First Quarter Report
January 31, 2014

Enghouse Systems
Software engineered for results

ENGHOUSE SYSTEMS LIMITED

March 3, 2014

To our Shareholders,

First quarter revenue was $47.5 million, an increase of 13% over revenue of $42.0 million in the first quarter last year. The increase in revenue was primarily the result of incremental revenue contributions from acquisitions. Revenue reflects hosted and maintenance services contributions of $25.0 million in the quarter, an increase of 22% over last year. Adjusted EBITDA for the quarter was $12.2 million or $0.45 per diluted share compared to $9.6 million or $0.36 per diluted share in last year's first quarter. Results from operating activities for the quarter were $11.5 million compared to $7.3 million in the prior year's first quarter, an increase of 57% over the prior year. Net income for the quarter was $6.2 million or $0.23 per diluted share compared to the prior year's first quarter net income of $3.4 million or $0.13 per share.

Operating expenses before special charges related to restructuring of acquired operations were $21.9 million compared to $21.2 million in the prior year's first quarter and reflect incremental costs of acquired operations. Of note, as a percentage of revenue, operating expenses before special charges decreased from 50.6% to 46.2% in the quarter. Non-cash amortization charges in the quarter were $3.9 million and include amortization charges for acquired software and customer relationships from acquired operations.

Enghouse closed the quarter with $100.1 million in cash, cash equivalents and short-term investments, compared to $90.3 million at October 31, 2013. This is after cash paid of $2.2 million for acquisitions completed in the quarter and cash dividends of $2.1 million paid in the quarter. The Company continues to have no long-term debt.

Effective March 3, 2014 the Company completed the acquisition of IT Sonix AG ("IT Sonix"). IT Sonix is a software provider specializing in the outbound contact center solutions with offices in Germany, Italy and the UK. IT Sonix's products are installed in 10 of the 30 largest German contact centers and can be deployed as an on-premise, hosted offering or SAAS solution.

The Board of Directors also approved a 25% increase in its eligible quarterly dividend to $0.10 per common share, payable on May 30, 2014 to shareholders of record at the close of business on May 16, 2014. Enghouse has increased its dividend in each of the past six years.

Enghouse remains committed to diversifying its revenue stream and accelerating its expansion into new markets such as Germany and continues to seek accretive acquisitions to grow its market share.

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 3, 2014 and all information contained herein is current as of that date. 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 the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the periods ended January 31, 2014 and 2013, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2013, contained in the Company's 2013 Annual Report to Shareholders. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse Systems Limited (the "Company" or "Enghouse") and its subsidiaries, all wholly owned, for the first quarter ended January 31, 2014. 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.

This document is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The unaudited condensed consolidated interim 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 income before income taxes adjusted for depreciation of property, plant and equipment, amortization of acquired software and customer relationships, finance income, finance expenses, other income, 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, 2013, 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.

Corporate Overview

Enghouse is a Canadian publicly traded company (TSX:ESL) that develops enterprise software solutions for a variety 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, call recording and workforce optimization solutions that support any telephony environment, 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 as well as fleet management and public safety software solutions for the transportation industry, first responders, distribution, security, utilities and oil and gas industries. These include telecom billing, data conversion, and geo-spatial software solutions for complex network infrastructures and fleet/logistics management solutions for the public and private sectors.

The Company's strategy is to continue to build 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 addressed 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 multi-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, 2014). 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.

For the three months ending	Total revenue $	Net income $	Earnings per share – basic $	Earnings per share – diluted $	Cash and short-term investments $	Total assets $
January 31, 2014	47,492	6,172	0.24	0.23	100,081	303,677
October 31, 2013	47,171	9,712^	0.37	0.36	90,297	277,956
July 31, 2013	46,247	6,297	0.24	0.24	92,037	261,585
April 30, 2013	44,511	4,903	0.19	0.19	80,940	261,590
January 31, 2013	41,957	3,435	0.13	0.13	80,051	251,829
October 31, 2012	38,952	8,345^	0.32	0.32	83,652	239,710
July 31, 2012	35,427	4,288	0.17	0.16	79,700	238,574
April 30, 2012	31,456	4,180	0.16	0.16	100,403	222,961

^Includes credit adjustment to tax provision of $3.1 million in fiscal 2013 and $2.5 million in fiscal 2012 on the set-up of deferred tax assets related to non-capital losses

Results of Operations:

(in thousands of Canadian dollars except per share amounts)

	Q1/2014	Q1/2013	Year over year change	
			$	%
Interactive Management Group	$ 37,800	$ 36,712	1,088	2.9
Asset Management Group	9,692	5,245	4,447	84.8
Total revenue	**47,492**	**41,957**	**5,535**	**13.2**
Direct costs	13,935	11,606	2,329	20.1
Revenue, net of direct costs	**33,557**	**30,351**	**3,206**	**10.6**
Operating expenses	21,925	21,217	708	3.3
Special charges	112	1,815	(1,703)	(93.8)
Results from operating activities	**11,520**	**7,319**	**4,201**	**57.4**
Amortization of acquired software and customer relationships	(3,910)	(3,584)	(326)	(9.1)
Finance income	143	333	(190)	(57.1)
Finance expense	(58)	(81)	23	28.4
Other income	7	361	(354)	(98.1)
Income before income taxes	7,702	4,348	3,354	77.1
Provision for income taxes	1,530	913	617	67.6
Net Income	**$ 6,172**	**$ 3,435**	**2,737**	**79.7**
Earnings per share – basic	$ 0.24	$ 0.13	0.11	84.6
Earnings per share – diluted	$ 0.23	$ 0.13	0.10	76.9
Cash flow from operating activities	**$ 9,904**	**$ 6,143**	**$ 3,761**	**61.2**
Cash flow from operating activities excluding changes in working capital	**$12,351**	**$ 8,257**	**$ 4,094**	**49.6**

Adjusted EBITDA:

The table below reconciles Adjusted EBITDA to income before income taxes:

	Three Months ended	
	January 31, 2014	**January 31, 2013**
Total Revenue	$ 47,492	$ 41,957
Income before income taxes	7,702	4,348
Depreciation of property, plant and equipment	529	468
Amortization of acquired software and customer relationships	3,910	3,584
Finance income	(143)	(333)
Finance expenses	58	81
Other income	(7)	(361)
Special charges	112	1,815
Adjusted EBITDA	**$12,161**	**$ 9,602**
Adjusted EBITDA margin	**26%**	**23%**
Adjusted EBITDA per diluted share	**$0.45**	**$ 0.36**

Revenue

Total revenue for the quarter was $47.5 million compared to $42.0 million in the prior year's first quarter, a 13% increase over the prior year. Hosted services and maintenance revenue was $25.0 million compared to $20.6 million in the prior year's first quarter, an increase of 22%. This includes maintenance revenue of $21.0 million compared to $18.2 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 continues to grow and now represents $4.0 million in revenue, a 73% increase over Q1/13 as a result of increased hosted activity and contributions from Locus, IAT and Enghouse Knowledge Management Solutions ("EKMS", formerly SafeHarbor). License revenue was $15.8 million compared to $15.1 million in the prior year's first quarter as a result of incremental subscription revenue booked.

The Interactive Management Group contributed $37.8 million in revenue in the quarter, compared to $36.7 million reported in the first quarter of fiscal 2013. The increase is attributable to incremental contributions from acquisitions completed in the fourth quarter and shortly after year end. The Asset Management Group contributed revenue of $9.7 million in the quarter, compared to $5.3 million reported in the first quarter of fiscal 2013, and reflects incremental revenue contributions of $4.9 million from the Group's Locus operations which were not included in the prior year's first quarter.

Both revenue and costs were impacted by the weakening Canadian dollar as the U.S. dollar compared to the Canadian dollar averaged $1.06 in the current year and $1.00 in the prior year's first quarter. The Pound Sterling averaged $1.72 in the current year compared to $1.61 in the prior year's first quarter, while the Swedish Kronor averaged $0.16 in the current year vs. $0.15 in the prior year's first quarter.

Direct costs

Direct costs for the quarter were $13.9 million or 29.3% of revenue compared to $11.6 million or 27.7% of revenue in the prior year's first quarter. The increase in costs and decrease in margins is attributable to incremental costs associated with increased third party hardware revenue and hosted services revenue which collectively represented 11.9% of revenue in this year's first quarter compared to 7.6% last year.

Operating Expenses

Operating expenses for the quarter were $22.0 million, compared to $23.0 million reported in the first quarter of last year and include special charges related to restructuring initiatives undertaken on acquired operations of $0.1 million in the quarter. The increase in costs reflects incremental operating costs related to newly acquired operations and the impact of the weaker Canadian dollar which increased operating costs in Canadian dollars. Last year's operating expenses included $1.8 million in special charges related to acquisitions. Operating costs, excluding special charges, as a percentage of total revenue decreased from 50.6% to 46.2% in the quarter as a result of reductions in organic headcount related costs and operating cost synergies.

The Company continues to invest in R&D for future growth. R&D expenses were $8.7 million or 18.4% as a percentage of revenue in the quarter compared to $7.3 million or 17.5% in the prior year and includes R&D tax credits of $0.1 million and $0.5 million respectively recorded in the current and prior year's first quarters.

Non-cash charges for amortization of acquired software and customer relationships related to acquisitions were $3.9 million, up from the prior year's first quarter expense of $3.6 million as a result of incremental charges related to the Locus, EKMS, Andtek and IAT 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 recent 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 kronor and to a lesser extent in euros, as well as currencies in the Asia Pacific region.

During the past quarter, the Canadian dollar weakened against major currencies including the U.S. dollar, the pound sterling, the Swedish krona and the euro. As the Company's reporting currency is the Canadian dollar, 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 $2.5 million, while costs increased by an estimated $1.9 million, as calculated by applying the change in the average exchange rates from Q1/13 to Q1/14 to the Company's foreign currency denominated revenue and operating expenses in Q1/14.

The Company does not hedge foreign currency exposure but funds its U.S. dollar operational expenses with U.S. dollar revenue in order to mitigate exposure. A similar natural hedge exists for the Company's U.K. 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 $0.6 million related to foreign currency denominated monetary assets and liabilities in the current year first quarter compared to losses of $0.2 million in the prior year's first quarter. The Company records these foreign exchange gains and losses in selling, general and administrative expenses in the consolidated 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 balance sheet.

Finance and Other Income
During the quarter, the Company recognized finance and other income of $0.2 million compared to $0.7 million in the first quarter of fiscal 2013 as a result of dividends received and gains recognized in the first quarter of 2013 on the sale of equity positions held.

Income Tax Expense
During the quarter, the Company established a tax provision of $1.5 million or a 20 % effective tax rate as compared to a provision of $0.9 million or 21% in the prior year's first quarter. The decrease in the effective tax rate relates to reductions in statutory tax rates in a number of jurisdictions and to the change in the Company's profit mix by country. The Company paid $0.8 million in tax installments in the quarter, compared to $2.2 million in the first quarter of fiscal 2013.

Net Income
Net income was $6.2 million or $0.23 per share on a diluted basis in the quarter compared to $3.4 million or $0.13 per share respectively in the first quarter of fiscal 2013, primarily as a result of reduced proportional operating expenses on increased revenue contributions.

Liquidity and Capital Resources:
The Company closed the quarter with cash reserves of $100.1 million, compared to the October 31, 2013 balance of $90.3 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 $9.9 million compared to $6.1 million in the first quarter of 2013.

The Company had 26,086,962 Common Shares issued and outstanding as at March 4, 2014. During the first quarter, 44,000 stock options were exercised contributing $0.4 million in cash to the Company. In comparison, 70,400 options were exercised in the prior year's first quarter adding $0.5 million. The Company did not grant any options in the first quarter of the fiscal year compared to 195,000 in the first quarter last year. 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 commitments are reflected on the Company's balance sheet.

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.

Basis of preparation and significant accounting policies

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 2013 annual consolidated financial statements.

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 3, 2014, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending October 31, 2014 could result in a restatement of these unaudited condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2013 annual consolidated financial statements.

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, 2013, contained in the Company's 2013 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, 2013, 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, 2013, 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, 2013, 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.

There were no changes to the Company's internal control over financial reporting during the quarter ended January 31, 2014 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*** and on the Company's website at ***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, 2014 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, 2014	October 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 76,997	$ 70,109
Short-term investments	23,084	20,188
Accounts receivable, net	43,103	36,444
Prepaid expenses and other assets	7,321	5,839
	150,505	**132,580**
Non-current assets:		
Property, plant and equipment	3,921	3,599
Intangible assets (Note 4)	138,912	132,358
Deferred income tax assets	10,339	9,419
Total assets	**$ 303,677**	**$ 277,956**
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 32,397	$ 32,659
Income taxes payable	2,468	1,555
Dividends payable	2,087	2,083
Accrued provisions (Note 5)	3,020	3,427
Deferred revenue	49,408	39,325
	89,380	**79,049**
Non-current liabilities:		
Deferred income tax liabilities	15,389	14,482
Deferred revenue	1,937	1,797
Total liabilities	**106,706**	**95,328**
Shareholders' Equity		
Share capital (Note 6)	58,994	58,514
Contributed surplus	3,215	3,175
Retained earnings	119,885	115,800
Accumulated other comprehensive income	14,877	5,139
Total shareholders' equity	**196,971**	**182,628**
Total liabilities and shareholders' equity	**$ 303,677**	**$ 277,956**

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, 2014	2013
Revenue		
Software licenses	$ 15,763	$ 15,064
Hosted and maintenance services	25,014	20,563
Professional services	5,132	5,491
Hardware	1,583	839
	47,492	**41,957**
Direct costs		
Software licenses	1,200	1,429
Services	11,716	9,584
Hardware	1,019	593
	13,935	**11,606**
Revenue, net of direct costs	**33,557**	**30,351**
Operating expenses		
Selling, general and administrative	12,676	13,406
Research and development	8,720	7,343
Depreciation of property, plant and equipment	529	468
Special charges (Note 5)	112	1,815
	22,037	**23,032**
Results from operating activities	**11,520**	**7,319**
Amortization of acquired software and customer relationships	(3,910)	(3,584)
Finance income	143	333
Finance expenses	(58)	(81)
Other income	7	361
Income before income taxes	**7,702**	**4,348**
Provision for income taxes (Note 8)	1,530	913
Net income for the period	**$ 6,172**	**$ 3,435**
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation gain from foreign operations	9,770	861
Transfer to net income of realized gains on available for sale investments	(20)	(425)
Unrealized (loss) gain on available for sale investments	(17)	782
Deferred income tax recovery (expense)	5	(47)
Other comprehensive income	**9,738**	**1,171**
Comprehensive income	**$ 15,910**	**$ 4,606**
Earnings per share		
Basic	$ 0.24	$ 0.13
Diluted	$ 0.23	$ 0.13

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 $
Balance – November 1, 2013	**26,042,962**	**58,514**	**3,175**	**5,139**	**115,800**	**182,628**
Net income	**-**	**-**	**-**	**-**	**6,172**	**6,172**
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	9,770	-	9,770
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(20)	-	(20)
Unrealized loss on available-for-sale investments	-	-	-	(17)	-	(17)
Deferred income tax recovery	-	-	-	5	-	5
Comprehensive income for the period	**-**	**-**	**-**	**9,738**	**6,172**	**15,910**
Employee share options:						
Value of services recognized			159	-	-	159
Proceeds on issuing shares	44,000	480	(119)	-	-	361
Dividends	-	-	-	-	(2,087)	(2,087)
Balance – January 31, 2014	**26,086,962**	**58,994**	**3,215**	**14,877**	**119,885**	**196,971**
Balance – November 1, 2012	**25,780,562**	**55,751**	**2,847**	**(29)**	**99,371**	**157,940**
Net income	-	-	-	-	3,435	3,435
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	861	-	861
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(425)	-	(425)
Unrealized gain on available-for-sale investments	-	-	-	782	-	782
Deferred income tax expense	-	-	-	(47)	-	(47)
Comprehensive income for the period	**-**	**-**	**-**	**1,171**	**3,435**	**4,606**
Employee share options:						
Value of services recognized	-	-	137	-	-	137
Proceeds on issuing shares	70,400	709	(184)	-	-	525
Dividends	-	-	-	-	(1,680)	(1,680)
Balance – January 31, 2013	**25,850,962**	**56,460**	**2,800**	**1,142**	**101,126**	**161,528**

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, 2014	2013
Cash flows from operating activities		
Net income for the period	$ 6,172	$ 3,435
Adjustments for:		
Depreciation of property, plant and equipment	529	468
Amortization of acquired software and customer relationships	3,910	3,584
Stock-based compensation expense	159	137
Income tax expense	1,530	913
Finance expenses and other income	51	(280)
	12,351	**8,257**
Changes in non-cash operating working capital (Note 13)	(1,660)	71
Income tax paid	(787)	(2,185)
Net cash flows from operating activities	**9,904**	**6,143**
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(657)	(294)
Acquisitions, net of cash acquired of $334 (2013 - $196) (Note10)	(1,778)	(9,985)
Purchase consideration for prior period acquisitions	(382)	-
Net purchase of short-term investments	(1,615)	(4,028)
Net cash flows used in investing activities	**(4,432)**	**(14,307)**
Cash flows from financing activities		
Issuance of share capital	361	525
Payment of cash dividend	(2,083)	(1,676)
Net cash flows used in financing activities	**(1,722)**	**(1,151)**
Effect of currency translation adjustments on cash and cash equivalents	3,138	306
Net increase (decrease) in cash and cash equivalents during the period	**6,888**	**(9,009)**
Cash and cash equivalents- beginning of period	70,109	59,544
Cash and cash equivalents - end of period	**$ 76,997**	**$ 50,535**

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, 2014 and 2013
(Unaudited, in thousands of Canadian dollars, except as indicated)

1. Description of the business and reporting entity
Enghouse Systems Limited and its wholly owned subsidiaries (together the “Company” or “Enghouse”) develop enterprise software solutions for a variety 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 for the transportation industry, first responders, distribution, security, utilities and oil and gas industries. Enghouse 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, Germany, Australia, New Zealand, Israel and Croatia.

2. Basis of preparation

(a) Statement of compliance
These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2013, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements were approved for issue on March 4, 2014.

(b) Basis of measurement
The condensed consolidated interim financial statements 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.

(c) Functional and presentation of currency
The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements
The preparation of the condensed consolidated interim financial statements requires management to make judgements, 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 condensed consolidated interim financial statements, the significant judgements 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, 2013, with the exception of changes in estimates that are required in determining the provision for income taxes.

3. Significant accounting policies
The accounting policies adopted are consistent with those of the previous financial year, except as described below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual income.

New Standards and interpretations adopted

IFRS 10 – Consolidated Financial Statements ("IFRS 10") requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee *(SIC)-12 – Consolidation – Special Purpose Entities* and parts of *IAS 27 – Consolidated and Separate Financial Statements*. The Company has adopted the standard for the annual period beginning on November 1, 2013. The standard did not have a material impact on the condensed consolidated interim financial statements.

IFRS 11 – Joint Arrangements ("IFRS 11") requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes *IAS 31 – Interests in Joint Ventures, and SIC-13 – Jointly Controlled Entities – Non-monetary Contributions by Venturers*. The Company has adopted the standard for the annual period beginning on November 1, 2013. The standard did not have a material impact on the condensed consolidated interim financial statements.

IFRS 12 – Disclosure of Interests in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company has adopted the standard for the annual period beginning on November 1, 2013. The standard did not have a material impact on the condensed consolidated interim financial statements.

IFRS 13 – Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company has adopted the standard for the annual period beginning on November 1, 2013. The standard did not have a material impact on the condensed consolidated interim financial statements.

IFRS 7 - Offsetting Financial Assets and Liabilities ("IFRS 7") - IFRS 7 has been amended to include additional disclosure requirements for financial assets and liabilities that can be offset in the statement of financial position. The Company has adopted the amendment for the annual period beginning on November 1, 2013. The amendment did not have a material impact on the condensed consolidated interim financial statements.

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4. Intangible assets

	Acquired Software $	Customer Relationships $	Goodwill $	Total $
At November 1, 2013				
Cost	85,101	45,287	81,248	211,636
Accumulated depreciation	(57,697)	(21,581)	-	(79,278)
Net book value	**27,404**	**23,706**	**81,248**	**132,358**
Period ended January 31, 2014				
Opening net book value	27,404	23,706	81,248	132,358
Acquisition	1,020	650	1,381	3,051
Amortization	(2,394)	(1,516)	-	(3,910)
Purchase Price Adjustments	-	-	68	68
Exchange difference	1,170	1,309	4,866	7,345
Closing net book value	**27,200**	**24,149**	**87,563**	**138,912**
At January 31, 2014				
Cost	86,121	45,937	87,563	219,621
Accumulated amortization	(58,921)	(21,788)	-	(80,709)
Net book value	**27,200**	**24,149**	**87,563**	**138,912**

5. Accrued provisions

Accrued 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.

	Total
At November 1, 2013	**$ 3,427**
Additional provisions	112
Utilized during the period	(706)
Effect of movements in foreign exchange	187
At January 31, 2014	**$ 3,020**

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 26,086,962 common shares outstanding as at January 31, 2014. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2013 or January 31, 2014.

Common share repurchase plan

On April 16, 2013, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,731,416 common shares of the Company, expiring on April 15, 2014. The Company did not repurchase any common shares in either the first quarter of fiscal 2014 or in fiscal 2013.

Accumulated other comprehensive income (loss)

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

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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 $153 (Q1/2013- $0).

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 $5 (Q1/2013- expense of $47).

Dividends
During the three months ended January 31, 2014, the Company declared and paid dividends of $0.08 per common share (three months ended January 31, 2013 - $0.065 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 2,294,700 (January 31, 2013 – 1,830,700) 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, 2014 and January 31, 2013, and changes during the three months ended respectively on those dates is presented as follows:

	January 31, 2014		January 31, 2013	
	Number of Options	Weighted Average Exercise Price in $	Number of Options	Weighted Average Exercise Price in $
Outstanding at beginning of period	1,419,000	12.42	1,354,400	9.43
Granted	-	-	195,000	17.16
Exercised	(44,000)	8.22	(70,400)	7.45
Forfeited	(81,000)	12.81	(89,000)	11.67
Outstanding at end of period	**1,294,000**	**12.54**	**1,390,000**	**10.47**
Options exercisable at end of period	**590,500**	**8.47**	**555,500**	**7.49**

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 2014, the Company recorded a non-cash charge of $159 (Q1/2013 - $137).

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.

Notes to Condensed Consolidated Interim Financial Statements
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	Options Granted FY 2013
Risk-free interest rate (%)	1.25% - 1.75%
Estimated volatility (%)	31%
Dividend yield	$0.26-$0.32
Expected life (in years)	5
Weighted average fair value (in dollars)	$4.27 - $6.16

There were no options granted in the first quarter of fiscal 2014.

8. Income tax
Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated annual rate used for the year ended October 31, 2014 and the year ended October 31, 2013 was 20% and 21% respectively.

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 2014	2013
Net income attributable to owners of the parent	$ 6,172	$ 3,435
Weighted average number of common shares in issue	26,054	25,809
Basic earnings per share	**$ 0.24**	**$ 0.13**

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.

	For the period ended January 2014	2013
Net income attributable to owners of the parent	$ 6,172	$ 3,435
Weighted average number of common shares issued	26,054	25,809
Adjustments for:		
Stock options	765	519
Weighted average number of common shares for diluted earnings per share	26,819	26,328
Diluted earnings per share	**$ 0.23**	**$ 0.13**

10. Acquisitions

Acquisitions have been recorded under the purchase method of accounting and results have been included in the consolidated 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.

2014 Acquisitions:

Interactive Management

The Company acquired 100% of the issued and outstanding common shares of Information Access Technology, Inc. ("IAT") on November 1, 2013 for an aggregate cash purchase price of approximately $2.8 million. Of this amount, approximately $0.8 million is subject to hold back and adjustment. Results are included in the Interactive Management Group from the date of acquisition.

Headquartered in West Jordan (Salt Lake City), Utah, IAT specializes in innovative communication technology which enables companies to design, execute and measure customer communication campaigns for a variety of marketing, customer care and payment processing markets. IAT solutions are installed in hundreds of sites and include premise and hosted products and services for both outbound dialing and broadcast messaging.

2013 Acquisitions:

Interactive Management

The Company acquired 100% of the issued and outstanding common shares of Visionutveckling AB ("Vision"), Safeharbor Knowledge Solutions ("Safeharbor") and Andtek GmbH ("Andtek") on November 1, 2012, September 6, 2013 and October 7, 2013 respectively for an aggregate cash purchase price of approximately $19.8 million. Of this amount, approximately $2.9 million is subject to hold back and adjustment. Results are included in the Interactive Management Group from the date of acquisition.

Vision provides attendant and contact center software solutions with offerings both on-premise and in the cloud, with operations based in Sweden, Norway and Denmark. Safeharbor delivers a SaaS based, unified knowledge base and community forum platform for small and medium size businesses as well as Fortune 500 enterprises, with operations based in Satsop (Seattle), Washington. Andtek is a unified communications (UC) specialist delivering highly scalable attendant console and contact center solutions as well as a range of handset applications for small and large size organizations, with operations based in Hallbergmoos, Germany.

Asset Management Group

The Company acquired 100% of the issued and outstanding common shares of Albatross Scandinavia AB ("Albatross") and Locus Holdings AS ("Locus") on December 1, 2012 and March 1, 2013 respectively for an aggregate cash purchase price of approximately $13.9 million. Of this amount, approximately $2.2 million remains subject to hold back and adjustment. The results have been included in the Asset Management Group subsequent to acquisition.

Albatross, based in Sweden, provides a real-time intelligent network platform that delivers voice and SMS routing products to telecom operators. Locus supplies fleet management solutions for the Public Safety and Transport & Logistics (including Security) sectors in the Scandinavian market. Locus is headquartered in Sandefjord, Norway and has offices in Denmark and Sweden.

Management has established the preliminary purchase price allocations taking into account all relevant information at the time of preparing these notes to the consolidated financial statements. The purchase price allocations below have not been finalized subject to receipt of additional information related to the settlement of the holdback obligations.

Notes to Condensed Consolidated Interim Financial Statements

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The Company's purchase price allocations are as follows:

	Interactive Management Group Preliminary Quarter ended January 31, 2014	Interactive Management Group Preliminary Year ended October 31, 2013	Asset Management Group Preliminary Year ended October 31, 2013
Cash and cash equivalents	$ 334	$ 2,583	$ 3,421
Short-term investments	-	508	-
Accounts receivable, net	238	2,989	4,254
Income tax receivable	-	196	-
Prepaid expenses and other assets	85	504	744
Property, plant and equipment	73	170	248
Deferred income tax assets	-	321	991
Acquired software	1,020	8,114	3,804
Customer relationships	650	4,208	6,630
Goodwill	1,381	9,823	5,384
Total assets acquired	**$ 3,781**	**$ 29,416**	**$ 25,476**
Less: Current liabilities assumed	$ 517	$ 6,499	$ 9,140
Less: Deferred income tax liabilities	417	3,169	2,469
Total liabilities assumed	**$ 934**	**$ 9,668**	**$ 11,609**
Net assets acquired for cash consideration	**$ 2,847**	**$ 19,748**	**$ 13,867**

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.

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. Core technologies include contact center, attendant console, interactive voice response, call recording and workforce optimization solutions that support any telephony environment, 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 as well as fleet management and public safety software solutions for the transportation industry, first responders, distribution, security, utilities and oil and gas industries. These include telecom billing, data conversion, and geo-spatial software solutions for complex network infrastructures and fleet/logistics management solutions for the public and private sectors.

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

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	Interactive Management Group	Asset Management Group	Total
Quarter ended January 31, 2014			
Revenue	$ 37,800	$ 9,692	$ 47,492
Operating expenses excluding non-cash charges	(26,776)	(7,375)	(34,151)
Depreciation of property, plant and equipment	(418)	(111)	(529)
Segmented profit	**$ 10,606**	**$ 2,206**	**$ 12,812**
Corporate expenses			(1,292)
Amortization of acquired software and customer relationships			(3,910)
Finance income			143
Finance expenses			(58)
Other income			7
Income before income taxes			**$ 7,702**
Goodwill	$ 70,516	$ 17,047	$ 87,563
Other assets	140,741	52,289	193,030
Short-term investments			23,084
Total assets	**$211,257**	**$ 69,336**	**$303,677**
Capital Expenditures	$ 508	$ 149	$ 657

	Interactive Management Group	Asset Management Group	Total
Quarter ended January 31, 2013			
Revenue	$ 36,712	$ 5,245	$ 41,957
Operating expenses excluding non-cash charges	(29,214)	(4,090)	(33,304)
Depreciation of property, plant and equipment	(421)	(47)	(468)
Segmented profit	**$ 7,077**	**$ 1,108**	**$ 8,185**
Corporate expenses			(866)
Amortization of acquired software and customer relationships			(3,584)
Finance income			333
Finance expenses			(81)
Other income			361
Income before income taxes			**$ 4,348**
Goodwill	$ 58,214	$ 11,972	$ 70,186
Other assets	127,171	24,956	152,127
Short-term investments			29,516
Total assets	**$ 185,385**	**$ 36,928**	**$ 251,829**
Capital Expenditures	$ 228	$ 66	$ 294

Notes to Condensed Consolidated Interim Financial Statements
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12. Commitments and contingencies
Southern California Gas Company v. Syntellect, Inc.: Southern California Gas Company ("SoCal") filed a lawsuit against a wholly owned subsidiary of the Company relating to the indemnification provisions in a contract between the parties. The United States District Court, Southern District of California, issued a judgment (the "Judgment") in favor of SoCal. However, the Judgment was appealed to the United States Ninth Circuit Court of Appeals. That court affirmed aspects of the Judgment, but reversed the finding that evidence of apportionment of damages should be excluded and directed the district court to consider the apportionment issue. Subsequently, the district court issued an order (the "Order") granting a motion brought by SoCal that apportionment was not appropriate and that the Company is responsible for 100% of SoCal's damages. The Company intends to appeal the Order. SoCal will receive payment if it is ultimately successful in the lawsuit, at which time the expense related to such payment will be determined and recorded in the Company's financial statements.

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. The Company does not believe that it currently has any obligation to provide such a defense or that the Company's products infringe any third party patent. However, as described above, the Company is currently subject to one action on the suggested basis of contractual indemnity. 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

	Three months ended January 31, 2014	Three months ended January 31, 2013
Increase in accounts receivable, net	$ (2,496)	$ (2,883)
Increase in prepaid expenses and other assets	(780)	(238)
Decrease in accounts payable & accrued liabilities	(5,644)	(828)
Decrease in income taxes payable	(161)	(237)
Increase in deferred revenue	7,421	4,257
	$ (1,660)	**$ 71**