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

CONSTELLATION SOFTWARE INC.

For the three months ended March 31, 2016 and 2015

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash	$ 271,096	$ 178,471
Accounts receivable	232,194	226,771
Work in progress	63,061	59,483
Inventories	25,820	24,332
Other assets (note 5)	75,676	67,246
	667,847	556,303
Non-current assets:		
Property and equipment	44,679	42,072
Deferred income taxes	52,782	56,650
Other assets (note 5)	34,400	32,186
Intangible assets	966,002	952,109
	1,097,863	1,083,017
Total assets	$ 1,765,710	$ 1,639,320
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility (note 6)	$ -	$ -
CNH Facility (note 6)	9,085	8,725
TSS membership liability (note 8)	22,327	19,602
Accounts payable and accrued liabilities	246,109	274,981
Dividends payable (note 11)	21,210	21,326
Deferred revenue	536,976	421,027
Provisions (note 9)	6,809	8,420
Acquisition holdback payments	9,723	9,116
Income taxes payable	15,200	6,561
	867,439	769,758
Non-current liabilities:		
CNH Facility (note 6)	131,840	126,407
TSS membership liability (note 8)	39,275	34,482
Debentures (note 7)	234,563	220,043
Deferred income taxes	114,584	109,795
Acquisition holdback payments	4,946	6,987
Other liabilities (note 5)	34,652	34,566
	559,860	532,280
Total liabilities	1,427,299	1,302,038
Shareholders' equity (note 11):		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(30,669)	(34,319)
Retained earnings	269,797	272,318
	338,411	337,282
Subsequent events (notes 11 and 18)		
Total liabilities and shareholders' equity	$ 1,765,710	$ 1,639,320

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 months ended March 31, 2016 and 2015
(Unaudited)

	2016	2015
Revenue		
License	$ 32,772	$ 30,325
Professional services	96,362	92,706
Hardware and other	30,520	31,048
Maintenance and other recurring	327,328	268,812
	486,982	422,891
Expenses		
Staff	255,227	221,852
Hardware	18,196	17,785
Third party license, maintenance and professional services	44,594	38,800
Occupancy	12,041	10,581
Travel	13,687	11,810
Telecommunications	4,958	4,086
Supplies	2,432	2,745
Software and equipment	8,481	6,814
Professional fees	6,743	4,807
Other, net	8,031	6,284
Depreciation	4,873	3,926
Amortization of intangible assets	47,072	41,481
	426,335	370,971
Foreign exchange loss (gain)	19,206	(1,723)
TSS membership liability revaluation charge (note 8)	5,180	6,030
Share in net (income) loss of equity investee (note 5)	(224)	(690)
Finance and other expense (income) (note 12)	(9)	(258)
Finance costs (note 12)	5,755	4,283
	29,908	7,642
Income before income taxes	30,739	44,278
Current income tax expense (recovery)	16,754	13,896
Deferred income tax expense (recovery)	(4,686)	(2,544)
Income tax expense (recovery) (note 10)	12,068	11,352
Net income	18,671	32,926
Earnings per share		
Basic and diluted (note 13)	$ 0.88	$ 1.55

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 months ended March 31, 2016 and 2015
(Unaudited)

		2016		2015
Net income	$	18,671	$	32,926
Items that are or may be reclassified subsequently to net income:				
Net change in fair value of derivatives designated as hedges during the period		(107)		(230)
Foreign currency translation differences from foreign operations		3,729		(11,929)
Current income tax recovery (expense)		-		-
Deferred income tax recovery (expense)		28		70
Other comprehensive (loss) income for the period, net of income tax		3,650		(12,089)
Total comprehensive income for the period	$	22,321	$	20,837

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)

Three months ended March 31, 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 derivatives designed as hedges			
Balance at January 1, 2016	**$ 99,283**	**$ (33,614)**	**$ (705)**	**$ (34,319)**	**$ 272,318**	**$ 337,282**
Total comprehensive income for the period						
Net income	-	-	-	-	18,671	18,671
Other comprehensive income (loss)						
Net change in fair value of derivatives designated as hedges during the period	-	-	(107)	(107)	-	(107)
Foreign currency translation differences from foreign operations	-	3,729	-	3,729	-	3,729
Current tax recovery (expense)	-	-	-	-	-	-
Deferred tax recovery (expense)	-	-	28	28	-	28
Total other comprehensive income (loss) for the period	**-**	**3,729**	**(79)**	**3,650**	**-**	**3,650**
Total comprehensive income (loss) for the period	**-**	**3,729**	**(79)**	**3,650**	**18,671**	**22,321**
Transactions with owners, recorded directly in equity						
Dividends to shareholders of the Company (note 11)	-	-	-	-	(21,192)	(21,192)
Balance at March 31, 2016	**$ 99,283**	**$ (29,885)**	**$ (784)**	**$ (30,669)**	**$ 269,797**	**$ 338,411**

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)
Three months ended March 31, 2015

	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 derivatives designed as hedges			
Balance at January 1, 2015	**$ 99,283**	**$ (18,880)**	**$ (410)**	**$ (19,290)**	**$ 179,838**	**$ 259,831**
Total comprehensive income for the period						
Net income	-	-	-	-	32,926	32,926
Other comprehensive income (loss)						
Net change in fair value of derivatives designated as hedges during the year	-	-	(230)	(230)		(230)
Foreign currency translation differences from foreign operations	-	(11,929)	-	(11,929)	-	(11,929)
Current tax recovery (expense)	-		-		-	-
Deferred tax recovery (expense)	-		70	70	-	70
Total other comprehensive income for the period	**-**	**(11,929)**	**(160)**	**(12,089)**	**-**	**(12,089)**
Total comprehensive income for the period	**-**	**(11,929)**	**(160)**	**(12,089)**	**32,926**	**20,837**
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company (note 11)	-	-	-	-	(21,192)	(21,192)
Balance at March 31, 2015	**$ 99,283**	**$ (30,809)**	**$ (570)**	**$ (31,379)**	**$ 191,572**	**$ 259,476**

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 months ended March 31, 2016 and 2015
(Unaudited)

	2016	2015
Cash flows from operating activities:		
Net income	$ 18,671	$ 32,926
Adjustments for:		
Depreciation	4,873	3,926
Amortization of intangible assets	47,072	41,481
TSS membership liability revaluation charge	5,180	6,030
Share in net (income) loss of equity investee	(224)	(690)
Finance and other income	(9)	(258)
Finance costs	5,755	4,283
Income tax expense (recovery)	12,068	11,352
Foreign exchange loss (gain)	19,206	(1,723)
Change in non-cash operating working capital exclusive of effects of business combinations (note 17)	41,896	29,939
Income taxes paid	(8,045)	(14,618)
Net cash flows from operating activities	146,443	112,648
Cash flows from (used in) financing activities:		
Interest paid	(6,105)	(3,591)
Increase (decrease) in revolving credit facility, net	-	3,500
Credit facility transaction costs	(1,212)	-
Dividends paid	(21,192)	(21,192)
Net cash flows from (used in) in financing activities	(28,509)	(21,283)
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired (note 4)	(23,828)	(20,511)
Post-acquisition settlement payments, net of receipts	(1,545)	(1,681)
Interest and dividends received	5	41
Property and equipment purchased	(3,170)	(2,138)
Net cash flows from (used in) investing activities	(28,538)	(24,289)
Effect of foreign currency on cash and cash equivalents	3,229	(5,938)
Increase (decrease) in cash and cash equivalents	92,625	61,138
Cash, beginning of period	178,471	70,679
Cash, end of period	$ 271,096	$ 131,817

See accompanying notes to the condensed consolidated interim financial statements.

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, 2016 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	

Private Sector:

Private clubs & 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 & paper manufacturers	Multi-carrier shipping
Metal service centers	Real estate brokers and agents	Supply chain optimization
Attractions	Outdoor equipment dealers	Multi-channel distribution
Leisure centers	Pharmaceutical and biotech manufacturers	Wholesale distribution
Education	Healthcare electronic medical records	Third party logistics warehouse management systems
Radiology & laboratory information systems	Homebuilders	Retail management and distribution
Product licensing	Event management	Financial services
Tire distribution	Salons and spas	Association management
Housing finance agencies	Municipal treasury & 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

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 2015 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 April 27, 2016, 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 2015 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 2015 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 2015 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 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 that for an investment in an equity instrument which is not held-for-trading. IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management.

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

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has not yet selected a transition method nor determined the effect of the standard on the ongoing financial reporting.

IFRS 16 Leases

In January 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases 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 have the option to either:

- apply IFRS 16 with full retrospective effect; or

- recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The extent of the impact of adoption of the standard has not yet been determined.

4. Business acquisitions

(a) During the three-month period ended March 31, 2016, the Company completed six acquisitions for aggregate cash consideration of $32,465 plus cash holdbacks of $653 and contingent consideration with an estimated fair value of $1,988 resulting in total consideration of $35,106. The contingent consideration is payable on the achievement of certain financial targets in the post-acquisition period. The obligation for contingent consideration for acquisitions during the period ended March 31, 2016 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. As part of 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 $6,048. Aggregate contingent consideration of $23,196 (December 31, 2015 - $21,494) 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. Income of $246 has been recorded for the three months ended March 31, 2016, as a result of such changes (an expense of $431 for the three months ended March 31, 2015).

There were no acquisitions during the period that were deemed to be individually significant. Of the six acquisitions, the Company acquired 100% of the shares of four businesses and acquired the net assets of the other two 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 three-month period ended March 31, 2016 include software companies catering to the following markets; notaries, mining, pharmacies, electric utility, and financial services, 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. Four of the acquisitions have been included in the Public reportable segment and two 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 $nil (December 31, 2015 - $1,554) is expected to be deductible for income tax purposes.

The gross contractual amounts of acquired receivables was $6,771; however the Company has recorded an allowance of $48 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 2016 and the last three quarters of 2015. 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 $233,138.

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

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the three-month period ended March 31, 2016 is as follows:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	$ 8,464	$ 173	$ 8,637
Accounts receivable	6,643	80	6,723
Other current assets	2,838	37	2,875
Property and equipment	3,686	55	3,741
Other non-current assets	-	5	5
Technology assets	27,724	1,593	29,317
Customer assets	11,748	445	12,193
	61,103	2,388	63,491
Liabilities assumed:			
Current liabilities	6,010	78	6,088
Deferred revenue	13,075	114	13,189
Deferred income taxes	10,454	100	10,554
Other non-current liabilities	1,210	174	1,384
	30,749	466	31,215
Goodwill	2,768	62	2,830
Total consideration	**$ 33,122**	**$ 1,984**	**$ 35,106**

(b) The 2016 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, 2016. 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.

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

5. Other assets and other liabilities

(a) Other assets

	March 31, 2016	December 31, 2015
Prepaid and other current assets	$ 52,500	$ 47,196
Investment tax credits recoverable	13,182	11,479
Sales tax receivable	3,926	2,835
Other receivables	6,068	5,736
Total other current assets	$ 75,676	$ 67,246
Investment tax credits recoverable	$ 12,862	$ 12,490
Non-current trade and other receivables	5,711	4,079
Equity accounted investees (i)	15,827	15,617
Total other non-current assets	$ 34,400	$ 32,186

(i) The Company's share of net income (loss) in its investments currently being accounted for as equity investees for the three-month period ended March 31, 2016 was $224 (March 31, 2015 – income of $690).

(b) Other liabilities

	March 31, 2016	December 31, 2015
Contingent consideration	$ 9,187	$ 10,530
Acquired contract liabilities	7,722	7,349
Other non-current liabilities	17,743	16,687
Total other non-current liabilities	$ 34,652	$ 34,566

6. CSI 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 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. As at March 31, 2016, $nil (December 31, 2015 – $nil) had been drawn from this credit facility, and letters of credit totaling $15,994 (December 31, 2015 - $17,130) 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 condensed 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 months ended March 31, 2016 relating to this line-of-credit amounted to $22. As at March 31, 2016 the carrying amount of such costs is $1,190.

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. As at March 31, 2016, €128,000 ($145,356) (December 31, 2015 - €128,000 ($139,600)) had been drawn from this credit facility. The terms of the CNH Facility require that €28,000 must be repaid in instalments between now and June 2020, and €100,000 is non-amortizing and due in June 2021. The remaining €20,000 term component of the CNH Facility is currently available and if drawn must be repaid in five equal instalments starting on June 24, 2018. As at March 31, 2016 no amounts had been drawn on the €10,000 multicurrency revolving component of the CNH Facility (December 31, 2015 - $nil). The revolving component of the CNH Facility is available for acquisitions, working capital needs, and other general corporate purposes until June 24, 2020. Transaction costs associated with the CNH Facility have been included as part of the carrying amount of the liability and are being amortized through profit or loss using the effective interest rate method. Amortized costs recognized in the three months ended March 31, 2016 relating to this facility amounted to $216 (March 31, 2015 - $220). As at March 31, 2016, the carrying amount of such costs relating to this facility totaling approximately $4,431 (€3,902) has been classified as part of the CNH Facility in the condensed consolidated interim statement of financial position (December 31, 2015 - $4,468 (€4,097)).

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

7. 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 is 7.6%. From and including March 31, 2017 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 period ended March 31, 2016, no notices for redemption of the Debentures were received or given by the Company.

8. 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 Constellation Software Netherlands Holdings Cooperatief (the “Coop”). 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 the Coop 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 Membership Agreement as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of the Coop. 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 the Coop 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 will be 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 the Coop, 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 thousands of U.S. dollars, except per share amounts and as otherwise indicated)

In the event of a change of control in Constellation, the minority owners would have the option to sell 100% of their interests in the Coop 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 the Coop, for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Upon exercise of the call option, the full purchase price will be paid within 30 business days of the notice date, following which the minority owners' membership in the Coop will be terminated.

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 the Coop will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33% of his interests in the Coop over a 3-year period. The valuation of the interests being purchased will be calculated at each reporting period. During the current year, no options were exercised.

9. Provisions

At January 1, 2016	$	9,999
Reversal		(1,222)
Provisions recorded during the period		3,456
Provisions used during the period		(4,594)
Effect of movements in foreign exchange and other		176
At March 31, 2016	$	7,815
Provisions classified as current liabilities		6,809
Provisions classified as other non-current liabilities		1,006

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

10. Income taxes

Income tax expense is recognized 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, 2016 was 39% (three months ended March 31, 2015 was 26%).

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

11. Capital and other components of equity

	Common Shares	
	Number	Amount
March 31, 2016	21,191,530	$ 99,283
December 31, 2015	21,191,530	$ 99,283

Dividends and other distributions to shareholders

During the three months ended March 31, 2016 the Board of Directors approved and the Company declared a dividend of $1.00 per common share. The dividend declared in the quarter ended March 31, 2016 representing $21,192 was paid and settled on April 5, 2016.

A dividend of $1.00 per share representing $21,192 was accrued as at December 31, 2015 and subsequently paid and settled on January 5, 2016.

12. Finance and other income and finance costs

	Three months ended March 31,	
	2016	2015
Finance and other income	(9)	(258)
Finance and other income	$ (9)	$ (258)
Interest expense on bank indebtedness and debentures	$ 6,097	$ 3,585
Amortization of debt related transaction costs	238	310
Amortization of debenture discount (premium) and associated rights offering, net	(1,002)	(40)
Other finance costs	422	428
Finance costs	$ 5,755	$ 4,283

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 notional principal amount of the outstanding floating to fixed interest rate swap contract at March 31, 2016 was €130,000. The fair value of the interest rate swap contract at March 31, 2016 was $1,053 (December 31, 2015 - $907) and recorded in accumulated other comprehensive income (loss).

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

13. Earnings per share

Basic and diluted earnings per share

		Three months ended March 31, 2016		2015
Numerator:				
Net income	$	18,671	$	32,926
Denominator:				
Basic and diluted shares outstanding		21,192		21,192
Earnings per share				
Basic and diluted	$	0.88	$	1.55

14. Financial instruments

Fair values versus carrying amounts

The carrying values of accounts receivable, accounts payable, accrued liabilities, the majority of acquisition holdbacks and bank debt, approximate their fair values due to the short-term nature of these instruments. Bank debt is subject to market interest rates. The carrying value of the TSS membership liability approximates its fair value.

The Company has capitalized transaction costs associated with the CSI Facility and CNH Facility. At March 31, 2016, the fair value of the CSI Facility is $nil and the carrying value is $nil (December 31, 2015: fair value $nil and carrying value $nil). As at March 31, 2016, the fair value of the CNH Facility is $145,356 and the carrying value is $140,925 (December 31, 2015: fair value of $139,600 and carrying value of $135,132). As at March 31, 2016, the fair value of the Debentures is $236,491 and the carrying value is $234,563 (December 31, 2015: fair value of $220,791 and carrying value of $220,043).

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.

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

Financial assets and financial liabilities measured at fair value as at March 31, 2016 and December 31, 2015 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, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities								
Contingent consideration	$ -	$ -	$ 23,196	$ 23,196	$ -	$ -	$21,494	$21,494
Interest rate swap contract	-	1,053	-	1,053	-	907	-	907
Total financial liabilities measured at fair value	**-**	**1,053**	**23,196**	**24,249**	**-**	**907**	**21,494**	**22,401**

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, 2016 and 2015.

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, 2016	21,494
Increase from business acquisitions	1,988
Cash payments	(848)
Charges through profit or loss	(117)
Foreign exchange	679
Balance at March 31, 2016	23,196
Contingent consideration classified as current liabilities	14,009
Contingent consideration classified as other non-current liabilities	9,187

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.

15. 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 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.

Historically, Corporate head office operating expenses have been allocated to the Company's segments based on the segment's percentage of total consolidated revenue for the allocation period. For the period ended March 31, 2016, Constellation has not allocated head office operating expenses to the segments on the basis that head office management fees which are charged to the operating groups and included in the "Intercompany expenses (income)" caption are intended to recover these costs. As a result, Corporate head office operating expenses have been reflected in the "Other" column. Comparatives have been restated to reflect this change.

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

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

Three months ended March 31, 2016	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 321,746	$ 165,236	$ -	$ 486,982
Expenses				
Staff	168,601	85,555	1,071	255,227
Hardware	13,624	4,572	-	18,196
Third party licenses, maintenance and professional services	24,945	19,649	-	44,594
Occupancy	7,320	4,656	65	12,041
Travel	9,695	3,951	41	13,687
Telecommunications	2,965	1,978	15	4,958
Supplies	1,530	894	8	2,432
Software and equipment	6,793	1,650	38	8,481
Professional fees	4,831	1,293	619	6,743
Other, net	2,996	4,825	210	8,031
Depreciation	3,420	1,449	4	4,873
Amortization of intangible assets	30,117	16,955	-	47,072
	276,837	147,427	2,071	426,335
Foreign exchange (gain) loss	936	3,048	15,222	19,206
TSS membership liability revaluation charge	5,180	-	-	5,180
Equity in net (income) loss of equity investees	(74)	-	(150)	(224)
Finance income	(18)	9	-	(9)
Finance costs	1,564	308	3,883	5,755
Intercompany expenses (income)	9,775	3,472	(13,247)	-
	17,363	6,837	5,708	29,908
Profit before income tax	27,546	10,972	(7,779)	30,739
Current income tax expense (recovery)	12,052	6,253	(1,551)	16,754
Deferred income tax expense (recovery)	(2,084)	(2,482)	(120)	(4,686)
Income tax expense (recovery)	9,968	3,771	(1,671)	12,068
Net income	17,578	7,201	(6,108)	18,671

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

Three months ended March 31, 2015	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 290,902	$ 131,989	$ -	$ 422,891
Expenses				
Staff	153,143	67,575	1,134	221,852
Hardware	14,319	3,466	-	17,785
Third party licenses, maintenance and professional services	23,262	15,538	-	38,800
Occupancy	6,898	3,478	205	10,581
Travel	8,277	3,510	23	11,810
Telecommunications	2,417	1,651	18	4,086
Supplies	1,949	785	11	2,745
Software and equipment	5,445	1,329	40	6,814
Professional fees	2,984	1,326	497	4,807
Other, net	2,282	3,686	316	6,284
Depreciation	2,846	1,069	11	3,926
Amortization of intangible assets	28,684	12,797	-	41,481
	252,506	116,210	2,255	370,971
Foreign exchange (gain) loss	2,270	(2,878)	(1,115)	(1,723)
TSS membership liability revaluation charge	6,030	-	-	6,030
Equity in net (income) loss of equity investees	-	-	(690)	(690)
Finance income	(222)	(36)	-	(258)
Finance costs	2,027	230	2,026	4,283
Intercompany expenses (income)	7,239	3,635	(10,874)	-
	17,344	951	(10,653)	7,642
Profit before income tax	21,052	14,828	8,398	44,278
Current income tax expense (recovery)	10,624	4,184	(912)	13,896
Deferred income tax expense (recovery)	(1,425)	1,449	(2,568)	(2,544)
Income tax expense (recovery)	9,199	5,633	(3,480)	11,352
Net income	11,853	9,195	11,878	32,926

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

16. Contingencies

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

17. Changes in non-cash operating working capital

	Three months ended March 31, 2016	Three months ended March 31, 2015
Decrease (increase) in accounts receivable	$ 3,598	$ (31,534)
Decrease (increase) in work in progress	(2,579)	(5,819)
Decrease (increase) in other current assets	(5,742)	(10,620)
Decrease (increase) in inventory	(1,126)	(402)
Decrease (increase) in non-current assets	(195)	1,177
Increase (decrease) in other non-current liabilities	(5,552)	(5,667)
Increase (decrease) in accounts payable and accrued liabilities, excluding holdbacks from acquisitions	(38,254)	(17,558)
Increase (decrease) in deferred revenue	93,582	102,732
Increase (decrease) in provisions	(1,836)	(2,370)
Change in non-cash operating working capital	$ 41,896	$ 29,939

18. Subsequent events

On April 27, 2016 the Company declared a $1.00 per share dividend that is payable on July 6, 2016 to all common shareholders of record at close of business on June 17, 2016.

Subsequent to March 31, 2016, the Company entered into agreements to acquire 100% of the shares of three entities and the net assets of another entity for aggregate cash consideration of $19,983 on closing plus cash holdbacks of $3,997, and contingent consideration with an estimated fair value of $nil for total consideration of $23,980. The contingent consideration is payable on the achievement of certain financial targets in the post-acquisition period. The business acquisitions include companies catering to the agribusiness, ombudsman, hospitality, and healthcare markets, and are all software companies similar to the existing business of the Company. Two of the businesses will be included in the Company's Public Sector segment, and two in the Private Sector segment.