

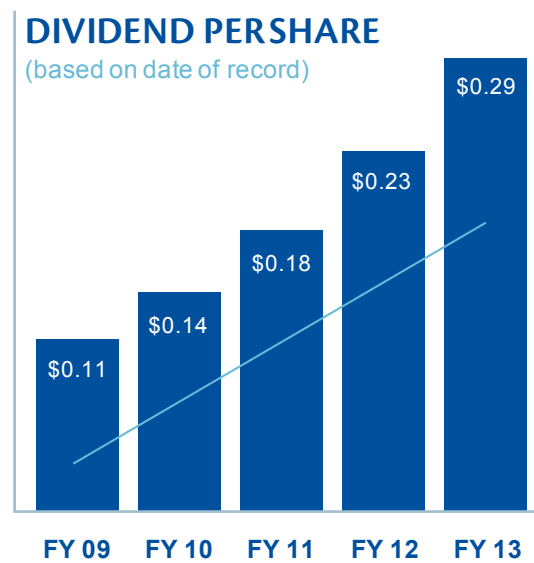
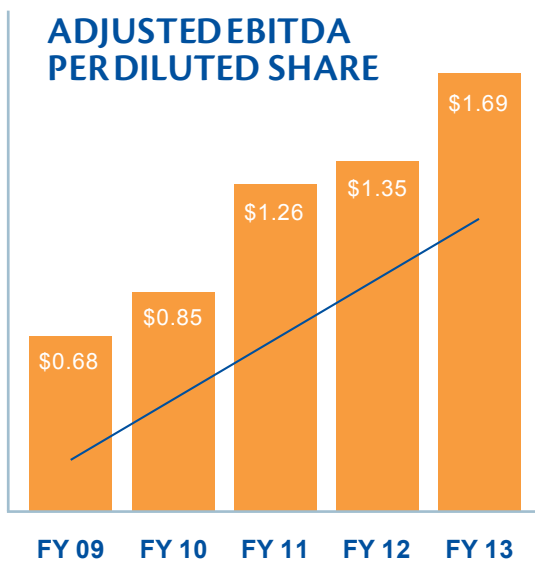
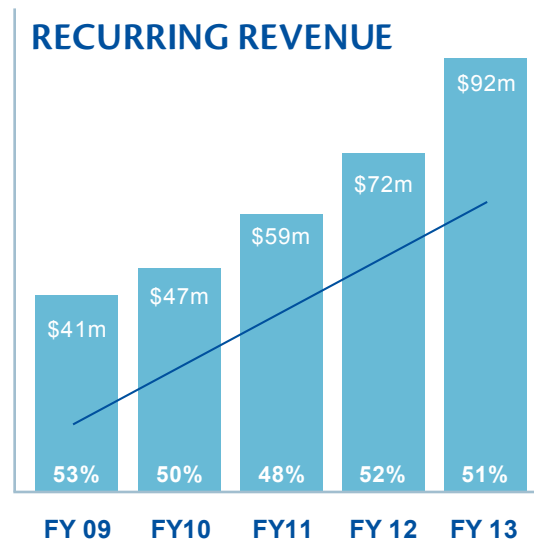
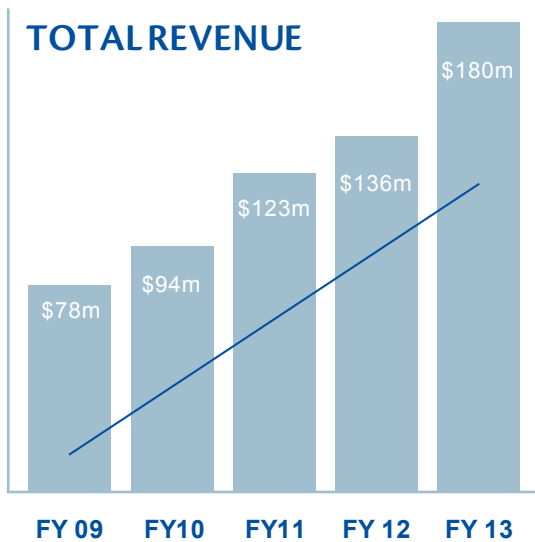
Annual Report 2013



Enghouse Systems

Software engineered for results

“We believe that the combination of the strengthened corporate team and our steadfast execution approach will continue to increase our financial success.”



Chairman's Message

Enghouse reported another record year, with growth in revenue of 32% to \$179.9 million and net income of \$24.3 million or \$0.92 per diluted share. The Company generated cash flows from operating activities of \$32.4 million, up 38% from last year and increased its cash and short-term investments to over \$90 million. EBITDA was \$44.9 million or \$1.69 per diluted share, up from \$35.1 million or \$1.35 per diluted share last year.

Of note, Enghouse completed five acquisitions during the year, and one shortly after year end, growing the Company's presence in the Scandinavian and German markets, while increasing the scale of its Asset Management Group operations. The acquisitions also augmented Enghouse's product offerings for the logistics and public safety markets. The Interactive Management Group's product portfolio benefited as well, with the addition of a knowledge base and community user forum platform and on-premise and hosted products and services for outbound dialing and broadcast messaging.

We increased our recurring revenue from hosted and maintenance services by 28% to \$91.8 million in the fiscal year which accounted for 51% of the total revenue. The Company also generated more subscription based license revenue during the year as more customers steered towards subscription based pricing models in part, as a consequence of constrained capital spending. As a result, license revenue grew by 31% from \$45.1 million to \$58.9 million in the fiscal year.

The Company strengthened the corporate management team, adding seasoned management in senior corporate roles related to acquisitions, operations and IT management in the fiscal year. Enghouse remains focused on acquisitions, but also continues to invest in R&D to drive organic growth, spending almost 17% of total revenue on upgrades and enhancements to its hosted and cloud-based solutions. Despite the increased expenditures related to corporate management and R&D, the Company reduced its operating spending (before special charges related to restructuring) as a percentage of revenue to below 48% in the year.

We remain well positioned with no long-term debt and over \$90 million in cash and short-term investments, after spending over \$25 million on acquisitions and paying \$7.5 million in eligible dividends during the fiscal year.

Committed to driving shareholder value, Enghouse posted strong returns and increased its dividend during fiscal 2013 for the fifth consecutive year. The Company was recently added to the Canadian Dividend Aristocrat Index.

Moving forward, we remain focused on generating consistent profitability and expanding our scale both organically and through accretive acquisitions. The acquisition landscape remains attractive and we expect to capitalize on such opportunities to meet our stated objectives. We believe that the combination of the strengthened corporate team and our steadfast execution approach will continue to increase our financial success.

We would like to take this opportunity to thank all our shareholders, employees and customers for their continued loyalty and support.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") has been prepared as of December 17, 2013 and all information contained herein is current as of that date. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with Enghouse Systems Limited's ("Enghouse" or "the Company") fiscal 2013 audited consolidated financial statements and the notes thereto. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse and its subsidiaries, all wholly owned, for the year ended October 31, 2013. 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 income before income taxes adjusted for depreciation of property, plant and equipment, amortization of acquired software and customer relationships, finance income, finance expenses, other income, and special charges for acquisition related restructuring costs. Management uses Adjusted EBITDA to evaluate operating performance as it excludes amortization of software and intangibles (which is an accounting allocation of the cost of software and intangible assets arising on acquisition), any impact of finance and tax related activities, asset depreciation, other income and restructuring costs primarily related to acquisitions.

Forward-looking Statements

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

Corporate Overview

Enghouse is a Canadian publicly traded company (TSX:ESL) that develops enterprise software solutions for a variety of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, call recording and workforce optimization solutions that support any telephony environment, on-premise or in the cloud. Its customers include insurance companies, banks and utilities as well as high technology, health care and hospitality companies. The Asset Management Group provides a portfolio of products to telecom service providers as well as fleet management and public safety software solutions for the transportation industry, first responders, distribution, security, utilities and oil and gas industries. These include telecom billing, data conversion, and geo-spatial software solutions for complex network infrastructures and fleet/logistics management solutions for the public and private sectors.

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

Enghouse completed five acquisitions in fiscal 2013. On November 1, 2012 the Company acquired 100% of the issued and outstanding common shares of Visionutveckling AB ("Vision") for a cash purchase price of approximately \$10.8 million. Of this amount, approximately \$1.5 million is subject to hold back and adjustment. Vision provides attendant and contact center software solutions with offerings both on-premise and in the cloud, with operations based in Sweden, Norway and Denmark. Results are included

in the Interactive Management Group from the date of acquisition.

On March 1, 2013 the Company acquired 100% of the issued and outstanding common shares of Locus Holdings AS ("Locus") for a net cash purchase price of approximately \$12.7 million, subject to certain price adjustments. Of this amount, approximately \$2.1 million remains subject to hold back and adjustment after release of \$0.4 million to the vendors and \$0.2 million to the Company in June 2013. Headquartered in Sandefjord, Norway, Locus is a leading supplier of fleet management solutions for the Public Safety and Transport & Logistics (including Security) sectors in the Scandinavian market. Locus has a dominant position in the Norwegian Public Safety sector. Its products are installed in police cars, ambulances, rescue helicopters and fire brigades. Locus's transportation, logistics and M2M products are also well established in these markets, which the Company plans to leverage in its North American Transportation operations. The results have been included in the Asset Management Group subsequent to acquisition.

On December 1, 2012 the Company acquired 100% of the issued and outstanding common shares of Albatross Scandinavia AB ("Albatross"). Albatross, based in Sweden, provides a real-time intelligent network platform that delivers voice and SMS routing products to telecom operators, with results included in the Asset Management Group from the date of acquisition.

On September 6, 2013 the Company acquired 100% of the issued and outstanding common shares of Safeharbor Knowledge Solutions ("Safeharbor"). Based in Satsop (Seattle), Washington, Safeharbor delivers a SaaS based, unified knowledge base and community forum platform, meeting the needs of small and medium size businesses to Fortune 500 enterprises. This cloud-based offering combines same day turnkey provisioning and deployment, state of the art search and powerful/easy to use administration tools. The product offers a set of applications for internal management and agent collaboration giving knowledge base administrators flexibility to manage and improve content.

On October 7, 2013 Enghouse acquired 100% of the issued and outstanding common shares of Andtek GmbH ("Andtek"). Andtek is a unified communications specialist who provides highly scalable attendant console and contact center solutions as well as handset applications through a reseller channel. The

MANAGEMENT'S DISCUSSION AND ANALYSIS

company is based in Germany and also has a development center in Hungary. The results of both the Safeharbor and Andtek acquisitions have been included in the Interactive Management Group subsequent to acquisition.

Immediately after year end on November 4, 2013 the Company acquired 100% of the issued and outstanding common shares of Information Access Technology, Inc. ("IAT"). IAT is headquartered in West Jordan (Salt Lake City), Utah and provides outbound communication and messaging products and hosted services which enable companies to design, execute and measure customer communication campaigns for marketing, customer care and payment processing markets. IAT's solutions include both on-premise and hosted products and services for outbound dialing and broadcast messaging. The results will be included in the Interactive Management Group in fiscal 2014.

The Company's acquisition strategy has allowed Enghouse to further diversify its revenue stream both in terms of product depth and breadth as well as through entry into new geographic markets. This remains a critical part of the Company's strategy to expedite development efforts and introduce new customer bases for cross-selling opportunities. During the fiscal year the Company also invested in its management team, adding key resources with an operational focus to grow its organic operations and integrate acquisitions into the Company's operations.

Quarterly Results of Operations

(in thousands of Canadian dollars except per share amounts)

The following table sets forth certain unaudited information for each of the eight most recent quarters (the last of which ended October 31, 2013). 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, 2013	41,957	3,435	0.13	0.13	80,051	251,829
April 30, 2013	44,511	4,903	0.19	0.19	80,940	261,590
July 31, 2013	46,247	6,297	0.24	0.24	92,037	261,585
October 31, 2013	47,171	9,712 [^]	0.37	0.36	90,297	277,956
Year ended Oct. 31, 2013	179,886	24,347	0.94	0.92	90,297	277,956
January 31, 2012	30,533	4,060	0.16	0.16	100,491	215,797
April 30, 2012	31,456	4,180	0.16	0.16	100,403	222,961
July 31, 2012	35,427	4,288	0.17	0.16	79,700	238,574
October 31, 2012	38,952	8,345 [^]	0.32	0.32	83,652	239,710
Year ended Oct. 31, 2012	136,368	20,873	0.82	0.80	83,652	239,710
Year ended Oct. 31, 2011	122,559	23,065[*]	0.91	0.90	99,591	211,118

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

^{*}Includes credit adjustment to tax provision of \$7.9 million on transition to IFRS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Annual Results of Operations

(in thousands of Canadian dollars except per share amounts)

	2013	2012	Year over year change	
			\$	%
Interactive Management Group	\$ 146,082	\$ 119,060	27,022	22.7
Asset Management Group	33,804	17,308	16,496	95.3
Total revenue	179,886	136,368	43,518	31.9
Direct costs	51,118	36,659	14,459	39.4
Revenue, net of direct costs	128,768	99,709	29,059	29.1
	71.6%	73.1%		
Operating expenses	85,572	65,947	19,625	29.8
Special charges	2,491	544	1,947	357.9
Results from operating activities	40,705	33,218	7,487	22.5
	22.6%	24.4%		
Amortization of acquired software and customer relationships	(15,568)	(10,974)	(4,594)	(41.9)
Finance income	641	987	(346)	(35.1)
Finance expense	(313)	(269)	(44)	(16.4)
Other income	1,582	145	1,437	991.0
Income before income taxes	27,047	23,107	3,940	17.1
Provision for income taxes	2,700	2,234	466	20.9
Net Income	\$ 24,347	\$ 20,873	3,474	16.6
Earnings per share – basic	\$ 0.94	\$ 0.82	0.12	14.6
Earnings per share – diluted	\$ 0.92	\$ 0.80	0.12	15.0
Cash flow from operating activities	\$ 32,357	\$ 23,475	8,882	37.8
Cash flow from operating activities excluding changes in working capital	\$ 44,105	\$ 36,212	7,893	21.8

General

Enghouse revenue for the year ended October 31, 2013 was \$179.9 million compared to \$136.4 million in the prior year ended October 31, 2012. Income from operating activities was \$40.7 million compared to \$33.2 million last year, an increase of 23%, while net income was \$24.3 million compared to net income of \$20.9 million in the prior year. The increase in revenue in the fiscal year is largely attributable to contributions from acquired operations.

The Company continues to actively pursue acquisitions and completed five acquisitions during the fiscal year, significantly expanding the Asset Management Group with the acquisition of Locus. The Company also increased its footprint in the Scandinavian and Norwegian markets with the acquisitions of Vision, Albatross and Locus and expanded its product suite with the acquisitions of Safeharbor and Andtek. Enghouse continues to execute its expansion strategy into new markets which reduces its traditional reliance on revenue from the North American market. The Company is now well represented in North America, the UK, Europe, the Scandinavian region, Asia-Pacific and the Middle East, with a true global presence.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

Revenue for the year increased by 31.9% to \$179.9 million from \$136.4 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 \$58.9 million for the year compared to \$45.1 million reported in the prior fiscal year as a result of increased contributions from subscription based license sales, and includes contributions from Locus and Vision, who each have a strong subscription revenue base.

Overall, \$115.7 million or 64.3% of all revenue was derived from services, compared to \$89.7 million or 65.8% in fiscal 2012, with the proportional decline being the result of increased license revenue contributions in fiscal 2013. 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 \$79.7 million or 44.3% of total revenue in the fiscal year, compared to \$64.9 million or 47.6% in fiscal 2012. The increase in maintenance revenue over the prior year is attributable to a combination of incremental maintenance on new license sales, price increases, and contributions from acquired operations which added \$6.4 million in maintenance revenue in the fiscal year. Excluding acquisitions, maintenance revenue was \$73.3 million, which represents an increase of 12.9% over fiscal 2012. Combined with the hosted services revenue stream this represents an important strategic source of revenue to the Company, given its generally recurring nature. During the fiscal year, the Company further expanded its hosted revenue capabilities with the acquisitions of Locus and Albatross after adding CustomCall last year and introduced new hosted offerings in its existing business. This resulted in an increase in the Company's hosted services revenue to \$12.1 million from \$6.7 million in fiscal 2012.

Hardware revenue was \$5.3 million in the year, compared to \$1.6 million in the prior year, with the increase being attributable to ongoing incremental hardware revenue sales as part of the Locus business model. 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 \$146.1 million, an increase of 22.7% from \$119.1 million in the prior fiscal year. This includes hosted and maintenance service revenue, which increased 20.8% to \$74.4 million from \$61.6 million in fiscal 2012 as a result of contributions from acquisitions and organic growth. This also includes the full year revenue contributions of Zeacom which was acquired on June 1, 2012. Software license revenue in the group was \$52.4 million compared to \$41.6 million in the prior fiscal year which includes incremental contributions from licenses sold on a subscription basis. Third party hardware and software revenue added \$3.7 million in the year, up from \$3.2 million reported in fiscal 2012.

Asset Management Group revenue increased 95.3% to \$33.8 million from \$17.3 million in the prior year as a result of incremental revenue contributions from newly acquired Albatross and Locus as well as full year's contributions from CustomCall which was acquired on March 1, 2012. License revenue for the group was \$6.5 million, up from \$3.5 million in the prior fiscal year primarily as a result of subscription based license sales by Locus. Hosted and maintenance revenue for the group was \$17.4 million compared to \$10.0 million last year as a result of incremental contributions from CustomCall, Locus and Albatross.

Direct Costs

Direct costs were \$51.1 million or 28.4% of revenue compared to \$36.7 million or 26.9% of revenue in the prior fiscal year. The decrease in margins is attributable to lower margins on incremental services revenue, as margins have declined from 65.0% to 62.7% consistent with increased costs associated with providing hosted services. Hardware margins improved from 27.8% to 32.3% as a result of the larger proportionate contribution from higher margin Locus hardware sales in the fiscal year since acquisition. Software license margins also improved over last year as a result of decreased proportionate contributions from third party software license sales.

Operating Expenses

The Company's operating expenses were \$88.1 million in the fiscal year compared to \$66.5 million in the prior fiscal year, an increase of 32.4%. This includes special charges for acquisition related restructuring expenses of \$2.5 million in the year incurred on the Vision, Albatross and Locus acquisitions, compared to \$0.5 million in the prior year related

MANAGEMENT'S DISCUSSION AND ANALYSIS

to the acquisition of Zeacom. Excluding special charges, operating expenses were 47.6% of revenue in the fiscal year compared to 48.4% in fiscal 2012. Operating expenses reflect increased costs associated with companies acquired in the fiscal year, as well as the full year operating costs of CustomCall and Zeacom, acquired in fiscal 2012. Operating expenses also include \$30.5 million or 16.9% of revenue in research and development related expenses compared to \$21.5 million (15.8%) in fiscal 2012, an increase in investment related primarily to acquisitions. Research and development expenses are net of government grants and investment tax credits earned in the year in various jurisdictions of \$0.7 million compared to \$1.8 million recorded in fiscal 2012.

Operating expenses also include non-cash charges for compensation expenses related to stock options granted, which added \$1.0 million in the current year compared to \$0.6 million in the prior fiscal year (see Note 9 to the consolidated financial statements).

Headcount for the Company on a consolidated basis was 943 as at October 31, 2013 compared to 820 at the prior year end and includes additional headcount from acquisitions, net of attrition in the 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 current fiscal year in the Scandinavian region and Europe, a larger proportion of revenue is derived from operations outside of the U.S. and is denominated in currencies other than the U.S. dollar. As a result, the Company transacts a significant proportion of its business in pounds sterling, Swedish kronor and to a lesser extent in euros, as well as currencies in the Asia Pacific region. This principally impacts the Company's Interactive Management Group. However, with the recent acquisition of Locus and Albatross by the Asset Management Group, there are increasing revenue contributions from the Scandinavian regions, whose currencies have been relatively stable to the Canadian dollar in the past fiscal year.

During the past fiscal year, the Canadian dollar has weakened against major currencies including the U.S. dollar, the pound sterling, the Swedish krona and the euro. As the Company's reporting currency is the Canadian dollar, this has positively impacted revenue reported in Canadian dollars while negatively impacting operating costs, and partially acts as a natural hedge. Revenue was positively impacted by an estimated \$2.7 million, while costs were increased by an estimated \$2.1 million, as calculated by applying the change in the average exchange rates from 2012 to 2013 to the Company's foreign currency denominated revenue and operating expenses in fiscal 2013.

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

The Company recorded foreign exchange losses of \$0.1 million related to foreign currency denominated monetary assets and liabilities in the current year compared to gains of \$0.8 million in the prior year. 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 \$15.6 million compared to \$11.0 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 related to Zeacom and CustomCall, both of which were acquired in fiscal 2012, which added \$5.1 million in total in the fiscal year. This was mitigated by the expiry of amortization expenses on prior acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Finance Income and Other Income

Finance income was \$0.6 million in the year, reflecting a decrease from \$1.0 million in the prior year as a result of lower yields on invested cash compared to fiscal 2012. Net other income reported was \$1.6 million in the year, up from \$0.1 million in the prior year due to the timing of gains realized on equity investments sold during the fiscal year. There can be no assurance that similar gains will be recorded in future years.

Income Tax Expense

During the year, the Company recorded an income tax provision of \$2.7 million reflecting a 10.0% effective tax rate as compared to \$2.2 million reflecting a 9.7% effective tax rate, in the prior fiscal year. The current year's tax provision includes a credit of \$3.1 million booked for the set-up of deferred non-capital losses for tax purposes, compared to a credit of \$2.5 million recorded in fiscal 2012 for the same reason.

Net Income

Enghouse reported net income of \$24.3 million in fiscal 2013 compared to \$20.9 million reported in fiscal 2012. Earnings per share on a diluted basis were \$0.92 versus \$0.80 in fiscal 2012.

Fourth Quarter Operating Results

(in thousands of Canadian dollars except per share amounts)

	Q4/2013	Q4/2012	Year over year change	
			\$	%
Interactive Management Group	\$ 36,839	\$ 33,163	3,676	11.1
Asset Management Group	10,332	5,789	4,543	78.5
Total revenue	47,171	38,952	8,219	21.1
Direct costs	13,670	10,801	2,869	26.6
Revenue, net of direct costs	33,501	28,151	5,350	19.0
	71.0%	72.3%		
Operating expenses	21,512	18,368	3,144	17.1
Special charges	-	53	(53)	(100.0)
Results from operating activities	11,989	9,730	2,259	23.2
	25.4%	25.0%		
Amortization of acquired software and customer receivables	(4,083)	(3,204)	(879)	(27.4)
Finance income	124	289	(165)	(57.1)
Finance expense	(55)	(86)	31	36.0
Other income	466	(23)	489	2,126.0
Income before taxes	8,441	6,706	1,735	25.9
Recovery of income taxes	(1,271)	(1,639)	368	22.5
Net Income	\$ 9,712	\$ 8,345	1,367	16.4
Earnings per share – basic	\$ 0.37	\$ 0.32	0.05	15.6
Earnings per share – diluted	\$ 0.36	\$ 0.32	0.04	12.5
Cash flow from operating activities	\$ 2,152	\$ 4,509	(2,357)	(52.3)
Cash flow from operating activities excluding working capital items	\$12,865	\$10,582	2,283	21.6

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Three Months ended		Year ended	
	October 31, 2013	October 31, 2012	October 31, 2013	October 31, 2012
Total Revenue	\$ 47,171	\$ 38,952	\$ 179,886	\$ 136,368
Income before income taxes	\$ 8,441	\$ 6,706	\$ 27,047	\$ 23,107
Depreciation of property, plant and equipment	440	444	1,743	1,386
Amortization of acquired software and customer relationships	4,083	3,204	15,568	10,974
Finance income	(124)	(289)	(641)	(987)
Finance expenses	55	86	313	269
Other income	(466)	23	(1,582)	(145)
Special charges	-	53	2,491	544
Adjusted EBITDA	\$ 12,429	\$ 10,227	\$ 44,939	\$ 35,148
Adjusted EBITDA margin	26%	26%	25%	26%
Adjusted EBITDA per diluted share	\$ 0.46	\$ 0.39	\$ 1.69	\$ 1.35

Total revenue for the quarter was \$47.2 million; an increase of 21.1% from \$39.0 million reported in the prior year's fourth quarter and includes license revenue of \$15.0 million in the quarter compared to \$13.1 million in the prior year's fourth quarter. Hosted and maintenance services revenue was \$24.3 million in the quarter compared to \$20.1 million in the prior year and reflects hosted services revenue contributions from Albatross and incremental maintenance revenue from Vision and Locus. Revenue includes contributions of \$0.6 million from Safeharbor and Andtek, acquired in the fourth quarter.

The Interactive Management Group reported revenue of \$36.8 million compared to \$33.2 million in the fourth quarter of fiscal 2012, including license revenue of \$13.0 million in the quarter compared to \$11.6 million last year. The increase over last year's fourth quarter revenue is primarily attributable to the impact of incremental software license and maintenance revenue contributions from Vision, Safeharbor and Andtek, which were not included in the prior year's fourth quarter results. Hosted and maintenance revenue was \$19.2 million in the quarter compared to \$16.9 million last year.

The Asset Management Group contributed \$10.3 million in revenue in the fourth quarter, compared to \$5.8 million reported in the fourth quarter of fiscal 2012, an increase of 78.5%, on the strength of license and maintenance revenue contributed by Locus. All other revenue categories were comparable to last year's fourth quarter revenue.

Direct costs for the quarter were \$13.7 million or 29.0% of revenue compared to \$10.8 million or 27.7% of revenue in the prior year's fourth quarter. The decrease in margins is attributable to lower margins on incremental services revenue, as margins have declined from 65.0% to 62.5% consistent with increased costs associated with providing hosted services. This was mitigated by improved margins on third party software and hardware sales as a result of larger proportionate contributions from higher margin Locus hardware sales in the quarter.

Operating expenses for the quarter were \$21.5 million, an increase from the \$18.4 million reported in the fourth quarter of last year, primarily related to incremental operating costs associated with acquired operations, which were not included in the prior year's fourth quarter results. The Company reported \$0.2 million in foreign

MANAGEMENT'S DISCUSSION AND ANALYSIS

exchange gains in the quarter, related to the translation of working capital balances, compared to \$0.4 million in foreign exchange gains recorded in the prior year's fourth quarter. These have been offset against selling, general and administrative expenses. Government grants of \$0.2 million earned in Canada and Norway were recorded in the quarter and were offset against research and development costs. The Canadian dollar averaged \$1.04 versus the U.S. dollar in the current year's fourth quarter compared to \$0.99 in the prior year's fourth quarter and \$1.62 for the pound sterling compared to \$1.57 last year. The Swedish krona averaged \$0.16 in the quarter compared to \$0.15 in the prior year's fourth quarter.

The Company recorded non-cash amortization charges in the quarter of \$4.1 million compared to \$3.2 million in the prior year's fourth quarter related to the amortization of software and customer relationships. The increase relates to amortization recorded as part of the Vision, Albatross, Locus, Safeharbor and Andtek acquisitions, net of expiring amortization on prior acquisitions.

During the fourth quarter, the Company recognized finance income of \$0.1 million compared to \$0.3 million in the fourth quarter of fiscal 2012 as a result of lower yields on invested cash. The Company reported other income of \$0.5 million in the quarter on the sale of equity positions compared to nominal gains in the prior year's fourth quarter.

The Company established a tax recovery of (\$1.3) million or (15.1%) in the fourth quarter, compared to a recovery of (\$1.6) million or (24.4%) in the prior year's fourth quarter. In both fourth quarters the Company booked adjustments to its tax provision to reflect the set-up of deferred tax assets related to non-capital losses. The Company made tax installment payments of \$0.7 million in the fourth quarter compared to \$1.3 million in the prior year's fourth quarter.

The Company reported net income of \$9.7 million or \$0.36 per diluted share compared to net income of \$8.3 million or \$0.32 per diluted share in the fourth quarter of fiscal 2012.

The Company generated cash flows from operating activities of \$2.2 million compared to \$4.5 million in the prior year's fourth quarter and closed the year with \$90.3 million in cash and short-term investments, as a result of changes in non-cash working capital related to accounts receivable. Excluding non-cash working capital items, cash flows from operating activities were \$12.9 million compared to \$10.6 million in the fourth quarter last year.

Liquidity and Capital Resources:

The Company closed the year with cash and short-term investments of \$90.3 million, compared to a balance of \$83.7 million at October 31, 2012. This is after the payment of approximately \$25.0 million related to the acquisitions and \$7.5 million related to dividends. The Company has no long-term debt and has sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend strategy. During the year, the Company generated cash flows from operating activities of \$32.4 million compared to \$23.5 million in 2012 as a result of stronger operating profits and the impact of changes in working capital items. Excluding changes in non-cash working capital items, cash flows from operating activities on a year to date basis were \$44.1 million compared to \$36.2 million in the prior year.

The Company had 26,042,962 Common Shares issued and outstanding as at December 17, 2013. During the year, 262,400 stock options were exercised contributing \$2.1 million in cash to the Company. Last year 443,300 options were exercised in the year, adding \$2.9 million in cash. The Company granted 420,000 options in the fiscal year compared to 510,000 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 \$53.5 million at October 31, 2013 compared to \$51.6 million at the end of fiscal 2012. 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 and equity consideration, which could cause dilution to existing shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 five years from \$0.025 per common share in 2007 to \$0.08 per common share presently. The Company declared and made the following dividend payments in the three most recently completed fiscal years: (i) 2013 - \$0.065 per common share outstanding on February 28, 2013, and \$0.08 per common share on each of May 31, 2013, August 31, 2013 and November 29, 2013 for a total of \$7.9 million; (ii) 2012 - \$0.05 per common share outstanding on February 29, 2012, and \$0.065 per common share on each of May 31, 2012, August 31, 2012 and November 30, 2012 for a total of \$6.3 million; (iii) 2011 - \$0.04 per common share outstanding on February 28, 2011 and \$0.05 per common share on each of May 31, 2011, August 31, 2011 and November 30, 2011 for a total of \$4.8 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, among other criteria, takes into account 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 2019, and operating leases for automobiles, office and computer equipment. 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	\$ 4,952	\$ 8,046	\$ 127	\$ 13,125

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

Basis of Preparation and Significant Accounting Policies

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, 2013, 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 17, 2013, the date the Board of Directors approved the consolidated financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Risks and Uncertainties

Enghouse operates in a dynamic 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 17, 2013, 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 growth by acquisition strategy, which exposes the Company to revenue denominated in numerous foreign currencies. The Company's organizational structure has changed to include a stronger presence in the Scandinavian and Australia/New Zealand regions along with the Company's existing offices in Phoenix, Arizona, Reading, UK and the Company's headquarters in Canada. The Company has sales offices in Sweden, Norway, Denmark, Germany, France, Hong Kong, Japan, New Zealand and Australia. Accordingly, the Company's revenue and operating costs reflect exposure to a number of currencies including the U.S. dollar, pound sterling, Swedish krona and Australian and New Zealand dollars.

In fiscal 2013, the Canadian dollar weakened against major currencies including the U.S. dollar, the pound sterling, the Swedish krona and the euro. As the Company's reporting currency is the Canadian dollar, this has positively impacted revenue reported in Canadian dollars while negatively impacting operating costs, and acts as a natural hedge. The U.S. dollar was reported using an average foreign exchange rate of \$1.02 in fiscal 2013 versus \$1.00 in fiscal 2012, while the pound sterling averaged \$1.59 in both the current and prior fiscal years. The euro strengthened over the year, averaging \$1.34 versus \$1.30 in fiscal 2012 as did the Swedish krona which averaged \$0.16 in fiscal 2013, up from \$0.15 in the prior year.

Overall, 23% of the Company's revenue was generated by operations in the U.K. compared to 26% in the prior fiscal year, while revenue generated by European operations increased to 26% from 15% in the prior fiscal year as a result of recent acquisitions serving the Scandinavian markets. Revenue generated by the Company's U.S. based operations was 38% compared to 46% in the prior fiscal year, again as a result of acquisitions completed in the year outside of the U.S. Approximately 8% of the Company's revenue was generated by operations in the Asia-Pacific region compared to 7% in fiscal 2012 after the full year impact of the Zeacom acquisition, with the balance being generated by Canadian operations. Further changes in foreign exchange rates between Canada, the United States, the U.K., Sweden and other countries could have a material effect, either favorable or adverse, on both the revenue and expenses of the Company going forward, although these currencies act as a natural hedge as the Company has both revenues 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 through both organic operations and acquisitions and completed the acquisitions of Vision, Albatross, Locus, Safeharbor and Andtek in the fiscal year and settled the majority of the Zeacom holdback for an aggregate net cash purchase price of \$25.0 million. 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 face competition for acquisition candidates from other

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. The Company is subject to one such action, which is more fully described in Note 16 to the consolidated financial statements.

Competition

The Company experiences intense competition from other software companies. Competitors may announce new products, services or enhancements 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, have longer operating histories or have 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 (\$91.8 million in fiscal 2013 compared to \$71.6 million in fiscal 2012) 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, Australia, New Zealand 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.

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, net worth, property, harmonized and goods and services taxes in Canada, the United States, Sweden, Norway, Australia, New Zealand, the United Kingdom and other foreign jurisdictions.

International taxation authorities, including the Canada Revenue Agency, the United States Internal Revenue Service, the Swedish and Norwegian 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook

The Company believes that its patience in executing its dual faceted growth strategy is beginning to pay off. Enghouse has grown its revenue by 31.9% in the fiscal year to \$179.9 million compared to \$136.4 million last year and reported adjusted EBITDA of \$44.9 million or \$1.69 per diluted share compared to the prior year's adjusted EBITDA of \$35.1 million or \$1.35 per diluted share. The Company completed five acquisitions in the fiscal year and one immediately after year end, adding breadth and depth to its product portfolio and expanded the Company's Asset Management Group's presence in the fleet/logistics market. The Company continues to generate positive cash flows, adding \$32.4 million from operating activities compared to \$23.5 million in fiscal 2012. Despite completing acquisitions at a cost of \$25.0 million and increasing its dividend payout to \$7.5 million in the fiscal year, the Company grew its cash and short-term investments portfolio to \$90.3 million from \$83.7 million at October 31, 2012.

Looking towards the future, Enghouse remains committed to its acquisition strategy and has also invested resources in developing its corporate management team to take the Company to the next level of its development. The Company will focus on growing its organic operations, expanding its marketing reach geographically and adding to its already robust produce suite. As in the past, Enghouse's ability to generate positive operating cash flows, remain debt free and report strong revenues and earnings are all critical to successfully executing against this strategy. The Company is confident that it has the management team with the requisite financial expertise, experience and resources to fulfill this strategic mandate.

Controls and Procedures

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

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed under the supervision of the CEO and Vice President Finance, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by the Company is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2013, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the CEO and Vice President Finance. Based on this evaluation, the CEO and the Vice President Finance concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered the Company's disclosure policy, a sub-certification process and the functioning of the Company's Disclosure Committee.

Internal Controls over Financial Reporting

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

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

There were no changes to the Company's internal control over financial reporting during the year ended October 31, 2013 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, 2013 and 2012 outlines the scope of their examination and their opinion thereon.



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



Douglas C. Bryson
Vice President Finance and
Corporate Secretary

Markham, Ontario
December 17, 2013

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, 2013 and October 31, 2012 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, 2013 and October 31, 2012 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

December 17, 2013
Toronto, Ontario

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	October 31, 2013	October 31, 2012
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	\$ 70,109	\$ 59,544
Short-term investments (Note 5)	20,188	24,108
Accounts receivable, net (Note 18)	36,444	31,368
Prepaid expenses and other assets	5,839	3,853
	132,580	118,873
Non-current assets:		
Property, plant and equipment (Note 6)	3,599	3,365
Intangible assets (Note 6)	132,358	106,995
Deferred income tax assets (Note 11)	9,419	10,477
	\$ 277,956	\$ 239,710
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 32,659	\$ 26,053
Income taxes payable	1,555	2,008
Dividends payable (Note 8)	2,083	1,676
Accrued provisions (Note 7)	3,427	1,621
Deferred revenue	39,325	35,935
	79,049	67,293
Non-current liabilities:		
Deferred income tax liabilities (Note 11)	14,482	13,241
Deferred revenue	1,797	1,236
	95,328	81,770
Shareholders' Equity		
Share capital	58,514	55,751
Contributed surplus	3,175	2,847
Retained earnings	115,800	99,371
Accumulated other comprehensive income (loss)	5,139	(29)
	182,628	157,940
Total equity	182,628	157,940
Total liabilities and equity	\$ 277,956	\$ 239,710

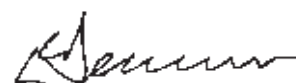
Commitments and contingencies (Note 14,16)

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

On Behalf of the Board of Directors:



Stephen J. Sadler
Director



Eric Demirian
Director

Consolidated Statements of Operations and Comprehensive Income

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

	Year Ended	
	October 31, 2013	October 31, 2012
Revenue		
Software licenses	\$ 58,887	\$ 45,108
Hosted and maintenance services	91,762	71,608
Professional services	23,931	18,083
Hardware	5,306	1,569
	179,886	136,368
Direct costs		
Software licenses	4,336	4,115
Services	43,190	31,410
Hardware	3,592	1,134
	51,118	36,659
Revenue, net of direct costs	128,768	99,709
Operating expenses		
Selling, general and administrative (Note 20)	53,366	43,069
Research and development (Note 10)	30,463	21,492
Depreciation of property, plant and equipment	1,743	1,386
Special charges (Note 20)	2,491	544
	88,063	66,491
Results from operating activities	40,705	33,218
Amortization of acquired software and customer relationships	(15,568)	(10,974)
Finance income	641	987
Finance expenses	(313)	(269)
Other income	1,582	145
Income before income taxes	27,047	23,107
Provision for income taxes (Note 11)	2,700	2,234
Net income for the year	\$ 24,347	\$ 20,873
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation gain (loss) from foreign operations	5,575	(12)
Transfer to net income of realized gains on available for sale investments	(2,869)	(156)
Unrealized gain (loss) on available for sale investments	2,393	(1,111)
Deferred income tax recovery	69	215
Other comprehensive income (loss)	5,168	(1,064)
Comprehensive income	\$ 29,515	\$ 19,809
Earnings per share (Note 12)		
Basic	\$0.94	\$0.82
Diluted	\$0.92	\$0.80

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, 2012	25,780,562	55,751	2,847	(29)	99,371	157,940
Net income	-	-	-	-	24,347	24,347
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	5,575	-	5,575
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(2,869)	-	(2,869)
Unrealized gain on available-for-sale investments	-	-	-	2,393	-	2,393
Deferred income tax recovery	-	-	-	69	-	69
Comprehensive income for the year	-	-	-	5,168	24,347	29,515
Employee share options:						
Value of services recognized	-	-	1,016	-	-	1,016
Proceeds on issuing shares	262,400	2,763	(688)	-	-	2,075
Dividends	-	-	-	-	(7,918)	(7,918)
Balance – October 31, 2013	26,042,962	58,514	3,175	5,139	115,800	182,628
Balance – November 1, 2011	25,337,262	52,134	2,970	1,035	84,782	140,921
Net income	-	-	-	-	20,873	20,873
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	(12)	-	(12)
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(156)	-	(156)
Unrealized loss on available-for-sale investments	-	-	-	(1,111)	-	(1,111)
Deferred income tax recovery	-	-	-	215	-	215
Comprehensive (loss) income for the year	-	-	-	(1,064)	20,873	19,809
Employee share options:						
Value of services recognized	-	-	621	-	-	621
Proceeds on issuing shares	443,300	3,617	(744)	-	-	2,873
Dividends	-	-	-	-	(6,284)	(6,284)
Balance – October 31, 2012	25,780,562	55,751	2,847	(29)	99,371	157,940

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, 2013	October 31, 2012
Cash flows from operating activities		
Net income for the year	\$ 24,347	\$ 20,873
Adjustments for:		
Depreciation of property, plant and equipment	1,743	1,386
Amortization of acquired software and customer relationships	15,568	10,974
Stock-based compensation expense (Note 9)	1,016	621
Income tax expense	2,700	2,234
Finance expenses and other income	(1,269)	124
	44,105	36,212
Changes in non-cash operating working capital (Note 19)	(7,545)	(8,245)
Income taxes paid	(4,203)	(4,492)
Net cash flows from operating activities	32,357	23,475
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(1,403)	(2,295)
Acquisitions, net of cash acquired of \$6,004 (2012 - \$810)	(22,433)	(32,453)
Purchase consideration for prior period acquisitions	(2,593)	-
Net proceeds from sale of short-term investments	7,948	8,704
Net cash flows used in investing activities	(18,481)	(26,044)
Cash flows from financing activities		
Issuance of share capital	2,075	2,873
Payment of cash dividend	(7,511)	(5,875)
Net cash flows used in financing activities	(5,436)	(3,002)
Effect of currency translation adjustments on cash and cash equivalents	2,125	(509)
Net increase (decrease) in cash and cash equivalents during the year	10,565	(6,080)
Cash and cash equivalents- beginning of year	59,544	65,624
Cash and cash equivalents - end of year	\$ 70,109	\$ 59,544

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

Notes to Consolidated Financial Statements

October 31, 2013 and 2012 *(in thousands of Canadian dollars, except as indicated)*

1. Description of the business and reporting entity

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

2. Basis of preparation 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 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.

These consolidated financial statements were approved by the Board of Directors for issue on December 17, 2013.

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

Summary of significant accounting policies

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 thousand, except as otherwise noted.

Basis of consolidation

These consolidated financial statements include the accounts of Enhouse Systems Limited and the consolidated accounts of its wholly owned subsidiaries (“the Company”). All intercompany transactions, balances and unrealized gains 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 those entities which Enhouse controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Enhouse controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Enhouse and are de-consolidated from the date that control ceases.

Notes to Consolidated Financial Statements

October 31, 2013 and 2012 *(in thousands of Canadian dollars, except as indicated)*

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 holdback and adjustment in accordance with the terms of the purchase agreements. The Company accrues holdbacks as part of the consideration payable on acquisition. Adjustments to the holdbacks 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

Items included in the financial statements of each consolidated entity in the Enhouse group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Enhouse Systems Limited's 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.

Notes to Consolidated Financial Statements

October 31, 2013 and 2012 (in thousands of Canadian dollars, except as indicated)

(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 statement 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 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 U.S. dollars as at October 31, 2013.

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.

Notes to Consolidated Financial Statements

October 31, 2013 and 2012 (in thousands of Canadian dollars, except as indicated)

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 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.

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.

Financial liabilities at amortized cost

Accounts payable, accrued liabilities, accrued provisions 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.



Notes to Consolidated Financial Statements

October 31, 2013 and 2012 (in thousands of Canadian dollars, except as indicated)

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 (loss) 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	3 to 6 years straight-line
Customer relationships	3 to 8 years straight-line
Patents	Remaining life

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

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

Notes to Consolidated Financial Statements

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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 to ten 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.

Notes to Consolidated Financial Statements

October 31, 2013 and 2012 *(in thousands of Canadian dollars, except as indicated)*

Accrued provisions

Accrued 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. Accrued 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 for deferred tax liabilities 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.

Notes to Consolidated Financial Statements

October 31, 2013 and 2012 *(in thousands of Canadian dollars, except as indicated)*

Dividends

Dividends on common shares are recognized in the Company's 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 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. The customer relationship period is assessed annually and has been estimated to be sixty months. Professional services revenue is recognized as delivered.

Notes to Consolidated Financial Statements

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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, 2013 and 2012.

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 is the person or persons who are responsible for allocating resources and assessing performance of the operating segments.

Notes to Consolidated Financial Statements

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Critical accounting estimates and judgments

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, which, where appropriate, is performed by an independent third party valuation expert. 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

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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, 2013 and 2012, 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.

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4. Accounting standards issued but not yet applied

The International Accounting Standard Board has issued the following standards, which have not yet been adopted by the Company. Effective dates of the standards are described below with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements. The Company does not expect to adopt these new and amended standards before their effective dates.

The following is a description of the new standards:

IFRS 9 – Financial Instruments (“IFRS 9”) was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 – *Financial Instruments: Recognition and Measurement (“IAS 39”)* for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at FVTPL or at fair value through other comprehensive income (loss).

Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in income or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at FVTPL would generally be recorded in other comprehensive income (loss). This standard is effective for years beginning on or after January 1, 2015. The Company has not yet begun the process of assessing the impact that the new standard will have on its financial statements or whether it intends to early adopt.

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

IFRS 11 – Joint Arrangements (“IFRS 11”) requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 – *Interests in Joint Ventures*, and SIC-13 – *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This standard is effective for years beginning on or after January 1, 2013. The Company does not expect adoption of this standard to have a material impact on its financial statements.

IFRS 12 – Disclosure of Interests in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. This standard is effective for years beginning on or after January 1, 2013. The Company does not expect adoption of this standard to have a material impact on its financial statements.

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

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Amendments to Existing Standards not yet effective or applied

In addition, there have been amendments to existing standards.

IAS 27 – Separate Financial Statements (“IAS 27”), and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) - IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. These amendments are effective for years beginning on or after January 1, 2014. The Company does not expect these amendments to have a material impact on its financial statements.

IFRS 7 - Offsetting Financial Assets and Liabilities (“IFRS 7”) - IFRS 7 has been amended to include additional disclosure requirements for financial assets and liabilities that can be offset in the statement of financial position. The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning after January 1, 2013. The Company does not expect this amendment to have a material impact on its financial statements.

IAS 32 - Offsetting Financial Assets and Liabilities (“IAS 32”) - IAS 32 has been amended to include additional presentation requirements for financial assets and liabilities that can be offset in the statement of financial position. The Company intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning after January 1, 2014. The Company is assessing the potential impact of the IAS 32 amendments.

IAS 36 – Impairment of Assets (“IAS 36”) – IAS 36 has been amended to include providing guidance on recoverable amount disclosures for non-financial assets. The amendments to IAS 36 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 36 amendments.

5. Cash and cash equivalents and Short-term investments

	October 31, 2013		October 31, 2012	
	Carrying Value	Market Value	Carrying Value	Market Value
Cash and cash equivalents	\$ 70,109	\$ 70,109	\$ 59,544	\$ 59,544
Short-term investments:				
Mutual funds	\$ 6,978	\$ 6,978	\$ 2,123	\$ 2,123
Banker's acceptances	12,374	12,374	15,794	15,794
Government/Corporate bonds	253	253	3,772	3,757
Equities	583	583	2,419	2,419
Total	\$ 20,188	\$ 20,188	\$ 24,108	\$ 24,093

In March 2012, the Company posted a stand by letter of credit in the amount of U.S. \$7.8 million pending the outcome of an appeal of a litigation matter (Note 16). Based on the results of the appeal, the standby letter of credit was cancelled in August 2013. The cash deposit underlying the standby letter of credit is no longer restricted as to use and is included in the consolidated statement of financial position in cash and cash equivalents.

On June 1, 2012, the Company paid approximately U.S. \$4.5 million on the acquisition of Zeacom Group Limited (Note 13) into escrow to be released to the vendors, subject to hold back and adjustment. Of this amount, U.S. \$1.7 million was released to the Company in settlement of holdback obligations and U.S. \$2.5 million was paid to the vendors. The use of the remaining cash held in escrow (U.S. \$0.3 million) is restricted and has been included in cash on the Company's balance sheet as at October 31, 2013.

Notes to Consolidated Financial Statements

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6. Property, plant and equipment and intangible assets

(i) Property, plant and equipment

	Plant(1)	Furniture and Fixtures	Computer Hardware and Software	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
At November 1, 2011					
Cost	-	1,359	10,054	1,229	12,642
Accumulated depreciation	-	(1,274)	(8,977)	(848)	(11,099)
Net book value	-	85	1,077	381	1,543
Year ended October 31, 2012					
Opening net book value	-	85	1,077	381	1,543
Additions	741	221	1,830	408	3,200
Depreciation	(8)	(69)	(991)	(318)	(1,386)
Exchange difference	9	11	13	(25)	8
Closing net book value	742	248	1,929	446	3,365
At November 1, 2012					
Cost	750	1,766	12,663	1,670	16,849
Accumulated depreciation	(8)	(1,518)	(10,734)	(1,224)	(13,484)
Net book value	742	248	1,929	446	3,365
Year ended October 31, 2013					
Opening net book value	742	248	1,929	446	3,365
Additions	-	45	1,667	109	1,821
Depreciation	(14)	(73)	(1,497)	(159)	(1,743)
Exchange difference	32	60	54	10	156
Closing net book value	760	280	2,153	406	3,599
At October 31, 2013					
Cost	782	2,377	14,410	1,836	19,405
Accumulated depreciation	(22)	(2,097)	(12,257)	(1,430)	(15,806)
Net book value	760	280	2,153	406	3,599

(1) Plant includes \$514 allocated to building and \$227 allocated to land.

Notes to Consolidated Financial Statements

October 31, 2013 and 2012 (in thousands of Canadian dollars, except as indicated)

(ii) Intangible assets

	Acquired Software \$	Customer Relationships \$	Goodwill \$	Total \$
At November 1, 2011				
Cost	56,579	26,700	44,242	127,521
Accumulated depreciation	(40,870)	(12,700)	-	(53,570)
Net book value	15,709	14,000	44,242	73,951
Year ended October 31, 2012				
Opening net book value	15,709	14,000	44,242	73,951
Acquisition	16,649	7,749	20,727	45,125
Purchase Price Adjustments	-	-	(1,720)	(1,720)
Amortization	(7,168)	(3,806)	-	(10,974)
Exchange difference	(328)	(168)	1,109	613
Closing net book value	24,862	17,775	64,358	106,995
At November 1, 2012				
Cost	73,228	34,449	64,358	172,035
Accumulated depreciation	(48,366)	(16,674)	-	(65,040)
Net book value	24,862	17,775	64,358	106,995
Year ended October 31, 2013				
Opening net book value	24,862	17,775	64,358	106,995
Acquisition	11,918	10,838	15,139	37,895
Disposals	(45)	-	-	(45)
Purchase Price Adjustments	-	-	(926)	(926)
Amortization	(9,980)	(5,588)	-	(15,568)
Exchange difference	649	681	2,677	4,007
Closing net book value	27,404	23,706	81,248	132,358
At October 31, 2013				
Cost	85,101	45,287	81,248	211,636
Accumulated amortization	(57,697)	(21,581)	-	(79,278)
Net book value	27,404	23,706	81,248	132,358

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7. Accrued Provisions

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

	Total
At November 1, 2011	\$ 2,442
Additional provisions	708
Unused amounts reversed	(364)
Utilized during the period	(1,144)
Effect of movements in foreign exchange	(21)
At October 31, 2012	\$ 1,621
At November 1, 2012	\$ 1,621
Additional provisions	4,047
Unused amounts reversed	-
Utilized during the period	(2,308)
Effect of movements in foreign exchange	67
At October 31, 2013	\$ 3,427

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 26,042,962 common shares outstanding as at October 31, 2013. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2013 or October 31, 2012.

Dividends per share

During the year ended October 31, 2013 the Company declared dividends of \$7,918 (\$0.305 per common share), of which \$2,083 was payable on November 29, 2013 and reflected as a liability in the statement of financial position at October 31, 2013. In the year ended October 31, 2012 dividends declared were \$6,284 (\$0.245 per common share).

Common share repurchase plan

On April 16, 2013, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,731,416 common shares of the Company, expiring on April 15, 2014. The Company did not repurchase any common shares in either fiscal 2013 or 2012.

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 expense of \$96 (2012- \$309).

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 \$69 (2012- recovery of \$215).

Notes to Consolidated Financial Statements

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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 2,338,700 (October 31, 2012 – 1,901,100) 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 to ten 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, 2013 and October 31, 2012, and changes during the years ended on those dates is presented as follows:

	2013		2012	
	Number of Options	Weighted Average Exercise Price in \$	Number of Options	Weighted Average Exercise Price in \$
Outstanding at beginning of period	1,354,400	9.43	1,487,700	7.32
Granted	420,000	19.10	510,000	13.21
Exercised	(262,400)	7.91	(443,300)	6.48
Forfeited	(93,000)	11.78	(200,000)	9.88
Outstanding at end of period	1,419,000	12.42	1,354,400	9.43
Options exercisable at end of period	604,000	8.14	620,900	7.47

A summary of stock options outstanding as at October 31, 2013 is set out below:

Exercise Price	Outstanding Stock Options			Exercisable Stock Options	
	Number Outstanding as at October 31, 2013	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price in \$	Number Exercisable as at October 31, 2013	Weighted Average Exercise Price in \$
\$5.00 to \$7.75	185,500	2.03	5.45	185,500	5.45
\$7.76 to \$10.00	437,500	3.40	8.27	338,500	8.23
\$10.01 to \$14.50	376,000	5.29	13.23	80,000	13.99
\$14.51 to \$24.00	420,000	6.35	19.10	-	-
	1,419,000	4.60	12.42	604,000	8.14

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 2013, the Company recorded a non-cash charge of \$1,016 (2012 - \$621).

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

	Options Granted FY 2013	Options Granted FY 2012
Risk-free interest rate (%)	1.25% - 1.75%	1.18% - 1.47%
Estimated volatility (%)	31%	34% - 35%
Dividend yield	\$0.26-\$0.32	\$0.20-\$0.26
Expected life (in years)	5	5
Weighted average fair value (in dollars)	\$4.27 - \$6.16	\$2.87 - \$4.09

10. Research and development expense

	2013	2012
Research and development costs incurred	\$ 31,149	\$ 23,266
Investment tax credits recognized	(686)	(1,774)
Net research and development expense	\$ 30,463	\$ 21,492

11. Income taxes

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

	2013	2012
Current income taxes:		
Current tax on profits for the year	\$ 3,470	\$ 3,013
Adjustments for prior periods	1,049	1,627
	\$ 4,519	\$ 4,640
Deferred income taxes:		
Origination and reversal of timing differences	\$ 1,939	\$ 1,262
Changes in tax rate	(225)	(366)
Recognition of previously unrecognized tax losses	(3,533)	(3,302)
	(1,819)	(2,406)
Total income tax provision	\$ 2,700	\$ 2,234

Notes to Consolidated Financial Statements

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(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:

	2013		2012	
	\$	%	\$	%
Profit before tax at a statutory rate of 26.5% (2012 – 26.8%)	7,167	26.5	6,181	26.8
Foreign earnings subject to different income tax rates	28	0.1	249	1.1
Change in tax rates	(225)	(0.8)	(366)	(1.6)
Non-deductible expenses	361	1.3	276	1.2
Tax exempt income	(1,126)	(4.1)	(522)	(2.3)
Resolution of tax positions	28	0.2	(282)	(1.2)
Changes in recognized assets	(3,533)	(13.2)	(3,302)	(14.3)
Effective income tax amount and rate	2,700	10.0	2,234	9.7

During the year tax rates changed as follows:

Jurisdiction	New Rate (%)	Prior Rate (%)	Effective Date
Canada	26.5	26.75	June 2013
U.K.	23.0	24.0	April 2013
Israel	26.5	25.0	January 2014
Denmark	24.5	25.0	January 2014
Sweden	22.0	26.3	January 2013
Norway	27.0	28.0	January 2014

(C) The Company has recognized deferred income tax assets and liabilities as at October 31, 2013 and 2012 of the following:

	2013	2012
	\$	\$
Deferred income tax assets:		
Provisions and reserves	2,782	1,472
Income tax loss carry-forwards	4,276	7,008
SRED expenditures	189	271
Property, plant and equipment	2,172	1,726
	<u>9,419</u>	<u>10,477</u>
Deferred income tax liabilities:		
Adjustment to available-for-sale investments	42	111
Deferred revenues reserves	663	252
Acquired software	7,753	5,793
Other intangibles	6,024	7,085
	<u>14,482</u>	<u>13,241</u>
Deferred income tax liabilities	(5,063)	(2,764)

Notes to Consolidated Financial Statements

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

	Balance November 1, 2011	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2012
Provisions and reserves	1,398	74	-	-	-	1,472
Income tax loss carry- forwards	6,650	49	309	-	-	7,008
SRED expenditures	-	271	-	-	-	271
Property, plant and equipment	1,500	226	-	-	-	1,726
Other	-	(121)	-	-	121	-
Assets	9,548	499	309	-	121	10,477

	Balance November 1, 2011	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2012
Acquired software	3,648	(1,287)	-	3,432	-	5,793
Intangible assets	5,551	(872)	-	2,406	-	7,085
Available for sale investments	326	-	(215)	-	-	111
Deferred revenue reserves	-	252	-	-	-	252
Unrealized foreign exchange	-	-	-	-	-	-
Liabilities	9,525	(1,907)	(215)	5,838	-	13,241

	Balance November 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2013
Provisions and reserves	1,472	1,137	-	173	-	2,782
Income tax loss carry- forwards	7,008	(3,716)	96	888	-	4,276
SRED expenditures	271	(82)	-	-	-	189
Property, plant and equipment	1,726	196	-	250	-	2,172
Other	-	(43)	-	-	43	-
Assets	10,477	(2,508)	96	1,311	43	9,419

	Balance November 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2013
Acquired software	5,793	(1,115)	-	3,075	-	7,753
Intangible assets	7,085	(3,461)	-	2,400	-	6,024
Available for sale investments	111	-	(69)	-	-	42
Deferred revenue reserves	252	249	-	162	-	663
Unrealized foreign exchange	-	-	-	-	-	-
Liabilities	13,241	(4,327)	(69)	5,637	-	14,482

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(D) 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 2013	Non-capital Losses available 2012	Expiry terms
United States	\$ 58,000	\$ 63,000	Expire in periods commencing in 2018 through 2029
United Kingdom	20,000	33,000	No expiry
Canada	2,000	2,000	Expire in periods commencing in 2027 through 2031
Other	16,000	5,000	No expiry
Total	\$ 96,000	\$ 103,000	

The Company has not recognized a deferred income tax asset in respect of approximately \$69 million of non-capital losses and approximately \$9 million of deductible temporary differences as it is uncertain whether future taxable income will be available from which to realize the benefits.

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.

	2013	2012
Net income attributable to owners of the parent	\$ 24,347	\$ 20,873
Weighted average number of common shares issued	25,915	25,569
Basic earnings per share	\$ 0.94	\$ 0.82

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 has only stock options as potential dilutive common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined 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.

	2013	2012
Net income attributable to owners of the parent	\$ 24,347	\$ 20,873
Weighted average number of common shares issued	25,915	25,569
Adjustments for:		
Stock options	611	407
Weighted average number of common shares for diluted earnings per share	26,526	25,976
Diluted earnings per share	\$ 0.92	\$ 0.80

Options to purchase 90,000 (2012 – 350,000) common shares at an average price of \$23.68 (2012 – \$13.93) per share were outstanding during the year but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the fiscal year.

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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.

2013 Acquisitions:

Interactive Management

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

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

Asset Management Group

The Company acquired 100% of the issued and outstanding common shares of Albatross Scandinavia AB ("Albatross") and Locus Holdings AS ("Locus") on December 1, 2012 and March 1, 2013 respectively for an aggregate cash purchase price of approximately \$13.9 million. Of this amount, approximately \$2.6 million is subject to hold back and adjustment. The results have been included in the Asset Management Group subsequent to acquisition.

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

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

2012 Acquisitions:

Interactive Management

On June 1, 2012, the Company acquired 100% of the issued and outstanding shares of Zeacom Group Limited ("Zecom") for a net cash purchase price of approximately \$30.0 million. On closing, U.S. \$4.5 million was paid into escrow to be released to the vendors, subject to hold back and adjustment. Of this hold back amount, U.S. \$0.3 million remains in escrow, while U.S. \$1.7 million was released to the Company and U.S. \$2.5 million was released to the vendors. Zeacom provides multi-channel contact center and business process automation solutions and is headquartered in Auckland, New Zealand, with offices in Australia, the U.K. and the U.S. Results have been reported in the Interactive Management Group since the date of acquisition.

Asset Management Group

On March 1, 2012, the Company acquired 100% of the issued and outstanding common shares of CustomCall Data Systems, Inc., for a net cash purchase price of approximately \$7.0 million, with U.S. \$1.2 million being subject to hold back and adjustment. On June 1, 2012 U.S. \$0.4 million of this hold back was paid, while the balance was paid on December 1, 2012. The Company also purchased CustomCall's office facility for U.S. \$0.7 million. CustomCall provides billing, provisioning and workflow solutions to Communications Service Providers in a hosted environment, with operations based in Madison, WI. Results have been reported in the Asset Management Group since the date of acquisition.

Notes to Consolidated Financial Statements

October 31, 2013 and 2012 (in thousands of Canadian dollars, except as indicated)

The Company's purchase price allocations are as follows:

	Interactive Management Group (Preliminary) 2013	Asset Management Group (Preliminary) 2013	Interactive Management Group (Final) 2012	Asset Management Group (Final) 2012
Cash and cash equivalents	\$ 2,583	\$ 3,421	\$ 796	\$ 14
Short-term investments	508	-	-	-
Accounts receivable, net	2,989	4,254	6,493	857
Income tax receivable	196	-	-	-
Prepaid expenses and other assets	504	744	970	451
Property, plant and equipment	170	248	1,267	115
Deferred income tax assets	321	991	828	-
Acquired software	8,114	3,804	14,489	2,161
Customer relationships	4,208	6,630	6,002	1,746
Goodwill	9,755	5,384	14,438	5,270
Total assets acquired	\$29,348	\$25,476	\$ 45,283	\$10,614
Less: Current liabilities assumed	\$ 6,415	\$ 9,140	\$ 10,118	\$ 2,040
Less: Deferred income tax liabilities	3,169	2,469	5,124	1,541
Total liabilities assumed	\$ 9,584	\$11,609	\$ 15,242	\$ 3,581
Net assets acquired for cash consideration	\$19,764	\$13,867	\$ 30,041	\$ 7,033

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, 2013 was \$5,793 (2012 - \$4,111). The annual minimum future lease commitments are as follows:

	October 31, 2013	October 31, 2012
Less than 1 year	\$ 4,952	\$ 3,892
Between 1 and 5 years	8,046	7,678
More than 5 years	127	88
Total	\$ 13,125	\$ 11,658

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. Core technologies include contact center, attendant console, interactive voice response, call recording and workforce optimization solutions that support any telephony environment, on-premise or in the cloud. Its customers include insurance companies, banks and utilities as well as high technology, health care and hospitality companies. The Asset Management Group provides a portfolio of products to telecom service providers as well as fleet management and public safety software solutions for the transportation industry, first responders, distribution, security, utilities and oil and gas industries. These include telecom billing, data conversion, and geo-spatial software solutions for complex network infrastructures and fleet/logistics management solutions for the public and private sectors.

Notes to Consolidated Financial Statements

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

	Interactive Management Group	Asset Management Group	Total
Year ended October 31, 2013			
Revenue	\$ 146,082	\$ 33,804	\$ 179,886
Operating expenses excluding non-cash charges	(106,942)	(26,148)	(133,090)
Depreciation of property, plant and equipment	(1,452)	(291)	(1,743)
Amortization of acquired software and customer relationships	(13,242)	(2,326)	(15,568)
Segment profit	\$ 24,446	\$ 5,039	\$ 29,485
Corporate expenses			(4,348)
Finance income			641
Finance expenses			(313)
Other income			1,582
Income before income taxes			\$ 27,047
Goodwill	\$ 64,769	\$ 16,479	\$ 81,248
Other assets	130,803	45,717	176,520
Short-term investments			20,188
Total assets	\$ 195,572	\$ 62,196	\$ 277,956
Capital Expenditures	\$ 1,083	\$ 320	\$ 1,403

	Interactive Management Group	Asset Management Group	Total
Year ended October 31, 2012			
Revenue	\$ 119,060	\$ 17,308	\$ 136,368
Operating expenses excluding non-cash charges	(85,910)	(12,368)	(98,278)
Depreciation of property, plant and equipment	(1,153)	(233)	(1,386)
Amortization of acquired software and customer relationships	(10,095)	(879)	(10,974)
Segment profit	\$ 21,902	\$ 3,828	\$ 25,730
Corporate expenses			(3,486)
Finance income			987
Finance expenses			(269)
Other income			145
Income before income taxes			\$ 23,107
Goodwill	\$ 54,602	\$ 9,756	\$ 64,358
Other assets	122,905	28,339	151,244
Short-term investments			24,108
Total assets	\$ 177,507	\$ 38,095	\$ 239,710
Capital Expenditures	\$ 1,367	\$ 928	\$ 2,295

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

Jurisdiction	2013 %	2012 %
United States	38	46
United Kingdom	23	26
Europe	26	15
Asia Pacific	8	7
Canada	5	6
Total	100	100

16. Litigation and contingencies

Southern California Gas Company v. Syntellect, Inc.: Southern California Gas Company (“SoCal”) filed a lawsuit against a wholly owned subsidiary of the Company relating to the indemnification provisions in a contract between the parties. The United States District Court, Southern District of California, issued a judgment (the “Judgment”) in favor of SoCal. However, the Judgment was appealed to the United States Ninth Circuit Court of Appeals. That court affirmed aspects of the Judgment, but reversed the finding that evidence of apportionment of damages should be excluded since the Company disputes that it is responsible for 100% of SoCal’s damages. Therefore, the district court must now consider the apportionment issue. SoCal will receive payment if it is ultimately successful in the lawsuit, at which time the expense related to such payment will be determined and recorded in the Company’s financial statements.

General

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

In response to correspondence from and, in a few instances, litigation instigated by, third party patent holders, a few of the Company’s customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. The Company does not believe that the Company’s products infringe any third party patent. However, as described above, the Company is currently subject to one action on the suggested basis of contractual indemnity. With respect to this litigation, and any other litigation the Company becomes involved with, under a contractual indemnity or any other legal theory, the Company has and will continue to consider all its options for resolution and vigorously assert all appropriate defenses.

17. 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. 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.

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October 31, 2013 and 2012 (in thousands of Canadian dollars, except as indicated)

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, 2013.

18. Financial instruments

Fair value of financial instruments

The Company has determined that the fair value of its cash, accounts receivable and financial liabilities approximates their respective carrying amounts as at the balance sheet dates due to their short-term nature.

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 or liabilities that are measured using Level 3 inputs.

Financial assets that are measured at fair value as at October 31, 2013 and October 31, 2012 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 2013 and 2012.

	October 31, 2013			October 31, 2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Equities	\$ 583	\$ -	\$ 583	\$ 2,419	\$ -	\$ 2,419
Total	<u>\$ 583</u>	<u>\$ -</u>	<u>\$ 583</u>	<u>\$ 2,419</u>	<u>\$ -</u>	<u>\$ 2,419</u>

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 balance sheet 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

Notes to Consolidated Financial Statements

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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 \$36.4 million as at October 31, 2013 (2012 - \$31.4 million), representing the maximum exposure to credit risk of those financial assets, net of the allowance for doubtful accounts of \$3.7 million. The Company's allowance for doubtful accounts decreased from \$4.1 million at October 31, 2012. 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 13% or \$5.2 million of trade receivables at October 31, 2013 were outstanding more than 90 days, compared to 23% past due as at October 31, 2012. The past due balances are offset by a combination of deferred revenue and acquisition reserves of \$1.0 million related to these receivables and \$3.7 million of the Company's allowance for doubtful accounts. Subsequent to year end to the date of this report, \$1.1 million of these past due balances were collected.

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.

Through acquisitions in fiscal 2013, the Company has established a larger presence in the Scandinavian regions with the acquisitions of Vision, Albatross and Locus, which generate revenue in Swedish kronor, Danish kroner and Norwegian kronor. This mitigates the Company's exposure to its Scandinavian office's operating costs, which are denominated in the same currencies.

Approximately 23% 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 26% of its revenue is generated from sales by the Company's European offices, primarily in Sweden, Denmark and increasingly from Norway with the addition of Locus as noted above. Approximately 8% of revenues are derived from sales to customers in Australia and New Zealand and are denominated in Australian and New Zealand dollars. Approximately 38% 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. This is a decrease from the prior year when 46% of revenue was generated by the U.S. operations as a result of acquisitions outside of the U.S. In contrast, the Company's head office expenses are incurred in Canadian dollars which is not hedged by Canadian dollar denominated revenue. The Company attempts, wherever possible, to match cash outlays with cash inflows in the same currency. If 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 \$0.4 million in the statement of operations.

Notes to Consolidated Financial Statements

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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 balance sheet date of these monetary assets and liabilities are reported as a foreign exchange gain or loss. For the year ended October 31, 2013 the Company reported foreign exchange losses of \$133 compared to \$757 in foreign exchange gains in fiscal 2012.

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. During fiscal 2013, the exchange rate for U.S. dollars to Canadian dollars averaged \$1.02 (2012 - \$1.00), while the pound sterling averaged \$1.60 (2012 - \$1.59) and the Swedish krona averaged \$0.16 (2012 - \$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 \$1.6 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 \$40 per year. The Company is not exposed to interest rate risk on debt as the Company has no 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 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, 2013 the Company's current liabilities, all of which fall due for payment within twelve months of the balance sheet date, were \$79,049 (2012 - \$67,293). At October 31, 2013 the Company had a working capital surplus of \$53,531 (2012 - \$51,580).

19. Changes in non-cash operating working capital

	2013	2012
	\$	\$
Decrease (increase) in accounts receivable, net	4,040	(1,118)
(Increase) decrease in prepaid expenses and other assets	(477)	1,419
Decrease in accounts payable, accrued liabilities & provisions	(5,961)	(6,959)
Decrease in income taxes payable	(900)	(2,494)
(Decrease) increase in deferred revenue	(4,247)	907
	(7,545)	(8,245)

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20. Additional IFRS Information

Expense by nature:

Expenses incurred by nature are as follows:

	2013	2012
	\$	\$
Third party license, maintenance and services	9,938	8,035
Hardware	3,592	1,134
Staff costs	97,083	73,410
Supplies	2,356	1,768
Other administrative expenses	3,472	2,820
Travel and marketing	7,942	7,311
Communications	2,728	2,132
Occupancy	5,793	4,111
Professional services	1,910	1,256
Restructuring	2,491	544
Foreign exchange loss (gain)	133	(757)
Depreciation of property, plant and equipment	1,743	1,386
	139,181	103,150

Staff costs:

Expenditures for staff costs are as follows:

	2013	2012
	\$	\$
Salaries and wages	70,751	52,500
Employee benefits	14,299	10,576
Stock-based compensation	1,016	621
Termination benefits	717	333
Bonuses	2,698	2,479
Contractors and commissions	7,602	6,901
	97,083	73,410

Included in employee benefits are the Company's share of costs related to defined contribution pension plans of \$2.3 million (2012 - \$1.1 million).

21. 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 31% of the outstanding shares of Enghouse.

	2013	2012
	\$	\$
Salaries, bonus and employee benefits	2,889	2,896
Stock options	425	294
Total	3,314	3,190

Corporate Directory

Board of Directors

Stephen J. Sadler

Chief Executive Officer and
Chairman of the Board
Enghouse Systems Limited

Eric Demirian ⁽¹⁾

President
Parklea Capital Inc.

Reid Drury ^{(1),(3)}

Partner
Polar Capital Corporation

John Gibson ^{(1),(2),(3)}

President and Chief Executive Officer
E.E.S. Financial Services Limited

Paul Stoyan ⁽³⁾

Chairman
Gardiner Roberts LLP

Pierre Lassonde ⁽²⁾

Chairman
Franco-Nevada Corporation

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Corporate Governance Committee

Executive Officers

Stephen J. Sadler

Chief Executive Officer and
Chairman of the Board

Craig Wallace

Chief Operating Officer

Douglas C. Bryson

Vice President Finance and
Corporate Secretary

Todd May

Vice President and
General Counsel

Sam Anidjar

Vice President
Corporate Development

Geoff Bartle

Vice President
Corporate Information Systems

Corporate Information

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants
18 York Street, Suite 2600
Toronto, Ontario, M5J 0B2
Canada

Transfer Agent

Equity Transfer Services Inc.

200 University Avenue, Suite 400
Toronto, Ontario, M5H 4H1
Canada

Stock Information

Shares of Enghouse Systems Limited
are traded on the Toronto Stock
Exchange under the symbol **ESL**

Investor Inquiries

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Markham, Ontario, L3R 0G4, Canada
email: investor@enghouse.com

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on
Tuesday, March 4, 2014 at 4:30 p.m. at the
TMX Broadcast Centre
The Exchange Tower
130 King Street West
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Enghouse Interactive (UK) Limited

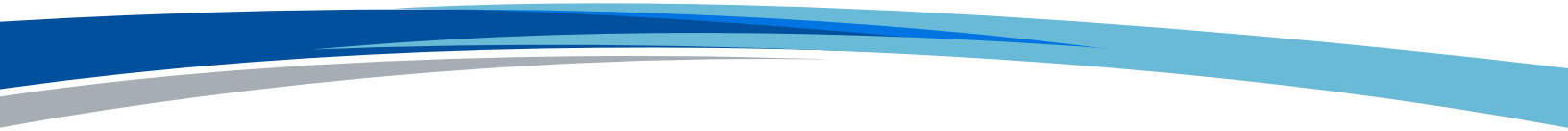
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Enghouse Systems

Software engineered for results