

**First Quarter | 2016**



**Enghouse Systems**

Software engineered for results

March 9, 2016

To our Shareholders,

First quarter revenue increased by 18.0% to \$74.4 million, compared to revenue of \$63.0 million in the first quarter of the prior year. Increased revenue in the quarter reflects incremental revenue from acquisitions and the favourable impact of foreign exchange. Income from operating activities was \$17.8 million compared to \$15.6 million in prior year's first quarter, an increase of 14.6%. Net income for the quarter was \$8.5 million or \$0.31 per diluted share compared to \$2.5 million or \$0.09 per diluted share in the prior year's first quarter, which reflected the final settlement of a litigation matter. Adjusted EBITDA for the first quarter was \$19.1 million or \$0.70 per diluted share compared to \$16.2 million or \$0.60 per diluted share last year, an increase of 17.8%.

Operating expenses before special charges related to restructuring of acquired operations were \$32.4 million compared to \$27.6 million in the prior year's first quarter and reflect incremental operating costs related to acquisitions and the negative impact of foreign exchange. Non-cash amortization charges in the quarter were \$6.8 million compared to \$5.4 million in the prior year's first quarter and include amortization charges for acquired software and customer relationships from acquired operations. Operating expenses in the quarter also include \$11.4 million, or 15.3% of revenue in research and development related expenses compared to \$9.9 million or 15.7% in prior year's first quarter. The Company's continued investment in research and development was recently recognized with two product awards from industry analysts.

Enghouse closed the quarter with \$80.0 million in cash, cash equivalents and short-term investments, compared to \$98.4 million at October 31, 2015. The cash balance was achieved after payment of \$26.0 million (net of cash acquired) for CTI Group (Holdings) Inc., acquired on December 7, 2015 and cash dividends of \$3.2 million. The Company continues to have no long-term debt.

The Board of Directors also approved a 17% increase in its eligible quarterly dividend to \$0.14 per common share, payable on May 31, 2016 to shareholders of record at the close of business on May 17, 2016. Enghouse has now increased its dividend in each of the past eight years.

On March 4, 2016, Enghouse announced the acquisition of CellVision AS ("CellVision"). CellVision expands the Asset Management Group's footprint in the Nordic region and extends its product offerings aimed at the telecommunications service provider market. Enghouse continues to seek acquisitions that will augment its operations in the networks, transportation and call center markets and further diversify its revenue stream.



Stephen J. Sadler  
Chairman of the Board and Chief Executive Officer

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis ("MD&A") has been prepared as of March 9, 2016 and all information contained herein is current as of that date unless otherwise indicated. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with Enghouse Systems Limited's ("Enghouse Systems") and its subsidiaries (together "the Company" or "Enghouse") fiscal 2015 audited consolidated financial statements and the notes thereto. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse Systems and its subsidiaries, all wholly owned, for the first quarter ended January 31, 2016. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, stated in thousands, except per share amounts and as otherwise indicated.

This document is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The consolidated financial statements and the MD&A have been reviewed by the Company's Audit Committee and approved by its Board of Directors.

**Non-GAAP Measures**

The Company uses non-GAAP measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company uses Adjusted EBITDA as a measure of operating performance. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Adjusted EBITDA is calculated as results from operating activities adjusted for depreciation of property, plant and equipment, and special charges for acquisition related restructuring costs. Management uses Adjusted EBITDA to evaluate operating performance as it excludes amortization of software and intangibles (which is an accounting allocation of the cost of software and intangible assets arising on acquisition), any impact of finance and tax related activities, asset depreciation, other income and restructuring costs primarily related to acquisitions.

**Forward-looking Statements**

Certain statements made or incorporated by reference in this MD&A are forward-looking and relate to, among other things, anticipated financial performance, business prospects, strategies, regulatory developments, new services, market forces, commitments and technological developments. By its nature, such forward-looking information is subject to various risks and uncertainties, including those discussed in this MD&A or in documents incorporated by reference in this MD&A, such as Enghouse's Annual Information Form, which could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed herein. Readers are cautioned not to place undue reliance on this forward-looking information, and the Company shall have no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

For additional information with respect to certain of these risks or factors, reference should be made to section "Risks and Uncertainties" of the MD&A and notes to the consolidated financial statements for the year ended October 31, 2015, as well as to the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, copies of which are filed electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

**Corporate Overview**

Enghouse is a Canadian publicly traded company (TSX:ESL) that develops enterprise software solutions for a number of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, dialers, agent performance optimization and analytics that support any telephony environment, deployed on-premise or in the cloud. Its customers include insurance companies, banks and utilities as well as high technology, health care and hospitality companies. The Asset Management Group provides a portfolio of products to telecom service providers, utilities and the oil and gas industry. Its products include Operations Support Systems (OSS), Business Support Systems (BSS), Mobile Value Added Services (VAS) solutions as well as data conversion services. The Asset Management Group also provides fleet routing, dispatch, scheduling, communications and emergency control center solutions for the transportation, first responders, distribution and security sectors.

The Company’s strategy remains focused on building a consistently profitable enterprise software company with a diversified product suite and global market presence. The Company emphasizes the importance of recurring revenue streams to increase shareholder value and the predictability of its operating results. This objective is achieved through a combination of organic growth and acquisitions. While the Company continues to develop and enhance its existing product portfolio, it is also important to augment and expedite this strategy with new and complementary technology, products and services obtained through acquisition. This dual-faceted approach will enable the Company to provide a broader spectrum of products and services to its customer base more quickly than through organic means alone.

**Quarterly Results of Operations**

The following table sets forth certain unaudited information for each of the eight most recent quarters (the last of which ended January 31, 2016). Historically, the Company’s operating results have fluctuated on a quarterly basis, which the Company expects will continue in the future. Fluctuations in results continue to relate to the timing of software license and hardware sales, which may result in large sales orders in any one quarter, movements in foreign currency exchange rates and to the timing of acquisitions, staffing and infrastructure changes. See “Risks and Uncertainties” for more details.

<b>For the three months ending</b>	<b>Total revenue</b>	<b>Net income</b>	<b>Earnings per share – basic</b>	<b>Earnings per share – diluted</b>	<b>Cash and short-term investments</b>	<b>Total assets</b>
	\$	\$	\$	\$	\$	\$
January 31, 2016	74,370	8,461	0.32	0.31	80,008	409,866
October 31, 2015	76,329	13,229 <sup>^</sup>	0.50	0.49	98,437	376,015
July 31, 2015	71,264	8,094	0.31	0.30	91,288	369,917
April 30, 2015	68,701	7,568	0.29	0.28	88,541	352,914
January 31, 2015	63,019	2,539 <sup>*</sup>	0.10 <sup>*</sup>	0.09 <sup>*</sup>	101,847	354,628
October 31, 2014	62,056	9,739 <sup>^</sup>	0.37	0.36	84,864	327,771
July 31, 2014	55,488	7,215	0.28	0.27	104,958	313,069
April 30, 2014	54,951	6,558	0.25	0.24	101,014	312,124

<sup>^</sup>Includes credit adjustment to tax provision of \$2.5 million in fiscal 2015 and \$3.3 million in fiscal 2014 on the recognition of deferred tax assets related to non-capital losses

<sup>\*</sup>Net of adjustment to the provision related to the finalization of contract litigation matters in the amount of \$5.0 million after tax.

# ENGHOUSE SYSTEMS LIMITED

## **Results of Operations:**

(in thousands of Canadian dollars except per share amounts)

	Q1/2016	Q1/2015	Year over year change	
			\$	%
Interactive Management Group	\$ 48,612	\$ 43,752	4,860	11.1
Asset Management Group	25,758	19,267	6,491	33.7
<b>Total revenue</b>	<b>74,370</b>	<b>63,019</b>	<b>11,351</b>	<b>18.0</b>
Direct costs	23,752	19,794	3,958	20.0
Revenue, net of direct costs	<b>50,618</b>	<b>43,225</b>	<b>7,393</b>	<b>17.1</b>
Operating expenses	32,368	27,626	4,742	17.2
Special charges	407	24	383	1,595.8
Results from operating activities	<b>17,843</b>	<b>15,575</b>	<b>2,268</b>	<b>14.6</b>
Amortization of acquired software and customer relationships	(6,840)	(5,354)	(1,486)	(27.8)
Litigation settlements	-	(8,774)	8,774	100.0
Finance income	33	113	(80)	(70.8)
Finance expense	(81)	(117)	36	30.8
Other income	33	17	16	94.1
Income before income taxes	10,988	1,460	9,528	652.6
Provision for (recovery of) for income taxes	2,527	(1,079)	3,606	334.2
<b>Net Income</b>	<b>\$ 8,461</b>	<b>\$ 2,539</b>	<b>5,922</b>	<b>233.2</b>
Earnings per share – basic	\$ 0.32	\$ 0.10	0.22	220.0
Earnings per share – diluted	\$ 0.31	\$ 0.09	0.22	244.4
Cash flow from operating activities	<b>\$ 6,907</b>	<b>\$ 17,642</b>	<b>(10,735)</b>	<b>(60.8)</b>
Cash flow from operating activities excluding changes in working capital	<b>\$ 19,027</b>	<b>\$ 7,811</b>	<b>11,216</b>	<b>143.6</b>

## **Adjusted EBITDA:**

The table below reconciles Adjusted EBITDA to the most directly comparable IFRS measure, results from operating activities:

	Three Months ended	
	January 31, 2016	January 31, 2015
<b>Total Revenue</b>	<b>\$ 74,370</b>	<b>\$ 63,019</b>
<b>Results from operating activities</b>	<b>17,843</b>	<b>15,575</b>
Depreciation of property, plant and equipment	826	592
Special charges	407	24
<b>Adjusted EBITDA</b>	<b>\$ 19,076</b>	<b>\$ 16,191</b>
<b>Adjusted EBITDA margin</b>	<b>25.7%</b>	<b>25.7%</b>
<b>Adjusted EBITDA per diluted share</b>	<b>\$ 0.70</b>	<b>\$ 0.60</b>

**Revenue**

Total revenue for the quarter was \$74.4 million compared to \$63.0 million in the prior year's first quarter, an 18.0% increase over the prior year. Hosted services and maintenance revenue was \$37.8 million compared to \$32.3 million in the prior year's first quarter, an increase of 17.2%. This includes maintenance revenue of \$31.8 million compared to \$27.4 million in the prior year's first quarter and reflects incremental maintenance revenue from license sales in the past fiscal year as well as contributions from acquired operations. Hosted services revenue was up at \$6.0 million in the quarter compared to \$4.9 million last year. License revenue was \$20.8 million compared to \$19.6 million in the prior year's first quarter as a result of incremental subscription revenue booked as well as contributions from acquisitions.

The Interactive Management Group contributed \$48.6 million in revenue in the quarter, compared to \$43.8 million reported in the first quarter of fiscal 2015. The increase is primarily attributable to incremental contributions from acquisitions completed in fiscal 2015 and reflects the incremental revenue contributions of the Interactive Management operations of CTI Group (Holdings) Inc ("CTI") acquired on December 7, 2015. The Asset Management Group contributed revenue of \$25.8 million in the quarter, compared to \$19.3 million reported in the first quarter of fiscal 2015 and reflects incremental revenue contributions of CTI's SmartRecord and Analysis operations. The increase is also attributable to incremental revenue contributions from acquisitions completed in the prior fiscal year as well as incremental services revenue from the Group's telecom billing and workflow operations.

Both revenue and costs were impacted by the stronger U.S. dollar which compared to its Canadian counterpart averaged \$1.37 in the current quarter versus \$1.11 in the prior year's first quarter. The Pound Sterling also positively impacted revenue, averaging \$2.04 in the current quarter compared to \$1.80 in the prior year's first quarter. The positive impact on revenue was further impact by the weaker Canadian dollar against both the Euro, which averaged \$1.49 in the quarter versus \$1.41 prior first year's quarter and the Swedish Kronor which averaged \$0.16 in the current quarter vs. \$0.15 in the prior year's first quarter.

**Direct costs**

Direct costs for the quarter were \$23.8 million or 31.9% of revenue compared to \$19.8 million or 31.4% of revenue in the prior year's first quarter consistent with increased costs associated with providing incremental hosted services revenue. Direct costs for services include costs for both hosted and maintenance services as well as professional services.

On a segment basis, direct costs in the quarter for the Interactive Management Group were \$12.4 million or 25.6% of revenue compared to \$11.3 million or 25.8% of revenue in the prior year's first quarter. Direct costs for the Asset Management Group were \$11.4 million or 44.2% of revenue compared to \$8.5 million or 44.1% of revenue in the prior year's first quarter. The higher direct costs in the Asset Management segment reflect higher proportional contributions from lower margin professional and hosted services and hardware revenue.

**Revenue, net of direct costs**

Revenue net of direct costs increased by \$7.4 million to \$50.6 million or 68.1% of revenue compared to \$43.2 million or 68.6% of revenue in the prior year's first quarter. The increase in revenue, net of direct costs is primarily attributable to incremental contributions from acquisitions. The decrease in margins is primarily attributable to increased costs associated with hosted services.

**Operating Expenses**

Operating expenses for the quarter were \$32.8 million, compared to \$27.6 million reported in the first quarter of last year, an 18.5% increase. The increase in costs reflects incremental operating costs related to newly acquired operations and the impact of the weaker Canadian dollar against major currencies which increased operating costs in Canadian dollars. Selling, general and administrative costs include foreign exchange gains of \$2.6 million recorded in the quarter compared to gains of \$1.9 million last year which mitigated the increase in costs. Last year's operating expenses also included \$0.1 million in special charges related to acquisitions compared to \$0.4 million in the first quarter of this year. Excluding special charges,

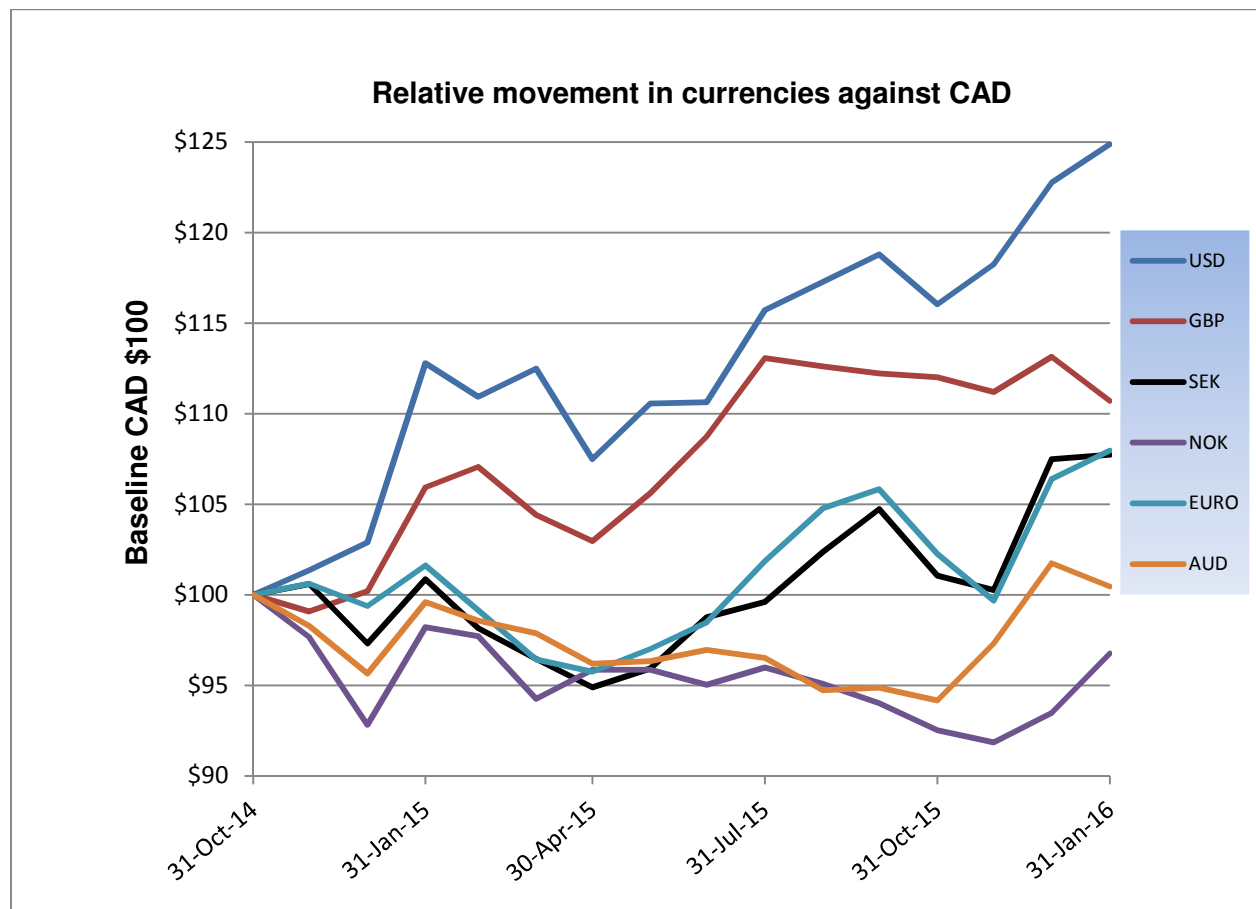
operating expenses were 43.5% of revenue in the current quarter compared to 43.8% in prior year's first quarter as a result of headcount reductions undertaken during the latter part of 2015.

The Company continues to invest in R&D for future growth. R&D expenses were \$11.4 million or 15.3% as a percentage of revenue in the quarter compared to \$9.9 million or 15.7% in the prior year. Research and development expenses are net of government grants and investment tax credits of \$0.3 million earned in the current quarter primarily in New Zealand and Norway compared to \$0.1 million recorded in prior year's first quarter.

Non-cash charges for amortization of acquired software and customer relationships related to acquisitions were \$6.8 million, up from the prior year's first quarter expense of \$5.4 million as a result of incremental charges related to the CDRator, Reitek, Aktavara and CTI acquisitions, which were partially offset by expiring amortization charges from previous acquisitions.

**Foreign Exchange**

The Company earns a significant portion of revenue from sales denominated in currencies other than the Canadian dollar. As a result of acquisitions in the Scandinavian region and Europe, a larger proportion of revenue is derived from operations outside of the U.S. and is denominated in currencies other than the U.S. dollar. As a result, the Company transacts a significant proportion of its business in pounds sterling, Swedish, Norwegian and Danish kronor and euros, as well as currencies in the Asia Pacific region.



Exchange rate source: Bank of Canada Currency Rates

During the past quarter, the Canadian dollar sharply weakened against the U.S. dollar, Euro, pound sterling and Swedish Krona in particular which impacted the foreign exchange translation on Enghouse's operating results. As the Company's reporting currency is the Canadian dollar, overall this has positively impacted revenue reported in Canadian dollars while negatively impacting operating costs, and partially acts as a natural hedge. Revenue was positively impacted by an estimated \$5.8 million, while costs increased by an estimated \$4.3 million, as calculated by applying the change in the average exchange rates from Q1/15 to

Q1/16 to the Company's foreign currency denominated revenue and operating expenses in the first quarter of fiscal 2016.

The Company does not hedge foreign currency exposure but funds its U.S. dollar operating expenses with U.S. dollar revenue in order to mitigate exposure. A similar natural hedge exists for the Company's U.K., European and Scandinavian operations. Going forward, fluctuations in exchange rates among the Canadian dollar, the U.S. dollar, the pound sterling, the Swedish krona, the euro and other currencies may have a material but mitigating effect on the Company's foreign currency denominated revenue and expenses stated in Canadian dollars. This will also impact the relative cost of foreign currency denominated acquisitions stated in Canadian dollars.

The Company recorded foreign exchange gains of \$2.6 million related to foreign currency denominated monetary assets and liabilities in the current year's first quarter compared to gains of \$1.9 million in the prior year's first quarter. The gain was recorded primarily as a result of the impact of the late quarter surge in the U.S. dollar against the Canadian dollar on the Company's U.S. dollar denominated monetary assets held primarily in Canada and the U.K. The Company records foreign exchange gains and losses in selling, general and administrative expenses in the condensed consolidated interim statements of operations. Translation gains or losses incurred upon consolidation of the Company's foreign operation's balance sheets into Canadian dollars are included in the Company's accumulated other comprehensive income (loss) account on the condensed consolidated interim statements of financial position.

**Finance and Other Income**

During the quarter, the Company recognized finance and other income of \$0.1 million compared to \$0.1 million in the first quarter of fiscal 2015 which includes a nominal gain on the sale of equities in current year's first quarter.

**Income Tax Expense**

During the quarter, the Company recorded a tax expense of \$2.5 million as compared to a tax recovery of \$1.1 million in the prior year's first quarter. The prior year first quarter's tax recovery was a result of litigation settlements booked in higher income tax rate jurisdictions. The Company paid \$1.5 million in tax installments in the quarter, compared to \$2.0 million in the first quarter of fiscal 2015.

**Net Income**

Net income was \$8.5 million or \$0.31 per share on a diluted basis in the quarter compared to \$2.5 million or \$0.09 per share respectively in the first quarter of fiscal 2015. A litigation provision adjustment of \$5.0 million, net of tax, was booked in the first quarter of 2015 which also impacted working capital.

**Liquidity and Capital Resources:**

The Company closed the quarter with cash reserves of \$80.0 million, compared to the October 31, 2015 balance of \$98.4 million. The Company continues to have no long-term debt and has sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend strategy. During the quarter the Company generated cash flow from operating activities of \$6.9 million compared to \$17.6 million in the first quarter of 2015.

The Company had 26,811,462 Common Shares issued and outstanding as at March 9, 2016. During the first quarter, 224,200 stock options were exercised contributing \$2.5 million in cash to the Company. In comparison, 38,500 options were exercised in the prior year's first quarter adding \$0.3 million. The Company did not grant any options in either of the current or prior year's first quarters. Enghouse did not repurchase any shares of its common stock in either first quarter under its Normal Course Issuer Bid.

**Off-Balance Sheet Arrangements**

The Company has not entered into off-balance sheet financing arrangements. Except for operating leases and other low probability and/or immeasurable contingent liabilities (not accrued in accordance with IFRS), all material commitments are reflected on the Company's Statement of financial position.



**Transactions with Related Parties**

The Company has not entered into any transactions with related parties during the year, other than transactions between wholly owned subsidiaries and the Company in the normal course of business, which are eliminated on consolidation.

**Risks and Uncertainties**

The primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations remain substantially unchanged from those discussed in the Company's latest Annual Information Form and its Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2015, contained in the Company's 2015 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

**Controls and Procedures**

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Vice President Finance that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

**Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed under the supervision of the CEO and Vice President Finance, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by the Company is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2015, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the CEO and Vice President Finance. Based on this evaluation, the CEO and the Vice President Finance concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered the Company's disclosure policy, a sub-certification process and the functioning of the Company's Disclosure Committee.

**Internal Controls over Financial Reporting**

The Company's CEO and Vice President Finance are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS.

At October 31, 2015, an evaluation was carried out of the effectiveness of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation, the Company's CEO and Vice President Finance have concluded that, as at October 31, 2015, the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission", and the requirements of NI 52-109. The control framework used by the CEO and the CFO to design the Company's internal control over financial reporting is the "Internal Control – Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

There were no changes to the Company's internal control over financial reporting during the quarter ended January 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Additional Information**

Additional information relating to the Company including our most recently completed Annual Information Form ("AIF") is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.enghouse.com](http://www.enghouse.com).

**Notice of No Auditor Review of Interim Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three months ended January 31, 2016 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

**Condensed Consolidated Interim Statements of Financial Position**

(in thousands of Canadian dollars)

(Unaudited)

	January 31, 2016	October 31, 2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 74,314	\$ 94,131
Short-term investments	5,694	4,306
Accounts receivable, net	73,674	60,765
Prepaid expenses and other assets	10,387	8,330
	<b>164,069</b>	<b>167,532</b>
<b>Non-current assets:</b>		
Property, plant and equipment	6,247	5,039
Intangible assets (Note 4)	85,608	68,976
Goodwill (Note 4)	143,997	123,868
Deferred income tax assets	9,945	10,600
	<b>164,069</b>	<b>167,532</b>
<b>Total assets</b>	<b>\$ 409,866</b>	<b>\$ 376,015</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 50,985	\$ 51,284
Income taxes payable	2,146	2,680
Dividends payable	3,217	3,190
Provisions (Note 5)	4,398	3,335
Deferred revenue	59,586	48,694
	<b>120,332</b>	<b>109,183</b>
<b>Non-current liabilities:</b>		
Deferred income tax liabilities	25,227	20,022
Deferred revenue	4,223	3,458
	<b>120,332</b>	<b>109,183</b>
<b>Total liabilities</b>	<b>149,782</b>	<b>132,663</b>
<b>Shareholders' Equity</b>		
Share capital (Note 6)	67,286	64,203
Contributed surplus	3,768	4,029
Retained earnings	160,110	154,866
Accumulated other comprehensive income	28,920	20,254
<b>Total shareholders' equity</b>	<b>260,084</b>	<b>243,352</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 409,866</b>	<b>\$ 376,015</b>
Commitments and contingencies (Note 12)		

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Operations and Comprehensive Income

(in thousands of Canadian dollars, except per share amounts)  
(Unaudited)

	Three months ended January 31,	
	2016	2015
<b>Revenue</b>		
Software licenses	\$ 20,770	\$ 19,612
Hosted and maintenance services	37,806	32,259
Professional services	14,435	8,921
Hardware	1,359	2,227
	<b>74,370</b>	<b>63,019</b>
<b>Direct costs</b>		
Software licenses	1,157	1,677
Services	21,790	16,784
Hardware	805	1,333
	<b>23,752</b>	<b>19,794</b>
<b>Revenue, net of direct costs</b>	<b>50,618</b>	<b>43,225</b>
<b>Operating expenses</b>		
Selling, general and administrative	20,141	17,144
Research and development	11,401	9,890
Depreciation of property, plant and equipment	826	592
Special charges (Note 5)	407	24
	<b>32,775</b>	<b>27,650</b>
<b>Results from operating activities</b>	<b>17,843</b>	<b>15,575</b>
Amortization of acquired software and customer relationships	(6,840)	(5,354)
Litigation settlements (Note 12)	-	(8,774)
Finance income	33	113
Finance expenses	(81)	(117)
Other income	33	17
	<b>10,988</b>	<b>1,460</b>
<b>Income before income taxes</b>	<b>10,988</b>	<b>1,460</b>
<b>Provision for (recovery of) income taxes (Note 8)</b>	<b>2,527</b>	<b>(1,079)</b>
<b>Net income for the period</b>	<b>\$ 8,461</b>	<b>\$ 2,539</b>
<u>Items that are or may be reclassified subsequently to profit or loss:</u>		
Foreign currency translation gain from foreign operations	8,799	9,406
Transfer to net income of realized gains on available for sale investments	(14)	-
Unrealized (loss) gain on available for sale investments	(139)	188
Deferred income tax recovery (expense)	20	(25)
	<b>8,666</b>	<b>9,569</b>
<b>Other comprehensive income</b>	<b>8,666</b>	<b>9,569</b>
<b>Comprehensive income</b>	<b>\$ 17,127</b>	<b>\$ 12,108</b>
<b>Earnings per share</b>		
Basic	\$ 0.32	\$ 0.10
Diluted	\$ 0.31	\$ 0.09

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Changes in Equity

(in thousands of Canadian dollars)

(Unaudited)

	Share Capital -number	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	Total \$
<b>Balance – November 1, 2015</b>	<b>26,587,262</b>	<b>64,203</b>	<b>4,029</b>	<b>20,254</b>	<b>154,866</b>	<b>243,352</b>
Net income	-	-	-	-	8,461	8,461
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	8,799	-	8,799
Transfer to net income of realized gains on available for- sale investments	-	-	-	(14)	-	(14)
Unrealized loss on available-for-sale investments	-	-	-	(139)	-	(139)
Deferred income tax recovery	-	-	-	20	-	20
<b>Comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,666</b>	<b>8,461</b>	<b>17,127</b>
Employee share options:						
Value of services recognized	-	-	325	-	-	325
Proceeds on issuing shares	224,200	3,083	(586)	-	-	2,497
Dividends	-	-	-	-	(3,217)	(3,217)
<b>Balance – January 31, 2016</b>	<b>26,811,462</b>	<b>67,286</b>	<b>3,768</b>	<b>28,920</b>	<b>160,110</b>	<b>260,084</b>
<b>Balance – November 1, 2014</b>	<b>26,163,962</b>	<b>59,746</b>	<b>3,782</b>	<b>9,173</b>	<b>135,554</b>	<b>208,255</b>
Net income	-	-	-	-	2,539	2,539
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	9,406	-	9,406
Unrealized gain on available-for-sale investments	-	-	-	188	-	188
Deferred income tax expense	-	-	-	(25)	-	(25)
<b>Comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,569</b>	<b>2,539</b>	<b>12,108</b>
Employee share options:						
Value of services recognized	-	-	305	-	-	305
Proceeds on issuing shares	38,500	335	(70)	-	-	265
Dividends	-	-	-	-	(2,620)	(2,620)
<b>Balance – January 31, 2015</b>	<b>26,202,462</b>	<b>60,081</b>	<b>4,017</b>	<b>18,742</b>	<b>135,473</b>	<b>218,313</b>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)  
(Unaudited)

	Three months ended January 31,	
	2016	2015
<b>Cash flows from operating activities</b>		
Net income for the period	\$ 8,461	\$ 2,539
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	826	592
Amortization of acquired software and customer relationships	6,840	5,354
Stock-based compensation expense	325	305
Provision for (recovery of) income tax	2,527	(1,079)
Finance expenses and other income	48	100
	<b>19,027</b>	<b>7,811</b>
Changes in non-cash operating working capital (Note 13)	(10,623)	11,806
Income tax paid	(1,497)	(1,975)
<b>Net cash flows from operating activities</b>	<b>6,907</b>	<b>17,642</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment, net	(1,318)	(1,062)
Purchase of other software	(134)	-
Acquisitions, net of cash acquired of \$1,723 (2015 \$Nil) (Note 10)	(26,019)	-
Purchase consideration for prior period acquisitions	(690)	(412)
Net purchase of short-term investments	(1,045)	(2,075)
<b>Net cash flows used in investing activities</b>	<b>(29,206)</b>	<b>(3,549)</b>
<b>Cash flows from financing activities</b>		
Issuance of share capital	2,497	265
Payment of cash dividend	(3,190)	(2,616)
<b>Net cash flows used in financing activities</b>	<b>(693)</b>	<b>(2,351)</b>
Effect of currency translation adjustments on cash and cash equivalents	3,175	2,369
<b>Net (decrease) increase in cash and cash equivalents during the period</b>	<b>(19,817)</b>	<b>14,111</b>
Cash and cash equivalents - beginning of period	94,131	72,780
<b>Cash and cash equivalents - end of period</b>	<b>\$ 74,314</b>	<b>\$ 86,891</b>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**Notes to Condensed Consolidated Interim Financial Statements****For the three months ended January 31, 2016 and 2015***(Unaudited, in thousands of Canadian dollars, except as indicated)***1. Description of the business and reporting entity**

Enghouse Systems Limited (“Enghouse Systems”) and its wholly owned subsidiaries (together the “Company” or “Enghouse”) develop enterprise software solutions for a number of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. The Asset Management Group provides products and services to telecom service providers as well as fleet management and public safety software solutions, first responders, distribution, security, utilities and oil and gas industries. Enghouse Systems is incorporated and domiciled in Canada. The address of its registered office is 80 Tiverton Court, Suite 800, Markham, Ontario, L3R 0G4. The Company has offices around the world including the United States, the United Kingdom, Sweden, Norway, Denmark, Belgium, Germany, Ireland, Australia, New Zealand, Israel, Lebanon, Romania, Italy and Croatia.

**2. Basis of preparation****(a) Statement of compliance**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *‘Interim financial reporting’*. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2015, which have been prepared in accordance with IFRS. These unaudited condensed consolidated interim financial statements were approved for issue on March 9, 2016.

**(b) Basis of preparation and measurement**

These unaudited 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. They have been prepared on the historical cost basis except for available-for-sale financial assets, certain assets and liabilities initially recognized in connection with business combinations, and derivative financial instruments, which are measured at fair value.

The policies applied in these unaudited condensed consolidated interim financial statements are based on International Financial Reporting Standards (“IFRS”) issued and outstanding as of March 9, 2016. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending October 31, 2016 could result in a restatement of these unaudited condensed consolidated interim financial statements.

**(c) Functional and presentation of currency**

The Company’s subsidiaries generally operate in their local currency environment. Accordingly, items included in the financial statements of each legal entity consolidated within the Enghouse group are measured using the currency of the primary economic environment in which the legal entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars, which is also Enghouse Systems functional currency.

**(d) Use of estimates and judgments**

The preparation of the unaudited condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended October 31, 2015, with the exception of changes in estimates that are required in determining the provision for income taxes.

**Notes to Condensed Consolidated Interim Financial Statements**

For the three months ended January 31, 2016 and 2015

(Unaudited, in thousands of Canadian dollars, except as indicated)

**3. Significant accounting policies**

The accounting policies adopted are consistent with those of the previous financial year.

New Standards and interpretations issued but not yet applied

*IFRS 16 Leases* - IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019 and may be early adopted for companies that also apply "IFRS 15 *Revenue from Contracts with Customers*". The standard replaces current guidance under IAS 17 and no longer distinguishes between a finance lease and an operating lease for lessees. Instead, for virtually all lease contracts the lessee recognises a lease liability reflecting future lease payments and a 'right-of-use' asset. Lessor accounting remains somewhat similar as under IAS 17. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on November 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

**4. Intangible assets and Goodwill**

	Acquired Software \$	Other Software \$	Customer Relationships \$	Goodwill \$	Total \$
<b>At November 1, 2015</b>					
Cost	116,506	352	68,585	123,868	309,311
Accumulated amortization	(81,573)	-	(34,894)	-	(116,467)
<b>Net book value</b>	<b>34,933</b>	<b>352</b>	<b>33,691</b>	<b>123,868</b>	<b>192,844</b>
<b>Period ended January 31, 2016</b>					
Opening net book value	34,933	352	33,691	123,868	192,844
Acquisitions (Note 10)	11,986	-	7,547	14,866	34,399
Purchase Price Adjustments	-	-	-	(357)	(357)
Additions	-	134	-	-	134
Amortization	(4,152)	-	(2,688)	-	(6,840)
Exchange difference	1,848	15	1,942	5,620	9,425
<b>Closing net book value</b>	<b>44,615</b>	<b>501</b>	<b>40,492</b>	<b>143,997</b>	<b>229,605</b>
<b>At January 31, 2016</b>					
Cost	128,492	501	76,132	143,997	349,122
Accumulated amortization	(83,877)	-	(35,640)	-	(119,517)
<b>Net book value</b>	<b>44,615</b>	<b>501</b>	<b>40,492</b>	<b>143,997</b>	<b>229,605</b>

**5. Provisions**

Provisions include provisions for onerous contracts, legal claims, restructuring and special charges, and are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period.

	<b>Total</b>
<b>At November 1, 2015</b>	<b>\$ 3,335</b>
Additional provisions	1,534
Unused amounts reversed	-
Utilized during the period	(622)
Effect of movements in foreign exchange	151
<b>At January 31, 2016</b>	<b>\$ 4,398</b>



**Notes to Condensed Consolidated Interim Financial Statements****For the three months ended January 31, 2016 and 2015***(Unaudited, in thousands of Canadian dollars, except as indicated)***6. Share capital and other components of shareholder's equity****Capital Stock**

The authorized share capital of the Company consists of an unlimited number of common shares, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 26,811,462 common shares outstanding as at January 31, 2016. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2015 or January 31, 2016.

**Common share repurchase plan**

On April 22, 2015, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,797,594 common shares of the Company, expiring on April 21, 2016. The Company did not repurchase any common shares in either of fiscal 2016 or in fiscal 2015.

**Accumulated other comprehensive income (loss)**

Accumulated other comprehensive income (loss) is comprised of the following separate components of equity:

*Cumulative translation account*

The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations net of income tax recovery of \$295 (Q1/2015- \$341).

*Unrealized gains/losses on available-for-sale financial assets*

Available-for-sale differences comprise the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired net of income tax recovery of \$20 (Q1/2015- expense of \$25).

**Dividends**

During the three months ended January 31, 2016, the Company declared and paid dividends of \$0.12 per common share (three months ended January 31, 2015 - \$0.10 per common share).

**7. Stock-based Compensation**

The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 1,578,200 (January 31, 2015 – 2,179,200) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four years and expire seven years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

A summary of the status of the Company's Plan as at January 31, 2016 and January 31, 2015, and changes during the three months ended respectively on those dates is presented as follows:

**Notes to Condensed Consolidated Interim Financial Statements**

For the three months ended January 31, 2016 and 2015

(Unaudited, in thousands of Canadian dollars, except as indicated)

	January 31, 2016		January 31, 2015	
	Number of Options	Weighted Average Exercise Price in \$	Number of Options	Weighted Average Exercise Price in \$
Outstanding at beginning of period	971,200	21.92	1,288,500	14.56
Exercised	(224,200)	11.14	(38,500)	6.90
Outstanding at end of period	<b>747,000</b>	<b>25.16</b>	<b>1,250,000</b>	<b>14.80</b>
Options exercisable at end of period	<b>326,000</b>	<b>19.05</b>	<b>714,500</b>	<b>\$10.52</b>

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. During the first quarter of 2016, the Company recorded a non-cash charge of \$325 (Q1/2015 - \$305).

For options granted in the period, the fair value of each stock option on the date of the grant was estimated using the Black-Scholes option pricing model as set out below. Estimated volatility is calculated on a daily basis using historical closing prices, as adjusted for certain events that management deemed to be non-recurring and non-indicative of future events over a five year period, which reflects the expected life of the options.

There were no options granted in either the first quarter of fiscal 2016 or fiscal 2015.

**8. Income tax**

Income tax expense is recognized based on management's best estimate of the estimated annual income tax rate expected for the full financial year applied to the pre-tax income for the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and the relative mix of income earned in differing jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined for the consolidated group. The Company's effective tax rate for the three month period ended January 31, 2016 was an expense of 23%. The tax recovery for the three month period ended January 31, 2015 was 74%.

**9. Earnings per share:**

**Basic:** Basic earnings per share are calculated by dividing the net income attributable to owners of the parent by the weighted average number of common shares issued and outstanding during the period.

	For the period ended January	
	2016	2015
Net income attributable to owners of the parent	\$ 8,461	\$ 2,539
Weighted average number of common shares in issue	26,696	26,186
<b>Basic earnings per share</b>	<b>\$ 0.32</b>	<b>\$ 0.10</b>

**Diluted:** Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding assuming conversions of all dilutive potential common shares. The Company has only stock options as potential dilutive common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined using the average market share price of the Company's outstanding shares for the period) based on the monetary value of the subscription rights attached to the stock options. The number of shares calculated above is compared to the number of shares that would have been issued assuming the exercise of the stock options.

**Notes to Condensed Consolidated Interim Financial Statements**

**For the three months ended January 31, 2016 and 2015**

*(Unaudited, in thousands of Canadian dollars, except as indicated)*

	<b>For the period ended January</b>	
	<b>2016</b>	<b>2015</b>
Net income attributable to owners of the parent	\$ 8,461	\$ 2,539
Weighted average number of common shares issued	26,696	26,186
Adjustments for:		
Stock options	558	788
Weighted average number of common shares for diluted earnings per share	<u>27,254</u>	<u>26,974</u>
<b>Diluted earnings per share</b>	<u><b>\$ 0.31</b></u>	<u><b>\$ 0.09</b></u>

**10. Acquisitions**

Acquisitions have been recorded under the purchase method of accounting and results have been included in the condensed consolidated interim statements of operations from their respective acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill.

**2016 Acquisitions:**

***CTI Group (Holdings) Inc.***

The Company acquired 100% of the issued and outstanding common shares of CTI Group (Holdings) Inc. ("CTI") on December 7, 2015 for an aggregate purchase price of \$27.7 million. CTI will be integrated into both of Enghouse's segments. Results of the CTI Proteus operating unit are included in the Interactive Management Group and the results of CTI's Analysis and SmartRecord operating units are included in the Asset Management Group from date of acquisition.

Headquartered in Indianapolis, Indiana with operations in the UK, CTI's telecommunications software products include carrier grade billing analytics, self-care, invoice presentment, multi-channel customer interaction recording and call accounting solutions. The products are deployed as on-premise licensed, multi-tenant hosted, SaaS or managed services offerings offer carriers a full array of cloud-based, real-time solutions for traffic analysis, post-billing call analysis, customer care and call recording . No amounts are subject to hold back.

**2015 Acquisitions:**

***Interactive Management***

The Company acquired 100% of the issued and outstanding common shares of Reitek S.p.A ("Reitek") on May 8, 2015 for an aggregate cash purchase price of approximately \$6.1 million. Of this amount, approximately \$0.9 million remains subject to hold back and adjustment. Results are included in the Interactive Management Group from the date of acquisition.

Based in Milan, Italy, Reitek is a leading provider of omni-channel contact center solutions for enterprises of all sizes including multinational corporations, mostly serving the Italian market. Reitek's products are delivered both on premise and in the cloud and are distributed through a reseller channel.

***Asset Management Group***

The Company acquired 100% of the issued and outstanding common shares of CDRator A/S ("CDRator") and Aktavara AB ("Aktavara") on March 3, 2015 and September 8, 2015, respectively, for an aggregate cash purchase price of approximately \$30.6 million. Of this amount, approximately \$3.3 million remains

**Notes to Condensed Consolidated Interim Financial Statements**

**For the three months ended January 31, 2016 and 2015**

*(Unaudited, in thousands of Canadian dollars, except as indicated)*

subject to hold back and adjustment. Results are included in the Asset Management Group from the acquisition date.

Headquartered in Denmark, CDRator provides market-leading solutions that automate billing and customer care functions for MVNO/E (mobile virtual network operators and enablers). CDRator offers an out-of-the-box self-care, post and pre-paid real time billing platform that can be rapidly deployed for enabling next generation mobile and converged virtual network operators.

Headquartered in Stockholm, Sweden, Aktavara's 19-employee team provides innovative software solutions for telecommunications service providers. The company's product line includes a configurable off-the-shelf software product that creates and manages configuration parameters for all modern multi-vendor network technologies, and a comprehensive suite for automated network resource planning and inventory management. Aktavara's customers include wireless and fixed line convergent network operators in Europe, Africa and the Middle East.

The goodwill recognized in connection with 2016 acquisitions is primarily attributable to the anticipated improvement in the operations of the companies acquired and synergies with existing operations as a result of implementation of Enghouse's business strategies and methodologies. Goodwill also includes other intangibles such as assembled workforce that do not qualify for separate recognition under IFRS. None of the goodwill of \$32.4 million recorded in 2016 and 2015 arising from these acquisition is deductible for tax purposes.

The gross contractual amounts of acquired receivables in 2016 was \$3.4 million. However acquired receivables are generally represented as collectible by the sellers and therefore are expected to be fully collectible from customers or the sellers. The Company does not believe the impact of 2016 business acquisitions is material to either consolidated revenue or consolidated net income.

The Company's purchase price allocations are as follows:

	Interactive Management Group Preliminary 2016	Asset Management Group Preliminary 2016	Interactive Management Group Preliminary 2015	Asset Management Group Preliminary 2015
Cash and cash equivalents	\$ 375	\$ 1,347	\$ 849	\$ 4,626
Accounts receivable, net	1,004	2,347	5,514	4,962
Prepaid expenses and other assets	6	328	520	523
Property, plant and equipment	29	314	227	301
Deferred income tax assets	-	-	134	36
Acquired software	2,078	9,908	2,140	6,688
Customer relationships	1,694	5,853	3,750	7,677
Goodwill	11,097	3,769	4,940	12,639
<b>Total assets acquired</b>	<b>\$ 16,283</b>	<b>\$ 23,866</b>	<b>\$ 18,074</b>	<b>\$ 37,452</b>
Less: Current liabilities assumed	\$ 1,803	\$ 5,943	\$ 10,171	\$ 3,617
Less: Deferred income tax liabilities	801	3,861	1,849	3,234
<b>Total liabilities assumed</b>	<b>\$ 2,604</b>	<b>\$ 9,804</b>	<b>\$ 12,020</b>	<b>\$ 6,851</b>
<b>Net assets acquired for cash consideration</b>	<b>\$ 13,679</b>	<b>\$ 14,062</b>	<b>\$ 6,054</b>	<b>\$ 30,601</b>

**11. Segmented information**

The Company has two operating segments, the Interactive Management Group and the Asset Management Group, based on the nature of the operations and markets that each of these segments serves. The accounting policies followed by these segments are the same as those described in the summary of significant accounting policies.

**Notes to Condensed Consolidated Interim Financial Statements**

**For the three months ended January 31, 2016 and 2015**

*(Unaudited, in thousands of Canadian dollars, except as indicated)*

The Company's operating segments each develop and market software products and provide services for their respective markets and are inclusive of the current year acquisitions. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. The Asset Management Group provides a portfolio of products to telecom service providers as well as fleet management and public safety software solutions for the transportation sector, first responders, distribution, security, utilities and oil and gas industries.

The Company evaluates segment performance based on revenue and profit or loss before income taxes.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended January 31, 2016 and 2015

(Unaudited, in thousands of Canadian dollars, except as indicated)

	Interactive Management Group	Asset Management Group	Total
<b>Quarter ended January 31, 2016</b>			
Revenue	\$ 48,612	\$ 25,758	\$ 74,370
Operating expenses excluding non-cash charges	(33,266)	(19,648)	(52,914)
Special Charges	(182)	(225)	(407)
Depreciation of property, plant and equipment	(605)	(221)	(826)
<b>Segmented profit</b>	<b>\$ 14,559</b>	<b>\$ 5,664</b>	<b>\$ 20,223</b>
Corporate expenses			(2,380)
<b>Results from operating activities</b>			<b>\$ 17,843</b>
Amortization of acquired software and customer relationships			(6,840)
Finance income			33
Finance expenses			(81)
Other income			33
<b>Income before income taxes</b>			<b>\$ 10,988</b>
Goodwill	\$ 89,611	\$ 54,386	\$ 143,997
Other assets	131,580	128,595	260,175
Short-term investments			5,694
<b>Total assets</b>	<b>\$ 221,191</b>	<b>\$ 182,981</b>	<b>\$ 409,866</b>
Capital Expenditures	\$ 979	\$ 339	\$ 1,318
	<b>Interactive Management Group</b>	<b>Asset Management Group</b>	<b>Total</b>
<b>Quarter ended January 31, 2015</b>			
Revenue	\$ 43,752	\$ 19,267	\$ 63,019
Operating expenses excluding non-cash charges	(30,969)	(14,076)	(45,045)
Special Charges	-	(24)	(24)
Depreciation of property, plant and equipment	(485)	(107)	(592)
<b>Segmented profit</b>	<b>\$ 12,298</b>	<b>\$ 5,060</b>	<b>\$ 17,358</b>
Corporate expenses			(1,783)
<b>Results from operating activities</b>			<b>\$15,575</b>
Amortization of acquired software and customer relationships			(5,354)
Litigation settlements			(8,774)
Finance income			113
Finance expenses			(117)
Other income			17
<b>Income before income taxes</b>			<b>\$ 1,460</b>
Goodwill	\$ 79,665	\$ 24,946	\$ 104,611
Other assets	132,715	102,346	235,061
Short-term investments			14,956
<b>Total assets</b>	<b>\$ 212,380</b>	<b>\$ 127,292</b>	<b>\$ 354,628</b>
Capital Expenditures	\$ 889	\$ 173	\$ 1,062

**Notes to Condensed Consolidated Interim Financial Statements**

**For the three months ended January 31, 2016 and 2015**

*(Unaudited, in thousands of Canadian dollars, except as indicated)*

**12. Litigation and contingencies**

**General**

The Company provides its customers with a qualified indemnity against the infringement of third party intellectual property rights. From time to time, various owners of patents and copyrighted works send the Company or its customers letters alleging that the Company's products do or might infringe upon the owner's intellectual property rights, and/or suggesting that the Company or its customers should negotiate a license agreement with the owner. The Company's policy is to never knowingly infringe upon any third party's intellectual property rights. Accordingly, where appropriate, the Company forwards any such allegation or licensing request to its outside legal counsel for review. The Company generally attempts to resolve any such matter by informing the owner of the Company's position concerning non-infringement or invalidity. Even though the Company attempts to resolve these matters without litigation, it is always possible that the owner of a patent or copyrighted work will sue the Company.

In response to correspondence from and, in a few instances, litigation instigated by, third party patent holders, a few of the Company's customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. With respect to this litigation, and any other litigation the Company becomes involved with, under a contractual indemnity or any other legal theory, the Company has and will continue to consider all its options for resolution and vigorously assert all appropriate defenses.

**13. Changes in non-cash operating working capital**

	<b>Three months ended</b>	
	<b>January 31,</b>	
	<b>2016</b>	<b>2015</b>
(Increase) decrease in accounts receivable, net	\$ (7,233)	\$ 2,464
(Increase) decrease in prepaid expenses and other assets	(1,378)	123
Decrease in accounts payable & accrued liabilities	(7,751)	(6,390)
Increase in provisions	768	8,952
Decrease in income taxes payable	(373)	(563)
Increase in deferred revenue	5,344	7,220
	<b>\$ (10,623)</b>	<b>\$ 11,806</b>

**14. Subsequent event**

Effective March 4, 2016 the Company acquired 100% of the issued and outstanding common shares of CellVision AS ("CellVision"). Headquartered in Oslo, Norway, CellVision enables spatial intelligence and visual dashboard analytics for network operators. The purchase price allocation has not been established subject to receipt of additional information.