Constellation Software Inc.

INTERIM FINANCIAL REPORT

Second Quarter Fiscal Year 2016

For the three and six month periods ended
June 30, 2016
(UNAUDITED)

CONSTELLATION SOFTWARE INC.

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

The following discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2016, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars. All references to "$" are to U.S. dollars and all references to "C$" are to Canadian dollars. Certain totals, subtotals and percentages may not reconcile due to rounding.

Additional information about Constellation Software Inc. (the "Company" or "Constellation"), including our most recently filed Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance as of the date of this MD&A, July 27, 2016. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as Adjusted EBITA, Adjusted EBITA margin, Adjusted net income, and Adjusted net income margin.

The term ''Adjusted EBITA'' refers to net income before adjusting for finance and other income, bargain purchase gain, finance costs, income taxes, share in net income or loss of equity investees, impairment of non-financial assets, amortization, TSS membership liability revaluation charge, and foreign exchange gain or loss. The Company believes that Adjusted EBITA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration intangible asset amortization and the other items listed above. ''Adjusted EBITA margin'' refers to the percentage that Adjusted EBITA for any period represents as a portion of total revenue for that period.

‘‘Adjusted net income’’ means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other expenses (income), and excludes the portion of the adjusted net income of Total Specific Solutions (TSS) B.V. (“TSS”) attributable to the minority owners of TSS (see “Capital Resources and Commitments” section). The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration amortization of intangible assets, deferred income taxes, the TSS membership liability revaluation charge, and certain other non-cash expenses (income) incurred or recognized by the Company from time to time, and adjusts for the portion of TSS’ Adjusted net income not attributable to shareholders of Constellation. ‘‘Adjusted net income margin’’ refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITA and Adjusted net income are not recognized measures under IFRS and, accordingly, readers are cautioned that Adjusted EBITA and Adjusted net income should not be construed as alternatives to net income determined in accordance with IFRS. The Company’s method of calculating Adjusted EBITA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITA and Adjusted net income may not be comparable to similar measures presented by other issuers. See ‘‘Results of Operations —Adjusted EBITA’’ and ‘‘— Adjusted net income’’ for a reconciliation of Adjusted EBITA and Adjusted net income to Net income. Adjusted EBITA includes 100% of the Adjusted EBITA of TSS.

Overview

We acquire, manage and build vertical market software (“VMS”) businesses. Generally, these businesses provide mission critical software solutions that address the specific needs of our customers in particular markets. Our focus on acquiring businesses with growth potential, managing them well and then building them, has allowed us to generate significant cash flows and revenue growth during the past several years.

Our revenue consists primarily of software license fees, maintenance and other recurring fees, professional service fees and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable, where applicable. Maintenance and other recurring revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from software as a service, subscriptions, combined software/support contracts, transaction-related revenues, and hosted products. Maintenance and other recurring fee arrangements generally include ongoing customer support and rights to certain product updates “when and if available” and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation and integration services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions, as well as sales of customized hardware assembled internally. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the type, mix and quantity of each vary by customer and by product.

Expenses consist primarily of staff costs, the cost of hardware, third party licenses, maintenance and professional services to fulfill our customer arrangements, travel and occupancy costs and other general operating expenses.

Results of Operations
(In millions of dollars, except percentages and per share amounts)
Unaudited

	Three months ended June 30, 2016	Three months ended June 30, 2015	Period-Over-Period Change $	Period-Over-Period Change %	Six months ended June 30, 2016	Six months ended June 30, 2015	Period-Over-Period Change $	Period-Over-Period Change %
	(Unaudited)				(Unaudited)			
Revenue	**528.7**	**443.5**	**85.2**	**19%**	**1,015.7**	**866.4**	**149.2**	**17%**
Expenses	398.2	344.5	53.7	16%	777.5	674.0	103.5	15%
Adjusted EBITA	**130.5**	**99.0**	**31.5**	**32%**	**238.2**	**192.4**	**45.8**	**24%**
Adjusted EBITA margin	25%	22%			23%	22%		
Amortization of intangible assets	42.2	43.3	(1.1)	-2%	89.3	84.8	4.5	5%
Foreign exchange (gain) loss	6.6	(0.7)	7.3	NM	25.8	(2.5)	28.3	NM
TSS membership liability revaluation charge	1.7	3.4	(1.7)	-50%	6.9	9.4	(2.5)	-27%
Share in net (income) loss of equity investees	(0.1)	(0.3)	0.2	-67%	(0.3)	(0.9)	0.6	-67%
Finance and other income	(0.3)	(0.1)	(0.2)	324%	(0.3)	(0.3)	0.0	-15%
Finance costs	5.3	4.6	0.6	13%	11.0	8.9	2.1	23%
Income before income taxes	75.0	48.7	26.3	54%	105.8	93.0	12.8	14%
Income taxes expense (recovery)								
Current income tax expense (recovery)	23.9	12.6	11.4	90%	40.7	26.5	14.2	54%
Deferred income tax expense (recovery)	(3.9)	3.5	(7.4)	NM	(8.6)	1.0	(9.5)	NM
Income tax expense (recovery)	20.0	16.1	4.0	25%	32.1	27.4	4.7	17%
Net income	**55.0**	**32.7**	**22.3**	**68%**	**73.7**	**65.6**	**8.1**	**12%**
Adjusted net income	**89.9**	**79.7**	**10.2**	**13%**	**152.5**	**154.4**	**(2.0)**	**-1%**
Adjusted net income margin	17%	18%			15%	18%		
Weighted average number of shares outstanding (000's)								
Basic and diluted	21,192	21,192			21,192	21,192		
Net income per share								
Basic and diluted	$ 2.60	$ 1.54	$ 1.05	68%	$ 3.48	$ 3.09	$ 0.38	12%
Adjusted EBITA per share								
Basic and diluted	$ 6.16	$ 4.67	$ 1.49	32%	$ 11.24	$ 9.08	$ 2.16	24%
Adjusted net income per share								
Basic and diluted	$ 4.24	$ 3.76	$ 0.48	13%	$ 7.19	$ 7.29	$ (0.09)	-1%
Cash dividends declared per share								
Basic and diluted	$ 1.00	$ 1.00	$ -	0%	$ 2.00	$ 2.00	$ -	0%

NM - Not meaningful

Comparison of the three and six month periods ended June 30, 2016 and 2015

Revenue:

Total revenue for the quarter ended June 30, 2016 was $528.7 million, an increase of 19%, or $85.2 million, compared to $443.5 million for the comparable period in 2015. For the first six months of 2016 total revenues were $1,015.7 million, an increase of 17%, or $149.2 million, compared to $866.4 million for the comparable period in 2015. The increase for both the three and six month periods compared to the same periods in the prior year is mainly attributable to growth from acquisitions as the Company experienced organic growth of 2% and 0% respectively, 3% and 1% respectively after adjusting for the impact of the appreciation of the US dollar against most major currencies in which the Company transacts business. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

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

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2016	2015	$	%	2016	2015	$	%
	($M, except percentages)				($M, except percentages)			
Licenses	35.1	33.0	2.0	6%	67.8	63.4	4.5	7%
Professional services	111.2	96.4	14.8	15%	207.6	189.1	18.5	10%
Hardware and other	39.0	32.0	7.0	22%	69.5	63.0	6.5	10%
Maintenance and other recurring	343.4	282.1	61.3	22%	670.7	550.9	119.8	22%
	528.7	443.5	85.2	19%	1,015.7	866.4	149.2	17%

$M - Millions of dollars

We aggregate our business into two distinct segments for financial reporting purposes: (i) the public sector reportable segment, which includes business units focused primarily on government and government-related customers, and (ii) the private sector reportable segment, which includes business units focused primarily on commercial customers.

The following table displays our revenue by reportable segment and the percentage change for the three and six months ended June 30, 2016 compared to the same periods in 2015:

	Three months ended June 30, 2016	2015	Period-Over-Period Change $	%	Six months ended June 30, 2016	2015	Period-Over-Period Change $	%
	($M, except percentages)				($M, except percentages)			
Public Sector								
Licenses	21.3	22.2	(0.9)	-4%	41.2	41.5	(0.3)	-1%
Professional services	87.2	79.2	8.0	10%	163.0	154.3	8.7	6%
Hardware and other	31.9	25.6	6.3	25%	55.4	50.9	4.4	9%
Maintenance and other recurring	213.2	182.6	30.7	17%	417.0	354.9	62.1	17%
	353.5	309.5	44.0	14%	676.5	601.6	74.9	12%
Private Sector								
Licenses	13.8	10.8	3.0	27%	26.6	21.8	4.8	22%
Professional services	24.1	17.2	6.8	40%	44.6	34.8	9.7	28%
Hardware and other	7.1	6.4	0.7	11%	14.2	12.1	2.0	17%
Maintenance and other recurring	130.2	99.5	30.6	31%	253.8	196.0	57.8	29%
	175.1	134.0	41.2	31%	339.1	264.8	74.3	28%

Public Sector

For the quarter ended June 30, 2016, total revenue in the public sector reportable segment increased 14%, or $44.0 million to $353.5 million, compared to $309.5 million for the quarter ended June 30, 2015. For the six months ended June 30, 2016, total revenue increased by 12%, or $74.9 million to $676.5 million, compared to $601.6 million for the comparable period in 2015. For purposes of calculating organic growth, pre-acquisition revenues included from the 26 companies acquired since the beginning of 2015 were $38 million and $76 million for the three and six month periods ended June 30, 2015, respectively. Organic revenue growth was 2% and 0% respectively for the three and six months ended June 30, 2016 compared to the same periods in 2015, and 2% and 1% respectively after adjusting for the impact of the appreciation of the US dollar against most major currencies in which the Company transacts business.

Private Sector

For the quarter ended June 30, 2016, total revenue in the private sector reportable segment increased 31%, or $41.2 million to $175.1 million, compared to $134.0 million for the quarter ended June 30, 2015. For the six months ended June 30, 2016, total revenue increased by 28%, or $74.3 million to $339.1 million, compared to $264.8 million for the comparable period in 2015. For purposes of calculating organic growth, pre-acquisition revenues included from the 21 companies acquired since the beginning of 2015 were $38 million and $72 million for the three and six month periods ended June 30, 2015, respectively. Organic revenue growth was 2% and 1% respectively for the three and six months ended June 30, 2016 compared to the same periods in 2015, and 4% and 3% respectively after adjusting for the impact of the appreciation of the US dollar against most major currencies in which the Company transacts business.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2016	2015	$	%	2016	2015	$	%
	($M, except percentages)				($M, except percentages)			
Expenses								
Staff	260.4	223.1	37.3	17%	515.6	444.9	70.7	16%
Hardware	21.9	18.4	3.4	19%	40.1	36.2	3.9	11%
Third party license, maintenance and professional services	47.0	38.4	8.6	22%	91.6	77.2	14.4	19%
Occupancy	12.5	10.3	2.2	22%	24.5	20.9	3.7	18%
Travel, Telecommunications, Supplies & Software and equipment	32.9	28.5	4.3	15%	62.4	54.0	8.4	16%
Professional fees	6.8	5.9	0.9	15%	13.5	10.7	2.8	26%
Other, net	11.7	15.6	(3.9)	-25%	19.8	21.9	(2.2)	-10%
Depreciation	5.1	4.3	0.9	20%	10.0	8.2	1.8	22%
	398.2	344.5	53.7	16%	777.5	674.0	103.5	15%

Overall expenses for the quarter ended June 30, 2016 increased 16%, or $53.7 million to $398.2 million, compared to $344.5 million during the same period in 2015. As a percentage of total revenue, expenses decreased to 75% for the quarter ended June 30, 2016 from 78% for the same period in 2015. During the six months ended June 30, 2016, expenses increased 15%, or $103.5 million to $777.5 million, compared to $674.0 million during the same period in 2015. As a percentage of total revenue, expenses decreased to 77% for the six months ended June 30, 2016 from 78% for the same period in 2015. Our average employee headcount grew 16% in 2016 from 9,676 for the quarter ended June 30, 2015 to 11,218 for the quarter ended June 30, 2016 primarily due to acquisitions. For the three and six months ended June 30, 2016 the appreciation of the US dollar against most major currencies in which the Company transacts business resulted in approximate 1% and 2% respective reductions in expenses compared to the comparable periods of 2015.

Staff expense – Staff expenses increased 17% or $37.3 million for the quarter ended June 30, 2016 and 16% or $70.7 million for the six months ended June 30, 2016 over the same periods in 2015. Staff expense can be broken down into five key operating departments: Professional Services, Maintenance, Research and Development, Sales and Marketing, and General and Administrative. Included within staff expenses for each of the above five departments are personnel and related costs associated with providing the necessary services. The table below compares the period over period variances.

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2016	2015	$	%	2016	2015	$	%
	($M, except percentages)				($M, except percentages)			
Professional services	59.8	53.1	6.6	12%	115.8	106.5	9.3	9%
Maintenance	53.6	42.2	11.4	27%	104.0	84.0	19.9	24%
Research and development	72.5	63.2	9.2	15%	145.6	125.7	19.8	16%
Sales and marketing	37.1	30.3	6.8	23%	71.6	60.9	10.7	18%
General and administrative	37.5	34.3	3.2	9%	78.7	67.7	11.0	16%
	260.4	223.1	37.3	17%	515.6	444.9	70.7	16%

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

Hardware expenses – Hardware expenses increased 19% or $3.4 million for the quarter ended June 30, 2016 and 11% or $3.9 million for the six months ended June 30, 2016 over the same periods in 2015 in conjunction with the 22% and 10% increase in hardware and other revenue for the three and six month periods ending June 30, 2016 respectively over the comparable periods in 2015. Hardware margins for the three and six months ended June 30, 2016 were 44% and 42% respectively as compared to 42% and 43% for the comparable periods in 2015.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 22% or $8.6 million for the quarter ended June 30, 2016 and 19% or $14.4 million for the six months ended June 30, 2016 over the same periods in 2015. The increase is primarily due to an increase in maintenance and other recurring revenue for the three and six months ended June 30, 2016 compared to the same periods in 2015.

Occupancy expenses – Occupancy expenses increased 22% or $2.2 million for the quarter ended June 30, 2016 and 18% or $3.7 million for the six months ended June 30, 2016 over the same periods in 2015. The increase in occupancy expenses is primarily due to the occupancy expenses of acquired businesses.

Travel, Telecommunications, Supplies & Software and equipment expenses – Travel, Telecommunications, Supplies & Software and equipment expenses increased 15% or $4.3 million for the quarter ended June 30, 2016 and 16% or $8.4 million for the six months ended June 30, 2016 over the same periods in 2015. The increase in these expenses is primarily due to expenses incurred by acquired businesses.

Professional fees – Professional fees increased 15% or $0.9 million for the quarter ended June 30, 2016 and 26% or $2.8 million for the six months ended June 30, 2016 over the same periods in 2015. The increase in professional fees is primarily the result of broker fees, due diligence services, and legal fees associated with acquisitions, and legal fees associated with the renewal of the Company's credit facility.

Other, net – Other expenses decreased 25% or $3.9 million for the quarter ended June 30, 2016 and 10% or $2.2 million for the six months ended June 30, 2016 over the same periods in 2015. The primary reason for the decrease in other expenses for the three and six months ended June 30, 2016 over the same periods in 2015, was a large contingent consideration expense recorded for the three months ended June 30, 2015 with no similar expense for the three or six months ended June 30, 2016. The 2015 expense related to expected earnout payment adjustments associated with two acquisitions made in the public sector, one in Q3 2013 and the other in Q3 2014. The expected earnout payments increased primarily as a result of an increase to the revenue forecasts for those two acquisitions. Forecasts are updated on a quarterly basis and related earnout payments are updated accordingly. The following table provides a further breakdown of expenses within this category.

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2016	2015	$	%	2016	2015	$	%
	($M, except percentages)				($M, except percentages)			
Advertising and promotion	7.3	6.1	1.2	20%	13.4	10.9	2.5	22%
Recruitment and training	3.0	2.3	0.7	30%	5.5	4.5	1.0	22%
Bad debt expense	0.8	0.6	0.1	23%	1.4	0.2	1.2	681%
R&D tax credits	(3.4)	(2.3)	(1.0)	46%	(6.0)	(4.3)	(1.7)	39%
Contingent consideration	0.1	7.8	(7.6)	-98%	(0.1)	8.2	(8.3)	NM
Other expense, net	3.8	1.1	2.7	248%	5.6	2.4	3.1	129%
	11.7	15.6	(3.9)	-25%	19.8	21.9	(2.2)	-10%

NM - Not meaningful

Offsetting the reduction in contingent consideration expense was an increase in other expenses per the table above for the three and six months ended June 30, 2016. The increase is primarily related to a legal settlement expense recorded in the three months ended June 30, 2016 with no similar expense for the three or six months ended June 30, 2015. Remaining expense increases are primarily due to expenses incurred by acquired businesses.

Depreciation – Depreciation of property and equipment increased 20% or $0.9 million for the quarter ended June 30, 2016 and 22% or $1.8 million for the six months ended June 30, 2016 over the same periods in 2015. The increase is primarily due to the depreciation expense associated with acquired businesses.

Other Income and Expenses:

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

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2016	2015	$	%	2016	2015	$	%
	($M, except percentages)				($M, except percentages)			
Amortization of intangible assets	42.2	43.3	(1.1)	-2%	89.3	84.8	4.5	5%
Foreign exchange (gain) loss	6.6	(0.7)	7.3	NM	25.8	(2.5)	28.3	NM
TSS membership liability revaluation charge	1.7	3.4	(1.7)	-50%	6.9	9.4	(2.5)	-27%
Share in net (income) loss of equity investees	(0.1)	(0.3)	0.2	-67%	(0.3)	(0.9)	0.6	-67%
Finance and other expense (income)	(0.3)	(0.1)	(0.2)	324%	(0.3)	(0.3)	0.0	-15%
Finance costs	5.3	4.6	0.6	13%	11.0	8.9	2.1	23%
Income tax expense (recovery)	20.0	16.1	4.0	25%	32.1	27.4	4.7	17%
	75.5	66.3	9.1	14%	164.5	126.8	37.7	30%

NM - Not meaningful

Amortization of intangible assets – Amortization of intangible assets decreased 2% or $1.1 million for the quarter ended June 30, 2016 and increased 5% or $4.5 million for the six months ended June 30, 2016 over the same periods in 2015. The decrease in amortization expense for the three months ended June 30, 2016 is primarily attributable to the appreciation of the US dollar against most major currencies in which the Company transacts business. The increase in amortization expense for the six months ended June 30, 2016 is primarily attributable to an increase in the carrying amount of our intangible asset balance over the twelve month period ended June 30, 2016 as a result of acquisitions completed during this period.

Foreign exchange – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the three and six months ended June 30, 2016, we realized foreign exchange losses of $6.6 million and $25.8 million respectively compared to gains of $0.7 million and $2.5 million for the same periods in 2015. The following table provides a breakdown of these amounts.

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2016	2015	$	%	2016	2015	$	%
	($M, except percentages)				($M, except percentages)			
Unrealized foreign exchange (gain) loss related to:								
- revaluation of intercompany loans between entities with differing functional currencies (1)	7.1	(3.8)	10.9	NM	8.4	0.6	7.8	1298%
- revaulation of the Company's unsecured subordinated floating rate debentures as a result of the appreciation (depreciation) of the Canadian dollar against the US dollar.	0.2	1.7	(1.5)	-89%	15.5	(4.6)	20.1	NM
Remaining foreign exchange (gain) loss	(0.7)	1.4	(2.1)	NM	1.9	1.6	0.4	24%
	6.6	(0.7)	7.3	NM	25.8	(2.5)	28.3	NM

NM - Not meaningful

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

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

TSS membership liability revaluation charge – The valuation of the TSS membership liability that was put in place in Q4 2014 increased by approximately 3% or $1.7 million for the quarter ended June 30, 2016 primarily as a result of the growth in TSS maintenance revenue. The valuation for the six months ended June 30, 2016 increased by approximately 13% or $6.9 million primarily as a result of an increase in the net tangible assets of TSS and the growth in maintenance revenue over the six month period. The valuation increases are slightly less than the $3.4 million and $9.4 million valuation increases recorded in the three and six months ended June 30, 2015. The liability recorded on the balance sheet increased by 14% or $7.8 million over the six month period as a result of a foreign exchange loss that was recorded through other comprehensive income. The TSS membership liability is denominated in Euros and the Euro appreciated 2% versus the US dollar during the first six months of 2016.

Share in net (income) loss of equity investees – Share in the net (income) loss of equity investees was income of $0.1 million and income of $0.3 million for the three and six month periods ended June 30, 2016 respectively, compared to income of $0.3 million and income of $0.9 million for the same periods in 2015 in line with the increased profitability of equity investees.

Finance and other expense (income) – Finance and other expense (income) for both the three and six months ended June 30, 2016 was $0.3 million of income compared to $0.1 million and $0.3 million of income for the same periods in 2015. There are no individually material reasons contributing to these variances.

Finance costs – Finance costs for the quarter ended June 30, 2016 increased $0.6 million to $5.3 million, compared to $4.6 million for the same period in 2015. During the six months ended June 30, 2016, finance costs increased $2.1 million to $11.0 million, from $8.9 million over the same period in 2015. The increase in finance costs primarily relates to interest paid on the Company's unsecured subordinated floating rate debentures. The principal amount outstanding during the six months ended June 30, 2015 was C$96.0 million, versus C$282.2 million during the six months ended June 30, 2016. The interest expense recorded on the debentures issued in October 2015 is reduced by the amortization of the 15% premium that was received when issued. The premium is being amortized over five years from the date of issuance.

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our effective tax rate on a consolidated basis is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses and other credits. For the quarter ended June 30, 2016, income tax expense increased $4.0 million to $20.0 million compared to $16.1 million for the same period in 2015. During the six months ended June 30, 2016, income tax expense increased $4.7 million to $32.1 million compared to $27.4 million for the same period in 2015. During the three months ended June 30, 2016 the company expensed $6.2 million relating to withholding tax due on an annual intercompany dividend between US and Canadian domiciled entities. Current tax expense as a percentage of adjusted net income before tax was 21% for both the three and six months ended June 30, 2016 versus 14% and 15% for the same periods in 2015. Excluding the impact of the $6.6 million and $25.8 million unrealized foreign exchange losses for the three and six months ended June 30, 2016, which are not deductible for tax, the rate would have been 20% and 19% for the respective periods in 2016. This rate, which has historically approximated our cash tax rate, ranged between 10% and 12% annually from 2011 to 2013. The quarterly rate can sometimes fall outside of the annual range due to out of period adjustments. As a result of the depletion of tax credits available to certain of our Canadian entities and a proportionately higher level of profitability in the US, the rate has gradually increased since 2013 and was 16% and 15% for the fiscal years ended December 31, 2014 and 2015 respectively. Current tax expense reflects gross taxes before the application of R&D tax credits. The deferred income tax expense decrease of $7.4 million and $9.5 million for the three and six months ended June 30, 2016 respectively, relates to various items including changes in recognition of certain deferred income tax assets.

Net Income and Earnings per Share:

Net income for the quarter ended June 30, 2016 was $55.0 million compared to net income of $32.7 million for the same period in 2015. On a per share basis this translated into a net income per diluted share of $2.60 in the quarter ended June 30, 2016 compared to net income per diluted share of $1.54 for the same period in 2015. For the six months ended June 30, 2016, net income was $73.7 million or $3.48 per diluted share compared to $65.6 million or $3.09 per diluted share for the same period in 2015.

There were no changes in the number of shares outstanding.

Adjusted EBITA:

For the quarter ended June 30, 2016, Adjusted EBITA increased to $130.5 million compared to $99.0 million for the same period in 2015 representing an increase of 32%. Adjusted EBITA margin was 25% for the quarter ended June 30, 2016 and 22% for the same period in 2015. For the first six months of 2016, Adjusted EBITA increased to $238.2 million compared to $192.4 million during the same period in 2015, representing an increase of 24%. Adjusted EBITA margin was 23% in the first six months of 2016 and 22% for the same period in 2015. See “Non-IFRS Measures” for a description of Adjusted EBITA and Adjusted EBITA margin.

The following table reconciles Adjusted EBITA to net income:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	($M, except percentages)		($M, except percentages)	
Total revenue	528.7	443.5	1,015.7	866.4
Net income	55.0	32.7	73.7	65.6
Adjusted for:				
Income tax expense (recovery)	20.0	16.1	32.1	27.4
Foreign exchange (gain) loss	6.6	(0.7)	25.8	(2.5)
TSS membership liability revaluation charge	1.7	3.4	6.9	9.4
Share in net (income) loss of equity investees	(0.1)	(0.3)	(0.3)	(0.9)
Finance and other income	(0.3)	(0.1)	(0.3)	(0.3)
Finance costs	5.3	4.6	11.0	8.9
Amortization of intangible assets	42.2	43.3	89.3	84.8
Adjusted EBITA	130.5	99.0	238.2	192.4
Adjusted EBITA margin	25%	22%	23%	22%

Adjusted net income:

For the quarter ended June 30, 2016, Adjusted net income increased to $89.9 million from $79.7 million for the same period in 2015, representing an increase of 13%. Adjusted net income margin was 17% for the quarter ended June 30, 2016 and 18% for the same period in 2015. For the first six months of 2016, Adjusted net income decreased to $152.5 million from $154.4 million during the same period in 2015, representing an decrease of 1%. Adjusted net income margin was 15% in the first six months of 2016 and 18% for the same period in 2015. Excluding the impact of the $6.6 million and $25.8 million unrealized foreign exchange loss recorded in the three and six months ended June 30, 2016 the margins would have been 18% for both the respective periods in 2016. See “Non-IFRS Measures” for a description of Adjusted net income and Adjusted net income margin.

Non-controlling interest in the Adjusted net income of TSS - As explained in the “Capital Resources and Commitments” section below, in Q4 2014 33.29% of the voting interests in TSS were sold, however no adjustment has been made in the Company’s Unaudited Condensed Consolidated Interim Financial Statements to reflect the 33.29% of earnings that are not attributable to Constellation shareholders. Instead, due to an option available to the minority owners to exercise a put option to sell all or a portion of their interests back to Constellation, the minority interest is accounted for as a liability on the Company’s balance sheet. The liability is revalued at each period end in accordance with an agreed upon valuation methodology with the change being included in net income. The non-controlling interest in the Adjusted net income of TSS for the three and six months ended June 30, 2016 was $5.1 million and $8.8 million respectively, as compared to $3.1 million and $6.3 million for the same periods in 2015.

The following table reconciles Adjusted net income to Net income:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	($M, except percentages)		($M, except percentages)	
Total revenue	528.7	443.5	1,015.7	866.4
Net income	55.0	32.7	73.7	65.6
Adjusted for:				
Amortization of intangible assets	42.2	43.3	89.3	84.8
TSS membership liability revaluation charge	1.7	3.4	6.9	9.4
Less non-controlling interest in the Adjusted net income of TSS	(5.1)	(3.1)	(8.8)	(6.3)
Deferred income tax expense (recovery)	(3.9)	3.5	(8.6)	1.0
				-
Adjusted net income	89.9	79.7	152.5	154.4
Adjusted net income margin	17%	18%	15%	18%

Quarterly Results

	Quarter Ended								
	Jun. 30 2014	Sep. 30 2014	Dec. 31 2014	Mar. 31 2015	Jun. 30 2015	Sep. 30 2015	Dec. 31 2015	Mar. 31 2016	Jun. 30 2016
	($M, except per share amounts)								
Revenue	415.9	418.8	439.8	422.9	443.5	460.4	511.6	487.0	528.7
Net income	23.0	31.9	39.3	32.9	32.7	45.7	66.0	18.7	55.0
Adjusted net income	65.0	69.3	86.6	74.7	79.7	98.9	117.7	62.5	89.9
Net income per share									
Basic & diluted	1.08	1.51	1.86	1.55	1.54	2.16	3.11	0.88	2.60
Adjusted net income per share									
Basic & diluted	3.07	3.27	4.09	3.52	3.76	4.67	5.55	2.95	4.24

We experience seasonality in our operating results in that Adjusted net income margins in the first quarter of every year are typically lower than margins achieved in the second, third and fourth quarters. The key drivers for the lower margins are increased payroll tax costs associated with our annual bonus payments that are made in the month of March, and the fact that historically there has been a consistent focus at year end to complete sales implementation projects which generally translates into increased professional services revenue in the fourth quarter and decreased professional services revenue in the first quarter. Our quarterly results may also fluctuate as a result of the various acquisitions which may be completed by the Company in any given quarter. We may experience variations in our net income on a quarterly basis depending upon the timing of certain expenses or gains, which may include changes in provisions, acquired contract liabilities, bargain purchase gains and gains or losses on the sale of financial and other assets.

Liquidity

Our net cash position (cash less bank indebtedness excluding capitalized transaction costs) increased by \$66.4 million to \$105.3 million in the quarter ended June 30, 2016 resulting from cash flows from operations exceeding capital deployed on acquisitions. A repayment of €4 million was made in Q2 2016 on our Euro denominated credit facility however the impact of foreign exchange on this facility resulted in a net decrease in the fair value of \$1.9 million to \$137.7 million at June 30, 2016 compared to \$139.6 million at December 31, 2015. In addition, cash increased by \$64.5 million to \$243.0 million at June 30, 2016 compared to \$178.5 million at December 31, 2015.

Total assets increased \$118.1 million, from \$1,639.3 million at December 31, 2015 to \$1,757.5 million at June 30, 2016. The increase is primarily due to an increase in cash of \$64.5 million, and an increase in intangible assets of \$25.7 primarily relating to acquisitions made since December 31, 2015. At June 30, 2016 TSS held a cash balance of \$36.5 million. As explained in the "Capital Resources and Commitments" section below, there are limitations on TSS' ability to distribute funds to Constellation.

Current liabilities increased \$71.2 million, from \$769.8 million at December 31, 2015 to \$841.0 million at June 30, 2016. The increase is primarily due to an increase in deferred revenue of \$72.4 million mainly due to acquisitions made since December 31, 2015 and the timing of maintenance and other billings versus performance and delivery under those customer arrangements, an increase in income taxes payable of \$22.5 million, offset by a \$31.3 million decrease in accounts payable and accrued liabilities mainly due to a decrease in accrued bonus payments.

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

	Six months ended June 30, 2016	Six months ended June 30, 2015
Net cash provided by operating activities	219.3	176.8
Net cash from (used in) financing activities	(59.9)	39.6
Net cash from (used in) acquisition activities	(72.9)	(145.3)
Net cash from (used in) other investing activities	(22.2)	(5.5)
Net cash from (used in) investing activities	(95.2)	(150.8)
Effect of foreign currency	0.3	(4.3)
Net increase (decrease) in cash and cash equivalents	**64.5**	**61.3**

The net cash flows from operating activities were \$219.3 million for the six months ended June 30, 2016. The \$219.3 million provided by operating activities resulted from \$73.7 million in net income plus \$174.5 million of non-cash adjustments to net income offset by \$11.2 million of cash used in non-cash operating working capital and \$17.6 million in taxes paid.

The net cash flows used in financing activities in the six months ended June 30, 2016 were \$59.9 million, which is a result of dividends paid in the period of \$42.4 million, interest paid of \$11.8 million on bank indebtedness and the Company's unsecured subordinated floating rate debentures, a \$4.5 million principal repayment on the CNH Facility (as defined below) and \$1.2 million in transaction costs associated with the renewal of the Company's credit facility.

The net cash flows used in investing activities in the six months ended June 30, 2016 were $95.2 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $72.9 million (including payments for holdbacks relating to prior acquisitions) and the purchase of available-for-sale equity securities in the amount of $12.7 million.

We believe we have sufficient cash and available credit capacity to continue to operate for the foreseeable future. Generally our VMS businesses operate with negative working capital as a result of the collection of maintenance payments and other revenues in advance of the performance of the related services. As such, management anticipates that it can continue to grow the business organically without any additional funding. If we continue to acquire VMS businesses we may need additional external funding depending upon the size and timing of the potential acquisitions.

Capital Resources and Commitments

Bank Indebtedness

On February 25, 2016, we completed an amendment and restatement of our revolving credit facility agreement (the "CSI Facility"), extending its maturity date to August 11, 2020. The CSI Facility limit was increased from $300 million to $485 million with a syndicate of new and existing Canadian chartered banks and U.S. banks. The CSI Facility bears a variable interest rate with no fixed repayments required over the term to maturity. Interest rates are calculated at standard U.S. and Canadian reference rates plus interest rate spreads based on a leverage table. The CSI Facility is currently collateralized by the majority of our assets including the assets of certain material subsidiaries. The CSI Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. The CSI Facility is available for acquisitions, distributions, working capital needs, and other general corporate purposes and for the needs of our subsidiaries. As at June 30, 2016, no amounts were drawn on the CSI Facility, and letters of credit totalling $16.2 million were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Transaction costs associated with this CSI Facility are being amortized through profit or loss using the effective interest rate method. As at June 30, 2016, the carrying amount of such costs totalling $1.1 million has been classified as part of other non-current assets in the statement of financial position.

On 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 million (approximately $167 million) term and €10 million (approximately $11 million) multicurrency revolving credit facility (the "CNH Facility") with a number of European and North American financial institutions. The CNH Facility bears interest at a rate calculated at EURIBOR plus interest rate spreads based on a leverage table. The CNH Facility is collateralized by substantially all of the assets owned by CNH and its subsidiaries which includes substantially all of the assets of TSS and its subsidiaries. The CNH Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. At June 30, 2016, €124 million (approximately $138 million) remains outstanding on the term component of the CNH Facility. €24 million must be repaid in instalments prior to June 24, 2020, and €100 million is non-amortizing and due on June 24, 2021. The remaining €20 million term component of the CNH Facility remains undrawn. If drawn, principal must be repaid in five equal instalments starting on June 24, 2018. As at June 30, 2016 no amounts had been drawn on the €10 million multicurrency revolving component of the CNH Facility. The revolving component of the CNH Facility is available for acquisitions, working capital needs, and other general corporate purposes until 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. As at June 30, 2016, the carrying amount of such costs relating to this CNH Facility totalling $4.1 million (€3.7 million) has been classified as part of non-current CNH Facility in the statement of financial position.

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

Debentures

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

On September 30, 3015, the Company issued an additional tranche of Debentures with a total principal value of C$186.2 million for total proceeds of C$214.2 million. The proceeds were used by the Company to pay down $130.4 million of outstanding bank indebtedness. The September 30, 2015 issuance formed a single series with the outstanding C$96.0 million aggregate principal amount of Debentures, Series 1 of the Company. The Debentures have a maturity date of March 31, 2040.

TSS Membership Liability

On December 23, 2014, in accordance with the terms of the purchase and sale agreement for the TSS acquisition, and on the basis of the term sheets attached thereto, Constellation and the sellers of TSS along with members of TSS' executive management team (collectively, the "minority owners") entered into a Members Agreement pursuant to which the minority owners acquired 33.29% of the voting interests in CNH. Proceeds from this transaction in the amount of €39.4 million ($48.5 million) were utilized to repay, in part, outstanding bank indebtedness of Constellation. In accordance with IFRS, 100% of the financial results for TSS are included in the consolidated financial results of the Company.

Each of the minority owners may, at any time, exercise a put option to sell all or a portion of their interests in CNH back to Constellation for an amount calculated in accordance with a valuation methodology described within the Members Agreement. Accordingly, the Company classified the proceeds from the Members Agreement as a liability. The main valuation driver in such calculation is the maintenance and other recurring revenue of CNH. Upon the exercise of a put option, Constellation would be obligated to redeem up to 33.33% of the minority owners' interests put, no later than 30 business days from the date notice is received (classified as a current liability), and up to 33.33% on each of the first and second anniversary of the date the first redemption payment is made.

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

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

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

If any of TSS' executive management team that participate in the Members Agreement are terminated for urgent cause as defined in Section 7:678 of the Dutch Civil Code, Constellation shall have the right to purchase all of the interests beneficially owned by the terminated executive for an amount calculated in accordance with the valuation methodology described within the Members Agreement. The full purchase price will be paid within 30 business days from the date notice is given, following which the terminated executive's membership in the Coop will be terminated. An option does exist for the terminated executive to elect to be paid in annual installments of 33.33% of his interests in CNH over a 3 year period. The valuation of the interests being purchased will be calculated at each annual payment date.

Other commitments

Commitments include operating leases for office equipment and facilities, letters of credit and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with contingent consideration based on the future performance of the acquired business. The fair value of contingent consideration recorded in our statement of financial position was $21.9 million at June 30, 2016. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in non-consolidated entities that would have a significant effect on our assets and liabilities as at June 30, 2016.

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

Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact will impact future revenue and net earnings. Our analysis related to the change in average exchange rates from 2015 to 2016 suggests that the impact to Adjusted EBITA margins for both the three and six months ended June 30, 2016 was less than 1%. The impact to organic revenue growth for both the three and six months ended June 30, 2016 was approximately negative 1%. We cannot predict the effect of foreign exchange gains or losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, revenues, results of operations, and financial condition. The Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of financial liabilities. In entering into these forward exchange contracts, the Company is exposed to the credit risk of the counterparties to such contracts and the possibility that the counterparties will default on their payment obligations under these contracts. However, given that the counterparties are Schedule 1 banks or affiliates thereof, the Company believes these risks are not material. During the six months ended June 30, 2016, the Company did not purchase any contracts of this nature.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue and expenses, as applicable, for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	57%	52%	59%	52%
CAD	7%	12%	6%	12%
GBP	8%	8%	8%	9%
EURO	19%	19%	18%	18%
CHF	1%	2%	1%	2%
Others	7%	7%	7%	7%
Total	100%	100%	100%	100%

Off-Balance Sheet Arrangements

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

Proposed Transactions

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

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended June 30, 2016, and have not been applied in preparing our consolidated financial statements. The relevant standards are listed below.

IFRS 9 Financial Instruments

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

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

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

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

The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018 with early adoption permitted. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

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

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

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

Share Capital

As at July 27, 2016, there were 21,191,530 common shares outstanding.

Risks and Uncertainties

The Company's business is subject to a number of risk factors which are described in our most recently filed AIF. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At June 30, 2016, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

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

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

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

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

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

CONSTELLATION SOFTWARE INC.

For the three and six months ended June 30, 2016 and 2015

CONSTELLATION SOFTWARE INC.

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

(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash	$ 242,974	$ 178,471
Equity securities available-for-sale (note 5)	13,028	-
Accounts receivable, net	235,216	226,771
Work in progress	63,399	59,483
Inventories	24,261	24,332
Other assets (note 6)	73,607	67,246
	652,485	556,303
Non-current assets:		
Property and equipment	46,902	42,072
Deferred income taxes	43,289	56,650
Other assets (note 6)	37,006	32,186
Intangible assets	977,776	952,109
	1,104,973	1,083,017
Total assets	$ 1,757,458	$ 1,639,320
Liabilities and Shareholders' Equity		
Current liabilities:		
CSI Facility (note 7)	$ -	$ -
CNH Facility (note 7)	8,328	8,725
TSS membership liability (note 9)	22,435	19,602
Accounts payable and accrued liabilities	243,714	274,981
Dividends payable (note 12)	21,081	21,326
Deferred revenue	493,427	421,027
Provisions (note 10)	6,089	8,420
Acquisition holdback payments	16,872	9,116
Income taxes payable	29,031	6,561
	840,977	769,758
Non-current liabilities:		
CNH Facility (note 7)	125,243	126,407
TSS Membership Liability (note 9)	39,466	34,482
Debentures (note 8)	233,923	220,043
Deferred income taxes	108,048	109,795
Acquisition holdback payments	1,415	6,987
Other liabilities (note 6)	36,511	34,566
	544,606	532,280
Total liabilities	1,385,583	1,302,038
Shareholders' equity (note 12):		
Capital stock	99,283	99,283
Accumulated other comprehensive income (loss)	(31,008)	(34,319)
Retained earnings	303,600	272,318
	371,875	337,282
Subsequent events (notes 12 and 19)		
Total liabilities and shareholders' equity	$ 1,757,458	$ 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 and six months ended June 30, 2016 and 2015
(Unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue				
License	$ 35,053	$ 33,026	$ 67,825	$ 63,351
Professional services	111,230	96,410	207,592	189,116
Hardware and other	38,995	31,994	69,515	63,042
Maintenance and other recurring	343,390	282,080	670,718	550,892
	528,668	443,510	1,015,650	866,401
Expenses				
Staff	260,375	223,086	515,602	444,938
Hardware	21,869	18,430	40,065	36,215
Third party license, maintenance and professional services	46,990	38,412	91,584	77,212
Occupancy	12,502	10,277	24,543	20,858
Travel	15,634	13,839	29,321	25,649
Telecommunications	5,864	4,305	10,822	8,391
Supplies	2,255	2,156	4,687	4,901
Software and equipment	9,109	8,226	17,590	15,040
Professional fees	6,751	5,885	13,494	10,692
Other, net	11,735	15,644	19,766	21,928
Depreciation	5,109	4,250	9,982	8,176
Amortization of intangible assets	42,239	43,312	89,311	84,793
	440,432	387,822	866,767	758,793
Foreign exchange loss (gain)	6,598	(743)	25,804	(2,466)
TSS membership liability revaluation charge (note 9)	1,687	3,378	6,867	9,408
Share in net (income) loss of equity investee (note 6)	(83)	(250)	(307)	(940)
Finance and other expense (income) (note 13)	(263)	(62)	(272)	(320)
Finance costs (note 13)	5,266	4,643	11,021	8,926
	13,205	6,966	43,113	14,608
Income before income taxes	75,031	48,722	105,770	93,000
Current income tax expense (recovery)	23,917	12,566	40,671	26,462
Deferred income tax expense (recovery)	(3,881)	3,502	(8,567)	958
Income tax expense (recovery) (note 11)	20,036	16,068	32,104	27,420
Net income	54,995	32,654	73,666	65,580
Earnings per share				
Basic and diluted (note 14)	$ 2.60	$ 1.54	$ 3.48	$ 3.09

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 six months ended June 30, 2016 and 2015
(Unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income	$ 54,995	$ 32,654	$ 73,666	$ 65,580
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	334	-	334	-
Net change in fair value of derivatives designated as hedges during the period	84	215	(23)	(15)
Foreign currency translation differences from foreign operations	(692)	1,073	3,037	(10,856)
Deferred income tax recovery (expense)	(65)	(64)	(37)	6
Other comprehensive (loss) income for the period, net of income tax	(339)	1,224	3,311	(10,865)
Total comprehensive income for the period	$ 54,656	$ 33,878	$ 76,977	$ 54,715

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)
Six months ended June 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 designated 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	-	-	-	-	-	73,666	73,666
Other comprehensive income (loss)							
Net change in fair value of available-for-sale financial asset during the period	-	-	334	-	334	-	334
Net change in fair value of derivatives designated as hedges during the period	-	-	-	(23)	(23)	-	(23)
Foreign currency translation differences from foreign operations	-	3,037	-	-	3,037	-	3,037
Deferred tax recovery (expense)	-	-	(44)	7	(37)	-	(37)
Total other comprehensive income (loss) for the period	**-**	**3,037**	**290**	**(16)**	**3,311**	**-**	**3,311**
Total comprehensive income (loss) for the period	**-**	**3,037**	**290**	**(16)**	**3,311**	**73,666**	**76,977**
Transactions with owners, recorded directly in equity							
Dividends to shareholders of the Company (note 12)	-	-	-	-	-	(42,384)	(42,384)
Balance at June 30, 2016	**$ 99,283**	**$ (30,577)**	**$ 290**	**$ (721)**	**$ (31,008)**	**$ 303,600**	**$ 371,875**

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)
Six months ended June 30, 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 available-for-sale financial assets	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	-	-	-	-	-	65,580	65,580
Other comprehensive income (loss)							
Net change in fair value of available-for-sale financial asset during the period	-	-	-	-	-	-	-
Net change in fair value of derivatives designated as hedges during the period	-	-	-	(15)	(15)	-	(15)
Foreign currency translation differences from foreign operations	-	(10,856)	-	-	(10,856)	-	(10,856)
Deferred tax recovery (expense)	-	-		6	6	-	6
Total other comprehensive income for the period	**-**	**(10,856)**	**-**	**(9)**	**(10,865)**	**-**	**(10,865)**
Total comprehensive income for the period	**-**	**(10,856)**	**-**	**(9)**	**(10,865)**	**65,580**	**54,715**
Transactions with owners, recorded directly in equity Dividends to shareholders of the Company (note 12)	-	-		-	-	(42,384)	(42,384)
Balance at June 30, 2015	**$ 99,283**	**$ (29,736)**	**$ -**	**$ (419)**	**$ (30,155)**	**$ 203,034**	**$ 272,162**

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 six months ended June 30, 2016 and 2015
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cash flows from operating activities:				
Net income	$ 54,995	$ 32,654	$ 73,666	$ 65,580
Adjustments for:				
Depreciation	5,109	4,250	9,982	8,176
Amortization of intangible assets	42,239	43,312	89,311	84,793
TSS membership liability revaluation charge	1,687	3,378	6,867	9,408
Share in net (income) loss of equity investee	(83)	(250)	(307)	(940)
Finance and other income	(263)	(62)	(272)	(320)
Finance costs	5,266	4,643	11,021	8,926
Income tax expense (recovery)	20,036	16,068	32,104	27,420
Foreign exchange loss (gain)	6,598	(743)	25,804	(2,466)
Change in non-cash operating working capital exclusive of effects of business combinations (note 18)	(53,144)	(21,450)	(11,248)	8,489
Income taxes paid	(9,553)	(17,632)	(17,598)	(32,250)
Net cash flows from operating activities	72,887	64,168	219,330	176,816
Cash flows from (used in) financing activities:				
Interest paid	(5,743)	(3,838)	(11,848)	(7,429)
Increase (decrease) in revolving credit facility, net	-	85,891	-	89,391
Repayments of CNH facility	(4,495)	-	(4,495)	-
Credit facility transaction costs	-	-	(1,212)	-
Dividends paid	(21,192)	(21,192)	(42,384)	(42,384)
Net cash flows from (used in) in financing activities	(31,430)	60,861	(59,939)	39,578
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired (note 4)	(42,870)	(109,168)	(66,698)	(129,679)
Post-acquisition settlement payments, net of receipts	(4,688)	(13,955)	(6,233)	(15,636)
Purchases of available-for-sale equity securities	(12,694)	-	(12,694)	-
Interest and dividends received	145	2	150	43
Property and equipment purchased	(6,517)	(3,406)	(9,687)	(5,544)
Net cash flows from (used in) investing activities	(66,624)	(126,527)	(95,162)	(150,816)
Effect of foreign currency on cash and cash equivalents	(2,955)	1,687	274	(4,251)
Increase (decrease) in cash and cash equivalents	(28,122)	189	64,503	61,327
Cash, beginning of period	271,096	131,817	178,471	70,679
Cash, end of period	$ 242,974	$ 132,006	$ 242,974	$ 132,006

See accompanying notes to the condensed consolidated interim financial statements.

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 six months ended June 30, 2016 and 2015
(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 June 30, 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	Research management
Retail management and distribution	Public housing authorities	

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	Education	Wholesale distribution
Retail management and distribution	Healthcare electronic medical records	Homebuilders
Radiology & 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 & 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		

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

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

In January 2016, the IASB issued the final publication of the IFRS 16 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

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

As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The Company is assessing the impact of this standard on its consolidated financial statements.

4. Business acquisitions

(a) During the six-month period ended June 30, 2016, the Company completed sixteen acquisitions for aggregate cash consideration of $81,060 plus cash holdbacks of $6,631 and contingent consideration with an estimated fair value of $2,024 resulting in total consideration of $89,715. 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 June 30, 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. 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 $7,367. Aggregate contingent consideration of $21,915 (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. An expense of $128 and income of $118 has been recorded for the three and six months ended June 30, 2016, as a result of such changes (an expense of $7,762 and $8,193 for the three and six months ended June 30, 2015).

There were no acquisitions during the period that were deemed to be individually significant. Of the sixteen acquisitions, the Company acquired 100% of the shares of twelve businesses and acquired the net assets of the other four 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 six-month period ended June 30, 2016 include software companies catering to the following markets; notaries, mining, pharmacies, electric utility, ombudsman, healthcare, aerospace, local government, communications, research management, agribusiness, 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. Eleven of the acquisitions have been included in the Public reportable segment and five 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 $14,030; however the Company has recorded an allowance of $429 as part of the acquisition accounting to reflect contractual cash flows that are not expected to be collected.

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

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 two 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 $169,284.

The aggregate impact of acquisition accounting applied in connection with business acquisitions in the six-month period ended June 30, 2016 is as follows:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	$ 12,028	$ 2,334	$ 14,362
Accounts receivable	10,956	2,645	13,601
Other current assets	9,620	1,203	10,823
Property and equipment	4,268	850	5,118
Other non-current assets	77	253	330
Technology assets	53,542	23,320	76,862
Customer assets	21,178	6,625	27,803
	111,669	37,230	148,899
Liabilities assumed:			
Current liabilities	14,351	2,563	16,914
Deferred revenue	22,899	7,041	29,940
Deferred income taxes	18,750	667	19,417
Other non-current liabilities	1,286	354	1,640
	57,286	10,625	67,911
Goodwill	6,593	2,134	8,727
Total consideration	**$ 60,976**	**$ 28,739**	**$ 89,715**

(b) The 2016 business acquisitions did not have a material impact to either the consolidated revenue or the consolidated net income for the six months ended June 30, 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. Equity securities available-for-sale

During the period ended June 30, 2016, the Company acquired 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 has been recorded in Accumulated Other Comprehensive Income.

	June 30, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value
Common shares	$ 12,694	$ 13,028	$ -	$ -

6. Other assets and other non-current liabilities

(a) Other assets

	June 30, 2016	December 31, 2015
Prepaid and other current assets	$ 52,138	$ 47,196
Investment tax credits recoverable	13,051	11,479
Sales tax receivable	3,401	2,835
Other receivables	5,017	5,736
Total other current assets	$ 73,607	$ 67,246
Investment tax credits recoverable	$ 14,496	$ 12,490
Non-current trade and other receivables	7,057	4,079
Equity accounted investees (i)	15,453	15,617
Total other non-current assets	$ 37,006	$ 32,186

(i) The Company's share of net income (loss) in its investments currently being accounted for as equity investees for the three and six-month period ended June 30, 2016 was $83 and $307 respectively (June 30, 2015 – income of $250 and $940 respectively).

(b) Other non-current liabilities

	June 30, 2016	December 31, 2015
Contingent consideration	$ 9,034	$ 10,530
Acquired contract liabilities	10,187	7,349
Other non-current liabilities	17,290	16,687
Total other non-current liabilities	$ 36,511	$ 34,566

7. 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 June 30, 2016, $nil (December 31, 2015 – $nil) had been drawn from this credit facility, and letters of credit totaling $16,170 (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 and six months ended June 30, 2016 relating to this line-of-credit amounted to $67 and $89 respectively. As at June 30, 2016 the carrying amount of such costs is $1,123.

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 June 30, 2016, €124,000 ($137,686) (December 31, 2015 - €128,000 ($139,600)) had been drawn from this credit facility. The terms of the CNH Facility require that €24,000 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 June 30, 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 and six months ended June 30, 2016 relating to this facility amounted to $218 and $434 respectively (three and six months ended June 30, 2015 - $219 and $430 respectively). As at June 30, 2016, the carrying amount of such costs relating to this facility totaling approximately $4,115 (€3,706) 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.

8. 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 June 30, 2016, no notices for redemption of the Debentures were received or given by the Company.

9. 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 Members 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 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 period, no options were exercised.

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

10. Provisions

At January 1, 2016	$	9,999
Reversal		(1,181)
Provisions recorded during the period		2,967
Provisions used during the period		(4,896)
Effect of movements in foreign exchange and other		123
At June 30, 2016	$	7,012
Provisions classified as current liabilities		6,089
Provisions classified as other non-current liabilities		923

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

11. Income taxes

Income tax expense is recognized based on management's best estimate of the actual income tax rate for the interim period applied to the pre-tax income of the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and ongoing changes due to intercompany transactions amongst entities operating in different jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined on a consolidated basis. The Company's consolidated effective tax rate in respect of continuing operations for the three and six months ended June 30, 2016 was 27% and 30% respectively (three and six months ended June 30, 2015 was 33% and 29% respectively).

12. Capital and other components of equity

	Common Shares		
	Number		Amount
June 30, 2016	21,191,530	$	99,283
December 31, 2015	21,191,530	$	99,283

Dividends and other distributions to shareholders

During the six months ended June 30, 2016 the Board of Directors approved and the Company declared dividends of $2.00 per common share. The dividend declared in the quarter ended March 31, 2016 representing $21,192 was paid and settled on April 5, 2016. The dividend declared in the quarter ended June 30, 2016 representing $21,192 was paid and settled on July 6, 2016.

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

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.

13. Finance and other income and finance costs

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Interest income on cash	$ (71)	-	$ (155)	-
Finance and other income	(192)	(62)	(117)	(320)
Finance and other income	$ (263)	$ (62)	$ (272)	$ (320)
Interest expense on bank indebtedness and debentures	$ 5,713	$ 3,908	$ 11,810	$ 7,493
Amortization of debt related transaction costs	288	378	526	688
Amortization of debenture discount (premium) and associated rights offering, net	(1,035)	(40)	(2,037)	(80)
Other finance costs	300	397	722	825
Finance costs	$ 5,266	$ 4,643	$ 11,021	$ 8,926

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 June 30, 2016 was €124,000. The fair value of the interest rate swap contract at June 30, 2016 was $945 (December 31, 2015 - $907) and recorded in accumulated other comprehensive income (loss).

14. Earnings per share

Basic and diluted earnings per share

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Numerator:				
Net income	$ 54,995	$ 32,654	$ 73,666	$ 65,580
Denominator:				
Basic and diluted shares outstanding	21,192	21,192	21,192	21,192
Earnings per share				
Basic and diluted	$ 2.60	$ 1.54	$ 3.48	$ 3.09

15. Financial instruments

Fair values versus carrying amounts

The carrying values of cash, equity securities available-for-sale, accounts receivable, accounts payable, accrued liabilities, dividends 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 TSS Membership Liability approximates its fair value.

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

The Company has capitalized transaction costs associated with the CSI Facility and CNH Facility. At June 30, 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 June 30, 2016, the fair value of the CNH Facility is $137,686 and the carrying value is $133,571 (December 31, 2015: fair value of $139,600 and carrying value of $135,132). As at June 30, 2016, the fair value of the Debentures is $242,881 and the carrying value is $233,923 (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.

Financial assets and financial liabilities measured at fair value as at June 30, 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.

	June 30, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Available-for-sale equity securities	$13,028	$ -	$ -	$ 13,028	$ -	$ -	$ -	$ -
	13,028	**-**	**-**	**13,028**	**-**	**-**	**-**	**-**
Liabilities:								
Contingent consideration	$ -	$ -	$ 21,915	$ 21,915	$ -	$ -	$21,494	$21,494
Interest rate swap contract	-	945	-	945	-	907	-	907
	-	**945**	**21,915**	**22,860**	**-**	**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 June 30, 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.

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

Balance at January 1, 2016	21,494
Increase from business acquisitions	2,024
Cash payments	(1,713)
Charges through profit or loss	(450)
Foreign exchange	560
Balance at June 30, 2016	21,915
Contingent consideration classified as current liabilities	12,881
Contingent consideration classified as other non-current liabilities	9,034

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.

16. 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. To the extent there have been transfers of business units between our Public and Private segments, we have restated the comparatives for these transfers.

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 June 30, 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.

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

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

Three months ended June 30, 2016	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 353,533	$ 175,135	$ -	$ 528,668
Expenses				
Staff	172,989	86,248	1,138	260,375
Hardware	17,638	4,231	-	21,869
Third party licenses, maintenance and professional services	26,660	20,330	-	46,990
Occupancy	7,680	4,738	84	12,502
Travel	11,332	4,257	45	15,634
Telecommunications	3,674	2,177	13	5,864
Supplies	1,501	745	9	2,255
Software and equipment	7,241	1,832	36	9,109
Professional fees	4,694	1,298	759	6,751
Other, net	5,339	5,503	893	11,735
Depreciation	3,655	1,454	-	5,109
Amortization of intangible assets	27,797	14,442	-	42,239
	290,200	147,255	2,977	440,432
Foreign exchange (gain) loss	(129)	(589)	7,316	6,598
TSS membership liability revaluation charge	1,687	-	-	1,687
Equity in net (income) loss of equity investees	(83)	-	-	(83)
Finance income	(80)	(46)	(137)	(263)
Finance costs	1,564	169	3,533	5,266
Inter-company expenses (income)	10,072	3,482	(13,554)	-
	13,031	3,016	(2,842)	13,205
Profit before income tax	50,302	24,864	(135)	75,031
Current income tax expense (recovery)	11,556	6,856	5,505	23,917
Deferred income tax expense (recovery)	(209)	944	(4,616)	(3,881)
Income tax expense (recovery)	11,347	7,800	889	20,036
Net income	38,955	17,064	(1,024)	54,995

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

Six months ended June 30, 2016	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 676,538	$ 339,112	$ -	$ 1,015,650
Expenses				
Staff	342,275	171,118	2,209	515,602
Hardware	31,302	8,763	-	40,065
Third party licenses, maintenance and professional services	51,622	39,962	-	91,584
Occupancy	15,022	9,372	149	24,543
Travel	21,046	8,189	86	29,321
Telecommunications	6,671	4,123	28	10,822
Supplies	3,032	1,638	17	4,687
Software and equipment	14,047	3,469	74	17,590
Professional fees	9,527	2,589	1,378	13,494
Other, net	8,316	10,347	1,103	19,766
Depreciation	7,076	2,902	4	9,982
Amortization of intangible assets	58,772	30,539	-	89,311
	568,708	293,011	5,048	866,767
Foreign exchange (gain) loss	807	2,459	22,538	25,804
TSS membership liability revaluation charge	6,867	-	-	6,867
Equity in net (income) loss of equity investees	(157)	-	(150)	(307)
Finance income	(98)	(37)	(137)	(272)
Finance costs	3,128	477	7,416	11,021
Intercompany expenses (income)	19,850	6,951	(26,801)	-
	30,397	9,850	2,866	43,113
Profit before income tax	77,433	36,251	(7,914)	105,770
Current income tax expense (recovery)	23,767	12,950	3,954	40,671
Deferred income tax expense (recovery)	(2,664)	(1,167)	(4,736)	(8,567)
Income tax expense (recovery)	21,103	11,783	(782)	32,104
Net income	56,330	24,468	(7,132)	73,666

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

Three months ended June 30, 2015	Public Sector	Private Sector	Other	Consolidated Total
Revenue	$ 309,536	$ 133,974	$ -	$ 443,510
Expenses				
Staff	154,791	67,199	1,096	223,086
Hardware	14,652	3,778	-	18,430
Third party licenses, maintenance and professional services	22,739	15,673	-	38,412
Occupancy	6,850	3,400	27	10,277
Travel	10,071	3,711	57	13,839
Telecommunications	2,670	1,624	11	4,305
Supplies	1,370	759	27	2,156
Software and equipment	6,585	1,370	271	8,226
Professional fees	3,495	1,157	1,233	5,885
Other, net	12,304	3,027	313	15,644
Depreciation	3,170	1,080	-	4,250
Amortization of intangible assets	31,032	12,280	-	43,312
	269,729	115,058	3,035	387,822
Foreign exchange (gain) loss	(346)	1,782	(2,179)	(743)
TSS membership liability revaluation charge	3,378	-	-	3,378
Equity in net (income) loss of equity investees	-	-	(250)	(250)
Finance income	(103)	41	-	(62)
Finance costs	2,177	177	2,289	4,643
Inter-company expenses (income)	8,413	3,943	(12,356)	-
	13,519	5,943	(12,496)	6,966
Profit before income tax	26,288	12,973	9,461	48,722
Current income tax expense (recovery)	8,768	4,999	(1,201)	12,566
Deferred income tax expense (recovery)	1,616	(28)	1,914	3,502
Income tax expense (recovery)	10,384	4,971	713	16,068
Net income	15,904	8,002	8,748	32,654

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

Six months ended June 30, 2015	Public Sector	Private Sector	Other	Consolidated Total
Revenue	601,630	264,771	-	$ 866,401
Expenses				
Staff	308,528	134,180	2,230	444,938
Hardware	28,971	7,244	-	36,215
Third party licenses, maintenance and professional services	46,042	31,170	-	77,212
Occupancy	13,769	6,857	232	20,858
Travel	18,378	7,191	80	25,649
Telecommunications	5,091	3,271	29	8,391
Supplies	3,319	1,544	38	4,901
Software and equipment	12,052	2,677	311	15,040
Professional fees	6,487	2,475	1,730	10,692
Other, net	14,618	6,681	629	21,928
Depreciation	6,017	2,148	11	8,176
Amortization of intangible assets	59,868	24,925	-	84,793
	523,140	230,363	5,290	758,793
Foreign exchange (gain) loss	1,924	(1,096)	(3,294)	(2,466)
TSS membership liability revaluation charge	9,408	-	-	9,408
Equity in net (income) loss of equity investees	-	-	(940)	(940)
Finance income	(325)	5	-	(320)
Finance costs	4,204	407	4,315	8,926
Intercompany expenses (income)	15,659	7,571	(23,230)	-
	30,870	6,887	(23,149)	14,608
Profit before income tax	47,620	27,521	17,859	93,000
Current income tax expense (recovery)	19,548	9,027	(2,113)	26,462
Deferred income tax expense (recovery)	131	1,481	(654)	958
Income tax expense (recovery)	19,679	10,508	(2,767)	27,420
Net income	27,941	17,013	20,626	65,580

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

17. 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.

18. Changes in non-cash operating working capital

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Decrease (increase) in accounts receivable	$ 867	$ 45,854	$ 4,465	$ 14,320
Decrease (increase) in work in progress	(317)	(469)	(2,896)	(6,288)
Decrease (increase) in other current assets	6,878	2,000	1,136	(8,620)
Decrease (increase) in inventory	1,695	(2,234)	569	(2,636)
Decrease (increase) in non-current assets	(2,384)	354	(2,579)	1,531
Increase (decrease) in other non-current liabilities	2,153	7,505	(3,399)	1,838
Increase (decrease) in accounts payable and accrued liabilities, excluding holdbacks from acquisitions	(6,358)	(9,418)	(44,612)	(26,976)
Increase (decrease) in deferred revenue	(54,885)	(62,133)	38,697	40,599
Increase (decrease) in provisions	(793)	(2,909)	(2,629)	(5,279)
Change in non-cash operating working capital	$ (53,144)	$ (21,450)	$ (11,248)	$ 8,489

19. Subsequent events

On July 27, 2016 the Company declared a $1.00 per share dividend that is payable on October 5, 2016 to all common shareholders of record at close of business on September 16, 2016.

Subsequent to June 30, 2016, the Company entered into agreements to acquire 100% of the shares of four entities and the net assets of another two entities.