# SECOND QUARTER
Report – April 30

# 2015

Enghouse Systems
Software engineered for results

June 10, 2015

To our Shareholders,

Second quarter revenue was $68.7 million, an increase of 25% over revenue of $55.0 million in the second quarter last year. On a year to date basis, revenue was $131.7 million compared to $102.4 million last year, an increase of 29%. The revenue increase primarily reflects incremental revenue contributions from acquisitions. Hosted and maintenance services revenue was $33.7 million in the quarter, an increase of 19% over the same period last year.

Adjusted EBITDA for the quarter was $16.2 million ($0.60 per diluted share) compared to $13.9 million ($0.52 per diluted share) in last year's second quarter. Adjusted EBITDA for the year to date was $32.4 million ($1.20 per diluted share) compared to $26.0 million ($0.97 per diluted share) last year, an increase of 25%.

Net income for the quarter was $7.6 million ($0.28 per diluted share) compared to the prior year's second quarter net income of $6.6 million ($0.24 per diluted share). Results from operating activities for the quarter were $15.5 million compared to $12.5 million in the prior year's second quarter, an increase of 24% over the prior year.

Operating expenses before special charges related to restructuring of acquired operations were $31.0 million compared to $25.5 million in the prior year's second quarter and primarily includes incremental operating costs related to acquisitions. Non-cash amortization charges in the quarter were $5.7 million compared to $4.2 million in the prior year's second quarter and include amortization charges for acquired software and customer relationships from acquired operations.

Enghouse generated cash flows from operations of $12.2 million in the quarter and closed the quarter with $88.5 million in cash, cash equivalents and short-term investments, compared to $84.9 million at October 31, 2014. The cash balance was achieved after net cash paid of $19.8 million for the acquisition of CDRator A/S, completed March 3, 2015 and dividends of $5.2 million paid year to date. The Company continues to have no debt.

The Board of Directors has approved an eligible quarterly dividend of $0.12 per common share, payable on August 28, 2015 to shareholders of record at the close of business on August 14, 2015.

Subsequent to quarter end, Enghouse completed the acquisition of Reitek S.p.A, a leading provider of omni-channel contact center solutions for enterprises, expanding the Company's footprint in Italy. Enghouse remains committed to diversifying its revenue stream and continues to seek accretive acquisitions to grow its market share.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis ("MD&A") has been prepared as of June 10, 2015 and all information contained herein is current as of that date. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the periods ended April 30, 2015 and 2014, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2014, contained in the Company's 2014 Annual Report to Shareholders. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse Systems Limited ("Enghouse Systems") and its subsidiaries (together the "Company" or "Enghouse"), all wholly owned, for the second quarter ended April 30, 2015. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, stated in thousands, except per share amounts.

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

**Non-GAAP Measures**

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

**Forward-looking Statements**

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

For additional information with respect to certain of these risks or factors, reference should be made to section "Risks and Uncertainties" of the MD&A and notes to the consolidated financial statements for the year ended October 31, 2014, as well as to the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, copies of which are filed electronically on SEDAR at www.sedar.com.

**Corporate Overview**

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

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

**Quarterly Results of Operations**

The following table sets forth certain unaudited information for each of the eight most recent quarters (the last of which ended April 30, 2015). 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 $ |
|---|---|---|---|---|---|---|
| April 30, 2015 | 68,701 | 7,568 | 0.29 | 0.28 | 88,541 | 352,914 |
| January 31, 2015 | 63,019 | 2,539* | 0.10* | 0.09* | 101,847 | 354,628 |
| October 31, 2014 | 62,056 | 9,739^ | 0.37 | 0.36 | 84,864 | 327,771 |
| July 31, 2014 | 55,488 | 7,215 | 0.28 | 0.27 | 104,958 | 313,069 |
| April 30, 2014 | 54,951 | 6,558 | 0.25 | 0.24 | 101,014 | 312,124 |
| January 31, 2014 | 47,492 | 6,172 | 0.24 | 0.23 | 100,081 | 303,677 |
| October 31, 2013 | 47,171 | 9,712^ | 0.37 | 0.36 | 90,297 | 277,956 |
| July 31, 2013 | 46,247 | 6,297 | 0.24 | 0.24 | 92,037 | 261,585 |

*Net of adjustment to the provision related to the finalization of contract litigation matters in the amount of $5.0 million after tax.
^Includes credit adjustment to tax provision of $3.3 million in fiscal 2014 and $3.1 million in fiscal 2013 on the recognition of deferred tax assets related to non-capital losses

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

| | Q2/2015 | Q2/2014 | Year over year change $ | % |
|---|---|---|---|---|
| Interactive Management Group | $ 44,881 | $ 43,897 | 984 | 2.2 |
| Asset Management Group | 23,820 | 11,054 | 12,766 | 115.5 |
| **Total revenue** | **68,701** | **54,951** | **13,750** | **25.0** |
| Direct costs | 22,179 | 16,139 | 6,040 | 37.4 |
| Revenue, net of direct costs | **46,522** | **38,812** | **7,710** | **19.9** |
| Operating expenses | 30,967 | 25,520 | 5,447 | 21.3 |
| Special charges | 55 | 810 | (755) | (93.2) |
| Results from operating activities | **15,500** | **12,482** | **3,018** | **24.2** |
| Litigation settlements | - | - | - | - |
| Amortization of acquired software and customer relationships | (5,734) | (4,231) | (1,503) | (35.5) |
| Finance income | 51 | 124 | (73) | (58.9) |
| Finance expense | (170) | (75) | (95) | (126.7) |
| Other income | 58 | 1 | 57 | 5,700 |
| Income before income taxes | 9,705 | 8,301 | 1,404 | 16.9 |
| Provision for income taxes | 2,137 | 1,743 | 394 | 22.6 |
| **Net Income** | **$ 7,568** | **$ 6,558** | **1,010** | **15.4** |
| Earnings per share – basic | $ 0.29 | $ 0.25 | 0.04 | 16.0 |
| Earnings per share – diluted | $ 0.28 | $ 0.24 | 0.04 | 16.7 |
| Cash flow from operating activities | **$ 12,207** | **$ 13,866** | **(1,659)** | **(12.0)** |
| Cash flow from operating activities excluding changes in working capital | **$ 16,550** | **$ 13,377** | **3,173** | **23.7** |

**Adjusted EBITDA:**

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

| | Three Months ended | | Six Months ended | |
|---|---|---|---|---|
| | April 30, 2015 | April 30, 2014 | April 30, 2015 | April 30, 2014 |
| **Total Revenue** | **$ 68,701** | **$ 54,951** | **$ 131,720** | **$ 102,443** |
| Income before income taxes | 9,705 | 8,301 | 11,165 | 16,003 |
| Depreciation of property, plant and equipment | 682 | 566 | 1,274 | 1,095 |
| Amortization of acquired software and customer relationships | 5,734 | 4,231 | 11,088 | 8,141 |
| Finance income | (51) | (124) | (164) | (267) |
| Finance expenses | 170 | 75 | 287 | 133 |
| Other income | (58) | (1) | (75) | (8) |
| Litigation settlements | - | - | 8,774 | - |
| Special charges | 55 | 810 | 79 | 922 |
| **Adjusted EBITDA** | **$ 16,237** | **$ 13,858** | **$ 32,428** | **$ 26,019** |
| **Adjusted EBITDA margin** | **24%** | **25%** | **25%** | **25%** |
| **Adjusted EBITDA per diluted share** | **$ 0.60** | **$ 0.52** | **$ 1.20** | **$ 0.97** |

**Revenue**

Total revenue for the quarter was $68.7 million compared to $55.0 million in the prior year's second quarter, a 25% increase over the prior year. Hosted and maintenance services revenue was $33.7 million compared to $28.3 million in the prior year's second quarter, an increase of 19%. This includes maintenance revenue of $28.6 million compared to $23.0 million in the prior year's second quarter and reflects incremental maintenance revenue from license sales in the past fiscal year as well as contributions from acquired operations. Hosted services revenue was down marginally at $5.1 million in the quarter compared to $5.3 million last year. License revenue was $21.1 million compared to $18.9 million in the prior year's second quarter as a result of incremental subscription revenue booked as well as contributions from acquisitions.

Revenue for the fiscal year to date was $131.7 million compared to $102.4 million in fiscal 2014, a 29% increase. Hosted and maintenance services revenue grew 24% in the year to $65.9 million and represents 50% of revenue compared to 52% last year. Revenue also includes license revenue of $40.7 million, a 17% increase over last year.

The Interactive Management Group contributed $44.9 million in revenue in the quarter, compared to $43.9 million reported in the second quarter of fiscal 2014. The increase is attributable to incremental contributions from acquisitions completed after last year's second quarter. The Asset Management Group contributed revenue of $23.8 million in the quarter, compared to $11.1 million reported in the second quarter of fiscal 2014 and reflects incremental revenue contributions from CDRator A/S ("CDRator") acquired on March 3, 2015 and acquisitions completed in the prior fiscal year. On a year to date basis, the Interactive Management Group contributed $88.6 million compared to $81.7 million, while the Asset Management Group revenue was $43.1 million compared to $20.7 million as a result of incremental contributions from acquisitions completed in the current and prior fiscal year as well as incremental services revenue from the Group's telecom billing and workflow operations.

Both revenue and costs were impacted by the stronger U.S. dollar which compared to the Canadian dollar averaged $1.26 in the current quarter versus $1.11 in the prior year's second quarter. The Pound Sterling also positively impacted revenue averaging $1.91 in the current quarter compared to $1.84 in the prior year's second quarter. The positive impact on revenue was mitigated by the stronger Canadian dollar against both the Euro, which averaged $1.40 in the quarter versus $1.52 last year while the Swedish Kronor averaged $0.15 in the current quarter versus $0.17 in the prior year's second quarter.

**Direct costs**

Direct costs for the quarter were $22.2 million or 32.3% of revenue compared to $16.1 million or 29.4% of revenue in the prior year's second quarter. The increase in costs and decrease in margins is attributable to additional costs associated with increased hosted and third party services costs which increased from 38.8% to 41.6% of hosted, maintenance and professional services revenue.

**Operating Expenses**

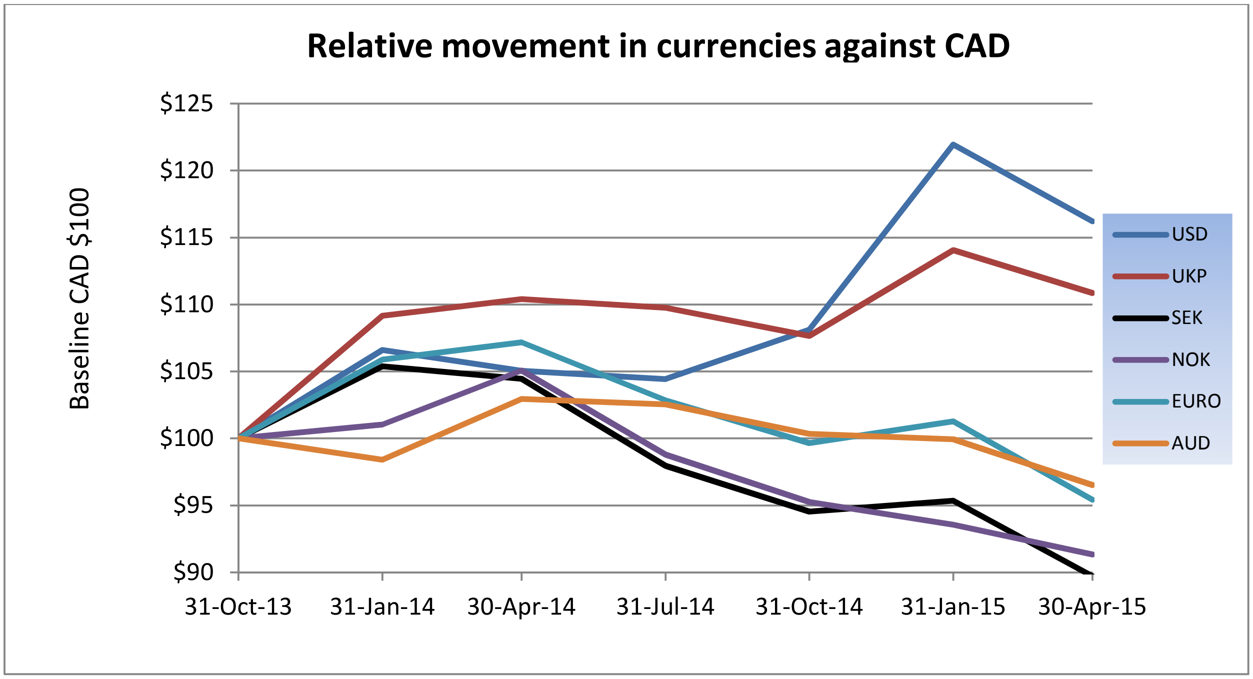
Operating expenses, excluding special charges, for the quarter were $31.0 million, compared to $25.5 million reported in the second quarter of last year, 21.3% increase. The increase in costs reflect incremental operating costs related to newly acquired operations and the impact of the stronger U.S dollar which increased operating costs in Canadian dollars. Selling, general and administrative costs include foreign exchange gains of $0.4 million recorded in the quarter compared to nominal losses last year. Last year's expenses included $0.8 million in special charges related to acquisitions compared to nominal charges in the second quarter of this year. Operating costs, excluding special charges, as a percentage of total revenue decreased from 46.4% to 45.1% in the quarter as a result of reduced proportional R&D spending. For the fiscal year to date, operating expenses excluding special charges increased by 23.5% to $58.6 million or 44.5% of revenue from $47.4 million (46.3% of revenue) in fiscal 2014.

The Company continues to invest in R&D for future growth. R&D expenses were $10.8 million or 15.7% as a percentage of revenue in the quarter, compared to $9.4 million or 17.2% in the prior quarter. This is net of R&D tax credits of $0.1 million and $0.2 million, respectively, recorded in the current and prior year's second quarters.

Non-cash charges for amortization of acquired software and customer relationships related to acquisitions were $5.7 million, up from the prior year's second quarter expense of $4.2 million as a result of incremental charges related to the acquisitions of IT Sonix, Basset, Jinny, Voxtron and CDRator, which were partially offset by expiring amortization charges from previous acquisitions. On a year to date basis, non-cash amortization represents a charge of $11.1 million versus $8.1 million last year.

**Foreign Exchange**

The Company continues to earn a significant portion of revenue from sales denominated in currencies other than the Canadian dollar. As a result of acquisitions in the Scandinavian region and Europe, an increasing proportion of revenue is derived from operations outside of the U.S. and is denominated in currencies other than the U.S. dollar. As a result, the Company transacts a significant proportion of its business in Pounds Sterling, Euros, Swedish, Norwegian and Danish Kronor, as well as currencies in the Asia Pacific region.




Exchange rate Source: Bank of Canada Currency Rates

During the past quarter, the Canadian dollar weakened against the U.S dollar and the Pound Sterling in particular but strengthened against the Company's other main currencies including the Kronor and 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 $2.0 million over the prior year, while costs increased by an estimated $1.7 million, as calculated by applying the change in the average exchange rates from Q2/14 to Q2/15 to the Company's foreign currency denominated revenue and direct costs and operating expenses in Q2/15.

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. The Company continues to have more operating expenses denominated in Canadian dollars than Canadian dollar revenue. Going forward, fluctuations in exchange rates among the Canadian dollar, the U.S. dollar, the pound sterling, the Swedish krona, the Euro and other currencies may have a material but mitigating effect on the Company's foreign currency denominated revenue and expenses stated in Canadian dollars. This will also impact the relative cost of foreign currency denominated acquisitions stated in Canadian dollars.

The Company recorded foreign exchange gains of $0.4 million related to foreign currency denominated monetary assets and liabilities in the current year's second quarter compared to nominal losses in in the prior year's second quarter.  The gain was recorded primarily as a result of the impact of the U.S. dollar increase against the Canadian dollar on the Company's U.S. dollar denominated monetary assets held primarily in Canada, Ireland and the U.K. The Company records these foreign exchange gains and losses in selling, general and administrative expenses in the unaudited condensed consolidated interim statements of operations. Translation gains or losses incurred upon consolidation of the Company's foreign operation's balance sheets into Canadian dollars are included in the Company's accumulated other comprehensive income (loss) account on the balance sheet.

**Finance and Other Income**

The Company recognized finance and other income of $0.1 million in the quarter compared to $0.1 million in the second quarter of the prior year as a result of declining yields and booked a nominal gain on the sale of equities in the second quarter. No such gain was recorded in the second quarter of the prior year.

**Income Tax Expense**

During the quarter, the Company established a tax provision of $2.1 million as compared to a provision of $1.7 million in the prior year's second quarter. The Company paid $2.1 million in tax instalments in the quarter, compared to $2.4 million in the second quarter of the prior year.

**Net Income**

Net income was $7.6 million or $0.28 per share on a diluted basis in the quarter compared to $6.6 million or $0.24 per share in the second quarter of the prior year, as a result of incremental operating profits. For the year to date, net income was $10.1 million or $0.37 per diluted share compared to $12.7 million or $0.47 per share. The decrease in net income year to date reflects an adjustment of $8.8 million ($5.0 million net of tax) to the provision for contract litigation matters which was booked during the first quarter.

**Liquidity and Capital Resources:**

The Company closed the quarter with cash reserves of $88.5 million, compared to the October 31, 2014 balance of $84.9 million. This is after funding the CDRator acquisition completed on March 3, 2015 and payment of $2.6 million in dividends in the quarter. The Company continues to have no long-term debt and has sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend and acquisition strategies. During the quarter the Company generated cash flows from operating activities of $12.2 million compared to $13.9 million in the second quarter of the prior year. On a year to date basis the Company generated cash flows from operating activities of $29.8 million compared to $23.8 million last year.

The Company had 26,285,462 Common Shares issued and outstanding as at June 10, 2015. During the second quarter, 83,000 stock options were exercised contributing $0.7 million in cash to the Company. In comparison, 39,500 options were exercised in the prior year's second quarter adding $0.4 million. The Company granted 135,000 options in the second quarter of the fiscal year compared to 110,000 in the second quarter last year. Enghouse did not repurchase any shares of its common stock in either second quarter under its Normal Course Issuer Bid but did renew the bid for a further year commencing April 22, 2015 and expiring April 21, 2016, whereby it may repurchase up to a maximum of 1,797,594 common shares of the Company.

**Off-Balance Sheet Arrangements**

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

**Transactions with Related Parties**

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

**Risks and Uncertainties**

The primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations remain substantially unchanged from those discussed in the Company's latest Annual Information Form and its Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2014, contained in the Company's 2014 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

**Controls and Procedures**

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief

Executive Officer ("CEO") and Vice President Finance that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

**Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed under the supervision of the CEO and Vice President Finance, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by the Company is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2014, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the CEO and Vice President Finance. Based on this evaluation, the CEO and the Vice President Finance concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered the Company's disclosure policy, a sub-certification process and the functioning of the Company's Disclosure Committee.

**Internal Controls over Financial Reporting**

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

At October 31, 2014, 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, 2014, the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission", and the requirements of NI 52-109.

There were no changes to the Company's internal control over financial reporting during the quarter ended April 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Additional Information**

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

## Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three and six months ended April 30, 2015 have been prepared by and are the responsibility of the Company's management.

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

# Condensed Consolidated Interim Statements of Financial Position

*(in thousands of Canadian dollars)*
(Unaudited)

| | April 30, 2015 | October 31, 2014 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 78,463 | $ 72,780 |
| Short-term investments | 10,078 | 12,084 |
| Accounts receivable, net | 59,969 | 54,341 |
| Prepaid expenses and other assets | 8,377 | 7,571 |
| | **156,887** | **146,776** |
| **Non-current assets** | | |
| Property, plant and equipment | 4,469 | 4,020 |
| Intangible assets (Note 4) | 180,730 | 166,548 |
| Deferred income tax assets | 10,828 | 10,427 |
| **Total assets** | **$ 352,914** | **$ 327,771** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 42,623 | $ 41,297 |
| Income taxes payable | 107 | 2,644 |
| Dividends payable | 3,154 | 2,616 |
| Provisions (Note 5) | 13,330 | 3,407 |
| Deferred revenue | 56,990 | 47,745 |
| | **116,204** | **97,709** |
| **Non-current liabilities** | | |
| Deferred income tax liabilities | 20,853 | 19,930 |
| Deferred revenue | 1,710 | 1,877 |
| **Total liabilities** | **138,767** | **119,516** |
| **Shareholders' Equity** | | |
| Share capital (Note 6) | 60,924 | 59,746 |
| Contributed surplus | 4,164 | 3,782 |
| Retained earnings | 139,887 | 135,554 |
| Accumulated other comprehensive income | 9,172 | 9,173 |
| **Total shareholders' equity** | **214,147** | **208,255** |
| **Total liabilities and shareholders' equity** | **$ 352,914** | **$ 327,771** |

Commitments and contingencies (Note 12)

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

# Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

| | Three months ended April 30 | | Six months ended April 30 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Revenue** | | | | |
| Software licenses | $ 21,084 | $ 18,872 | $ 40,696 | $ 34,635 |
| Hosted and maintenance services | 33,687 | 28,345 | 65,946 | 53,359 |
| Professional services | 12,412 | 6,100 | 21,333 | 11,232 |
| Hardware | 1,518 | 1,634 | 3,745 | 3,217 |
| | **68,701** | **54,951** | **131,720** | **102,443** |
| **Direct costs** | | | | |
| Software licenses | 1,966 | 1,684 | 3,643 | 2,884 |
| Services | 19,131 | 13,377 | 35,915 | 25,093 |
| Hardware | 1,082 | 1,078 | 2,415 | 2,097 |
| | **22,179** | **16,139** | **41,973** | **30,074** |
| **Revenue, net of direct costs** | **46,522** | **38,812** | **89,747** | **72,369** |
| **Operating expenses** | | | | |
| Selling, general and administrative | 19,493 | 15,514 | 36,637 | 28,190 |
| Research and development | 10,792 | 9,440 | 20,682 | 18,160 |
| Depreciation of property, plant and equipment | 682 | 566 | 1,274 | 1,095 |
| Special charges (Note 5) | 55 | 810 | 79 | 922 |
| | **31,022** | **26,330** | **58,672** | **48,367** |
| **Results from operating activities** | **15,500** | **12,482** | **31,075** | **24,002** |
| Litigation settlements (Note 12) | - | - | (8,774) | - |
| Amortization of acquired software and customer relationships | (5,734) | (4,231) | (11,088) | (8,141) |
| Finance income | 51 | 124 | 164 | 267 |
| Finance expenses | (170) | (75) | (287) | (133) |
| Other income | 58 | 1 | 75 | 8 |
| **Income before income taxes** | **9,705** | **8,301** | **11,165** | **16,003** |
| **Provision for income taxes (Note 8)** | 2,137 | 1,743 | 1,058 | 3,273 |
| **Net income for the period** | **$ 7,568** | **$ 6,558** | **$ 10,107** | **$ 12,730** |
| Items that are or may be reclassified subsequently to profit or loss: | | | | |
| Foreign currency translation differences from foreign operations | (9,501) | 751 | (95) | 10,521 |
| Transfer to net income of realized gains on available for sale investments | (74) | (17) | (74) | (37) |
| Unrealized (loss) gain on available for sale investments | (6) | (40) | 182 | (57) |
| Deferred income tax recovery (expense) | 11 | 7 | (14) | 12 |
| **Other comprehensive (loss) income** | **(9,570)** | **701** | **(1)** | **10,439** |
| **Comprehensive (loss) income** | **$ (2,002)** | **$ 7,259** | **$ 10,106** | **$ 23,169** |
| **Earnings per share** | | | | |
| Basic | $ 0.29 | $ 0.25 | $ 0.39 | $ 0.49 |
| Diluted | $ 0.28 | $ 0.24 | $ 0.37 | $ 0.47 |

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

# Condensed Consolidated Interim Statements of Changes in Equity

*(in thousands of Canadian dollars)*
*(Unaudited)*

| | Share Capital -number | Share capital $ | Contributed surplus $ | Accumulated other comprehensive income (loss) $ | Retained earnings $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance – November 1, 2014** | **26,163,962** | **59,746** | **3,782** | **9,173** | **135,554** | **208,255** |
| Net income | - | - | - | - | 10,107 | 10,107 |
| Other Comprehensive Income: | | | | | | |
| Cumulative Translation Adjustment | - | - | - | (95) | - | (95) |
| Transfer to net income of realized gains on available-for-sale investments | - | - | - | (74) | - | (74) |
| Unrealized gain on available-for-sale investments | - | - | - | 182 | - | 182 |
| Deferred income tax expense | - | - | - | (14) | - | (14) |
| **Comprehensive income for the period** | **-** | **-** | **-** | **(1)** | **10,107** | **10,106** |
| Employee share options: | | | | | | |
| Value of services recognized | - | - | 622 | - | | 622 |
| Proceeds on issuing shares | 121,500 | 1,178 | (240) | - | | 938 |
| Dividends | - | - | - | - | (5,774) | (5,774) |
| **Balance – April 30, 2015** | **26,285,462** | **60,924** | **4,164** | **9,172** | **139,887** | **214,147** |
| | | | | | | |
| **Balance – November 1, 2013** | **26,042,962** | **58,514** | **3,175** | **5,139** | **115,800** | **182,628** |
| Net income | - | - | - | - | 12,730 | 12,730 |
| Other Comprehensive Income: | | | | | | |
| Cumulative Translation Adjustment | - | - | - | 10,521 | - | 10,521 |
| Transfer to net income of realized gains on available-for-sale investments | - | - | - | (37) | - | (37) |
| Unrealized loss on available-for-sale investments | - | - | - | (57) | - | (57) |
| Deferred income tax recovery | - | - | - | 12 | - | 12 |
| **Comprehensive income for the period** | **-** | **-** | **-** | **10,439** | **12,730** | **23,169** |
| Employee share options: | | | | | | |
| Value of services recognized | - | - | 364 | - | - | 364 |
| Proceeds on issuing shares | 83,500 | 922 | (207) | - | - | 715 |
| Dividends | - | - | - | - | (4,700) | (4,700) |
| **Balance – April 30, 2014** | **26,126,462** | **59,436** | **3,332** | **15,578** | **123,830** | **202,176** |

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

# Condensed Consolidated Interim Statements of Cash Flows

(*in thousands of Canadian dollars)*
*(Unaudited)*

| | Three months ended April 30 2015 | 2014 | Six months ended April 30 2015 | 2014 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net income | $ 7,568 | $ 6,558 | $ 10,107 | $ 12,730 |
| **Adjustments for:** | | | | |
| Depreciation of property, plant and equipment | 682 | 566 | 1,274 | 1,095 |
| Amortization of acquired software and customer relationships | 5,734 | 4,231 | 11,088 | 8,141 |
| Stock-based compensation expense | 317 | 205 | 622 | 364 |
| Provision for income taxes | 2,137 | 1,743 | 1,058 | 3,273 |
| Finance expenses and other income | 112 | 74 | 212 | 125 |
| | **16,550** | **13,377** | **24,361** | **25,728** |
| Changes in non-cash operating working capital (Note 13) | (2,250) | 2,874 | 9,556 | 1,214 |
| Income tax paid | (2,093) | (2,385) | (4,068) | (3,172) |
| **Net cash flows from operating activities** | **12,207** | **13,866** | **29,849** | **23,770** |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment, net | (395) | (131) | (1,457) | (788) |
| Acquisitions, net of cash acquired of $4,015 ($969 - 2014) (Note 10) | (19,818) | (8,282) | (19,818) | (10,060) |
| Purchase consideration for prior period acquisitions (Note 10) | (271) | (3,040) | (683) | (3,422) |
| Net sale of short-term investments | 4,422 | 4,861 | 2,347 | 3,246 |
| **Net cash flows used in investing activities** | **(16,062)** | **(6,592)** | **(19,611)** | **(11,024)** |
| **Cash flows from financing activities** | | | | |
| Issuance of share capital | 673 | 354 | 938 | 715 |
| Payment of cash dividend | (2,621) | (2,087) | (5,237) | (4,170) |
| **Net cash flows used in financing activities** | **(1,948)** | **(1,733)** | **(4,299)** | **(3,455)** |
| Effect of currency translation adjustments on cash and cash equivalents | (2,625) | 264 | (256) | 3,402 |
| **Net (decrease) increase in cash and cash equivalents during the period** | **(8,428)** | **5,805** | **5,683** | **12,693** |
| Cash and cash equivalents- beginning of period | 86,891 | 76,997 | 72,780 | 70,109 |
| **Cash and cash equivalents - end of period** | **$ 78,463** | **$ 82,802** | **$ 78,463** | **$ 82,802** |

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

# Notes to Condensed Consolidated Interim Financial Statements

**For the three months ended April 30, 2015 and 2014**

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

## 1. Description of the business and reporting entity

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

## 2. Basis of preparation

### (a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, 'Interim financial reporting'. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2014, which have been prepared in accordance with IFRS. These unaudited condensed consolidated interim financial statements were approved for issue on June 10, 2015.

### (b) Basis of preparation and measurement

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies disclosed in Note 3 of the Company's 2014 annual consolidated financial statements. They have been prepared on the historical cost basis except for available-for-sale financial assets, certain assets and liabilities initially recognized in connection with business combinations, and derivative financial instruments, which are measured at fair value.

The policies applied in these unaudited condensed consolidated interim financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of June 10, 2015, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending October 31, 2015 could result in a restatement of these unaudited condensed consolidated interim financial statements.

### (c) Functional and presentation of currency

The unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is Enghouse Systems functional currency.

### (d) Use of estimates and judgments

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended October 31, 2014, with the exception of changes in estimates that are required in determining the provision for income taxes.

## Notes to Condensed Consolidated Interim Financial Statements

**For the three months ended April 30, 2015 and 2014**

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

### 3. Significant accounting policies

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

### 4. Intangible assets

| | Acquired Software | Customer Relationships | Goodwill | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At November 1, 2014** | | | | |
| Cost | 107,677 | 57,158 | 98,534 | 263,369 |
| Accumulated depreciation | (68,883) | (27,938) | - | (96,821) |
| **Net book value** | **38,794** | **29,220** | **98,534** | **166,548** |
| | | | | |
| **Period ended April, 2015** | | | | |
| Opening net book value | 38,794 | 29,220 | 98,534 | 166,548 |
| Acquisition | 5,630 | 7,150 | 11,441 | 24,221 |
| Amortization | (7,058) | (4,030) | - | (11,088) |
| Purchase Price Adjustments | - | - | 49 | 49 |
| Exchange difference | (717) | (343) | 2,060 | 1,000 |
| **Closing net book value** | **36,649** | **31,997** | **112,084** | **180,730** |
| | | | | |
| **At April 30, 2015** | | | | |
| Cost | 113,307 | 64,308 | 112,084 | 289,699 |
| Accumulated amortization | (76,658) | (32,311) | - | (108,969) |
| **Net book value** | **36,649** | **31,997** | **112,084** | **180,730** |

### 5. Provisions

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

| | Total |
|---|---|
| **At November 1, 2014** | **$ 3,407** |
| Additional provisions (Note 12) | 9,371 |
| Unused amounts reversed | (46) |
| Recovered/(Utilized) during the period | 95 |
| Effect of movements in foreign exchange | 503 |
| **At April 30, 2015** | **$ 13,330** |

### 6. Share capital and other components of shareholder's equity

**Capital Stock**

The authorized share capital of the Company consists of an unlimited number of common shares, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 26,285,462 common shares outstanding as at April 30, 2015. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2014 or April 30, 2015.

## Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended April 30, 2015 and 2014**
*(Unaudited, in thousands of Canadian dollars, except as indicated)*

**Common share repurchase plan**
On April 22, 2015, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,797,594 common shares of the Company, expiring on April 21, 2016. The Company did not repurchase any common shares in either of fiscal 2015 or in fiscal 2014.

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

*Cumulative translation account*
The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations net of income tax recovery of $208 on a year to date basis (YTD-2014- recovery of $117).

*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 expense of $14 on a year to date basis (YTD-2014- recovery of $12).

**Dividends**
During the three months ended April 30, 2015, the Company declared and paid dividends of $0.12 and $0.10 respectively, per common share (three months ended April 30, 2014 - $0.10 and $0.08 per common share).

### 7. Stock-based Compensation
The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 2,096,200 (April 30, 2014 – 2,255,200) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four years and expire seven years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

A summary of the status of the Company's Plan as at April 30, 2015 and April 30, 2014, and changes during the three and six months ended respectively on those dates is presented as follows:

| **Three months ended:** | **April 30, 2015** | | **April 30, 2014** | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted Average Exercise Price in $** | **Number of Options** | **Weighted Average Exercise Price in $** |
| Outstanding at beginning of period | 1,250,000 | 14.80 | 1,294,000 | 12.54 |
| Granted | 135,000 | 48.47 | 110,000 | 34.45 |
| Exercised | (83,000) | 8.11 | (39,500) | 8.92 |
| Forfeited | (17,500) | 17.15 | - | - |
| Outstanding at end of period | **1,284,500** | **18.74** | **1,364,500** | **14.41** |
| Options exercisable at end of period | **760,500** | **12.79** | **715,000** | **9.50** |

## Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended April 30, 2015 and 2014**
*(Unaudited, in thousands of Canadian dollars, except as indicated)*

| Six months ended: | April 30, 2015 | | April 30, 2014 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price in $ | Number of Options | Weighted Average Exercise Price in $ |
| Outstanding at beginning of period | 1,288,500 | 14.56 | 1,419,000 | 12.42 |
| Granted | 135,000 | 48.47 | 110,000 | 34.45 |
| Exercised | (121,500) | 7.73 | (83,500) | 8.55 |
| Forfeited | (17,500) | 17.15 | (81,000) | 12.81 |
| Outstanding at end of period | **1,284,500** | **18.74** | **1,364,500** | **14.41** |
| Options exercisable at end of period | **760,500** | **12.79** | **715,000** | **9.50** |

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. During the second quarter of 2015, the Company recorded a non-cash charge of $317 (Q2/2014 - $205).

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 2015 | Options Granted FY 2014 |
|---|---|---|
| Risk-free interest rate (%) | 0.68% - 1.34% | 1.34% - 1.93% |
| Estimated volatility (%) | 20%-28% | 20%-28% |
| Dividend yield | $0.48 | $0.40 |
| Expected life (in years) | 3.5 - 6.3 | 3.5 - 6.3 |
| Weighted average fair value (in dollars) | $6.74 - $11.63 | $5.01 - $9.34 |

There were 135,000 options granted to date in fiscal 2015 (110,000 – 2014).

### 8. Income tax

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income for the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and the relative mix of income earned in differing jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined for the consolidated group. The Company's effective tax rate for the three month period ended April 30, 2015 was a provision of 22.0%. The effective tax rate for the six month period was a provision of 9.5%, which includes the tax effect of legal provision adjustments booked in the first quarter of $8.8 million.

# Notes to Condensed Consolidated Interim Financial Statements

**For the three months ended April 30, 2015 and 2014**

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

## 9. Earnings per share

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

| | Three months ended April 30 | | Six months ended April 30 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Net income attributable to owners of the parent | $ 7,568 | $ 6,558 | $ 10,107 | $ 12,730 |
| Weighted average number of common shares in issue | 26,223 | 26,096 | 26,204 | 26,074 |
| **Basic earnings per share** | **$ 0.29** | **$ 0.25** | **$ 0.39** | **$ 0.49** |

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

| | Three months ended April 30 | | Six months ended April 30 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Net income attributable to owners of the parent | $ 7,568 | $ 6,558 | $ 10,107 | $ 12,730 |
| Weighted average number of common shares issued | 26,223 | 26,096 | 26,204 | 26,074 |
| Adjustments for: | | | | |
| Stock options | 786 | 776 | 752 | 758 |
| Weighted average number of common shares for diluted earnings per share | 27,009 | 26,872 | 26,956 | 26,832 |
| **Diluted earnings per share** | **$ 0.28** | **$ 0.24** | **$ 0.37** | **$ 0.47** |

## 10. Acquisitions

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

**2015 Acquisitions:**

***Asset Management Group***

The Company acquired 100% of the issued and outstanding common shares of CDRator A/S ("CDRator") on March 3, 2015 for an aggregate cash purchase price of approximately $27.6 million. Of this amount, approximately $3.8 million is subject to hold back and adjustment. Results are included in the Asset Management Group from the acquisition date.

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

**2014 Acquisitions:**

***Interactive Management***

The Company acquired 100% of the issued and outstanding common shares of Information Access Technology, Inc. (“IAT”), IT Sonix AG (“IT Sonix”) and Voxtron NV (“Voxtron”) on November 4, 2013, March 4, 2014 and October 3, 2014 respectively, for an aggregate cash purchase price of approximately $23.4 million. Of this amount, approximately $2.1 million remains subject to hold back and adjustment. Results are included in the Interactive Management Group from the date of acquisition.

Headquartered in West Jordan (Salt Lake City), Utah, IAT specializes in innovative communication technology which enables companies to design, execute and measure customer communication campaigns. IAT solutions include premise and hosted products and services for both outbound dialing and broadcast messaging. Based in Leipzig, Germany, IT Sonix is a software provider specializing in outbound contact center solutions with a particular focus on tele-marketing. ELSBETH, IT Sonix’s flagship solution, is a fully featured, general purpose, outbound suite combining a powerful predictive dialer, campaign management, call scripting, real-time speech analytics and agent coaching capabilities. Headquartered in Temse (Brussels), Belgium, Voxtron is a provider of multi-channel contact center and dispatch solution for small, medium and large enterprises as well as the railroad and utilities sectors.

***Asset Management Group***

The Company acquired 100% of the issued and outstanding common shares of Basset AB (“Basset”) and Jinny Software Limited (“Jinny”) on July 4, 2014 and August 5, 2014, respectively for an aggregate cash purchase price of approximately $20.4 million. Of this amount, approximately $3.0 million remains subject to hold back and adjustment. Results are included in the Asset Management Group from their respective dates of acquisition.

Headquartered in Stockholm, Sweden, Basset provides revenue management solutions to telecommunications operators and next generation electric utilities in Europe, Africa and the Middle East. Based in Dublin, Ireland, Jinny is an end-to-end provider of mobile value added services, rich communications, and diameter signaling management solutions for wireless carriers globally. Jinny's solutions enable customers to run different cellular network technologies simultaneously, and are integrated with leading network equipment providers.

Management has established the preliminary purchase price allocations taking into account all relevant information at the time of preparing these notes to the unaudited condensed consolidated interim financial statements. The purchase price allocations below have not been finalized, other than IAT (Interactive Management 2014), subject to receipt of additional information related to the settlement of the hold back obligations

# Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended April 30, 2015 and 2014**
*(Unaudited, in thousands of Canadian dollars, except as indicated)*

The Company's purchase price allocations are as follows:

| | Asset Management Group Preliminary Quarter ended April 30, 2015 | Interactive Management Group Preliminary Year ended October 31, 2014 | Asset Management Group Preliminary Year ended October 31, 2014 |
|---|---|---|---|
| Cash and cash equivalents | $ 4,015 | $ 2, 825 | $ 1,536 |
| Short-term investments | - | - | - |
| Accounts receivable, net | 4,530 | 8,555 | 13,084 |
| Prepaid expenses and other assets | 468 | 805 | 2,196 |
| Property, plant and equipment | 284 | 901 | 355 |
| Deferred income tax assets | - | - | 1,123 |
| Acquired software | 5,630 | 9,126 | 13,450 |
| Customer relationships | 7,150 | 5,600 | 6,271 |
| Goodwill | 11,441 | 7,643 | 7,657 |
| **Total assets acquired** | **$ 33,518** | **$ 35,455** | **$ 45,672** |
| Less: Current liabilities assumed | $ 3,092 | $ 8,064 | $ 22,060 |
| Less: Deferred income tax liabilities | 2,839 | 4,030 | 3,204 |
| **Total liabilities assumed** | **$ 5,931** | **$ 12,094** | **$ 25,264** |
| **Net assets acquired for cash consideration** | **$ 27,587** | **$ 23,361** | **$ 20,408** |

## 11. Segmented information

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

The Company's operating segments each develop and market software products and provide services for their respective markets and are inclusive of the current year acquisitions. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, call recording and workforce optimization solutions that support any telephony environment, on-premise or in the cloud. Its customers include insurance companies, banks and utilities as well as high technology, health care and hospitality companies. The Asset Management Group provides a portfolio of products to telecom service providers as well as fleet management and public safety software solutions for the transportation industry, first responders, distribution, security, utilities and oil and gas industries. These include telecom billing, data conversion, and geo-spatial software solutions for complex network infrastructures and fleet/logistics management solutions for the public and private sectors.

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

## Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended April 30, 2015 and 2014**
*(Unaudited, in thousands of Canadian dollars, except as indicated)*

| Three months ended April 30, 2015 | Interactive Management Group | Asset Management Group | Total |
|---|---|---|---|
| Revenue | $ 44,881 | $ 23,820 | $ 68,701 |
| Operating expenses excluding non-cash charges | (32,846) | (18,226) | (51,072) |
| Depreciation of property, plant and equipment | (555) | (127) | (682) |
| **Segmented profit** | **$ 11,480** | **$ 5,467** | **$ 16,947** |
| Corporate expenses | | | (1,447) |
| Amortization of acquired software and customer relationships | | | (5,734) |
| Finance income | | | 51 |
| Finance expenses | | | (170) |
| Other income | | | 58 |
| **Income before income taxes** | | | **$ 9,705** |

| Three months ended April 30, 2014 | Interactive Management Group | Asset Management Group | Total |
|---|---|---|---|
| Revenue | $ 43,897 | $ 11,054 | $ 54,951 |
| Operating expenses excluding non-cash charges | (32,330) | (8,207) | (40,537) |
| Depreciation of property, plant and equipment | (467) | (99) | (566) |
| **Segmented profit** | **$ 11,100** | **$ 2,748** | **$ 13,848** |
| Corporate expenses | | | (1,366) |
| Amortization of acquired software and customer relationships | | | (4,231) |
| Finance income | | | 124 |
| Finance expenses | | | (75) |
| Other income | | | 1 |
| **Income before income taxes** | | | **$ 8,301** |

## Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended April 30, 2015 and 2014**
*(Unaudited, in thousands of Canadian dollars, except as indicated)*

| | Interactive Management Group | Asset Management Group | Total |
|---|---|---|---|
| **Six months April 30, 2015** | | | |
| Revenue | $ 88,633 | $ 43,087 | $ 131,720 |
| Operating expenses excluding non-cash charges | (63,815) | (32,326) | (96,141) |
| Depreciation of property, plant and equipment | (1,040) | (234) | (1,274) |
| **Segmented profit** | **$ 23,778** | **$ 10,527** | **$ 34,305** |
| Corporate expenses | | | (3,230) |
| Litigation settlements | | | (8,774) |
| Amortization of acquired software and customer relationships | | | (11,088) |
| Finance income | | | 164 |
| Finance expenses | | | (287) |
| Other income | | | 75 |
| **Income before income taxes** | | | **$ 11,165** |
| Goodwill | $ 77,057 | $ 35,027 | $ 112,084 |
| Other assets | 118,843 | 111,909 | 230,752 |
| Short-term investments | | | 10,078 |
| **Total assets** | | | **$ 352,914** |
| Capital Expenditures | $ 1,171 | $ 286 | $ 1,457 |

| | Interactive Management Group | Asset Management Group | Total |
|---|---|---|---|
| **Six months April 30, 2014** | | | |
| Revenue | $ 81,697 | $ 20,746 | $ 102,443 |
| Operating expenses excluding non-cash charges | (59,107) | (15,581) | (74,688) |
| Depreciation of property, plant and equipment | (885) | (210) | (1,095) |
| **Segmented profit** | **$ 21,705** | **$ 4,955** | **$ 26,660** |
| Corporate expenses | | | (2,658) |
| Amortization of acquired software and customer relationships | | | (8,141) |
| Finance income | | | 267 |
| Finance expenses | | | (133) |
| Other income | | | 8 |
| **Income before income taxes** | | | **$ 16,003** |
| Goodwill | $ 73,789 | $ 17,051 | $ 90,840 |
| Other assets | 147,981 | 55,091 | 203,072 |
| Short-term investments | | | 18,212 |
| **Total assets** | | | **$ 312,124** |
| Capital Expenditures | $ 622 | $ 166 | $ 788 |

# Notes to Condensed Consolidated Interim Financial Statements

**For the three months ended April 30, 2015 and 2014**

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

## 12. Commitments and contingencies

*Southern California Gas Company v. Syntellect, Inc.:* Southern California Gas Company ("SoCal") filed a lawsuit against a wholly owned subsidiary of the Company relating to the indemnification provisions in a contract between the parties. The United States District Court, Southern District of California, issued a judgment in favor of SoCal. However, the judgment was appealed to the United States Ninth Circuit Court of Appeals. That court affirmed aspects of the judgment, but reversed the finding that evidence of apportionment of damages should be excluded and directed the district court to consider the issue. Subsequently, the district court issued an order granting a motion brought by SoCal that apportionment was not appropriate and that the Company is responsible for 100% of SoCal's damages and a judgment (together with the order, the "Judgment") in favour of SoCal which, together with certain additional SoCal costs and interest, amounts to U.S. $9.45 million (the "Award"). The Company appealed the Judgment to the United States Ninth Circuit Court of Appeals, and a standby letter of credit in the full amount of the Award was posted, pending the outcome of the appeal. The appeal was denied on February 23, 2015 so approximately U.S. $9.55 million, representing the Award plus estimated additional SoCal costs and interest, will be paid to SoCal to finalize this matter. The Company booked a litigation settlement provision of $9.4 million in the first quarter of 2015 to cover its obligations. A cash deposit of $11.4 million underlying the standby letter of credit to offset potential foreign exchange risk is restricted as to use and has been reflected on the unaudited condensed consolidated interim statements of financial position in cash and cash equivalents. Subsequent to quarter end, the Company paid U.S. $9.45 million to SoCal to settle the Award. The Company also previously settled an unrelated matter in its favor during the year, booking a recovery of $0.6 million.

### General

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

In response to correspondence from and, in a few instances, litigation instigated by, third party patent holders, a few of the Company's customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. The Company does not believe that it currently has any obligation to provide such a defense or that the Company's products infringe any third party patent. With respect to this litigation, and any other litigation the Company becomes involved with, under a contractual indemnity or any other legal theory, the Company has and will continue to consider all its options for resolution and vigorously assert all appropriate defenses.

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

| | Three months ended April 30, | | Six months ended April 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| (Increase) decrease in accounts receivable, net | $ (3,801) | $ 3,798 | $ (1,337) | $ 1,302 |
| Increase in prepaid expenses and other assets | (514) | (28) | (391) | (808) |
| Increase (decrease) in accounts payable & accrued liabilities | 2,421 | (1,477) | 4,983 | (7,121) |
| (Decrease) increase in income taxes payable | (1,432) | 228 | (1,995) | 67 |
| Increase in deferred revenue | 1,076 | 353 | 8,296 | 7,774 |
| | **$ (2,250)** | **$ 2,874** | **$ 9,556** | **$ 1,214** |

## Notes to Condensed Consolidated Interim Financial Statements
**For the three months ended April 30, 2015 and 2014**
*(Unaudited, in thousands of Canadian dollars, except as indicated)*

### 14. Subsequent Events
Effective May 8, 2015 the Company acquired 100% of the issued and outstanding common shares of Reitek S.p.A ("Reitek") for an aggregate cash purchase price of approximately $6.2 million (net of acquired cash). The purchase price allocations have not been established subject to receipt of additional information. The results will be included in the Interactive Management Group subsequent to acquisition.