Annual Report | 2016

Enghouse Systems

Software engineered for results

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") has been prepared as of December 15, 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 2016 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 year ended October 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 Systems' 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. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which are filed electronically on SEDAR at www.sedar.com.

Corporate Overview

Enghouse is a Canadian publicly traded company (TSX:ENGH) 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.

Enghouse completed four acquisitions in fiscal 2016.

On December 7, 2015, the Company acquired 100% of the issued and outstanding common shares of CTI Group (Holdings) Inc. ("CTI") for an aggregate purchase price of approximately $27.7 million. 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 which offer carriers a full array of cloud-based, real-time solutions for traffic analysis, post-billing call analysis, customer care and call recording.

On March 4, 2016, the Company acquired 100% of the issued and outstanding common shares of CellVision AS ("CellVision") for an aggregate purchase price of approximately $4.6 million. Headquartered in Oslo, Norway, CellVision enables spatial intelligence and visual dashboard analytics for network operators.

On May 27, 2016 the Company acquired the assets of NetBoss Technologies ("NetBoss") for an aggregate purchase price of approximately $9.0 million. Headquartered in Sebastian, Florida, NetBoss provides an integrated service assurance platform encompassing fault and performance management, service correlation and customer analytics.

On October 28, 2016 the Company acquired 100% of the issued and outstanding common shares of Presence Technology, S.L. ("Presence") for an aggregate purchase price of approximately $21.9 million. Headquartered in Barcelona, Spain, Presence is a leading provider of multi-channel contact center software solutions with specific focus on Spanish speaking markets. The Company's suite of applications provides its approximately 200 clients with a flexible architecture to deploy contact center capabilities on premise, in the cloud or on a hybrid basis. The product suite is available in English and Spanish, with end-user modules also available in Portuguese. This has enabled Presence to establish a leadership position in its core markets of Spain, the Americas and Sub-Saharan Africa. Results subsequent to acquisition were not included in the fiscal year on the basis they were not material. Only the closing statement of financial position on acquisition has been included as at October 31, 2016.

<u>Quarterly Results of Operations</u>

The following table sets forth certain unaudited information for each of the eight most recent quarters (the last of which ended October 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.

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, 2016	74,370	8,461	0.32	0.31	80,008	409,866
April 30, 2016	78,537	8,520	0.32	0.31	85,139	395,172
July 31, 2016	76,350	10,383	0.39	0.38	90,669	395,289
October 31, 2016	78,726	19,912^	0.74	0.73	85,859	419,195
Year ended Oct. 31, 2016	**307,983**	**47,276**	**1.76**	**1.74**	**85,859**	**419,195**
January 31, 2015	63,019	2,539*	0.10*	0.09*	101,847	354,628
April 30, 2015	68,701	7,568	0.29	0.28	88,541	352,914
July 31, 2015	71,264	8,094	0.31	0.30	91,288	369,917
October 31, 2015	76,329	13,229^	0.50	0.49	98,437	376,015
Year ended Oct. 31, 2015	**279,313**	**31,430**	**1.20**	**1.17**	**98,437**	**376,015**
Year ended Oct. 31, 2014	**219,987**	**29,684**	**1.14**	**1.11**	**84,864**	**327,771**

^Includes credit adjustment to tax provision of $4.5 million in fiscal 2016 and $2.5 million in fiscal 2015 on the recognition of deferred tax assets related to non-capital losses
*Net of adjustment to the provision related to the finalization of contract litigation matters in the amount of $5.0 million after tax.

Annual Results of Operations
(in thousands of Canadian dollars except per share amounts)

	2016	2015	Year over year change $	%
Interactive Management Group	$192,217	$188,236	3,981	2. 1
Asset Management Group	115,766	91,077	24,689	27.1
Total revenue	**307,983**	**279,313**	**28,670**	**10.3**
Direct costs	96,867	88,704	8,163	9.2
Revenue, net of direct costs	211,116	190,609	20,507	10.8
	68.5%	*68.2%*		
Operating expenses	127,848	121,357	6,491	5.3
Special charges	1,330	1,989	(659)	(33.1)
Results from operating activities	**81,938**	**67,263**	**14,675**	**21.8**
	26.6%	*24.1%*		
Amortization of acquired software and customer relationships	(28,042)	(22,869)	(5,173)	(22.6)
Litigation settlements	-	(8,774)	8,774	100.0
Finance income	123	251	(128)	(51.0)
Finance expense	(350)	(480)	130	27.1
Other income	797	112	685	611.6
Income before income taxes	**54,466**	**35,503**	**18,963**	**53.4**
Provision for income taxes	7,190	4,073	3,117	76.5
Net Income	**$ 47,276**	**$ 31,430**	**15,846**	**50.4**
Earnings per share – basic	$ 1.76	$ 1.20	0.56	46.7
Earnings per share – diluted	$ 1.74	$ 1.17	0.57	48.7
Cash flows from operating activities	$ 59,735	$ 50,489	9,246	18.3
Cash flows from operating activities excluding changes in working capital	$ 86,391	$ 62,615	23,776	38.0

General
Enghouse revenue for the year ended October 31, 2016 was $308.0 million compared to $279.3 million in the prior year ended October 31, 2015. Income from operating activities was $81.9 million compared to $67.3 million last year, an increase of 21.8%, while net income was $47.3 million compared to net income of $31.4 million in the prior year. The increase in revenue in the fiscal year is largely attributable to contributions from acquired operations and the positive impact of foreign exchange.

The Company continues to actively pursue acquisitions and completed four acquisitions during the fiscal year, significantly expanding the revenue of the Asset Management Group with the acquisitions of CTI, CellVision and NetBoss. The Company also increased its footprint in the Latin American market with the acquisition of Presence prior to fiscal year end. Enghouse continues to execute its expansion strategy into new markets which reduces its reliance on revenue from the North American market. The Company continues to expand its operations outside North America, and has a growing presence in the UK, Europe, Scandinavia and the Latin American region.

Revenue
Revenue for the year increased by 10.3% to $308.0 million from $279.3 million reported in the prior year and continues to be comprised of software licenses, hosted and maintenance services, professional services and hardware revenue.

On a consolidated basis, software license revenue increased to $93.4 million for the year compared to $86.3 million reported in the prior fiscal year as a result of contributions from acquisitions and increased subscription based license sales. This includes incremental contributions from CTI which has a strong subscription revenue base.

Overall, $210.2 million or 68.3% of all revenue was derived from services, compared to $185.9 million (66.5%) in fiscal 2015. The services revenue includes revenue from consulting, training, maintenance and hosted services.

Maintenance revenue continues to be a key element of the Company's revenue and contributed $129.1 million or 41.9% of total revenue in the fiscal year, compared to $114.7 million or 41.1% in fiscal 2015. The increase in maintenance revenue over the prior year is attributable to a combination of incremental maintenance on new license sales, price increases, the positive impact of foreign exchange and contributions from acquired operations. Combined with the hosted services revenue stream this represents an important strategic source of revenue to the Company, given its generally recurring nature.

Hardware revenue was $4.4 million in the year, compared to $7.1 million in the prior year, with the decrease being attributable to less on-premise hardware revenue sales as part of the Locus and Jinny business models as well as a significant non-recurring order in the North American direct business in the third quarter of fiscal 2015. Hardware is also provided to customers as an added service to complement the Company's software offering.

Revenue for the Interactive Management Group increased to $192.2 million, an increase of 2.1% from $188.2 million in the prior fiscal year. This includes hosted and maintenance service revenue, which increased 5.9% to $104.1 million from $98.3 million in fiscal 2015 as a result of contributions from the CTI acquisition as well as organic growth. Software license revenue in the group was $59.4 million compared to $63.8 million in the prior fiscal year. License revenue is lower as a result of more licenses sold on a subscription basis rather than on-premise and lower third party software revenue. Hardware revenue added $1.3 million in the year, down from $2.2 million reported in fiscal 2015 primarily as a result of a large third party order recorded in the third quarter of 2015.

Asset Management Group revenue increased 27.1% to $115.8 million from $91.1 million in the prior year as a result of incremental revenue contributions from newly acquired CTI, CellVision and NetBoss as well as full year's contributions from CDRator and Aktavara. License revenue for the group was $33.9 million, up from $22.7 million in the prior fiscal year, while hosted and maintenance revenue for the group was $49.2 million compared to $38.8 million last year. The increase was as a result of incremental contributions from acquisitions, the positive impact of foreign exchange and maintenance on incremental license sales.

On June 24, 2016, Britain's referendum vote to leave the European Union ("Brexit") resulted in an immediate devaluation of the Pound Sterling against all major currencies. As a result, the Pound Sterling, averaged $1.75 in the second half of 2016 versus $1.97 prior year's second half. The significant devaluation only impacted Enghouse's revenue and costs generated by its UK operations in July through October. The devaluation offset the otherwise positive impact on revenue of the weaker Canadian dollar against most other major currencies in the year compared to prior year.

Direct Costs

Direct costs were $96.9 million or 31.5% of revenue compared to $88.7 million or 31.8% of revenue in the prior fiscal year. Direct costs for the Interactive Management Group were $49.1 million or 25.5% of revenue compared to $49.4 million or 26.2% of revenue in the prior fiscal year. Direct costs for the Asset Management Group were $47.8 million or 41.3% of revenue compared to $39.3 million or 43.2% of revenue in the prior fiscal year. The Asset Management Group earns a larger proportionate share of its revenue from services resulting in overall lower margins compared to the Interactive Management Group.

The decrease in margins in the Interactive Management Group is attributable to lower margins on incremental services revenue, as margins have declined from 58.6% to 58.0% consistent with increased costs associated with providing hosted services. Hardware margins were also down as compared to prior years at 27.1% (2015 -29.7%) as a result of a lower margin hardware orders on subscription sales. Software license margins improved over last year as a result of better margins on third party software. Direct costs for services include costs for both hosted and maintenance services and professional services.

Revenue, net of direct costs

Revenue net of direct costs increased by $20.5 million to $211.1 million or 68.5% of revenue compared to $190.6 million or 68.2% in the prior fiscal year. The increase in revenue, net of direct costs, is primarily attributable to incremental software license sales and hosted and maintenance services from acquisitions completed after last year's third quarter.

Operating Expenses

The Company's operating expenses were $129.2 million in the fiscal year compared to $123.3 million in the prior fiscal year, an increase of 4.7% This includes special charges for acquisition related restructuring expenses of $1.3 million in the year incurred on the Aktavara, CTI, CellVision, NetBoss and Presence acquisitions, compared to $2.0 million in the prior year. Excluding special charges, operating expenses were 41.5% of revenue in the fiscal year compared to 43.4% in fiscal 2015 as a result of significant foreign exchange gains recognized and headcount reductions undertaken during the fiscal year. Operating expenses reflect increased costs associated with companies acquired in the fiscal year, as well as the full year operating costs of acquisitions completed in fiscal 2015. Operating expenses also include $44.7 million, or 14.5% of revenue in research and development related expenses compared to $41.0 million (14.7%) in fiscal 2015. As expected, research and development expenses have declined as a percentage of revenue as the Company grows its revenue base. Research and development expenses are net of government grants and investment tax credits earned in the year in various jurisdictions of $1.6 million compared to $1.3 million recorded in fiscal 2015.

Operating expenses also include non-cash charges for compensation expenses related to stock options granted, which added $0.9 million in the current year compared to $1.2 million in the prior fiscal year (see Note 9 to the consolidated financial statements).

On a consolidated basis the Company had 1,528 employees as at October 31, 2016 compared to 1,381 at the prior year end which includes additional headcount from acquisitions, net of attrition, and headcount reductions undertaken in the fiscal year.

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, an increasing 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, Euros, Swedish, Norwegian and Danish Kronor, as well as currencies in the Asia Pacific region. This impacts both operating segments as both segments now have significant operations in Europe and Scandinavia.

During the past fiscal year, the Canadian dollar sharply weakened against major currencies including the U.S. dollar, Euro and the Pound Sterling during the first half of the year, however the Pound Sterling devalued significantly as a result of Brexit in the second half of 2016. In comparison, the Canadian dollar strengthened against the Norweigan Kronor. 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 $7.2 million, while costs increased by an estimated $6.7 million, as calculated by applying the change in the average exchange rates from 2015 to 2016 to the Company's foreign currency denominated revenue and operating expenses in fiscal 2016.

The Company does not hedge foreign currency exposure but funds operational expenses with revenue earned in that country for most of its major operations, including the U.S, U.K, Europe, the Nordics, Australia and New Zealand. 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 $8.5 million related to foreign currency denominated monetary assets and liabilities in the current year compared to gains of $2.5 million in the prior year. The gain was recorded primarily as a result of the post-Brexit impact of the Pound Sterling weakening in the second half of the fiscal year against all major currencies, specifically on the Company's U.S. dollar and Euro denominated monetary assets held primarily in the U.K. 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.

Amortization of Software and Customer Relationships
The Company reported charges of $28.0 million compared to $22.9 million in the prior fiscal year related to the amortization of software and customer relationships recorded on acquisition. The increase in the fiscal year is related to incremental charges on the current year's acquisitions as well as the full year amortization on the fiscal 2015 acquisitions, which added $1.8 million incrementally in the fiscal year. This was mitigated by the expiry of amortization expenses on prior acquisitions.

Finance Income and Other Income
Finance income was $0.1 million in the year, a decrease from $0.3 million in the prior year as a result of lower yields on invested cash compared to fiscal 2015. Net other income reported was $0.8 million, higher in the year due to the disposal of non-core assets in the fourth quarter. This compares to $0.1 million in gains realized in the prior year on equity investments.

Income Tax Expense
During the year, the Company recorded an income tax provision of $7.2 million reflecting a 13.2% effective tax rate compared to $4.1 million or 11.5%, in the prior fiscal year. The current year's tax provision includes a credit of $4.5 million booked for the recognition of deferred tax assets related primarily to non-capital losses for tax purposes, compared to a credit of $2.5 million recorded in fiscal 2015 for the same reason.

Net Income
Enghouse reported net income of $47.3 million in fiscal 2016 compared to $31.4 million reported in fiscal 2015. The increase in relative profitability reflects contributions from acquisitions and the impact of favourable exchange rates. The prior year included a provision of $5.0 million, net of tax, to settle litigation matters. Earnings per share on a diluted basis were $1.74 versus $1.17 in fiscal 2015.

Fourth Quarter Operating Results
(in thousands of Canadian dollars except per share amounts)

	Q4/2016	Q4/2015	Year over year change $	%
Interactive Management Group	$ 48,276	$ 51,534	(3,258)	(6. 3)
Asset Management Group	30,450	24,795	5,655	22.8
Total revenue	78,726	76,329	2,397	3.1
Direct costs	24,059	23,102	957	4.1
Revenue, net of direct costs	54,667	53,227	1,440	2.7
	69.4%	*69.7%*		
Operating expenses	28,909	32,932	(4,023)	(12.2)
Special charges	360	328	32	9.8
Results from operating activities	25,398	19,967	5,431	27.2
	32.3%	*26.2%*		
Amortization of acquired software and customer receivables	(7,185)	(6,086)	(1,099)	(18.1)
Finance income	50	40	10	25.0
Finance expense	(136)	13	(149)	(1,146.2)
Other income	733	26	707	2,719.2
Income before income taxes	**18,860**	**13,960**	**4,900**	**35.1**
(Recovery of) provision for income taxes	(1,052)	731	(1,783)	(243.9)
Net Income	**$ 19,912**	**$ 13,229**	**6,683**	**50.5**
Earnings per share – basic	$ 0.74	$ 0.50	0.24	48.0
Earnings per share – diluted	$ 0.73	$ 0.49	0.24	49.0
Cash flows from operating activities	$ 15,785	$ 11,301	4,484	39.7
Cash flows from operating activities excluding working capital items	$ 26,583	$ 21,024	5,559	26.4

The table below reconciles Adjusted EBITDA to Results from operating activities:

	Three Months ended		Year ended	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Total Revenue	**$ 78,726**	**$ 76,329**	**$ 307,983**	**$ 279,313**
Results from operating activities	**$ 25,398**	**$ 19,967**	**$ 81,938**	**$ 67,263**
Depreciation of property, plant and equipment	991	767	3,438	2,688
Special charges	360	328	1,330	1,989
Adjusted EBITDA	**$ 26,749**	**$ 21,062**	**$ 86,706**	**$ 71,940**
Adjusted EBITDA margin	**34.0%**	**27.6%**	**28.2%**	**25.8%**
Adjusted EBITDA per diluted share	**$ 0.99**	**$ 0.78**	**$ 3.19**	**$ 2.69**

Total revenue for the quarter was $78.7 million, an increase of 3.1% from $76.3 million reported in the prior year's fourth quarter and includes license revenue of $24.3 million in the quarter compared to $23.8 million in the prior year's fourth quarter. The increase is attributable to contributions from acquisitions including CTI, CellVision and NetBoss and is offset by the negative impact of foreign exchange on revenue in the current quarter compared to prior year estimated at $2.8 million for the fourth quarter as calculated by applying the change in the average exchange rates from 2015 to 2016 to the Company's foreign currency denominated revenue. Hosted and maintenance services revenue was $38.4 million in the quarter compared to $36.1 million in the prior year and reflects hosted services revenue contributions from acquisitions.

The Interactive Management Group reported revenue of $48.3 million compared to $51.5 million in the fourth quarter of fiscal 2015, and includes license revenue of $15.4 million in the quarter compared to $17.6 million last year. The decrease over last year's fourth quarter revenue is primarily attributable to lower on-premise software license and maintenance revenue contributions due to subscription sales and to the negative impact of foreign exchange. Hosted and maintenance revenue was $25.4 million in the quarter compared to $26.2 million last year and was negatively impacted by foreign exchange in the quarter compared to prior year.

The Asset Management Group contributed $30.5 million in revenue in the fourth quarter, compared to $24.8 million reported in the fourth quarter of fiscal 2015, an increase of 22.8%, on the strength of incremental revenue contributions in the quarter from CTI, CellVision and NetBoss.

Direct costs for the quarter were $24.1 million or 30.6% of revenue compared to $23.1 million or 30.3% of revenue in the prior year's fourth quarter.

Operating expenses for the quarter were $29.3 million, a 12.2% decrease from the $33.3 million reported in the fourth quarter of last year, as a result of significant foreign exchange gains realized, and were principally offset by incremental operating costs associated with acquired operations, which were not included in the prior year's fourth quarter results. Operating costs also include special charges for restructuring of $0.4 million incurred in the fourth quarter related to the acquisitions of NetBoss and Presence. The Company reported $4.2 million in foreign exchange gains in the quarter, related to the translation of monetary assets and liabilities, compared to gains of $0.7 million recorded in the prior year's fourth quarter. The gain was recorded primarily as a result of the post-Brexit impact of the Pound Sterling weakening in the quarter against all major currencies, specifically on the Company's U.S. dollar and Euro denominated monetary assets held primarily in the U.K. These have been offset against selling, general and administrative expenses. Government grants of $1.1 million earned in Norway and New Zealand were recorded in the quarter and were offset against research and development costs. The Canadian dollar averaged $1.31 versus the U.S. dollar in the current year's fourth quarter compared to $1.32 in the prior years' fourth quarter and $1.69 for the Pound Sterling compared to $2.03 last year. The Euro averaged $1.46 in the fourth quarter, down from $1.47 last year, while the Swedish Krona averaged $0.15 in the quarter, down from $0.16 last year which negatively impacted revenue reported in Canadian dollars in the quarter.

The Company recorded non-cash amortization charges in the quarter of $7.2 million compared to $6.1 million in the prior year's fourth quarter related to the amortization of software and customer relationships. The increase relates to amortization recorded on the CTI, CellVision and NetBoss acquisitions, net of expiring amortization on prior acquisitions.

During the fourth quarter, the Company recognized finance and other income of $0.8 million, higher in the year due to disposal of non-core assets as compared to $0.1 million in prior year's fourth quarter of fiscal 2015. The Company reported nominal gains on the sale of equity positions in both the current year's and prior year's fourth quarters.

The Company booked a tax recovery of $1.1 million in the fourth quarter, compared to a tax provision of $0.7 million in the prior year's fourth quarter. In both fourth quarters the Company booked adjustments to its tax provision to reflect the recognition of deferred tax assets related to non-capital losses. The Company made tax instalment payments of $4.0 million in the fourth quarter compared to $1.1 million in the prior year's fourth quarter with the increase being related to timing of payments and tax instalments in the quarter.

The Company reported net income of $19.9 million or $0.73 per diluted share compared to net income of $13.2 million or $0.49 per diluted share in the fourth quarter of fiscal 2015.

The Company generated cash flows from operating activities of $15.8 million compared to $11.3 million in the prior year's fourth quarter and closed the year with $85.9 million in cash and short-term investments, as a result of stronger net income. Excluding non-cash working capital items, cash flows from operating activities were $26.6 million compared to $21.0 million in the fourth quarter last year.

Liquidity and Capital Resources:

The Company closed the year with cash and short-term investments of $85.9 million, compared to a balance of $98.4 million at October 31, 2015. This includes cash and cash equivalents of $4.5 million that are restricted as to use at October 31, 2016 related to acquisition holdbacks. This is after the payment of approximately $55.7 million related to acquisitions and $13.9 million related to dividends. The Company had no external debt other than the pre-existing debt of Presence inherited on acquisition, the amounts being related to loans with government agencies in Spain and are partially secured with long-term deposits. The Company has sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend strategy. During the year, the Company generated cash flows from operating activities of $59.7 million compared to $50.5 million in 2015 as a result of stronger operating profits. Excluding changes in non-cash working capital items, cash flows from operating activities for the year were $86.4 million compared to $62.6 million in the prior year.

The Company had 26,906,962 Common Shares issued and outstanding as at December 15, 2016. During the year, 319,700 stock options were exercised contributing $4.3 million in cash to the Company. Last year 423,300 options were exercised in the year, adding $3.5 million in cash. The Company granted 90,000 options in the fiscal year compared to 135,000 in the prior fiscal year. Enghouse did not repurchase any shares of its common stock in the current or prior fiscal years under its Normal Course Issuer Bid.

The Company had working capital of $48.4 million at October 31, 2016 compared to $58.3 million at the end of fiscal 2015. Based on the Company's current plans and projections, management is confident that the Company has the funds necessary to meet its existing and future financial operating commitments. Future acquisition growth may be funded through a combination of cash, debt and equity consideration, which could cause dilution to existing shareholders.

Dividend Policy

The Company's policy is to pay quarterly dividends subject to Board approval, based on the Company's financial results and relevant circumstances at the time. The Company has paid regular quarterly dividends since May 31, 2007 and has increased its dividend in each of the past eight years from $0.025 per common share in 2007 to $0.14 per common share presently. The Company declared and made the following dividend payments in the three most recently completed fiscal years: (i) 2016 - $0.12 per common share outstanding on February 29, 2016 and $0.14 per common share on each of May 31, 2016, August 31, 2016 and November 30, 2016 for a total of $14.5 million; (ii) 2015 - $0.10 per common share outstanding on February 27, 2015 and $0.12 per common share on each of May 29, 2015, August 28, 2015 and November 30, 2015 for a total of $12.1 million; (iii) 2014 - $0.08 per common share outstanding on February 28, 2014, and $0.10 per common share on each of May 30, 2014, August 29, 2014 and November 28, 2014 for a total of $9.9 million.

The decision on whether to declare a dividend is subject to the Board of Director's discretion. In determining whether to declare and the amount of the dividend, the Board of Directors takes into account, among other criteria, the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant at the time.

Commitments and Contractual Obligations

The Company has no significant commercial commitments or obligations other than for the leases of the facilities it currently occupies, the latest of which expires in fiscal 2026,operating leases for automobiles, office and computer equipment and pre-existing debt of Presence inherited on acquisition, the amounts being related to loans with government agencies in Spain. The following table summarizes the contractual obligations of the Company for future years.

	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Lease obligations	$ 7,126	$ 7,734	$ 1,734	$ 16,594

The Company does not have any obligations related to deferred compensation arrangements.

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 contingencies (not accrued in accordance with IFRS), all commitments are reflected on the Company's balance sheet.

Transactions with Related Parties

The Company enters into transactions with related parties which are in the normal course of operations and are measured at market based exchange amounts. Related party transactions between wholly owned subsidiaries and the Company are eliminated on consolidation.

Basis of Preparation and Significant Accounting Policies

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's significant accounting policies are described in note 3 of the consolidated financial statements as at October 31, 2016, which is available on SEDAR (www.sedar.com). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 15, 2016, the date the Board of Directors approved the consolidated financial statements.

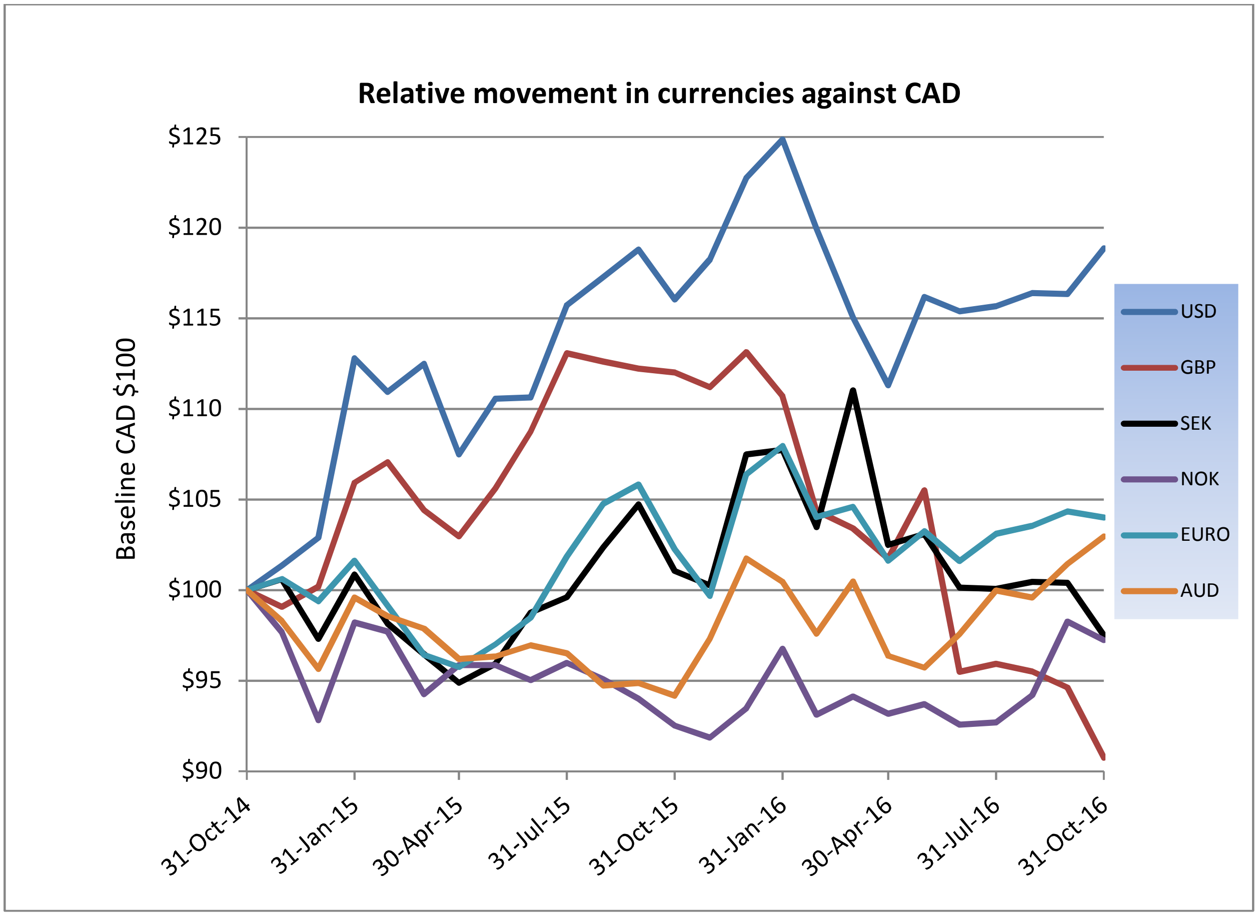
Risks and Uncertainties

Enghouse continues to operate in an ever changing and competitive business and economic environment that exposes the Company to a number of risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that may adversely impact our business, financial condition or results of operations. Additional risks and uncertainties not described below or not presently known to the Company may also impact our business. For a full description of the Risk Factors affecting Enghouse, the reader should review the Company's Annual Information Form dated December 15, 2016, filed and available on www.sedar.com, which Risk Factors are incorporated by reference herein.

If any of these risks occur, the Company's business, financial condition or results of operations could be seriously harmed and the trading price of the Company's common shares could be materially affected. The reader should understand that the sole purpose of discussing these risks and uncertainties is to alert the reader to factors that could cause actual results to differ materially from past results or from those described in forward-looking statements and not to describe facts, trends and circumstances that could have a favorable impact on the Company's results or financial position.

Impact of Foreign Exchange Fluctuations

Enghouse actively pursues a strategy of growth by acquisition, which exposes the Company to revenue denominated in numerous foreign currencies. The Company's organizational structure has changed to include a larger presence in Scandinavia and Europe along with the Company's existing offices in Phoenix, Arizona, Reading, UK and the Company's corporate headquarters in Canada. The Company has offices in Belgium, Ireland, UK, Sweden, Norway, Denmark, Germany, Ireland, Hong Kong, Japan, New Zealand, Australia, Israel, Lebanon, Romania, Italy, and Croatia. The acquisition of Presence added additional offices in Spain and Columbia. Accordingly, the Company's revenue and operating costs reflect exposure to a number of currencies including the U.S. dollar, Pound Sterling, Swedish Krona, Euro and Australian and New Zealand dollars.



In fiscal 2016, the Canadian dollar weakened against major currencies including the U.S. dollar and the Euro but strengthened against Norwegian Kronor. On June 24, 2016, Britain's referendum vote to leave the European Union ("Brexit") resulted in an immediate devaluation of the Pound Sterling against all major currencies. As a result, the Pound Sterling, averaged $1.75 in the second half of 2016 versus $1.97 prior year's second half. The significant devaluation only impacted Enghouse's revenue and costs generated by its UK operations in July through October. The extent of the Pound Sterling's devaluation was partially mitigated by the favourable impact on the Company's UK operations revenue contracts denominated in U.S dollars and Euros. The devaluation offset the otherwise positive impact on revenue of the weaker Canadian dollar against most other major currencies in the year compared to prior year. 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 acts as a natural hedge. The U.S. dollar was reported using an average foreign exchange rate of $1.33 in fiscal 2016 versus $1.24 in fiscal 2015, representing a 7% increase and the Swedish krona, which averaged $0.16 in fiscal 2016, was up approximately 7% from the prior year. The Pound Sterling averaged $1.86 in the current year compared to $1.91 in the prior fiscal year, a 3% decrease, while the Euro was comparable over the year, averaging $1.47 in fiscal 2016 and last year.

Overall, 21% of the Company's revenue was generated by operations in the U.K. compared to 18% in the prior fiscal year as a result of the CTI acquisition, while revenue generated by European operations decreased to 16% from 17% in the prior fiscal year. Revenue generated in by the Company's Scandinavian operations was 27%. Revenue generated by the Company's U.S. based operations was 28% compared to 29% in the prior fiscal year. Approximately 5% of the Company's revenue was generated by operations in the Asia-Pacific region compared to 7% in fiscal 2015, with the balance being generated by Canadian operations. Further changes in foreign exchange rates between Canada, the United States, the U.K., Sweden, Germany and other countries could have a material effect, either favourable or adverse, on both the revenue and expenses of the Company going forward. However, these currencies act as a natural hedge as the Company has both revenue and expenses denominated in these currencies. There can be no assurances that the Company will prove successful in its effort to manage this risk, which may adversely impact the Company's operating results.

Acquisitions

The Company continues to pursue growth in both its organic operations and through acquisitions and completed the acquisitions of CTI, CellVision, NetBoss and Presence and paid final hold backs on prior acquisitions in the fiscal year for an aggregate cash purchase price of $55.7 million, net of cash acquired. While Enghouse has both the experience and financial resources required to execute this strategy, the Company does not have control over the market conditions prevailing or likely to prevail in the future, which may impact the ability to execute this strategy. There can be no assurance that the Company will be able to identify suitable acquisition candidates available for sale at reasonable valuations, consummate any acquisition or successfully integrate any acquired business into its operations. The Company has and will likely continue to have competition for acquisition candidates from other parties including those that have greater resources or are willing to pay higher valuation multiples. Acquisitions may involve a number of other risks including: diversion of management's attention; disruption to the Company's ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development, or the entire acquired business.

Intellectual Property Claims

A number of competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. Some of these patents may grant very broad protection to the owners of the patents. The Company cannot determine with certainty whether any existing third party patents or the issuance of any third party patents would require the Company to alter its technology, obtain licenses or cease certain activities. The Company may become subject to claims by third parties alleging its technology infringes their property rights due to the growth of software products in the Company's target markets, the overlap in functionality of these products and the prevalence of software products. 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. Accordingly, where appropriate, the Company forwards any such allegation or licensing request to 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 bring a suit against the Company. Litigation may be necessary to determine the scope, enforceability and validity of such third party proprietary rights or to establish the Company's proprietary rights. Some competitors have substantially greater resources and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than the Company could. Regardless of their merit, any such claims could: be time consuming; be expensive to defend; divert management's attention and focus away from the business; cause product shipment delays or stoppages; subject the Company to significant liabilities; and require the Company to enter into costly royalty or licensing agreements or to modify or stop using the infringing technology.

Litigation

In addition to being subject to litigation in the ordinary course of business, the Company may become subject to class actions, securities litigation or other actions, including anti-trust and anti-competitive actions. Any litigation may be time consuming, expensive and distracting from the conduct of the Company's day-to-day business. The adverse resolution of any specific lawsuit could have a material adverse effect on the Company's financial condition and liquidity. In addition, the resolution of those matters may require the Company to issue additional common shares, which could potentially result in dilution. Expenses incurred in connection with these matters (which include fees of lawyers and other professional advisors and potential obligations to indemnify officers and directors who may be parties to such actions) could adversely affect the Company's cash position.

Competition
The Company experiences intense competition from other software companies. Competitors may announce new products, services or enhancements including cloud-based offerings that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the business, results of operations and financial condition of the Company. Many of the Company's competitors and potential competitors have significantly greater technical, marketing, service or financial resources. Other competitive factors include price, performance, product features, market timing, brand recognition, product quality, product availability, breadth of product line, design expertise, customer service and post contract support. A very important selection factor from a customer perspective is a large installed customer base that has widely and productively implemented the software product, which not only increases the potential for repeat business, but also provides reference accounts to promote the Company's products and solutions with new customers. While management believes that the Company has a significant installed customer base in its Asset Management and Interactive Management Groups, many of its competitors have a larger installed base of users, longer operating histories or greater name recognition. In addition, if one or more of the Company's competitors were to merge or partner with other competitors, the change in the competitive landscape could adversely affect the Company's ability to compete effectively.

Development of New Products and Enhancement of Existing Products
To keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance, the Company must enhance and improve existing products and continue to introduce new products and services. If the Company is unable to successfully develop new products, integrate acquired products or enhance and improve existing products or if it fails to position and/or price its products to meet market demand, the Company's business and operating results will be adversely affected. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development that could adversely affect the Company's results of operations. Further, the introduction of new products could require long development and testing periods and may not be introduced in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenue.

No assurance can be provided that the Company's software products will remain compatible with evolving computer hardware and software platforms and operating environments. In addition, competitive or technological developments and new regulatory requirements may require the Company to make substantial, unanticipated investments in new products and technologies. If the Company is required to expend substantial resources to respond to specific technological or product changes, its operating results would be adversely affected. The continuing ability of the Company to address these risks will depend, to a large extent, on its ability to retain a technically competent research and development staff and to adapt to rapid technological advances in the industry.

Loss of Rights to Use Software Licensed by Third Parties
The Company licenses certain technologies used in its products from third parties, generally on a non-exclusive basis. The termination of any of these licenses, or the failure of the licensors to adequately maintain or update their products, could delay the Company's ability to ship its products while it seeks to implement alternative technology offered by other sources and may require significant unplanned investments. In addition, alternative technology may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third party technology licenses relating to one or more of the Company's products or relating to current or future technologies. There is a risk that the Company will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

Product Liability
As a result of their complexity, software products may contain undetected errors or failures when entering the market. Despite conducting testing and quality assurance, defects and errors may be found in new software products after commencement of commercial shipments or the offering of a network service using these software products. In these circumstances, the Company may be unable to successfully correct the errors in a timely manner or at all. The occurrence of errors and failures in the Company's software products could result in negative publicity and a loss of, or delay in, market acceptance of those software products. Such publicity could reduce revenue from new licenses and lead to increased customer attrition. Alleviating

these errors and failures could require significant expenditure of capital and other resources by the Company. The consequences of these errors and failures could have a material adverse effect on the Company's business, results of operations, and financial condition. Because many of the Company's customers use its software products for business-critical applications, any errors, defects, or other performance problems could result in financial or other damage to its customers. The Company's customers or other third parties could seek to recover damages from the Company in the event of actual or alleged failures of its software solutions.

Although the Company maintains product liability insurance in certain limited circumstances and the Company's license agreements with customers typically contain provisions designed to limit the Company's exposure to potential product liability claims, it is possible that this insurance and these limitation of liability provisions may not effectively protect against these claims and the liability and associated costs. While the Company has not experienced any product liability claims to date, the sale and support of its products may entail the risk of those claims, which are likely to be substantial in light of the use of its products in critical applications. Accordingly, any such claim could have a material adverse effect upon the Company's business, results of operations, and financial condition. In addition, defending this kind of claim, regardless of its merits, or otherwise satisfying affected customers, could entail substantial expense and require the devotion of significant time and attention by key management personnel.

Reliance on Hosted and Maintenance Services Renewals
The Company continues to realize a significant amount ($152.4 million in fiscal 2016 compared to $135.8 million in fiscal 2015) of its revenue from hosted and maintenance services provided in connection with the products it licenses as part of its core business strategy. The continued expansion of this revenue stream as a result of incremental license and hosted sales and through the acquisition of companies with existing hosted and maintenance customer bases is a key tenet to the Company's revenue growth strategy. However, there can be no assurances that the rate of customer attrition, which would result in lower revenue, will be offset by a combination of new hosted and maintenance services revenue associated with incremental license and hosted sales, acquisitions and contract price increases.

Tax Issues
The Company conducts its business operations in various foreign jurisdictions and through legal entities primarily in Canada, the United States, Sweden, Norway, Denmark, Germany, Ireland, Australia, New Zealand, Italy and the United Kingdom. Accordingly, the Company is subject to income taxes as well as non-income based taxes in Canada, as well as these and other foreign jurisdictions and our tax structure is subject to review by numerous taxation authorities. The tax laws of these jurisdictions have detailed and varied tax rules, which are subject to change.

Significant judgment is required in determining the Company's worldwide provision for income taxes and other tax liabilities. Although the Company strives to ensure that its tax estimates and filing positions are reasonable, no assurance can be provided that the final determination of any tax audits or litigation will not be different from what is reflected in the Company's historical income tax provisions and accruals, and any such differences may materially affect the Company's operating results for the affected period or periods. The Company also has exposure to additional non-income tax liabilities such as payroll, sales, use, value-added, non-resident withholding, net worth, property, harmonized and goods and services taxes in Canada, the United States, Sweden, Norway, Denmark, Germany, Ireland, Australia, New Zealand, Italy, the United Kingdom and other foreign jurisdictions.

International taxation authorities, including the Canada Revenue Agency, the United States Internal Revenue Service, the Swedish, Norwegian, Danish, Italian, German and Irish Tax Authorities, New Zealand Inland Revenue, Australian Taxation Office and the United Kingdom's HM Revenue and Customs, could challenge the validity of the Company's tax filings. If any of these taxation authorities are successful in challenging the Company's tax filings, the Company's income tax expense may be adversely affected and it could also be subject to interest and penalty charges. Any such increase in the Company's income tax expense and related interest and penalties could have a significant impact on future net earnings and future cash flows.

Outlook

The Company continues to execute its dual faceted growth strategy focusing on acquisitions while improving the profitability of its existing operations. In fiscal 2016, the focus has been on growing the Company's Asset Management Group with the acquisitions of CTI, CellVision and NetBoss. The Company also expanded its footprint into Latin America with the acquisition of Presence. This will enable the Company to more efficiently manage future efforts in these regions and continue to align its management teams on a regional basis going forward to improve results and leverage synergies.

Improving revenue levels have also reduced proportional R&D spend to 14.5% from 14.7% of revenue. The Company believes its products are robust, well positioned and incorporate the latest technologies allowing its sales teams to drive revenues heading into fiscal 2017.

Overall, the Company's revenue increased 10.3% to $308.0 million for the year compared to prior fiscal year. The Company remains consistently profitable and reported adjusted EBITDA of $86.7 million or $3.19 per diluted share in the year compared to the prior year's adjusted EBITDA of $71.9 million or $2.69 per diluted share. The Company continues to generate positive cash flows, adding $59.7 million from operating activities in the year compared to $50.5 million in fiscal 2015. Despite completing acquisitions at a cost of $55.7 million and increasing its dividend payout for an eighth consecutive year in fiscal 2016, the Company's cash and short-term investments closed the year at $85.9 million compared to $98.4 million at October 31, 2015.

The Company continues to follow a disciplined approach to growth, seeking accretive acquisitions and continually reviewing existing operations to identify inefficiencies. Management is confident that its proven, focused approach and adherence to fundamental principles at all turns will add shareholder value in both the short and long term.

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 in capacity as Chief Financial Officer ("CFO") 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 CFO, 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, 2016, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the CEO and CFO. Based on this evaluation, the CEO and the CFO 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 CFO 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.

As at October 31, 2016, 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 CFO have concluded that, as at October 31, 2016, 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 year ended October 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*** and on the Company's website at ***www.enghouse.com***.

Management's Responsibility for Financial Reporting

The consolidated financial statements and other financial information for this annual report were prepared by the management of Enghouse Systems Limited, reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for the preparation of the consolidated financial statements and believes that they fairly represent the Company's financial position, the results of its operations and its cash flows in accordance with International Financial Reporting Standards. Management has included amounts in the Company's consolidated financial statements based on estimates, judgments and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control, which provide reasonable assurance, at appropriate costs, that the assets are maintained and accounted for in accordance with its policies, and that transactions are recorded accurately on the Company's books and records.

PricewaterhouseCoopers LLP were appointed the Company's auditors at the Annual General Meeting of Shareholders. Their report on the consolidated financial statements of the Company for the years ended October 31, 2016 and 2015 outlines the scope of their examination and their opinion thereon.

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

"Signed"
Douglas C. Bryson
Vice President Finance and
Corporate Secretary

Markham, Ontario
December 15, 2016

December 15, 2016

Independent Auditor's Report

To the Shareholders of Enghouse Systems Limited

We have audited the accompanying consolidated financial statements of Enghouse Systems Limited and its subsidiaries, which comprise the consolidated statements of financial position as at October 31, 2016 and October 31, 2015 and the consolidated statements of operations and comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enghouse Systems Limited and its subsidiaries as at October 31, 2016 and October 31, 2015 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	As at October 31, 2016	As At October 31, 2015
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	$ 78,436	$ 94,131
Short-term investments (Note 5)	7,423	4,306
Accounts receivable, net (Note 19)	73,588	60,765
Prepaid expenses and other assets	9,720	8,330
	169,167	**167,532**
Non-current assets:		
Long-term deposits and accounts receivable, net (Note 19)	1,357	-
Property, plant and equipment (Note 6)	5,696	5,039
Intangible assets (Note 6)	86,632	68,976
Goodwill (Note 6)	144,578	123,868
Deferred income tax assets (Note 11)	11,765	10,600
Total assets	**$ 419,195**	**$ 376,015**
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 55,440	$ 51,284
Income taxes payable	5,139	2,680
Dividends payable (Note 8)	3,767	3,190
Provisions (Note 7)	2,111	3,335
Deferred revenue	54,300	48,694
	120,757	**109,183**
Non-current liabilities:		
Deferred income tax liabilities (Note 11)	21,053	20,022
Deferred revenue	4,788	3,458
Long-term loans (Note 17)	4,049	-
Total liabilities	**150,647**	**132,663**
Shareholders' Equity		
Share capital	69,555	64,203
Contributed surplus	3,875	4,029
Retained earnings	187,649	154,866
Accumulated other comprehensive income	7,469	20,254
Total equity	**268,548**	**243,352**
Total liabilities and equity	**$ 419,195**	**$ 376,015**

Commitments and contingencies (Notes 14,16)

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

On Behalf of the Board of Directors:

"Signed"	"Signed"
Stephen J. Sadler	Eric A. Demirian
Director	Director

Consolidated Statements of Operations and Comprehensive Income

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

	Year Ended	
	October 31, 2016	**October 31, 2015**
Revenue		
Software licenses	$ 93,411	$ 86,311
Hosted and maintenance services	152,368	135,768
Professional services	57,842	50,104
Hardware	4,362	7,130
	307,983	**279,313**
Direct costs		
Software licenses	5,477	6,984
Services	88,210	76,707
Hardware	3,180	5,013
	96,867	**88,704**
Revenue, net of direct costs	**211,116**	**190,609**
Operating expenses		
Selling, general and administrative (Note 21)	79,693	77,628
Research and development (Note 10)	44,717	41,041
Depreciation of property, plant and equipment	3,438	2,688
Special charges (Note 21)	1,330	1,989
	129,178	**123,346**
Results from operating activities	**81,938**	**67,263**
Amortization of acquired software and customer relationships	(28,042)	(22,869)
Litigation settlements	-	(8,774)
Finance income	123	251
Finance expenses	(350)	(480)
Other income	797	112
Income before income taxes	**54,466**	**35,503**
Provision for income taxes (Note 11)		
Current income tax expense	14,033	8,275
Deferred income tax recovery	(6,843)	(4,202)
	7,190	**4,073**
Net income for the year	**$ 47,276**	**$ 31,430**
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation (loss) gain from foreign operations	(12,737)	10,863
Transfer to net income of realized gains on available for sale investments	(14)	(74)
Unrealized (loss) gain on available for sale investments	(42)	325
Deferred income tax recovery (expense)	8	(33)
Other comprehensive (loss) income	**(12,785)**	**11,081**
Comprehensive income	**$ 34,491**	**$ 42,511**
Earnings per share (Note 12)		
Basic	$ 1.76	$ 1.20
Diluted	$ 1.74	$ 1.17

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

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Share Capital -number	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Retained earnings $	Total $
Balance – November 1, 2015	**26,587,262**	**64,203**	**4,029**	**20,254**	**154,866**	**243,352**
Net income	-	-	-	-	47,276	47,276
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	(12,737)	-	(12,737)
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(14)	-	(14)
Unrealized losses on available-for-sale investments	-	-	-	(42)	-	(42)
Deferred income tax recovery	-	-	-	8	-	8
Comprehensive income for the year	**-**	**-**	**-**	**(12,785)**	**47,276**	**34,491**
Employee share options:						
Value of services recognized	-	-	892	-	-	892
Proceeds on issuing shares	319,700	5,352	(1,046)	-	-	4,306
Dividends	-	-	-	-	(14,493)	(14,493)
Balance – October 31, 2016	**26,906,962**	**69,555**	**3,875**	**7,469**	**187,649**	**268,548**
Balance – November 1, 2014	**26,163,962**	**59,746**	**3,782**	**9,173**	**135,554**	**208,255**
Net income	-	-	-	-	31,430	31,430
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	10,863	-	10,863
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(74)	-	(74)
Unrealized gain on available-for-sale investments	-	-	-	325	-	325
Deferred income tax expense	-	-	-	(33)	-	(33)
Comprehensive income for the year	**-**	**-**	**-**	**11,081**	**31,430**	**42,511**
Employee share options:						
Value of services recognized	-	-	1,187	-		1,187
Proceeds on issuing shares	423,300	4,457	(940)	-		3,517
Dividends	-	-	-		(12,118)	(12,118)
Balance – October 31, 2015	**26,587,262**	**64,203**	**4,029**	**20,254**	**154,866**	**243,352**

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

Consolidated Statements of Cash Flows

(*in thousands of Canadian dollars)*

	Year Ended	
	October 31, 2016	October 31, 2015
Cash flows from operating activities		
Net income for the year	$ 47,276	$ 31,430
Adjustments for:		
Depreciation of property, plant and equipment	3,438	2,688
Amortization of acquired software and customer relationships	28,042	22,869
Stock-based compensation expense (Note 9)	892	1,187
Income tax expense	7,190	4,073
Finance expenses	350	480
Other income	(797)	(112)
	86,391	**62,615**
Changes in non-cash operating working capital (Note 20)	(16,508)	(6,631)
Income taxes paid	(10,148)	(5,495)
Net cash flows from operating activities	**59,735**	**50,489**
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,372)	(2,902)
Purchase of other software (Note 6)	(1,764)	(356)
Acquisitions, net of cash acquired $5,230 (2014 - $5,475) (Note 13)	(51,264)	(27,562)
Purchase consideration for prior period acquisitions (Note 13)	(4,476)	(2,403)
Net proceeds from sale of short-term investments	(2,880)	8,933
Net cash flows used in investing activities	**(63,756)**	**(24,290)**
Cash flows from financing activities		
Issuance of share capital	4,306	3,517
Payment of cash dividend	(13,917)	(11,545)
Net cash flows used in financing activities	**(9,611)**	**(8,028)**
Effect of currency translation adjustments on cash and cash equivalents	(2,063)	3,180
Net (decrease) increase in cash and cash equivalents during the year	**(15,695)**	**21,351**
Cash and cash equivalents - beginning of year	94,131	72,780
Cash and cash equivalents - end of year	**$ 78,436**	**$ 94,131**

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

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, Spain, Columbia and Croatia.

2. Basis of preparation and adoption of International Financial Reporting Standards
The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The significant accounting policies described below are consistently applied to all the periods presented.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The presentation of certain amounts of the previous year has been changed to conform to the statement of financial position presentation adopted for the current year.

These consolidated financial statements were approved by the Board of Directors for issue on December 15, 2016.

3. Summary of significant accounting policies, judgments and estimation uncertainties

<u>Summary of significant accounting policies</u>

Basis of measurement
The consolidated financial statements are prepared on a going concern basis, under the historical cost convention except for certain financial assets which are presented at fair value in Canadian dollars, the Company's reporting currency. All financial information is presented in Canadian dollars rounded to the nearest thousands, except as otherwise noted.

Basis of consolidation
These consolidated financial statements include the accounts of Enghouse Systems and the consolidated accounts of its wholly owned subsidiaries ("the Company"). All intercompany transactions, balances and unrealized profits and losses from intercompany transactions have been eliminated upon consolidation. The Company does not have any special purpose entities to be consolidated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Company.

Subsidiaries are all entities (including structured entities) over which Enghouse Systems has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Enghouse companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Business combinations
The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Company expenses acquisition related expenses as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the group is recognized at fair value as at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity. A portion of the consideration on acquisitions is subject to hold back and adjustment in accordance with the terms of the purchase agreements. The Company accrues hold backs as part of the consideration payable on acquisition. Adjustments to the hold backs will be recorded through goodwill.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated.

Foreign currency translation
(i) Functional and presentation 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.

When an entity disposes of its entire interest in a foreign operation, or loses control over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income (loss) related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation that remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income (loss) related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of operations in selling, general and administrative expenses.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences are recognized in other comprehensive income (loss) in the cumulative translation account.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are not subject to risks of change in fair value.

Short-term investments
Short-term investments are highly liquid financial instruments. Equity securities are considered to be available-for-sale and are carried at fair market value, and fixed-income securities with original maturities of one year or less are carried at cost plus accrued interest.

Financial instruments
Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities are initially recorded at fair value and are subsequently measured based on their classification as described below. The Company classifies its financial instruments into various categories based on the purpose for which the financial instruments were acquired and their characteristics. The Company determines the fair value of its financial instruments based on quoted market values or discounted cash flow analyses.

Available-for-sale
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as loans and receivables. The Company considers its portfolio equity investments to be available-for-sale assets. The equities held by the Company are those of publicly traded companies whose fair values are determined by the closing quoted market values for each investment at the consolidated statement of financial position date. Available-for-sale investments are carried at fair market value, except where the instrument does not have a quoted market price in an active market, with foreign exchange and revaluation gains and losses included in other comprehensive income (loss) until the gains and losses are realized when equities are sold in the market or there is impairment in the value. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the consolidated statements of operations and comprehensive income (loss) and included in other gains and losses. The fair value of the Company's equity portfolio is subject to fluctuations in equity markets and is denominated in both Canadian and U.S. dollars as at October 31, 2016.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statements of operations as part of finance income.

Dividends on available-for-sale equity instruments are recognized in the consolidated statements of operations as part of finance income when the Company's right to receive payment is established.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, accounts receivable, deposits and short-term investments (including mutual funds but excluding equity securities). These are classified in current assets, except for the portion expected to be realized or paid beyond twelve months of the consolidated statement of financial position date, which is classified as non-current. They are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequent measurement is at amortized cost using the effective interest rate method, less a provision for impairment.

Financial liabilities at amortized cost
Accounts payable, accrued liabilities, provisions, long-term loans and dividends payable are classified as other financial liabilities at amortized cost. Trade and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce trade payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Company is not party to any derivative financial instruments.

Impairment of financial assets
At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment of receivables on both an individual and collective basis. All individually significant receivables are assessed for impairment, while all receivables that are not individually significant, along with those significant receivables found not to be impaired, are collectively assessed for impairment. If evidence of impairment exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(*ii) Available-for-sale financial assets:* The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statements of operations. This amount represents the cumulative loss in accumulated other comprehensive income (loss) that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The reversal of the previously recognized impairment loss is recognized in the consolidated statements of operations. Impairment losses on available-for-sale equity instruments are not reversed.

Property, plant and equipment

Property, plant and equipment are recorded at acquisition cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statements of operations and comprehensive income during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated as follows:

Buildings	39 years straight-line
Furniture and fixtures	5 years straight-line
Computer software and hardware	3 years straight-line
Leasehold improvements	Shorter of useful life or initial lease term

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts (if any) and separately depreciates each part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. The cost and accumulated depreciation of replaced assets are derecognized when replaced. Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the assets and are included as part of other income (expense) in the consolidated statements of operations.

Acquired software and customer relationships

The Company uses the income approach to value its acquired software and customer relationship intangible assets. This approach is a valuation technique that calculates the fair value of an intangible asset based on the cash flows that an asset can be expected to generate over its remaining useful life. The Company's intangible assets include patented technology, customer relationships, and acquired software with finite useful lives. These assets are capitalized and are amortized to operations over their estimated useful lives from the date that they are acquired and available for use, since this most closely reflects the expected usage and consumption patterns related to the future economic benefits embodied in the assets. The Company considers the length of time over which it expects to earn or recover the cost of the assets. The estimated useful lives for the current and comparative periods are as follows:

Acquired software	4 to 6 years straight-line
Customer relationships	4 to 8 years straight-line
Patents	Remaining life
Capitalized software	5 years straight-line

Amortization methods, estimates of useful lives and residual values are reviewed at least annually and are adjusted as appropriate.

Capitalized software

The Company capitalized software development costs for computer software developed or obtained for internal use. The Company capitalizes costs for software to be used internally during the development stage. This occurs when the preliminary project stage is complete, management authorizes and commits to funding the projects, and it is feasible that the projects will be completed and the software will perform the intended function. Capitalization of costs related to the software project is ceased when it enters the post implementation and operation stage. If different determinations are made with respect to the state of development of a software project, then the amount capitalized and the amounts charged to expense for that project could differ materially.

Costs capitalized during the development stage consist of payroll and related costs for employees who are directly associated with, and who devote time to, a project to develop software for internal use. The

Company capitalizes the direct costs of materials and services, which generally includes outside contractors. We do not capitalize any general and administrative costs, or costs incurred during the development stage related to training. Costs related to upgrades and enhancements to internal-use software, if those upgrade and enhancements result in additional functionality, are capitalized.

We amortize capitalized software with respect to development projects for internal-use software when the software is ready for use. The capitalized software development costs are generally amortized using the straight-line method over a five year period. In determining and re-assessing the estimated useful life over which the cost incurred for the software should be amortized, the Company consider the effects of obsolescence, technology, competition and other economic factors. If different determinations are made with respect to the estimated useful life of the software, the amount of amortization charged in a particular period could differ materially.

Goodwill

Goodwill represents the excess of the purchase price of business acquisitions over the fair values of identifiable net assets acquired in such acquisitions and is allocated as at the date of the business combination. Goodwill acquired through a business combination is allocated to each cash-generating unit (“CGU”) or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. The Company has two CGUs, the Interactive Management Group and the Asset Management Group, which the goodwill has been allocated between. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment of non-financial assets

The unamortized portions of property, plant and equipment, acquired software and customer relationships are reviewed when events or circumstances indicate that the carrying amounts may not be recoverable. Intangible assets with an indefinite useful life or intangible assets not yet available for use are subject to an annual impairment test. Goodwill is not subject to amortization but is assessed for impairment on at least an annual basis and, additionally, whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. The recoverable amount is estimated annually on October 31 of each year.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is measured as the amount by which the asset’s or CGU’s carrying amount exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of operations and comprehensive income (loss).

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

No such impairment losses have been recognized during the period.

Employee benefits

(i)Post-employment benefit obligations

Employees of companies included in these consolidated financial statements have entitlements under Company pension plans which are defined contribution pension plans. These plans take different forms depending on the legal, financial and tax regime of each country. The cost of defined contribution pension plans is charged to expense as the contributions become payable and cease when an employee leaves the Company.

(ii)Stock-based compensation plans

The Company grants stock options to certain employees. Stock options are granted at a price equal to or above the market value of the shares at the date of the grant. When the stock options are exercised, the Company issues new common shares. The consideration received on the exercise of stock options is credited to share capital at the time of exercise. The Company's stock option compensation plan is described in Note 9.

Stock options generally vest over four years in a tiered manner and expire after seven years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period on a straight-line basis based on the number of awards expected to vest, with a corresponding credit to contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

(iii)Termination benefits

The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees in accordance with a detailed formal plan without possibility for withdrawal or providing benefits as a result of an offer made to encourage voluntary termination. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

(iv)Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under the Company's incentive compensation plan if the Company has a legal or constructive obligation to pay this amount at the time bonuses are paid as a result of past service provided by the employee, and the obligation can be reliably estimated.

Provisions

Provisions, including those for onerous contracts, legal claims and restructuring, are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

The Company performs evaluations to identify onerous contracts and legal claims and, where applicable, records provisions for such items. A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received from the contract. A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or been publicly announced. Restructuring provisions include such items as lease termination penalties, employee termination payments and over-market and excess capacity lease obligations acquired in business combinations. Provisions are not recognized for future operating losses.

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Income taxes

Income tax expense comprises current income tax expense and deferred income tax expense. Current income tax and deferred income tax expense are recognized in the consolidated statements of operations, except to the extent that they relate to items recognized directly in other comprehensive income (loss) or equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting periods, and any adjustment to the tax payable in respect of previous years.

In general, deferred income tax is the amount of income taxes expected to be paid or recoverable in future periods in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, carry-forward of unused tax losses and carry-forwards of unused tax credits. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets, including unutilized tax losses, are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilized. The carrying value of deferred income tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be recovered.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be recognized simultaneously. Deferred income tax assets and liabilities are presented as non-current.

Dividends
Dividends on common shares are recognized in the Company's consolidated financial statements in the period in which the dividends are declared and approved by the Company's Board of Directors.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of operations on a straight-line basis over the period of the lease.

Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statements of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Share capital
Common shares are classified as equity. Incremental costs attributable to the issuance of shares are recognized as a deduction from equity.

Revenue recognition
Revenue represents the fair value of consideration received or receivable from customers for goods and services provided by the Company, net of discounts and sales taxes. Revenue consists primarily of fees for licenses of the Company's software, hosted services, subscription and maintenance fees, professional services and third party hardware revenue.

Revenue is recognized when the Company has transferred the significant risks and rewards of ownership of the goods or services to the buyer, delivery has occurred, the collection of the related receivable is deemed probable from the outset of the arrangement and the amount of revenue and costs incurred or to be incurred can be measured reliably. Revenue from the sale of licenses, third party software and hardware is generally recognized on delivery to the customer as these criteria are generally met.

Typically, the Company's software license agreements are multiple-element arrangements that also include the provision of maintenance, hosted services, professional services and hardware. These multiple-element arrangements are assessed to determine whether they should be treated as more than one unit of accounting or element for the purposes of revenue recognition. Consideration from the arrangement is allocated in multiple-element arrangements to the separate units of accounting, or elements, on a relative fair value basis as determined by an internal analysis of prices, or based on the residual method, as applicable. Revenue is recognized for each element according to the revenue recognition policy stated above. Where an arrangement is accounted for as a single unit of accounting, revenue is deferred and recognized over the term of the arrangement.

Services revenue is comprised of hosted and maintenance services revenue and professional services revenue, which includes consulting and training revenue. The amount of the selling price associated with hosted and maintenance services revenue agreements is deferred and recognized as revenue over the period during which the services are performed. This deferred revenue is included on the consolidated statement of financial position as a current liability to the extent the services are to be delivered in the next twelve months. Set-up fees on hosted services revenue is deferred and recognized on a straight-line basis over the estimated life of the customer relationship period. Professional services revenue is recognized as delivered.

The timing of revenue recognition often differs from contract payment schedules and milestones, resulting in revenue that has been earned but not billed. These amounts are included as accounts receivable.

Amounts billed in accordance with customer contracts, but in advance of revenue being recognized, are classified as deferred revenue.

Direct costs
Direct costs include third party costs related to the delivery of software, hardware and professional, hosted and maintenance services as well as commissions payable to sales staff.

Research and development costs
The Company qualifies for certain investment tax credits related to the research and development of its computer software. Expenditures related to research are expensed as incurred and are reduced by related investment tax credits, which are recognized when reasonable assurance of realization exists. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use or sell the technology, are met; otherwise they are expensed as incurred. No costs have been deferred on the consolidated statements of financial position as at October 31, 2016 or 2015.

Special charges
Special charges include costs for certain acquisition related restructuring initiatives undertaken as well as acquisition related transaction costs and similar charges.

Finance income and finance expenses
Finance income comprises interest income, gains on the disposal of available-for-sale financial assets and dividend income. Interest income is recognized as it is accrued through profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, bank charges and impairment losses recognized on financial assets other than trade receivables.

Earnings per share
Basic earnings per share are computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding for stock options issued by the Company. The number of shares included with respect to stock options are computed using the Treasury Stock method. This method assumes that proceeds, which could be obtained upon the exercise of in-the-money stock options, would be used to purchase common shares at the average market price during the year.

Segmented reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("CODM") is the person or persons who are responsible for allocating resources and assessing performance of the operating segments. The CODM has been identified as the Chief Executive Officer.

<u>Critical accounting estimates and judgments</u>
The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the date of the financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Significant areas requiring the Company to make estimates, assumptions and judgments include those related to revenue recognition, intangible assets, the carrying value of goodwill, and income taxes. The Company bases its estimates on historical experience as well as on various other assumptions that are believed to be reasonable under the circumstances at the time.

Under different assumptions or conditions, the actual results would differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are beyond the Company's control. Revisions to the accounting estimates are recognized in the period in which the estimates are revised and will be recorded with corresponding impact on net income.

Revenue recognition

Separation of customer contract obligations and deliverables

Management applies judgment when assessing whether certain deliverables in a customer arrangement should be included or excluded from a unit of account to which contract accounting is applied. The judgment is typically related to the sale and inclusion of third party hardware and licenses in a customer arrangement and involves an assessment that principally addresses whether the deliverable has stand-alone value to the customer that is not dependent upon other components of the arrangement.

Professional services revenue

Management exercises judgment in determining whether a contract's outcome can be reliably estimated. Management also makes estimates and assumptions in the calculation of future contract costs and related profitability which are used to determine the value of the amounts recoverable on contracts and the timing of revenue recognition. Management updates these estimates throughout the life of the contract. Judgment is also required to assess the probability of collection of the related receivables.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for the estimated losses resulting from the inability of its customers to make required payments. The Company reviews this provision regularly and performs ongoing credit evaluations of its customers' financial condition. Adverse changes in the financial condition of the Company's customers resulting in an impairment of their ability to make payments would likely require the provision of additional allowances. Actual collections could materially differ from management's estimates.

Acquired assets and liabilities including intangible assets and goodwill

The Company accounts for business combinations using the purchase method, under which it allocates the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired to goodwill. One of the most significant estimates relates to the determination of the fair value of the assets and liabilities acquired. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, purchase price allocations are derived from a formal valuation. Fair values are determined using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows and are closely linked to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied.

Any goodwill or intangible assets with indefinite useful lives acquired in business combinations are not amortized to income over their useful lives but are assessed annually for any potential impairment in value.

All other intangible assets are amortized to operations over their estimated useful lives. The Company's intangible assets relate to acquired technology, patents and customer relationships. Enghouse also reviews the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In assessing the recoverability of these intangible assets, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the assets. If these estimates or related assumptions change in the future, the Company may be required to record impairment charges for these assets.

Goodwill impairment

The goodwill recorded in the consolidated financial statements relates to two CGUs: the Asset Management Group and the Interactive Management Group. The Company's assumptions used in testing goodwill for impairment are affected by current market conditions, which may affect expected revenue and costs. The Company also has significant competition in markets in which it operates, which may impact its revenues and operating costs. The recoverable amount of the CGUs was based on an assessment of fair value less costs to sell using a discounted cash flow approach. The approach uses cash flow projections based on financial budgets approved by management covering a one year period. Cash flows for the years thereafter are extrapolated using estimated annual growth rates. The Company uses an after-tax discount rate which has been estimated on the basis of the industry's weighted average cost of capital. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ or change quickly, depending on economic conditions and other events. Future changes in assumptions could negatively impact future assessments of the recoverable amount for the CGUs and the Company would be required to recognize an impairment loss.

As at October 31, 2016 and 2015, the Company's estimate of the recoverable amounts for each of the Asset Management CGU and Interactive Management CGU exceeded their respective carrying values by a significant margin, and as such the Company determined that the CGUs with goodwill had not been impaired. Based on its sensitivity analysis, management believes that any reasonable possible change in key assumptions used to calculate the recoverable amounts would have no impact on the results of the impairment test.

Income taxes
Management uses significant judgment to determine the provision for income taxes, current and deferred income tax assets and liabilities and the recoverability of income tax assets recorded. The Company operates in multiple tax jurisdictions and to the extent that there are profits in these jurisdictions, the profits are subject to tax at varying tax rates and regulations under the legislation of these jurisdictions. Enghouse's effective tax rate may be affected by changes to or application of tax laws in any particular jurisdiction, changes in the geographical mix of revenue and expense, level of relative profitability in each jurisdiction, utilization of non-capital losses and tax carry-forwards and management's assessment of its ability to realize deferred income tax assets. Accordingly, management must estimate the tax provision of the Company on a quarterly basis, which involves determining taxable income, temporary differences between tax and accounting carrying values and income tax loss carry-forwards. Favorable or unfavorable adjustments to tax provisions may result when tax positions are resolved or settled at amounts that differ from those estimates.

The Company has deferred income tax assets that are subject to periodic recoverability assessments. Realization of the Company's deferred income tax assets is largely dependent upon its achievement of projected future taxable income and the continued applicability of ongoing tax planning strategies. The Company's judgments regarding future profitability may change due to future market conditions, changes in tax legislation and other factors that could adversely affect the ongoing value of the deferred income tax assets. These changes, if any, may require the material adjustment of these deferred income tax asset balances through an adjustment to the carrying value thereon in the future. This adjustment would reduce the deferred income tax asset to the amount that is considered to be more likely than not to be realized and would be recorded in the period such a determination was to be made.

4. New Standards and interpretations

<u>New Standards and interpretations issued but not yet applied</u>

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") – IFRS 15 is a new standard effective for fiscal years beginning on or after January 1, 2018 and may be early adopted. The standard contains a single model for revenue recognition that applies to contracts with customers. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on November 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9, "Financial Instruments" ("IFRS 9") – IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009, updated and further amended in October 2010, November 2013, July 2014 and December 2014. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories:

- Financial assets measured as at fair value; or
- Financial assets measured at amortized cost.

The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements.

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

In December 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete. The changes introduce:

- a third measurement category (FVOCI) for certain financial assets that are debt instruments
- a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (i.e. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

The Company has yet to assess IFRS 9's full impact and intends to adopt IFRS 9 in the accounting period beginning on or after November 1, 2018.

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.

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

5. Cash and cash equivalents and Short-term investments

	October 31, 2016		October 31, 2015	
	Carrying Value	Market Value	Carrying Value	Market Value
Cash and cash equivalents	**$ 78,436**	**$ 78,436**	**$ 94,131**	**$ 94,131**
Short-term investments:				
Mutual funds	$ 182	$ 182	$ 971	$ 971
Banker's acceptances	2,035	2,035	2,351	2,351
Equities	5,206	5,206	984	984
Total	**$ 7,423**	**$ 7,423**	**$ 4,306**	**$ 4,306**

The Company has paid funds into escrow on a number of acquisitions to be released to the vendors subject to hold back and adjustment. As at October 31, 2016 $4.5 million (2015 - $7.1 million) related to acquisition holdbacks is held in escrow and is restricted as to use. This has been included in cash and cash equivalents on the Company's consolidated statement of financial position as at October 31, 2016.

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

6. Property, plant and equipment

(i) Property, plant and equipment

	Plant (1)	Furniture and Fixtures	Computer Hardware and Software	Leasehold Improvements	Total
	$	$	$	$	$
At October 31, 2014					
Cost	846	2,124	21,833	2,333	27,136
Accumulated depreciation	(40)	(1,798)	(19,484)	(1,794)	(23,116)
Net book value	**806**	**326**	**2,349**	**539**	**4,020**
Year ended October 31, 2015					
Opening net book value	806	326	2,349	539	4,020
Additions	-	112	3,298	20	3,430
Depreciation	(17)	(189)	(2,293)	(189)	(2,688)
Exchange difference	140	30	87	20	277
Closing net book value	**929**	**279**	**3,441**	**390**	**5,039**
At October 31, 2015					
Cost	1,019	2,432	28,329	2,556	34,336
Accumulated depreciation	(90)	(2,153)	(24,888)	(2,166)	(29,297)
Net book value	**929**	**279**	**3,441**	**390**	**5,039**
Year ended October 31, 2016					
Opening net book value	929	279	3,441	390	5,039
Additions	-	240	3,155	787	4,182
Depreciation	(18)	(157)	(3,100)	(163)	(3,438)
Exchange difference	23	(7)	(58)	(45)	(87)
Closing net book value	**934**	**355**	**3,438**	**969**	**5,696**
At October 31, 2016					
Cost	1,044	1,272	18,622	2,247	23,185
Accumulated depreciation	(110)	(917)	(15,184)	(1,278)	(17,489)
Net book value	**934**	**355**	**3,438**	**969**	**5,696**

(1) Plant includes $736 allocated to building and $308 allocated to land.

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

(ii) Intangible assets and Goodwill

	Acquired Software $	Capitalized Software $	Customer Relationships $	Goodwill $	Total $
At October 31, 2014					
Cost	107,677	-	57,158	98,534	263,369
Accumulated amortization	(68,883)	-	(27,938)	-	(96,821)
Net book value	**38,794**	-	**29,220**	**98,534**	**166,548**
Year ended October 31, 2015					
Opening net book value	38,794	-	29,220	98,534	166,548
Acquisition (Note 13)	8,828	-	11,427	17,454	37,709
Purchase Price Adjustments	-	-	-	(560)	(560)
Additions	-	356	-	-	356
Amortization	(14,120)	-	(8,749)	-	(22,869)
Exchange difference	1,431	(4)	1,793	8,440	11,660
Closing net book value	**34,933**	**352**	**33,691**	**123,868**	**192,844**
At October 31, 2015					
Cost	116,506	352	68,585	123,868	309,311
Accumulated amortization	(81,573)	-	(34,894)	-	(116,467)
Net book value	**34,933**	**352**	**33,691**	**123,868**	**192,844**
Year ended October 31, 2016					
Opening net book value	34,933	352	33,691	123,868	192,844
Acquisition (Note 13)	27,705	-	17,109	24,823	69,637
Purchase Price Adjustments	-	-	-	(523)	(523)
Additions	-	1,764	-	-	1,764
Amortization	(16,978)	(62)	(11,002)	-	(28,042)
Exchange difference	(493)	7	(394)	(3,590)	(4,470)
Closing net book value	**45,167**	**2,061**	**39,404**	**144,578**	**231,210**
At October 31, 2016					
Cost	144,211	2,116	85,694	144,578	376,599
Accumulated amortization	(99,044)	(55)	(46,290)	-	(145,389)
Net book value	**45,167**	**2,061**	**39,404**	**144,578**	**231,210**

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

7. 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.

	Total
At November 1, 2014	**$ 3,407**
Additional provisions	12,654
Unused amounts reversed	(366)
Utilized during the period	(13,385)
Effect of movements in foreign exchange	1,025
At October 31, 2015	**$ 3,335**
At November 1, 2015	**$ 3,335**
Additional provisions	3,598
Utilized during the period	(4,786)
Effect of movements in foreign exchange	(36)
At October 31, 2016	**$ 2,111**

8. 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 with no par value, 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 26,906,962 common shares outstanding as at October 31, 2016. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2016 or October 31, 2015.

Dividends per share

During the year ended October 31, 2016 the Company declared dividends of $14,493 ($0.54 per common share), of which $3,767 was paid on November 30, 2016 and reflected as a liability in the statement of financial position at October 31, 2016. In the year ended October 31, 2015 dividends declared were $12,118 ($0.46 per common share).

Common share repurchase plan

On April 22, 2016, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,853,096 common shares of the Company, expiring on April 21, 2017. The Company did not repurchase any common shares in either fiscal 2016 or 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 $nil (2015- $676).

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 $8 (2015- expense of $33).

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

9. 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 1,474,700 (October 31, 2015 – 1,794,400) 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 October 31, 2016 and October 31, 2015, and changes during the years ended on those dates is presented as follows:

	2016		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
Granted	90,000	53.01	135,000	48.47
Exercised	(319,700)	13.47	(423,300)	8.31
Forfeited	-	-	(29,000)	17.15
Outstanding at end of period	**741,500**	**29.34**	**971,200**	**21.92**
Options exercisable at end of period	**416,000**	**22.73**	**498,700**	**15.78**

A summary of stock options outstanding as at October 31, 2016 is set out below:

	Outstanding Stock Options			**Exercisable Stock Options**	
Exercise Price	Number Outstanding as at October 31, 2016	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price in $	Number Exercisable as at October 31, 2016	Weighted Average Exercise Price in $
$7.76 to $10.00	16,000	1.00	9.14	16,000	9.14
$10.01 to $14.50	139,000	2.33	13.02	139,000	13.02
$14.51 to $23.74	254,500	3.32	18.85	140,500	18.29
$23.75 to $34.45	107,000	4.35	34.45	65,000	34.45
$34.46 to $48.47	135,000	5.36	48.47	55,500	48.47
$48.48 to $53.04	90,000	6.49	53.01	-	-
	741,500	**3.99**	**29.34**	**416,000**	**22.73**

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 fiscal 2016, the Company recorded a non-cash charge of $892 (2015 - $1,187).

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 period, noted below, which reflects the expected life of the options.

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

	Options Granted FY 2016	Options Granted FY 2015
Risk-free interest rate (%)	0.53%	0.68% - 1.34%
Estimated volatility (%)	24% – 26%	20% – 28%
Dividend yield	$0.56	$0.48
Expected life (in years)	3.5 – 6.3	3.5 - 6.3
Weighted average fair value (in dollars)	$9.01	$6.74 - $11.63
Weighted average share price at grant date	$53.01	$48.47

10. Research and development expense

	2016	2015
Research and development costs incurred	$ 46,339	$ 42,357
Investment tax credits recognized	(1,622)	(1,316)
Net research and development expense	**$ 44,717**	**$ 41,041**

11. Income taxes

(A) The provision for income taxes consists of the following:

	2016	2015
Current income taxes:		
Current tax on profits for the year	$ 13,824	$ 8,984
Foreign withholding taxes	1,128	308
Adjustments for prior periods	(919)	(1,017)
	$ 14,033	$ 8,275
Deferred income taxes:		
Origination and reversal of timing differences	$ (1,190)	$ (292)
Changes in tax rate	(41)	(30)
Recognition of previously unrecognized tax losses	(5,612)	(3,880)
	(6,843)	(4,202)
Total income tax provision	**$ 7,190**	**$ 4,073**

(B) The Company operates in several tax jurisdictions. The provision for income taxes differs from the expense that would be obtained by applying the combined federal and provincial statutory rate in Canada as a result of the following:

	2016 $	2016 %	2015 $	2015 %
Profit before tax at a statutory rate of 26.5% (2015 – 26.5%)	14,433	26.5	9,408	26.5
Foreign earnings subject to different income tax rates	(1,012)	(1.9)	(1,567)	(4.4)
Change in tax rates	(41)	(0.1)	(30)	(0.1)
Non-deductible expenses	435	0.8	716	2.0
Tax exempt income	(1,550)	(2.8)	(998)	(2.8)
Foreign withholding taxes	1,128	2.1	308	0.9
Resolution of tax positions	(591)	(1.0)	116	0.3
Changes in recognized assets	(5,612)	(10.4)	(3,880)	(10.9)
Effective income tax amount and rate	**7,190**	**13.2**	**4,073**	**11.5**

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

During the year tax rates changes have been substantively enacted as follows:

Jurisdiction	New Rate (%)	Prior Rate (%)	Effective Date
Norway	25%	27%	January 2016

(C) The Company has recognized deferred income tax assets and liabilities as at October 31, 2016 and 2015 of the following:

	2016	2015
	$	$
Deferred income tax assets:		
Provisions and reserves	2,021	2,782
Income tax loss carry-forwards	8,129	5,917
SRED expenditures	234	233
Property, plant and equipment	1,381	1,668
	11,765	10,600
Deferred income tax liabilities:		
Adjustment to available-for-sale investments	39	47
Property, plant and equipment	750	-
Deferred revenue reserves	3,333	2,835
Acquired software	9,699	10,015
Other intangibles	7,232	7,125
	21,053	20,022
Deferred income tax liabilities, net	**(9,288)**	**(9,422)**

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

(D) The movement in deferred income tax assets and liabilities during the year is as follows:

	Balance November 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2015
Provisions and reserves	2,803	(155)	-	134	-	2,782
Income tax loss carry-forwards	5,413	(198)	676	26	-	5,917
SRED expenditures	206	27	-	-	-	233
Property, plant and equipment	2,005	(347)	-	10	-	1,668
Other	-	(149)	-	-	149	-
Assets	10,427	(822)	676	170	149	10,600

	Balance November 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2015
Acquired software	10,451	(3,094)	-	2,658	-	10,015
Intangible assets	6,602	(1,850)	-	2,373	-	7,125
Available for sale investments	14	-	33		-	47
Deferred revenue reserves	2,863	(80)	-	52	-	2,835
Liabilities	19,930	(5,024)	33	5,083	-	20,022

	Balance November 1, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2016
Provisions and reserves	2,782	(761)	-	-	-	2,021
Income tax loss carry-forwards	5,917	2,212	-	-	-	8,129
SRED expenditures	233	1	-	-	-	234
Property, plant and equipment	1,668	(287)	-	-	-	1,381
Other	-	(941)	-	-	941	-
Assets	10,600	224	-	-	941	11,765

	Balance November 1, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2016
Property, plant and equipment	-	(2)	-	752	-	750
Acquired software	10,015	(3,738)	-	3,422	-	9,699
Intangible assets	7,125	(3,377)	-	3,484	-	7,232
Available for sale investments	47		(8)	-	-	39
Deferred revenue reserves	2,835	498	-	-	-	3,333
Liabilities	20,022	(6,619)	(8)	7,658	-	21,053

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

(E) The Company and its subsidiaries have non-capital losses available for carry-forward for income tax purposes which may be subject to restriction on their availability to shelter income as follows:

Jurisdiction	Non-capital Losses available 2016	Non-capital Losses available 2015	Expiry terms
United States	$ 72,000	$ 64,000	Expire in periods commencing in 2018 - 2035
United Kingdom	2,000	2,000	No expiry
Belgium	8,000	9,000	No expiry
Sweden	-	1,000	No expiry
Norway	4,000	2,000	No expiry
Denmark	2,000	3,000	No expiry
Canada	1,000	1,000	Expire in periods commencing in 2027 - 2035
Other	4,000	4,000	No expiry
Total	**$ 93,000**	**$ 86,000**	

The Company has not recognized a deferred income tax asset in respect of approximately $70 million of non-capital losses. Of this amount $56 million in losses were incurred by companies resident in the U.S. which are subject to IRC 382 limitations. These limit the use of losses that are available and provide that these losses can only be applied on a straight-line basis over twenty years. Based on the attributes and the Company's profitability in the U.S. it is uncertain whether there will be sufficient future taxable income with which to offset these losses during this period. The remaining $14 million in losses are related to losses incurred by foreign subsidiaries that have been acquired during the year or the previous years. Due to a lack of financial history and historical losses in these entities, management believes that it is not appropriate to fully recognize tax assets for losses acquired with these business which could potentially reverse. The Company has not recognized approximately $4 million of deductible temporary differences as it is uncertain whether future taxable income will be available from which to realize the benefits. The current year's tax provision includes a credit of $4.5 million booked for the recognition of deferred tax assets related primarily to non-capital losses for tax purposes, compared to a credit of $2.5 million recorded in fiscal 2015 for the same reason.

12. 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 during the period.

	2016	2015
Net income attributable to owners of the parent	$ 47,276	$ 31,430
Weighted average number of common shares issued	26,794,038	26,259,305
Basic earnings per share	**$1.76**	**$ 1.20**

Diluted: Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assumed conversions of all potential dilutive common shares. The Company only has stock options as a potential dilutive to common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as 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.

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

	2016	2015
Net income attributable to owners of the parent	$ 47,276	$ 31,430
Weighted average number of common shares issued	26,794,038	26,259,305
Adjustments for:		
Stock options	356,258	532,290
Weighted average number of common shares for diluted earnings per share	27,150,296	26,791,595
Diluted earnings per share	**$ 1.74**	**$ 1.17**

No options to purchase common shares were excluded in the computation of diluted earnings per share because all options' exercise prices were less than the average market price of common shares during the fiscal year. In the prior fiscal year no options were excluded in the computation of diluted earnings.

13. 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.

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 or $26.0 million net of cash acquired. CTI was integrated into each of Enghouse's segments. Results of the CTI Proteus operating unit are included in the Interactive Management Group while 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 which 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.

Asset Management Group

The Company acquired 100% of the issued and outstanding common shares of CellVision AS ("CellVision") on March 4, 2016 for an aggregate cash purchase price of approximately $4.6 million or $3.4 million net of cash acquired and hold backs. Of this amount approximately $0.7 million remains subject to hold back and adjustment. Results are included in the Asset Management Group from date of acquisition.

Headquartered in Oslo, Norway, CellVision enables spatial intelligence and visual dashboard analytics for network operators. The purchase price allocation has not been finalized subject to receipt of additional information.

The Company acquired the assets of NetBoss Technologies ("NetBoss") on May 27, 2016 for an aggregate cash purchase price of approximately $9.0 million or $6.8 million net of cash acquired and hold backs. Of this amount approximately $2.1 million remains subject to hold back and adjustment. Results are included in the Asset Management Group from date of acquisition.

Headquartered in Sebastian, Florida, NetBoss provides an integrated service assurance platform encompassing fault and performance management, service correlation and customer analytics. The purchase price allocation has not been finalized subject to receipt of additional information.

Interactive Management Group

The Company acquired 100% of the issued and outstanding common shares of Presence Technology, S.L. (“Presence”) on October 28, 2016 for an aggregate cash purchase price of approximately $21.9 million or $16.5 million net of cash acquired and hold backs. Of this amount approximately $2.2 million remains subject to hold back and adjustment. Aggregate contingent consideration of $1.5 million has been reported in the consolidated statement of financial position at its estimated fair value. Results will be included in the Interactive Management group from November 1, 2016. However, the opening statement of financial position of Presence on acquisition has been included in the consolidated financial statements of financial position as at October 31, 2016.

Headquartered in Barcelona, Spain, Presence is a leading provider of multi-channel contact center software solutions with specific focus on Spanish speaking markets. The Company’s suite of applications provides its approximately 200 clients with a flexible architecture to deploy contact center capabilities on-premise, in the cloud or on a hybrid basis. The product suite is available in English and Spanish, with end-user modules also available in Portuguese. This has entabled Presence to establish a leadership position in its core markets of Spain, the Americas and Sub-Saharan Africa.

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. $1.7 million of the total goodwill of $24.8 million recorded in 2016 (2015 – $nil of $16.9 million) arising from these acquisitions is deductible for tax purposes.

The gross contractual amounts of acquired receivables in 2016 was $12.5 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.

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 $5.9 million. During the year, $0.8 million for Reitek’s hold back was adjusted and released. 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 $30.3 million. During 2016, $2.5 million for CDRator and $0.6 million for Aktavara hold backs were released, which was previously included in restricted cash of the company. Currently no amount remains subject to hold back for Aktavara and CDRator. The purchase price allocations are now final. 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 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.

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

The Company's purchase price allocations are as follows:

	Interactive Management Group Preliminary 2016	Asset Management Group Preliminary 2016	Interactive Management Group Final 2015	Asset Management Group Final 2015
Cash and cash equivalents	$ 3,243	$ 1,987	$ 849	$ 4,626
Accounts receivable, net	5,717	6,782	5,514	4,962
Prepaid expenses and other assets	170	928	644	524
Deposits	873	-	-	-
Property, plant and equipment	433	413	227	301
Deferred income tax assets	-	-	134	16
Acquired software	11,237	16,468	2,140	6,688
Customer relationships	7,054	10,055	3,750	7,677
Goodwill	19,486	5,337	4,630	12,309
Total assets acquired	**$ 48,213**	**$ 41,970**	**$ 17,888**	**$ 37,103**
Less: Current liabilities assumed	$ 4,285	$ 10,997	$ 10,171	$ 3,617
Less: Long-term loans	4,049	-	-	-
Less: Deferred income tax liabilities	4,758	2,902	1,849	3,235
Total liabilities assumed	**$ 13,092**	**$ 13,899**	**$ 12,020**	**$ 6,852**
Net assets acquired for cash consideration	**$ 35,121**	**$ 28,071**	**$ 5,868**	**$ 30,251**

14. Commitments and Operating Leases

The Company leases premises and certain equipment and automobiles under operating leases. The operating rental expense for the year ended October 31, 2016 was $8,391 (2015 - $7,040). The annual minimum future lease commitments are as follows:

	October 31, 2016	October 31, 2015
Less than 1 year	$ 7,126	$ 6,930
Between 1 and 5 years	7,734	9,467
More than 5 years	1,734	-
Total	**$ 16,594**	**$ 16,397**

15. 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. 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.

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

Year ended October 31, 2016	Interactive Management Group	Asset Management Group	Total
Revenue	$ 192, 217	$ 115,766	$ 307,983
Operating expenses excluding non-cash charges	(128,835)	(83,165)	(212,000)
Special charges	(526)	(804)	(1,330)
Depreciation of property, plant and equipment	(2,487)	(951)	(3,438)
Segment profit	**$ 60,369**	**$ 30,846**	**$ 91,215**
Corporate expenses			(9,277)
Results from operating activities			**$ 81,938**
Amortization of acquired software and customer relationships			(28,042)
Finance income			123
Finance expenses			(350)
Other income			797
Income before income taxes			**$ 54,466**
Goodwill	$ 92,952	$ 51,626	144,578
Other assets	127,958	139,236	267,194
Short-term investments			7,423
Total assets			**$ 419,195**
Capital Expenditures	$ 2,466	$ 906	$ 3,372

Year ended October 31, 2015	Interactive Management Group	Asset Management Group	Total
Revenue	$ 188,236	$ 91,077	$ 279,313
Operating expenses excluding non-cash charges	(132,673)	(67,408)	(200,081)
Special charges	(1,629)	(360)	(1,989)
Depreciation of property, plant and equipment	(2,172)	(516)	(2,688)
Segment profit	**$ 51,762**	**$ 22,793**	**$ 74,555**
Corporate expenses			(7,292)
Results from operating activities			**$ 67,263**
Amortization of acquired software and customer relationships			(22,869)
Litigation settlements			(8,774)
Finance income			251
Finance expenses			(480)
Other income			112
Income before income taxes			**$ 35,503**
Goodwill	$ 85,897	$ 37,971	123,868
Other assets	138,860	108,981	247,841
Short-term investments			4,306
Total assets			**$ 376,015**
Capital Expenditures	$ 2,407	$ 495	$ 2,902

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

Revenue from customers is attributable to individual countries based on the reporting entity that records the transaction and is distributed geographically as follows:

Jurisdiction	2016 %	2015 %
United States	28	29
United Kingdom	21	18
Europe	16	17
Scandinavia	27	26
Asia Pacific	5	7
Canada	3	3
Total	**100**	**100**

Non-current assets by geographic region is attributable to individual countries based on reporting entity and is distributed geographically as follows:

Jurisdiction	2016 $	2015 $
United States	71,387	62,910
United Kingdom	38,019	20,910
Europe	59,012	51,236
Scandinavia	46,562	50,887
Canada	18,733	9,684
Other	4,550	2,256
Subtotal	**238,263**	**197,883**
Deferred tax assets	11,765	10,600
Total Non-current Assets	**250,028**	**208,483**

16. 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. There are no material claims outstanding against the Company as at October 31, 2016

17. Long-term loans

The Company inherited long-term loans on the acquisition on Presence Technology, S.L. ("Presence"). Presence has long-term loans with Spanish government agencies. The loans bear fixed interest rates that vary between 0.08% and 3.95%. The facilities are collateralized by long–term deposits held by financial institutions, however the Company can settle these loans at any time in the future. As at October 31, 2016, there is $1.0 million in undrawn loans. The terms require that remaining balances on each loan must be repaid in agreed instalments per loan between now and various due dates, with the last settlement occurring in 2028. The loans contain standard terms of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at period end the Company was in compliance with standards terms. The loans are available for research and development expenditure and working capital needs.

18. Capital disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to deploy capital to provide an appropriate return on investment to its shareholders. The capital structure of the Company consists of shareholder's equity comprised of retained earnings, share capital and accumulated other comprehensive income or loss amounts relating to available-for-sale securities and cumulative translation adjustments. The Company does not have any long-term debt other than that inherited on the acquisition of Presence on October 28, 2016. The Company manages its capital structure and makes adjustments to it in light of economic conditions and the risk characteristics of the underlying assets. The Company's primary uses of capital are to finance non-cash working capital requirements, capital expenditures and acquisitions, which are currently funded from its internally-generated cash flows.

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. There has been no change with respect to the overall capital risk management strategy during the year ended October 31, 2016.

19. Financial instruments

Fair value of financial instruments

The Company has determined that the fair value of its cash, cash equivalents, short-term investments, accounts receivable and financial liabilities approximate their respective carrying amounts as at the financial position dates due to their short-term nature. Long-term loans inherited on acquisition of Presence is fair valued at acquisition based on market interest rates.

Fair Value Hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices). Level 3 inputs are inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

In the table below, the Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. The Company has no financial assets that are measured using Level 3 inputs.

Financial assets and financial liabilities that are measured at fair value as at October 31, 2016 and October 31, 2015 in the financial statements are summarized below. The Company has no financial liabilities measured at fair value initially other than those recognized in connection with business combinations. There were no transfers of fair value measurements between Level 1 and Level 2 of the fair value hierarchy in 2016 and 2015.

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

	October 31, 2016			October 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Equities	$ 5,206	$ -	$ 5,206	$ 984	$ -	$ 984
Mutual Funds	-	182	182	-	971	971
Total financial assets	**$ 5,206**	**$ 182**	**$ 5,388**	**$ 984**	**$ 971**	**$ 1,955**

	October 31, 2016			October 31, 2015		
	Level 2	Level 3	Total	Level 2	Level 3	Total
Liabilities:						
Contingent Consideration	$ -	$ 1,459	$ 1,459	$ -	$ -	$ -
Total financial liabilities	**$ -**	**$ 1,459**	**$ 1,459**	**$ -**	**$ -**	**$ -**

Risk management
The Company, through its financial assets and liabilities, is exposed to risks of varying degrees of significance that could impact its ability to achieve its strategic growth objectives. The main objective of the Company's risk management process is to ensure that risks are properly identified and addressed. The Company has exposure to credit risk, market risk and liquidity risk.

The Company manages its short-term investment portfolio to maximize returns, maintain liquidity and diversify its credit risk exposure to safeguard its principal. To achieve this objective, the Company has established an investment committee consisting of the Company's Chief Executive Officer, Vice President Finance and Chairman of the Audit Committee. The Company has also adopted a formal investment policy to govern the management of the Company's investment portfolio, which specifies eligible investments, investment limits, minimum allowable credit ratings of investments and the permissible concentration of credit risk. The Company does not enter into any hedge transactions in its investment portfolio and is not party to any derivative financial instruments.

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The amounts reported in the consolidated statement of financial position are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by adjusting the allowance for doubtful accounts as soon as the account is determined not to be fully collectible. The Company believes that its credit risk with respect to accounts receivable is limited for a number of reasons including dealing primarily with large companies and governmental agencies, diversifying its customer base across varying industries and geographic locations, regular management review, negotiating progress payments as contracts are executed and past experience with bad debt expense. The Company historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. No individual customer's trade receivable poses a significant credit risk to the Company.

The Company's trade receivables had a carrying value of $73.6 million as at October 31, 2016 (2015 - $60.8 million), representing the maximum exposure to credit risk of those financial assets, net of the allowance for doubtful accounts of $7.8 million. The Company's allowance for doubtful accounts increased from $6.6 million at October 31, 2015 as a result of acquisitions. The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 30 to 60 days. Approximately 8.6% or $7.1 million of trade receivables at October 31, 2016 were outstanding more than 90 days, compared to 12.6% past due as at October 31, 2015 which has been fully provided for at October 31,2016.

With respect to its investment portfolio, the Company limits its exposure to credit risks from counter-parties to financial instruments by dealing only with major financial institutions and large multi-national corporations with high credit-ratings, investing only in high grade investment products and limiting exposure to any one financial institution, commercial issuer or investment type and limits the term of maturity. Management does not expect any counter-parties to fail to meet their obligations. The carrying amount of financial assets represents the maximum credit exposure to the Company.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments.

Foreign exchange risk
Foreign currency risk is related to the portion of the Company's business transactions denominated in currencies other than Canadian dollars, a large portion of which relates to fluctuations in the value of the Canadian dollar relative to that of the U.S. dollar. However, a significant proportion of revenue is increasingly generated by the Company's U.K. and European operations.

Approximately 21% of the Company's revenues are derived from sales by its U.K. operations, which may be denominated in pounds sterling, euros or U.S. dollars, while 16% of its revenue is generated from sales by the Company's European offices in Ireland, Germany, Italy and 27% of its revenues generated by Scandinavian operations primarily in Sweden, Denmark and Norway. Approximately 5% of revenues are derived from sales to customers in Australia and New Zealand and are denominated in Australian and New Zealand dollars. Approximately 28% of the Company's revenues are derived from sales to customers in the United States, which are naturally hedged by the Company's U.S. based operating costs associated primarily with the Company's Interactive Management Group U.S. operations. In contrast, the Company's head office expenses are incurred in Canadian dollars which is not hedged by Canadian dollar denominated revenue. Similar natural hedges exist in most other operations where revenue and operating expenses are denominated in the same currencies. If all the currencies in which the Company transacts were to fluctuate by 1% from existing rates, results from operating activities would be increased or decreased by approximately $0.8 million in the consolidated statement of operations.

For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the Canadian dollar will create volatility in the Company's cash flows and the reported amounts for revenue and selling, general and administrative expenses on a period-to-period basis.

Additional earnings volatility arises from the translation of monetary assets and liabilities denominated in currencies other than the functional currency of the subsidiary in which they are recorded. Changes in the rates of exchange at each financial position date of these monetary assets and liabilities are reported as a foreign exchange gain or loss. For the year ended October 31, 2016 the Company reported foreign exchange gains of $8.5 million compared to gains of $2.5 million in fiscal 2015.

Translation gains or losses incurred upon consolidation of the Company's foreign operation's financial positions into Canadian dollars are included in the Company's accumulated other comprehensive income (loss) account on the statement of financial position. During fiscal 2016, the exchange rate for U.S. dollars to Canadian dollars averaged $1.33 (2015 - $1.24), while the pound sterling averaged $1.86 (2014 - $1.91), the Euro averaged $1.47 (2015 - $1.41) and the Swedish krona averaged $0.16 (2015 - $0.15). If exchange rates were to fluctuate by 1%, the exchange gain or loss on our net assets could be valued at plus or minus $2.8 million due to the fluctuation and would be recorded in other comprehensive income.

Interest rate risk
Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and short-term investments. If interest rates were to fluctuate proportionally by 10% of existing rates, interest income would be increased or decreased by approximately $0.01 million per year.

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

The Company is not materially exposed to interest rate risk on debt as the Company has nominal long-term debt.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it has sufficient liquidity to meet its obligations, mainly accounts payable, accrued liabilities, accrued provisions and deferred revenue, when due. The Company does not have any short-term borrowing or debt facilities other than that inherited on the acquisition of Presence on October 28, 2016 and settles its financial obligations out of cash. The ability to do so relies on the Company's ability to generate cash from operations and collect accounts receivable in a timely manner and by maintaining sufficient cash on hand. As at October 31, 2016 the Company's current liabilities, all of which fall due for payment within twelve months of the consolidated statement of financial position date, were $120,757 (2015 - $109,183). At October 31, 2016 the Company had a working capital surplus of $48,410 (2015 - $58,349).

20. Changes in non-cash operating working capital

	2016 $	2015 $
(Increase) decrease in accounts receivable, net	(7,679)	7,065
(Increase) decrease in prepaid expenses and other assets	(1,202)	944
Decrease in accounts payable & accrued liabilities	(5,541)	(8,753)
Decrease in provisions	(1,198)	(394)
Decrease in income taxes payable	(2,269)	(3,535)
Increase (decrease) in deferred revenue	1,381	(1,958)
	(16,508)	**(6,631)**

21. Additional IFRS Information

Expense by nature:
Expenses incurred by nature are as follows:

	2016 $	2015 $
Third party license, maintenance and services	15,479	15,581
Hardware	3,180	5,013
Staff costs	169,566	151,397
Supplies	3,573	3,116
Other administrative expenses	6,410	7,556
Travel and marketing	11,610	11,524
Communications	3,993	3,686
Occupancy	10,555	7,746
Professional services	5,388	4,288
Restructuring	1,330	1,989
Foreign exchange gain	(8,477)	(2,534)
Depreciation of property, plant and equipment	3,438	2,688
	226,045	**212,050**

October 31, 2016 and 2015 (in thousands of Canadian dollars, except as indicated)

Staff costs:

Expenditures for staff costs are as follows:

	2016 $	2015 $
Salaries and wages	122,545	107,684
Employee benefits	25,226	23,394
Stock-based compensation	892	1,187
Termination benefits	1,336	924
Bonuses	5,274	4,500
Commissions	3,699	4,498
Contractors	10,594	9,214
	169,566	**151,401**

Included in employee benefits are the Company's share of costs related to defined contribution pension plans of $4.2 million (2015 - $3.8 million).

22. Related parties

Related party transactions
The company has not entered into any related party transactions.

Key management personnel compensation
The key management personnel of the Company are the members of the Company's executive management team and Board of Directors, and control approximately 30.7% (2015 – 31.5%) of the outstanding shares of Enghouse.

	2016 $	2015 $
Salaries, bonus and employee benefits	5,168	3,896
Stock options	437	794
Total	**5,605**	**4,690**