in non-cash operating working capital exclusive of effects of business combinations (note 19)	(28,069)	2,038	(28,421)	(9,210)
Income taxes paid	(16,539)	(10,094)	(69,517)	(27,692)
Net cash flows from operating activities	122,721	137,828	365,152	357,158
Cash flows from (used in) financing activities:				
Interest paid	(5,572)	(5,547)	(16,707)	(17,395)
Increase (decrease) in New CNH Facility, net	74,608	-	74,608	-
Repayments of CNH facility	(134,248)	-	(138,177)	(4,495)
Credit facility transaction costs	(1,942)	-	(1,942)	(1,212)
Dividends paid	(21,192)	(21,192)	(63,576)	(63,576)
Net cash flows from (used in) in financing activities	(88,346)	(26,739)	(145,794)	(86,678)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired (note 4)	(41,863)	(34,500)	(156,062)	(101,198)
Post-acquisition settlement payments, net of receipts	(4,723)	(12,050)	(21,611)	(18,283)
Purchases of available-for-sale equity securities	-	(13,902)	-	(26,596)
Proceeds from sale of available-for-sale equity securities	-	14,276	2,828	14,276
Interest, dividends and other proceeds received (note 6)	1,152	644	21,607	794
Property and equipment purchased	(5,450)	(3,934)	(14,382)	(13,621)
Net cash flows from (used in) investing activities	(50,884)	(49,466)	(167,620)	(144,628)
Effect of foreign currency on cash and cash equivalents	1,331	(143)	9,349	131
Increase (decrease) in cash and cash equivalents	(15,178)	61,480	61,087	125,983
Cash, beginning of period	429,764	242,974	353,499	178,471
Cash, end of period	\$ 414,586	\$ 304,454	\$ 414,586	\$ 304,454

See accompanying notes to the condensed consolidated interim financial statements.

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2017 and 2016

(Unaudited)

Notes to the condensed consolidated interim financial statements

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Notes to Condensed Consolidated Interim Financial Statements
(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)
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(Unaudited)

1. Reporting entity

Constellation Software Inc. ("Constellation") is a company domiciled in Canada. The address of Constellation's registered office is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada. The condensed consolidated interim financial statements of Constellation as at and for the period ended September 30, 2017 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
Higher 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	

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	

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of U.S. dollars, except per share amounts and as otherwise indicated)
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(Unaudited)

2. Basis of presentation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies disclosed in Note 3 of the Company's 2016 annual consolidated financial statements.

The policies applied in these condensed consolidated interim financial statements are based on International Financial Reporting Standards (IFRS), issued and outstanding as of October 26, 2017, 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 2016 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, equity securities available-for-sale, 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 2016 annual consolidated financial statements. Actual results may differ from these estimates.

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

3. Significant accounting policies

The significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2016 annual consolidated financial statements, and have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

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

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements
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New standards and interpretations not yet adopted

IFRS 9 Financial Instruments

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual investment-by-investment basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management.

The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. As a result, the Company is continuing to assess the impact of this standard on its consolidated financial statements. The Company has not selected a transition methodology.

The Company has a team focused on the adoption and compliance with IFRS 15. This team is responsible for analyzing existing policies, determining differences between existing policies and IFRS 15, ensuring the Company's data collection is appropriate, and communicating the upcoming changes with various stakeholders. In addition, this team is assisting with the development of processes and policies that will help ensure an effective transition and the related impacts are reliably assessed.

While the Company continues to assess all potential impacts of the new revenue recognition standard, the Company currently believes the most significant impacts will relate to accounting for term based licenses (including subscription arrangements and those instances where the customer is required to renew support and maintenance in order to maintain use of the licensed software over the license term), capitalization of contract costs and expanded disclosure on revenue, performance obligations and contract balances. Under current revenue recognition policies, license revenue from term based licenses is generally deferred and amortized over the period of post-contract customer support. Under IFRS 15, the Company expects the timing of license revenue recognition for term based licenses to change. We expect to recognize a component of license revenue associated with these term based licenses at the time the license is renewed. Furthermore, if the Company has collected non-recurring license fees

CONSTELLATION SOFTWARE INC.

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under these arrangements and these fees are determined to be material rights under IFRS 15, the Company expects to defer and amortize these fees over the life of the associated software. Under the Company's current accounting policies, the Company generally expenses incremental commission costs paid to employees. Under IFRS 15, the Company expects to capitalize and amortize certain incremental commission costs that are paid to employees and expects to defer and amortize these fees on a systematic basis, consistent with the pattern of transfer of the good(s) or service(s) to which the commission costs relates. The Company has commenced the process of quantifying the differences under IFRS 15.

IFRS 16 Leases

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

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

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

As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The Company is assessing the impact of this standard on its consolidated financial statements; however, the Company believes that on adoption of the standard there will be an increase to assets and liabilities, as the Company will be required to record a right-of-use asset and a corresponding lease liability on its Consolidated Statements of Financial Position, as well as a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation (due to depreciation of the right-of-use asset).

4. Business acquisitions

(a) During the nine-month period ended September 30, 2017, the Company completed forty-two acquisitions for aggregate cash consideration of \$185,586 plus cash holdbacks of \$37,765 and contingent consideration with an estimated fair value of \$3,247 resulting in total consideration of \$226,598. 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 period ended September 30, 2017 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 \$18,072. Aggregate contingent consideration of \$20,913 (December 31, 2016 - \$15,538) 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 expenses, net in the condensed consolidated interim statements of income. An expense of \$4,247 and \$4,129 has been recorded for the three and nine months ended September 30,

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

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2017, as a result of such changes (an expense of \$1,317 and \$1,199 for the three and nine months ended September 30, 2016).

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

The acquisitions during the nine-month period ended September 30, 2017 include software companies catering to the following markets; communications, local government, schools administration, electric utilities, design and welding, public safety, manufacturing plant performance, marine asset management, fitness, agriculture equipment dealers, automotive, retail management and distribution, school and special library information systems, transit, asset management, food services, oil and gas, insurance, publishing, lease management, accountancy, tour operators, and healthcare, all of which are software businesses similar to existing businesses operated by the Company. The acquisitions have been accounted for using the acquisition method with the results of operations included in these condensed consolidated interim financial statements from the date of each acquisition. Thirty-two of the acquisitions have been included in the Public reportable segment and ten have been included in the Private reportable segment.

The goodwill recognized in connection with these acquisitions is primarily attributable to the application of Constellation's best practices to improve the operations of the companies acquired, synergies with existing businesses of Constellation, and other intangibles that do not qualify for separate recognition including assembled workforce. Goodwill in the amount of \$5,728 is expected to be deductible for income tax purposes.

A bargain purchase gain totalling \$5,008 arose on two of the acquisitions because the fair value of the separately identifiable assets and liabilities exceeded the total consideration paid, principally due to the acquisition of certain assets that will benefit the Company that had limited value to the seller. The bargain purchase gain has been recorded in profit or loss in the consolidated statement of income.

The gross contractual amounts of acquired receivables was \$33,516; however, the Company has recorded an allowance of \$1,412 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 2017 and the last quarter of 2016. 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 \$249,862.

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the nine-month period ended September 30, 2017 is as follows:

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2017 and 2016

(Unaudited)

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	\$ 20,200	\$ 9,324	\$ 29,524
Accounts receivable	22,769	9,335	32,104
Other current assets	21,579	3,837	25,416
Property and equipment	5,287	797	6,084
Other non-current assets	2,253	-	2,253
Deferred income taxes	6,692	1,978	8,670
Technology assets	110,875	53,364	164,239
Customer assets	47,442	32,275	79,717
	237,097	110,910	348,007
Liabilities assumed:			
Current liabilities	25,219	11,050	36,269
Deferred revenue	33,643	19,357	53,000
Deferred income taxes	16,765	18,360	35,125
Other non-current liabilities	2,827	1,181	4,008
	78,454	49,948	128,402
Goodwill	3,552	8,449	12,001
Excess of fair value of net assets acquired over consideration paid	(5,008)	-	(5,008)
Total consideration	\$ 157,187	\$ 69,411	\$ 226,598

(b) The 2017 business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income for the three and nine months ended September 30, 2017. The materiality threshold is reviewed on an annual basis taking into account the quantitative (contribution to revenue and net income) and qualitative (size and comparability with other Constellation businesses) factors of current period acquisitions on both an individual and aggregate basis.

5. Equity securities available-for-sale

During 2016, the Company made investments in two public companies listed in the U.S. and Canada, both of which develop and sell software solutions. These investments have been designated as available-for-sale. The unrealized gains/losses related to the available-for-sale equity securities have been recorded in Accumulated other comprehensive income (loss). In 2016, the Company fully disposed of one of these investments and in the nine months ended September 30, 2017, the Company fully disposed of its remaining investment. The realized gain or loss upon disposition was recorded in Finance and other expense (income) in the Condensed Consolidated Interim Statement of Income. Note 14 of the condensed consolidated interim financial statements outlines the gains and losses on the equity securities available-for-sale in each of the applicable periods.

	September 30, 2017		December 31, 2016	
	Cost	Fair Value	Cost	Fair Value
Common shares	\$ -	\$ -	\$ 4,419	\$ 4,236

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6. Other assets and other non-current liabilities

(a) Other assets

	September 30, 2017	December 31, 2016
Prepaid and other current assets	\$ 60,158	\$ 46,931
Other assets (ii)	-	18,779
Investment tax credits recoverable	25,013	21,140
Sales tax receivable	7,761	3,971
Other receivables	14,567	5,360
Total other current assets	\$ 107,499	\$ 96,181
Investment tax credits recoverable	\$ 11,474	\$ 10,670
Non-current trade and other receivables and other assets	8,106	7,842
Equity accounted investees (i)	1,856	1,270
Total other non-current assets	\$ 21,436	\$ 19,782

(i) The Company's share of net income (loss) in its investments currently being accounted for as equity investees for the three and nine-month period ended September 30, 2017 was \$80 and \$206 respectively (September 30, 2016 – \$5,410 and \$5,717 respectively).

(ii) As at December 31, 2016, one of our investments (which was historically classified as a non-current asset and accounted for as an equity investee) was classified as an other current asset. In the nine-month period ended September 30, 2017, this balance was collected. The cash proceeds of \$18,779 have been reflected as an investing activity in the condensed consolidated interim statement of cash flows.

(b) Other non-current liabilities

	September 30, 2017	December 31, 2016
Contingent consideration	\$ 9,275	\$ 8,793
Acquired contract liabilities	1,142	9,056
Other non-current liabilities	20,171	18,791
Total other non-current liabilities	\$ 30,588	\$ 36,640

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7. Intangible assets

	Technology Assets	Customer Assets	Backlog	Non-compete agreements	Trademarks	Goodwill	Total
Cost							
Balance at January 1, 2016	\$ 1,029,661	\$ 525,846	\$ 16,227	\$ 2,552	\$ 6,872	\$ 216,263	\$ 1,797,421
Acquisitions through business combinations	171,421	73,879	-	-	-	16,776	262,076
Effect of movements in foreign exchange	(24,235)	(15,669)	(46)	14	(205)	(6,537)	(46,678)
Balance at December 31, 2016	\$ 1,176,847	\$ 584,056	\$ 16,181	\$ 2,566	\$ 6,667	\$ 226,502	\$ 2,012,819
Balance at January 1, 2017	\$ 1,176,847	\$ 584,056	\$ 16,181	\$ 2,566	\$ 6,667	\$ 226,502	\$ 2,012,819
Acquisitions through business combinations	165,209	79,839	-	-	-	12,193	257,241
Effect of movements in foreign exchange	42,154	32,515	90	36	911	13,143	88,849
Balance at September 30, 2017	\$ 1,384,210	\$ 696,410	\$ 16,271	\$ 2,602	\$ 7,578	\$ 251,838	\$ 2,358,909
Accumulated amortization and impairment losses							
Balance at January 1, 2016	\$ 619,984	\$ 205,798	\$ 16,212	\$ 2,552	\$ 766	\$ -	\$ 845,312
Amortization for the year	138,907	51,319	-	-	348	-	190,574
Effect of movements in foreign exchange	(12,031)	(4,684)	(31)	14	(78)	-	(16,810)
Balance at December 31, 2016	\$ 746,860	\$ 252,433	\$ 16,181	\$ 2,566	\$ 1,036	\$ -	\$ 1,019,076
Balance at January 1, 2017	\$ 746,860	\$ 252,433	\$ 16,181	\$ 2,566	\$ 1,036	\$ -	\$ 1,019,076
Amortization for the period	125,001	42,279	-	-	572	-	167,852
Effect of movements in foreign exchange	23,851	8,647	90	36	(78)	-	32,546
Balance at September 30, 2017	\$ 895,712	\$ 303,359	\$ 16,271	\$ 2,602	\$ 1,530	\$ -	\$ 1,219,474
Carrying amounts							
At January 1, 2016	\$ 409,677	\$ 320,048	\$ 15	\$ -	\$ 6,106	\$ 216,263	\$ 952,109
At December 31, 2016	\$ 429,987	\$ 331,623	\$ -	\$ -	\$ 5,631	\$ 226,502	\$ 993,743
At January 1, 2017	\$ 429,987	\$ 331,623	\$ -	\$ -	\$ 5,631	\$ 226,502	\$ 993,743
At September 30, 2017	\$ 488,498	\$ 393,051	\$ -	\$ -	\$ 6,048	\$ 251,838	\$ 1,139,435

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8. CSI Facility, New CNH Facility and CNH Facility

On February 25, 2016, Constellation completed an amendment and restatement of the revolving credit facility agreement (the "CSI Facility"), extending its maturity date to August 11, 2020. The facility limit was increased from \$300,000 to \$485,000 with a syndicate of new and existing Canadian chartered banks and U.S. banks. The CSI Facility bears a variable interest rate and is due in full on August 11, 2020 with no fixed repayments required over the term to maturity. Interest rates are calculated at standard U.S. and Canadian reference rates plus interest rate spreads based on a leverage table. The CSI Facility is currently collateralized by the majority of the Company's assets including the assets of certain material subsidiaries. The CSI Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at September 30, 2017, \$nil (December 31, 2016 - \$nil) had been drawn from this credit facility, and letters of credit totaling \$19,304 (December 31, 2016 - \$15,377) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with the CSI Facility in the amount of \$1,212 have been capitalized and included in other non-current assets in the consolidated statement of financial position and are being amortized through profit or loss using the effective interest rate method. Amortized costs recognized in the three and nine months ended September 30, 2017 relating to this line-of-credit amounted to \$67 and \$201 (September 30, 2016 - \$67 and \$157 respectively). As at September 30, 2017 the carrying amount of such costs is \$786 (December 31 2016 - \$987).

On June 24, 2014 Constellation Software Netherlands Holding Cooperatief U.A. ("CNH"), a subsidiary of Constellation and the indirect owner of 100% of TSS, entered into a €150,000 term and €10,000 multicurrency revolving credit facility (the "CNH Facility") with a number of European and North American financial institutions. The CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The CNH Facility is collateralized by substantially all of the assets owned by CNH and its subsidiaries which includes substantially all of the assets of TSS and its subsidiaries. The CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. On July 14, 2017 (in conjunction with the issuance of the New CNH Facility as defined below), the principal outstanding on the term loan of €116,500 million was repaid in full and the CNH Facility was extinguished. Unamortized transaction costs of \$3,341 million associated with the CNH Facility have been included in profit or loss.

On July 14, 2017, CNH entered into a new credit facility (the "New CNH Facility") with a number of European financial institutions. Under this credit facility, CNH will be able to borrow up to €300,000 under a multicurrency revolving loan facility and up to €50,000 under an additional uncommitted term loan facility. The New CNH Facility has an initial term of five years with an extension option for two additional one year periods. The New CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The New CNH Facility is collateralized by substantially all of the assets owned by CNH and its subsidiaries which includes substantially all of the assets of TSS and its subsidiaries. The New CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at September 30, 2017, €65,000 (\$76,787) had been drawn from this credit facility. Transaction costs associated with the New CNH Facility have been included as part of the carrying amount of the liability and are being amortized through profit or loss using the effective interest rate method. Amortized costs recognized in the three and nine months ended September 30, 2017 relating to this facility amounted to \$115. As at September 30, 2017, the carrying amount of such costs relating to this facility totaling approximately \$1,906 (€1,614) has been classified as part of the New CNH Facility in the consolidated statement of financial position.

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

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and the financial results of CNH and its subsidiaries are not included for the purposes of determining compliance by Constellation with the financial covenants in Constellation's other credit facilities. The New CNH Facility imposes limitations on the amount of distributions that CNH and its subsidiaries may make to Constellation.

9. Debentures

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

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

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

During the nine months ended September 30, 2017, no notices for redemption of the Debentures were received or given by the Company.

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10. 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. Total proceeds from this transaction was €39,375 (\$48,503).

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

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

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 nine-month period ended September 30, 2017 and September 30, 2016, no options were exercised.

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11. Provisions

At January 1, 2017	\$	9,034
Reversal		(812)
Provisions recorded during the period		8,509
Provisions used during the period		(6,882)
Effect of movements in foreign exchange and other		633
At September 30, 2017	\$	10,482
<hr/>		
Provisions classified as current liabilities		9,336
Provisions classified as other non-current liabilities		1,146

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

12. Income taxes

Income tax expense is recognized based on management's best estimate of the actual income tax rate for the interim period applied to the pre-tax income of the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and ongoing changes due to intercompany transactions amongst entities operating in different jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined on a consolidated basis. The Company's consolidated effective tax rate in respect of continuing operations for the three and nine months ended September 30, 2017 was 32% and 32% (three and nine months ended September 30, 2016 was 29% and 30% respectively).

Constellation is subject to tax audits in the countries of 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
September 30, 2017	21,191,530	\$ 99,283
December 31, 2016	21,191,530	\$ 99,283

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Dividends and other distributions to shareholders

During the three months ended September 30, 2017 the Board of Directors approved and the Company declared a dividend of \$1.00 per common share. The dividend declared in the quarter ended September 30, 2017 representing \$21,192 was paid and settled on October 4, 2017. The dividend declared in the quarter ended June 30, 2017 representing \$21,192 was paid and settled on July 6, 2017. The dividend declared in the quarter ended March 31, 2017 representing \$21,192 was paid and settled on April 5, 2017.

A dividend of \$1.00 per share representing \$21,192 was accrued as at December 31, 2016 and subsequently paid and settled on January 5, 2017.

14. Finance and other income and finance costs

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Losses (gains) on sale of available-for-sale financial assets transferred from other comprehensive income	\$ -	\$ (2,539)	\$ 1,540	\$ (2,539)
Interest income on cash	(1,142)	(128)	(2,812)	(283)
Finance and other income	(149)	(262)	(448)	(379)
Finance and other income	\$ (1,291)	\$ (2,929)	\$ (1,720)	\$ (3,201)
Interest expense on bank indebtedness and debentures	\$ 5,315	\$ 5,596	\$ 15,940	\$ 17,406
Amortization of debt related transaction costs	3,523	285	4,080	811
Amortization of debenture discount (premium) and associated rights offering, net	(1,073)	(1,018)	(3,089)	(3,055)
Other finance costs	960	469	2,525	1,191
Finance costs	\$ 8,725	\$ 5,332	\$ 19,456	\$ 16,353

During 2014, the Company entered into a floating-to-fixed interest rate swap to manage its cash-flow interest rate risk associated with the CNH Facility. The interest rate swap contract matured in the nine months ended September 30, 2017 and as a result, the fair value at September 30, 2017 was \$nil (December 31, 2016 - \$503).

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15. Earnings per share

Basic and diluted earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income	\$ 54,269	\$ 67,462	\$ 145,852	\$ 141,128
Denominator:				
Basic and diluted shares outstanding	21,192	21,192	21,192	21,192
Earnings per share				
Basic and diluted	\$ 2.56	\$ 3.18	\$ 6.88	\$ 6.66

16. Financial instruments

Fair values versus carrying amounts

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

The Company has capitalized transaction costs associated with the CSI Facility and the New CNH Facility. As at September 30, 2017, the fair value of the New CNH Facility is \$76,787 and the carrying value is \$74,881. As at September 30, 2016, the fair value and carrying value of the CNH Facility is \$nil (December 31, 2016: fair value of \$126,183 and carrying value of \$122,697). As at September 30, 2017, the fair value of the Debentures is \$263,534 and the carrying value is \$238,693 (December 31, 2016: fair value of \$243,514 and carrying value of \$223,870).

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 September 30, 2017 and December 31, 2016 in the condensed consolidated interim financial statements are summarized below. The Company has no additional

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financial liabilities measured at fair value after initial recognition other than those recognized in connection with business combinations.

	September 30, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Available-for-sale equity securities	\$ -	\$ -	\$ -	\$ -	\$ 4,236	\$ -	\$ -	\$ 4,236
	-	-	-	-	4,236	-	-	4,236
Liabilities:								
Contingent consideration	\$ -	\$ -	\$ 20,913	\$ 20,913	\$ -	\$ -	\$ 15,538	\$ 15,538
Interest rate swap contract	-	-	-	-	-	503	-	503
	-	-	20,913	20,913	-	503	15,538	16,041

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the periods ended September 30, 2017 and 2016.

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, 2017	15,538
Increase from business acquisitions	3,542
Cash payments	(4,572)
Charges through profit or loss	4,773
Foreign exchange and other movements	1,632
Balance at September 30, 2017	20,913
Contingent consideration classified as current liabilities	11,638
Contingent consideration classified as other non-current liabilities	9,275

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

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.

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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.

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

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2017 and 2016

(Unaudited)

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

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2017 and 2016

(Unaudited)

Three months ended September 30, 2016	Public Sector	Private Sector	Other	Consolidated Total
Revenue	\$ 368,106	\$ 177,540	\$ -	\$ 545,646
Expenses				
Staff	177,611	87,426	1,105	266,142
Hardware	17,701	3,959	-	21,660
Third party licenses, maintenance and professional services	30,540	20,724	-	51,264
Occupancy	8,155	4,815	77	13,047
Travel	11,566	4,053	59	15,678
Telecommunications	3,282	2,081	13	5,376
Supplies	1,626	658	20	2,304
Software and equipment	7,800	1,728	62	9,590
Professional fees	4,301	1,218	919	6,438
Other, net	3,453	4,662	148	8,263
Depreciation	3,955	1,499	-	5,454
Amortization of intangible assets	29,329	13,347	-	42,676
	299,319	146,170	2,403	447,892
Foreign exchange (gain) loss	418	(562)	(882)	(1,026)
TSS membership liability revaluation charge	7,070	-	-	7,070
Equity in net (income) loss of equity investees	(60)	-	(5,350)	(5,410)
Finance income	(148)	(84)	(2,697)	(2,929)
Finance costs	1,625	249	3,458	5,332
Inter-company expenses (income)	7,365	4,530	(11,895)	-
	16,270	4,133	(17,366)	3,037
Profit before income tax	52,517	27,237	14,963	94,717
Current income tax expense (recovery)	13,035	7,507	(1,298)	19,244
Deferred income tax expense (recovery)	4,254	1,652	2,105	8,011
Income tax expense (recovery)	17,289	9,159	807	27,255
Net income	35,228	18,078	14,156	67,462

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2017 and 2016

(Unaudited)

Nine months ended September 30, 2016	Public Sector	Private Sector	Other	Consolidated Total
Revenue	\$ 1,044,644	\$ 516,652	\$ -	\$ 1,561,296
Expenses				
Staff	519,886	258,544	3,314	781,744
Hardware	49,003	12,722	-	61,725
Third party licenses, maintenance and professional services	82,162	60,686	-	142,848
Occupancy	23,177	14,187	226	37,590
Travel	32,612	12,242	145	44,999
Telecommunications	9,953	6,204	41	16,198
Supplies	4,658	2,296	37	6,991
Software and equipment	21,847	5,197	136	27,180
Professional fees	13,828	3,807	2,297	19,932
Other, net	11,769	15,009	1,251	28,029
Depreciation	11,031	4,401	4	15,436
Amortization of intangible assets	88,101	43,886	-	131,987
	868,027	439,181	7,451	1,314,659
Foreign exchange (gain) loss	1,225	1,897	21,656	24,778
TSS membership liability revaluation charge	13,937	-	-	13,937
Equity in net (income) loss of equity investees	(217)	-	(5,500)	(5,717)
Finance income	(246)	(121)	(2,834)	(3,201)
Finance costs	4,753	726	10,874	16,353
Intercompany expenses (income)	27,215	11,481	(38,696)	-
	46,667	13,983	(14,500)	46,150
Profit before income tax	129,950	63,488	7,049	200,487
Current income tax expense (recovery)	36,802	20,457	2,656	59,915
Deferred income tax expense (recovery)	1,590	485	(2,631)	(556)
Income tax expense (recovery)	38,392	20,942	25	59,359
Net income	91,558	42,546	7,024	141,128

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

CONSTELLATION SOFTWARE INC.

Notes to Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2017 and 2016

(Unaudited)

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 working capital

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Decrease (increase) in accounts receivable	\$ (26,855)	\$ 957	\$ (12,146)	\$ 5,422
Decrease (increase) in work in progress	(5,785)	(5,227)	(1,069)	(8,123)
Decrease (increase) in other current assets	540	1,827	(15,672)	2,963
Decrease (increase) in inventory	1,748	(1,120)	(1,986)	(551)
Decrease (increase) in non-current assets	534	1,176	1,969	(1,403)
Increase (decrease) in other non-current liabilities	(4,547)	(418)	(6,030)	(3,817)
Increase (decrease) in accounts payable and accrued liabilities, excluding holdbacks from acquisitions	40,204	29,554	(13,559)	(15,058)
Increase (decrease) in deferred revenue	(35,180)	(23,762)	19,301	14,935
Increase (decrease) in provisions	1,272	(949)	771	(3,578)
Change in non-cash operating working capital	\$ (28,069)	\$ 2,038	\$ (28,421)	\$ (9,210)

20. Subsequent events

On October 26, 2017 the Company declared a \$1.00 per share dividend that is payable on January 4, 2018 to all common shareholders of record at close of business on December 15, 2017.

Subsequent to September 30, 2017, the Company entered into agreements to acquire 100% of the shares of six entities and the assets of one entity for aggregate cash consideration of \$41,377 on closing plus cash holdbacks of \$8,921, and contingent consideration with an estimated fair value of \$72 for total consideration of \$50,370. The business acquisitions include companies catering to the healthcare, collections management, utilities, association management, food services, and public safety and are all software companies similar to the existing business of the Company. Five of the businesses will be included in the Company's Public Sector segment, and two in the Private Sector segment.