Enghouse Systems Limited
2008 Annual Report

ENGHOUSE HAS SUCCESSFULLY WEATHERED THE EARLY STAGES OF THE ECONOMIC DOWNTURN AND IS WELL POSITIONED TO ADD SHAREHOLDER VALUE.

CHAIRMAN'S MESSAGE

Fiscal 2008 was a year of unprecedented economic downturn as the global credit crisis negatively impacted individuals, corporations and economies. This downturn resulted in weakened stock prices, deferred purchasing decisions, lower interest rates and tighter credit conditions. These economic events also significantly impacted foreign exchange markets, marked by a flight towards the U.S. dollar, which resulted in a weakening of the Canadian dollar late in the fiscal year. This reversed the trend of a strengthening Canadian dollar versus its U.S. counterpart over the past three fiscal years.

As a result of a strong Canadian dollar during the majority of the fiscal year, the Company's largely U.S. dollar denominated revenue stream decreased to $53 million from $55.2 million in the prior fiscal year. While a stronger Canadian dollar negatively impacts revenue, this is mitigated by the positive impact on operating costs, which are denominated in U.S. dollars. The sharp decline in the Canadian dollar late in the fiscal year also resulted in significant foreign exchange gains on the revaluation of the Company's balance sheet at October 31, 2008.

Enghouse continues to generate significant cash flows from operations, generating $9.2 million in the fiscal year. Enghouse closed the year with over $94 million in cash and short-term investments, after payment of over $20 million to complete three acquisitions including the Envox acquisition, which was completed 10 days prior to the Company's fiscal year end. The Company also paid dividends of $2.5 million, and re-purchased 312,400 of its shares at a total cost of approximately $2 million during the fiscal year. Subsequent to October 31, 2008, the Company has continued to re-purchase its shares as it believes the market price of its shares may not fully reflect the underlying value of its business and future business prospects. The Company does not hold any positions in asset-backed commercial paper and has no long term debt.

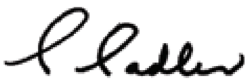
Enghouse completed three acquisitions during the fiscal year as valuations have become more attractive. The Company acquired Gamma Projects Limited on March 31, 2008, Fluency Voice Technology Limited on May 31, 2008 and Envox on October 20, 2008. These acquisitions were undertaken to broaden the Company's product suite and expand the Company's marketing reach and global footprint.

We continue to invest in our Asset Management Division's product offerings and have focused on enhancing product functionality, reducing operating costs and streamlining our delivery capabilities. New product offerings in the transit operations and the integration of the operations of Transched and Ontira were completed during the fiscal year. The acquisition of Gamma expands the Division's marketing reach in the wireless market and has been integrated into the operations of the Asset Management Division.

In the Syntellect Division, we have integrated newly acquired operations, thereby realizing operating synergies and cost savings. We are also continuing to expand our channel partner strategy. Late in the fiscal year, plans were completed to consolidate the Company's expanding U.K. operations, which should result in both cost savings and operating synergies in the year ahead.

While the economic conditions have impacted the Company's operations and are expected to continue to do so in the future, Enghouse has successfully weathered the early stages of the economic downturn and is well positioned to add shareholder value. The Company has continued its strategy of pursuing acquisition opportunities, which have become more attractive as expectations and valuations are influenced by the economic environment. We remain committed to our acquisition strategy and believe that shareholder value will be enhanced as a result of our disciplined approach.

We continue to appreciate the patience and loyalty of our shareholders, customers and employees and thank them for their continued support.



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

MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management Discussion and Analysis ("MD&A") should be read in conjunction with Enghouse Systems Limited's ("Enghouse" or "the Company") fiscal 2008 consolidated financial statements and the notes thereto. Unless otherwise indicated, all references to dollar amounts herein are to Canadian dollars, stated in thousands, except per share amounts. This MD&A and all information contained herein are current as of December 16, 2008.

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.

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 Syntellect Division and the Asset Management Division. The Syntellect Division serves the customer service market segment through the provision of Interactive Voice Response ("IVR") systems and speech and voice recognition solutions as well as an advanced contact center platform that manages multi-channel customer interactions. Its customers include insurance companies, banks, utilities as well as high technology, health care and hospitality companies. The Asset Management Division provides visual-based software solutions for the design and management of complex network infrastructures to telecommunications, utilities, public and private transportation and oil and gas companies.

The Company's strategy is to create a larger and more diverse enterprise software and services company through a combination of strategic acquisitions and managed growth. The Company continues to pursue acquisitions both within and outside its present vertical markets and has over $94 million in cash and short-term investments with which to execute its strategy. On March 31, 2008, Enghouse (U.K.) Limited, a wholly owned subsidiary of Enghouse, acquired 100% of the issued and outstanding common shares of Gamma Projects Limited ("Gamma") for $2.7 million including transaction costs. Gamma provides network infrastructure management software solutions (collectively known as Gamma NetOne) and consultancy services for telecommunications operators and equipment vendors. On May 31, 2008, Syntellect Limited, a wholly owned subsidiary of Enghouse, acquired 100% of the issued and outstanding common shares of Fluency Voice Technology Limited ("Fluency") for $0.5 million including transaction costs and acquired debt of $2.2 million. Fluency is a supplier of on-premise and hosted packaged speech recognition solutions for call centers to improve customer service and significantly reduce costs.

On October 20, 2008, the Company, through certain of its subsidiaries including Syntellect, Inc., acquired the business and assets of Envox Group AB ("Envox") for a purchase price of US$14.2 million including transaction costs. Envox provides IP-based voice self-service and contact center solutions that reduce customer service costs and optimize contact center performance. The results of operations of Gamma have been included in the Asset Management Division while those of Fluency and Envox have been included in the Syntellect Division, since the dates of acquisition.

In the prior fiscal year, on March 31, 2007, Transched Systems Limited, a wholly owned subsidiary of Enghouse, acquired 100% of the issued and outstanding common shares of Ontira Communications Inc. ("Ontira") for $2.15 million including transaction costs. Ontira is a supplier of Automated Travel Information Systems ("ATIS") for the transit and transportation industries, and provides a variety of solutions including enhanced IVR and multi-media systems.

The Company continues to maintain sizeable cash reserves, closing the year with over $94 million in cash and short-term investments. During the year, Enghouse generated cash flows from operations of $9.2 million, compared to cash flows generated in fiscal 2007 of $13.0 million. The Company's ability to generate positive cash flows, remain debt free and augment the Company's overall cash reserves is critical to maintaining its autonomy in executing its acquisition strategy.

Management has closed a number of acquisition opportunities in the fiscal year and continues to actively pursue acquisition opportunities as part of its strategy. Management has taken a long-term view in this regard and continues to carefully evaluate all acquisition opportunities on the basis of their long-term return on invested capital to shareholders.

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 October 31, 2008) and for the past three fiscal years. The annual information has been derived from the Company's audited consolidated financial statements, while quarterly information has been derived from the Company's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments necessary for the fair presentation of the information presented therein. 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, 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, 2008	$ 10,864	$ 771	$ 0.03	$ 0.03	$ 104,531	$ 148,409
April 30, 2008	12,804	1,314	0.05	0.05	102,369	152,492
July 31, 2008	14,693	1,584	0.06	0.06	103,230	158,357
October 31, 2008	14,648	2,333	0.09	0.09	94,430	171,812
Year ended October 31, 2008	$ 53,009	$ 6,002	$ 0.25	$ 0.24	$ 94,430	$ 171,812
January 31, 2007	$ 13,428	$ 1,845	$ 0.07	$ 0.07	$ 105,358	$ 164,248
April 30, 2007	15,036	2,285	0.09	0.09	106,109	162,486
July 31, 2007	13,830	2,035	0.08	0.08	105,321	157,222
October 31, 2007	12,907	(655)	(0.03)	(0.03)	100,505	144,920
Year ended October 31, 2007	$ 55,201	$ 5,510	$ 0.22	$ 0.21	$ 100,505	$ 144,920
Year ended October 31, 2006	$ 62,482	$ 11,003	$ 0.43	$ 0.42	$ 98,223	$ 159,757

The Company had no long-term debt at the end of any of the last three fiscal years.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The preparation of the Company's consolidated financial statements is based on the selection and application of significant accounting policies, some of which require management to make significant estimates that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue, allowance for doubtful accounts, investment tax credits, the useful lives and recoverability of long-term assets, intangible assets, the carrying value of goodwill and the valuation allowance on future income tax assets. 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.

The Company believes that the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

REVENUE RECOGNITION

Revenue consists primarily of fees for software licenses of the Company's software products, maintenance and professional services and hardware revenue. Support and services revenue is comprised of professional services revenue from consulting, implementation and training services related to the Company's products and maintenance and technical support, which also includes unspecified software upgrades and enhancements.

Revenue from license fees for software products and the resale of hardware products is recognized when there is an unconditional sales order under a license agreement, the product is delivered, the fee is fixed or determinable, provided that no significant future vendor obligations exist and, at the time of performance, the ultimate collection of the consideration is reasonably assured.

Typically, software license agreements are multiple element arrangements that also include the provision of maintenance and professional services. The Company evaluates these contracts to determine whether the professional services are essential to the functionality of the software. Revenue from arrangements that include services that are not essential to the functionality of the software is allocated to each element of the arrangement based on their relative fair values and is recognized when the above-noted revenue recognition criteria have been met for each element. The Company uses vendor specific objective evidence to determine the fair values of the multiple elements, including the price charged when the same elements are sold separately.

If services are deemed essential to the functionality of the licensed software, the licensed software and services revenues are recognized using contract accounting under the percentage of completion method. The Company uses the ratio of incurred labor costs to estimated total labor costs as the measure of its progress toward completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date such loss determination is made.

If services are not deemed essential to the functionality of the software, the service revenue (including hosted services revenue) is recognized as the services are delivered to the customer.

Maintenance contracts entitle the customer to telephone support, solutions to technical problems, and the right to receive software updates as they are released. Revenue from maintenance contracts is recognized over the term of the maintenance contract, which is normally one year.

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 all 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 intangible assets and goodwill. 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. Where appropriate, purchase price allocations are derived from a formal valuation performed by an independent third party valuation expert.

The Company's intangible assets relate to acquired technology, customer lists and trademarks. 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. In fiscal years 2008 and 2007, the Company did not record an impairment charge related to intangible assets.

The Company has goodwill arising from business acquisitions, which is comprised of the excess of amounts paid over the fair value of net identifiable assets acquired. The Company performs an annual assessment of the fair value of the businesses to which this goodwill relates. In assessing the fair value of these businesses, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the business. If estimates or their related assumptions change in the future, the Company could be required to record impairment charges for these assets.

In fiscal 2008, Enghouse did not record any impairment charges related to goodwill. In fiscal 2007, the Company recorded an impairment charge of $1.9 million as a result of the continued strengthening of the Canadian dollar relative to its U.S. counterpart, which eroded the Company's competitive advantage in providing Canadian based data conversion services priced in U.S. dollars to the oil and gas industry from its Moore operations.

INCOME TAXES

Management uses judgment to estimate current and future income taxes. This 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 future income tax assets that are subject to periodic recoverability assessments. Realization of the Company's future 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 future income tax assets. These changes, if any, may require the material adjustment of these future income tax asset balances through an adjustment to the valuation allowance thereon in the future. This adjustment would reduce the future 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.

Changes in Accounting Policy

Effective November 1, 2007, the Company adopted changes in accounting standards for capital disclosures, financial instruments and accounting changes. The standards are set out in the Canadian Institute of Chartered Accountants ("CICA") Handbook.

CICA Section 1535, *Capital Disclosures*, establishes disclosure requirements about an entity's capital and how it is managed. The purpose of the new standard is to enable users of the financial statements to evaluate objectives, policies and processes for managing capital.

CICA Sections 3862, *Financial Instruments – Disclosures*, and 3863 *Financial Instruments – Presentation*, replace Section 3861 *Financial Instruments – Disclosure and Presentation*, and revise and enhance disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Section 1506, *Accounting Changes*, was revised in July 2006 and applies to interim and annual financial statements related to fiscal years beginning on or after January 1, 2007. The new standard requires that voluntary changes in accounting policy can only be made if the change results in financial statements that provide reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable and that prior period errors are corrected retrospectively.

The adoption of these new standards did not have a material impact on the Company's consolidated financial statements.

Recent accounting pronouncements issued and not yet applied:

CICA Section 3064, *Goodwill and Intangible Assets*, was revised in February 2008 and replaces Section 3062, *Goodwill and Intangible Assets* and Section 3450, *Research and Development Costs*. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for the period commencing November 1, 2008. The Company does not expect the adoption of this standard to have a material impact on the Company's financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP over a transition period that will end in 2011, when IFRS will be fully adopted for profit-oriented publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS starting in fiscal 2012 and is assessing the potential impact of this changeover.

Liquidity and Capital Resources

Enghouse closed the year with $94.4 million in cash and short-term investments, a decrease over the prior year's cash reserves of $100.5 million as a result of paying US$11.5 million in the fourth quarter to acquire Envox on October 20, 2008. The Company generated positive operating cash flows of $9.2 million in fiscal 2008, down from $13.0 million in fiscal 2007 primarily as a result of the impact of decreased revenue. Short-term investments continue to be invested in a combination of highly liquid short-term banker's acceptances, money market mutual funds, bonds and equities and do not include positions in asset-backed commercial paper.

The Company remains debt-free and has current liabilities related to accounts payable and accrued liabilities, current income taxes payable, dividends payable and deferred revenue, and non-current liabilities related to deferred revenue, long-term income taxes payable and future income taxes as at October 31, 2008.

The Company renewed its stock repurchase plan for a further year that will expire on April 13, 2009. Pursuant to the normal course issuer bid rules of the Toronto Stock Exchange, the Company is entitled to purchase for cancellation up to 1,472,287 common shares, representing approximately 10% of the publicly listed float, at market prices at the time of re-purchase. The Company re-purchased for cancellation 312,400 of its shares under this plan during fiscal 2008 (2007 – 352,100) at an average price of $6.33 per share. During the current fiscal year, 634,000 stock options were exercised, contributing additional cash of $2.3 million to the Company. As at December 16, 2008 there were 25,152,000 common shares issued and outstanding.

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.

Dividend Policy

The Company established its dividend policy in fiscal 2007 and currently pays a quarterly dividend of $0.025 per common share outstanding. The Company declared and made the following dividend payments in the three most recently completed fiscal years: (i) 2008 - $0.025 per common share outstanding on each of February 29, 2008, May 31, 2008, August 29, 2008 and November 28, 2008 for a total of $2,538; (ii) 2007 - $0.025 per common share on each of May 31, 2007, August 31, 2007 and November 30, 2007 for a total of $1,893; (iii) 2006 – nil.

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 such 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 2013, and operating leases for office and computer equipment. The following table summarizes the contractual obligations of the Company for future years.

	Total	2009	2010	2011	2012	2013 and thereafter
Lease obligations	$ 6,970	$ 3,054	$ 1,683	$ 1,214	$ 719	$ 300

The Company does not have a company-funded pension plan or any obligations related to any 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 contingent liabilities (not accrued in accordance with Canadian GAAP), 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.

Results of Operations

GENERAL

The Company recorded revenue of $53.0 million for the year ended October 31, 2008 compared to $55.2 million in the prior year and net income of $6.0 million compared to net income of $5.5 million in the prior year ended October 31, 2007. Revenue was negatively impacted by the continued strong performance of the Canadian dollar relative to the U.S. dollar for the majority of the year. The sharp decline in the Canadian dollar, along with most major world currencies, against the U.S. dollar in mid-October did not significantly impact the Company's reported revenue for the fourth quarter, but was reflected in foreign exchange gains recorded on translating the Company's U.S. denominated assets and liabilities at year end. Approximately 83% of the Company's revenue was denominated in U.S. dollars, which was reported using an average foreign exchange rate of $1.01 in fiscal 2008 versus $1.11 in fiscal 2007.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

REVENUE

Revenue for the year was $53.0 million, a decrease of $2.2 million or 4% from the $55.2 million reported in the prior year and is comprised of license, hardware, maintenance, professional consulting and hosted services revenue.

The majority of this decrease is related to weaker software license sales and maintenance revenue reported in the Syntellect Division. Revenue for the Syntellect Division was $43.2 million compared to $45.9 million in the prior fiscal year. This reflects software license revenue of $8.8 million compared to $10.0 million in the prior fiscal year and maintenance revenue of $24.0 million compared to $25.6 million in fiscal 2007. The decrease is attributable to the impact of foreign exchange on the Division's largely U.S. dollar denominated revenue stream. Consulting and services revenue increased in the fiscal year to $9.3 million from $8.4 million, consistent with the increased consulting revenue base from the Fluency acquisition, which contributed $1.1 million after acquisition on May 31, 2008. Subsequent to its acquisition on October 20, 2008, Envox contributed $0.9 million in revenue, the majority of which was related to the sale of licenses.

In U.S. dollars, the Syntellect Division reported revenue of $42.5 million compared to $41.6 million in the prior fiscal year. Had the current year's U.S. dollar denominated revenue base been translated at the average foreign exchange rate for fiscal 2007 of $1.11, the current year's Canadian dollar revenue would have been $4.0 million higher.

Revenue for the Asset Management Division increased to $9.8 million from $9.3 million in the prior year. Included in the revenue were license sales of $2.2 million compared to $1.4 million in the prior year. Consulting revenue was $3.0 million compared to $3.2 million, while maintenance revenue was $4.4 million compared to $4.8 million in the prior fiscal year. The decrease in maintenance revenue was the result of the termination of a major customer's annual maintenance contract in 2007, which contributed $1.2 million in the prior fiscal year and the translation of U.S. dollar maintenance revenue given the weaker U.S. dollar for the majority of the fiscal year. This was largely mitigated by increased revenue contributed by the Division's acquisition of Gamma Projects Limited and a full year's revenue contribution from Ontira Communications Inc., which was acquired on March 31, 2007.

Software revenue was $11.0 million for the year compared to $11.4 million reported in the prior fiscal year, with license revenue from acquired operations mitigating the impact of foreign exchange on this largely U.S. dollar denominated revenue stream.

Overall, $40.7 million or 76.8% of all revenue was derived from services, compared to $42.0 million or 76.1% in fiscal 2007. Maintenance revenue comprised $28.4 million or 69.8% of the total services revenue for the year, compared to $30.4 million or 72.4% in fiscal 2007 with the decrease being primarily attributable to the termination of the maintenance contract of a major customer in the Asset Management Division and the impact of foreign exchange, both of which were mitigated by acquisitions. The Company's strategy continues to be centered on the belief that a strong recurring maintenance revenue stream is essential to its operations, increasing the predictability and consistency of the Company's earnings.

Hardware revenue decreased to $1.3 million in the year from $1.8 million as a result of the timing of sales of full solution offerings in the Syntellect Division operations.

COST OF SALES

Cost of sales was $19.7 million or 37.2% of revenue compared to $18.2 million or 33% of revenue in the prior fiscal year. The majority of this percentage increase is related to the sale of third party software as a component of license sales in the Syntellect Division. The cost of licenses in the fiscal year increased from 18.5% to 22.6%. The cost of services was $16.1 million or 39.5% of services revenue compared to $14.7 million or 34.9% of services revenue in the prior year due to the increase in the provision of maintenance services by third parties primarily in the Syntellect Division.

Cost of hardware sales decreased from $1.4 million to $1.1 million, consistent with decreased hardware revenue contributions in the fiscal year related to the provision of hardware primarily in the Syntellect Division.

OPERATING EXPENSES

The Company's operating expenses were $28.0 million in the fiscal year compared to $30.9 million in the prior fiscal year and reflect the benefit of foreign exchange gains of $1.9 million recorded in the year, compared to foreign exchange losses of $0.6 million recorded in the prior fiscal year. Operating expenses include non-cash charges for acquired software amortization of $6.2 million compared to $5.9 million in the prior fiscal year as a result of incremental amortization charges related to the acquisitions of Gamma, Fluency and Envox during the fiscal year as well as full year amortization charges related to Ontira. Operating costs have also been impacted by the stronger Canadian dollar in the fiscal year as the majority of the Syntellect Division's operating costs are denominated in U.S. dollars. Approximately US$11.2 million of operating expenses were denominated in U.S. dollars, which if converted to Canadian dollars at the prior year's average exchange rate would have increased operating expenses reported in the year by $1.1 million.

Headcount for the Company on a consolidated basis was 351 as at October 31, 2008 compared to 287 at the prior year end and reflects the additional headcount in acquired operations.

Operating costs also included non-cash charges related to compensation expense related to stock options granted, which added $0.3 million in the current year and $0.5 million in the prior fiscal year (see Note 6(D) to the consolidated financial statements). Investment tax credits ("ITCs") of $0.4 million were booked in the current fiscal year compared to nil in the prior year. The Company records ITCs earned under the Income Tax Act (Canada) when there is reasonable assurance of realization. To the extent that the actual ITCs realized vary from the amount accrued, the difference is recognized in the year when such a difference is determined.

FOREIGN EXCHANGE

The Company earns a significant portion of revenue from sales denominated in U.S. dollars, including the majority of the Syntellect Division's revenue. The continued strengthening of the Canadian dollar relative to the U.S. dollar until late in the fiscal year negatively impacted revenue, as it has for many companies reporting in Canadian dollars. The Company estimates that the impact of the stronger Canadian dollar has reduced revenue by $4.0 million in the year had the current year's U.S. dollar denominated revenue been recorded at the average fiscal 2007 rate of $1.11, compared to $1.01 averaged for fiscal 2008.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

During the current fiscal year, the Canadian dollar, measured relative to its U.S. counterpart, opened at $0.95 and hovered near par for the majority of the year, which resulted in an average foreign exchange rate of $1.01 for the year. However, turmoil in the world economy in the latter part of the Company's fourth quarter resulted in a sharp decline in the Canadian dollar relative to that of the U.S. dollar, where the Canadian dollar weakened to $1.30 during mid-October 2008 to close the fiscal year at $1.22. In fiscal 2007, the dollar peaked at a high of $1.18 and closed the year at a low of $0.95, which resulted in an average foreign exchange rate of $1.11 for the year.

The Company also maintains U.S. dollar denominated cash positions as necessary to fund operations and potential acquisitions as well as U.S. denominated receivable and payable balances. These amounts have been translated to Canadian dollars at $1.22, the rate in effect as at October 31, 2008. As the Canadian dollar weakened in the fourth quarter, the Company converted U.S. denominated cash balances into Canadian dollars to realize gains of $1.0 million. These were included in the Company's foreign exchange gains of $1.9 million in the current year, compared to foreign exchange losses of $0.6 million in the prior fiscal year. These exchange gains and losses have been included in selling, general and administrative expenses. The Company does not hedge foreign currency exposure but funds its U.S. dollar expenses with U.S. dollar revenue in order to mitigate exposure. Going forward, fluctuations in exchange rates among the U.S. dollar, the Canadian dollar and other currencies may have a material but mitigating affect on the Company's U.S. denominated revenue and expenses and the relative cost of U.S. acquisitions in Canadian dollars.

INTEREST INCOME AND OTHER INCOME

Interest income decreased to $3.3 million, a decrease from $4.3 million in the prior year as a result of decreasing short-term yields on invested cash balances during the current fiscal year on both Canadian and U.S. dollar denominated investments. Other income reported was $0.8 million in the year, down from $1.3 million in the prior year. This amount includes $0.4 million realized on the gain on the sale of patents in the third quarter and also reflects gains realized on equity investments sold during the current fiscal year valued at $0.4 million. There can be no assurance that similar gains will be recorded in future years.

INCOME TAX EXPENSE

During the year, the Company set up an income tax provision of $3.3 million reflecting a 35.5% effective tax rate as compared to a provision of $4.3 million or a 43.5% effective tax rate in the prior fiscal year. The decrease in the provision in the year reflects the non-deductibility for tax purposes of the $1.9 million goodwill impairment charge recorded in the fourth quarter of fiscal 2007 related to the operations of Moore Resource Systems. Excluding the $0.7 million tax impact of the goodwill impairment charge, the effective tax rate for fiscal 2007 was 36.3%.

The income tax provision is different from the amount that would be obtained by multiplying the Company's income before income taxes by the combined basic Canadian federal and provincial income tax rate (33.9%) due to the combination of a number of factors including certain expenses being non-deductible for income tax purposes, certain gains being non-taxable or partially taxable, the effect of foreign income tax rates that differ from the Canadian income tax rate and the effect of rate changes on future income taxes.

NET INCOME

Enghouse reported net income of $6.0 million in fiscal 2008 compared to $5.5 million reported in fiscal 2007. The increase reflects the favorable impact of the swing in foreign exchange compared to the prior fiscal year and the write-down of goodwill in the prior fiscal year, which mitigated the net negative impact of foreign exchange on revenue and operating expenses. Earnings per share on a diluted basis were $0.24 versus $0.21 in fiscal 2007.

FOURTH QUARTER OPERATING RESULTS

Total revenue for the quarter was $14.6 million, an increase from $12.9 million in the prior year's fourth quarter, which is attributable to stronger license and maintenance revenue in the Syntellect Division related to acquired operations.

The Syntellect Division reported revenue of $11.9 million compared to $10.6 million in the fourth quarter of fiscal 2007 and includes the results of Envox, the business and assets of which were acquired on October 20, 2008. The increase is attributable to the impact of incremental software license and maintenance revenue, including contributions from Envox, who reported $0.9 million in license revenue since acquisition.

The Asset Management Division contributed $2.7 million in revenue in the fourth quarter, compared to $2.3 million reported in the fourth quarter of fiscal 2007. The increase was primarily as a result of license revenue contributions from Gamma Projects Limited in the quarter.

Cost of sales for the quarter was $5.1 million or 34.9% of revenue compared to $4.5 million or 35.1% in the prior year's fourth quarter. Cost of services was $4.5 million or 39.4% of services revenue compared to $3.6 million or 36.0% in the prior year's fourth quarter and reflects higher third party cost of services in the Syntellect Division.

Operating expenses for the quarter were $6.5 million, a decrease from the $7.8 million reported in the fourth quarter of last year. Foreign exchange gains of $1.5 million were recorded as an offset to selling, general and administrative expenses, and include gains realized on converting U.S. dollar cash balances into Canadian dollars and translating the Company's balance sheet at the ending exchange rate of $1.22. In comparison, the Company recorded foreign exchange losses of $0.6 million in the prior year's fourth quarter. The exchange rate between Canadian and U.S. dollars averaged $1.05 for the fourth quarter compared to $1.04 in the prior year's fourth quarter.

Also included in operating expenses are non-cash amortization charges of $1.7 million compared to $1.5 million in the prior year's fourth quarter related to the amortization of software and intangibles including those recorded as part of the Gamma, Fluency and Envox acquisitions.

During the fourth quarter, the Company recognized interest income of $0.6 million compared to $1.1 million in the fourth quarter of fiscal 2007, consistent with decreased yields on invested cash balances. The Company reported no other income in the quarter compared to $0.5 million from the sale of patents in the prior year's fourth quarter.

The Company did not record any impairment charge to goodwill in the quarter compared to an impairment charge to goodwill of $1.9 million in the prior year's fourth quarter. The Company established a tax provision of $1.3 million or 35.9% in the fourth quarter compared to a provision of $0.8 million in the prior year's fourth quarter. During the quarter the Company paid $0.1 million in tax installments compared to payment of $0.8 million in the prior year's fourth quarter.

The Company reported net income of $2.3 million or $0.09 per diluted share compared to a net loss of ($0.7) million or ($0.03) per diluted share in the fourth quarter of fiscal 2007. The improvement reflects stronger license revenue as well as the impact of foreign exchange gains recorded in the quarter.

The Company generated cash from operations of $2.9 million compared to cash used of $1.0 million in the prior year's fourth quarter and closed the year with $94.4 million in cash and short-term investments after payment on closing of US$11.5 million for the acquisition of Envox.

Risks and Uncertainties

The Company operates in a dynamic 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 the business. For a full description of the Risk Factors affecting Enghouse, the reader should review the Company's Annual Information Form dated December 17, 2008, 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

The majority of the Company's revenue is denominated in U.S. dollars and is restated to Canadian dollars for financial statement purposes. The relative exchange rate (U.S. to Canadian dollars) has declined compared to previous levels over the past three fiscal years from an average of $1.14 in fiscal 2006 to $1.11 in fiscal 2007 to an average exchange rate of $1.01 in fiscal 2008. At October 31, 2008, U.S. dollar denominated balances were translated into Canadian dollars at an exchange rate of $1.22 after a late surge in the value of the U.S. dollar in October 2008, which impacted the Company's monetary asset revaluations at year end. The declining U.S. dollar over the past three years has had significant impact on the Company's results of operations as the majority of the Company's revenues are denominated in U.S. dollars. An increasing proportion of the Company's expenses are also denominated in U.S. dollars as the Company grows through acquisition, which also acts as a natural hedge against foreign exchange exposure on U.S. denominated revenue. Further changes in foreign exchange rates between Canada and the United States could have a material affect, either favorable or adverse, on both the revenue and expenses of the Company going forward. If the Canadian dollar continues to decline relative to the

U.S. dollar, as seen in October 2008, both U.S. dollar denominated revenue and expenses as stated in Canadian dollars will increase. 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's strategy is to seek acquisitions that will be accretive to earnings and are a good fit for the strategic direction of the Company, both within and outside the Company's current market sectors. 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 is likely to face competition for acquisition candidates from other parties including those that have greater resources or those 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 that 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 sue 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 affect 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. (See Note 13 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 affect on the business, results of operations and financial condition of the Company. Many of the Company's competitors and potential competitors have significantly greater technical, marketing, service or financial resources. Other competitive factors include price, performance, product features, market timing, brand recognition, product quality, product availability, breadth of product line, design expertise, customer service and post contract support. A very important selection factor from a customer perspective is a large installed customer base that has widely and productively implemented the software product, which not only increases the potential for repeat business, but also provides reference accounts to promote the Company's products and solutions with new customers. While management believes that the Company has a significant installed customer base in its Asset Management and Syntellect Divisions, 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 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.

RELIANCE ON MAINTENANCE RENEWALS

The Company continues to realize a significant portion of its revenue from maintenance and support 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 increased license sales and through the acquisition of companies with an existing maintenance customer base is a key driver to the continued revenue growth of the Company. 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 maintenance revenue associated with incremental license 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 and the United Kingdom. Accordingly, the Company is subject to income taxes as well as non-income based taxes in Canada, the United States, the United Kingdom and various 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 and 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 and goods and services taxes in Canada, the United States, the United Kingdom and various foreign jurisdictions.

International taxation authorities, including Canada Revenue Agency, the United States Internal Revenue Service 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 subjected to interest and penalty charges. Any such increase in the Company's income tax expense and related interest and penalties could have a significant impact on future net earnings and future cash flows.

Outlook

Fiscal 2008 was a year in which global economic conditions played a major role in the business operations of many companies, including those of Enghouse. These same conditions have also resulted in more favorable and realistic valuations for acquisition targets, which have enabled Enghouse to complete three acquisitions during the fiscal year and should poise the Company for growth when the economy rebounds in the future. The Company remains confident that its conservative management philosophy, long-term strategy of growth by internally financed acquisitions and its strong balance sheet, which includes cash reserves of over $94 million and no long term debt, will position Enghouse well for the future, when economic conditions improve. Management continues to believe that its patience in executing its strategy and living within its own financial means will enable it to evaluate and conclude future acquisition opportunities on its own terms. As a result of its acquisition strategy, the Company's diversified product line and customer base should help to further diversify and grow its revenue stream in the years ahead.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed under the supervision of the Chief Executive Officer 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 Multi-lateral Instrument 52-109, as of October 31, 2008, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the Chief Executive Officer and Vice President Finance. The evaluation concluded that the disclosure controls were effective.

Internal Controls over Financial Reporting

The Company's Chief Executive Officer 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 Canadian GAAP.

The Company's Chief Executive Officer and Vice President Finance have concluded that, as at October 31, 2008, the Company has designed such internal control over financial reporting (as defined in Multi-lateral Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There were no changes to the Company's internal control over financial reporting during the year ended October 31, 2008 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 the Annual Information Form, has been filed and is available on SEDAR at www.sedar.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 Canadian generally accepted accounting principles. Management has included amounts in the Company's consolidated financial statements based on estimates, judgments and policies that it believes are 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, 2008 and 2007 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 16, 2008

AUDITORS' REPORT

To the Shareholders of
Enghouse Systems Limited

We have audited the consolidated balance sheets of Enghouse Systems Limited ("the Company") as at October 31, 2008 and 2007 and the consolidated statements of operations and retained earnings, comprehensive income (loss) and accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
December 16, 2008

CONSOLIDATED FINANCIAL STATEMENTS

Enghouse Systems Limited
October 31, 2008 and 2007

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

	October 31 2008	October 31 2007
ASSETS		
Current Assets:		
Cash	$ 12,331	$ 11,321
Short-term investments (Note 2)	82,099	89,184
Accounts receivable, net	17,515	10,376
Future income taxes (Note 8)	1,895	1,359
Prepaid expenses and other assets	2,947	1,488
	116,787	**113,728**
Property and equipment (Note 3)	2,471	1,930
Acquired software and other intangibles (Note 4)	27,373	15,819
Goodwill (Note 5)	21,953	10,652
Future income taxes (Note 8)	3,228	2,791
	$ 171,812	**$ 144,920**
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 16,490	$ 9,258
Income taxes payable	4,958	7,342
Dividends payable	636	629
Deferred revenue	18,585	12,602
	40,669	**29,831**
Future income taxes (Note 8)	7,945	6,627
Long-term income taxes payable	1,321	-
Deferred revenue	686	953
	50,621	**37,411**
SHAREHOLDERS' EQUITY		
Share capital (Note 6(B))	50,568	48,670
Contributed surplus (Note 6(B))	1,827	1,771
Retained earnings	72,015	69,931
Accumulated other comprehensive loss	(3,219)	(12,863)
	121,191	**107,509**
	$ 171,812	**$ 144,920**

Commitments and contingencies (Notes 11 and 13)

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 RETAINED EARNINGS

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

	Years ended October 31	
	2008	**2007**
Revenue		
Software licenses	$ 10,985	$ 11,386
Services	40,688	41,997
Hardware	1,336	1,818
	53,009	**55,201**
Cost of sales		
Software licenses	2,488	2,112
Services	16,112	14,663
Hardware	1,130	1,428
	19,730	**18,203**
Gross margin	**33,279**	**36,998**
Operating expenses		
Selling, general and administrative	12,985	15,994
Research and development (Note 7)	7,857	8,105
Amortization of property and equipment	941	852
Amortization of acquired software and other intangibles	6,208	5,931
	27,991	**30,882**
Income before the undernoted	**5,288**	**6,116**
Interest income, net	3,256	4,315
Other income	768	1,272
Goodwill impairment	-	(1,942)
Income before income taxes	**9,312**	**9,761**
Provision for income taxes (Note 8)	3,310	4,251
Net income for the year	**$ 6,002**	**$ 5,510**
Retained earnings – beginning of year	$ 69,931	$ 68,367
Net income for the year	6,002	5,510
Dividends	(2,537)	(1,895)
Purchase and cancellation of common shares	(1,381)	(2,051)
Retained earnings – end of year	**$ 72,015**	**$ 69,931**
Earnings per share (Note 9)		
Basic	$ 0.25	$ 0.22
Diluted	$ 0.24	$ 0.21

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE LOSS

(in thousands of Canadian dollars)

	Years ended October 31 2008	2007
Net income for the year	$ 6,002	$ 5,510
Other comprehensive income (loss):		
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	9,871	(7,298)
Transfer to net income of realized gains on available-for-sale investments, net of tax of ($107); 2007 – ($292)	(209)	(518)
Unrealized (loss) gain on available-for-sale investments, net of tax of ($196); 2007 – $578	(383)	1,022
Unrealized foreign currency translation gain (loss) on available-for-sale investments, net of tax of $188; 2007 – ($122)	365	(217)
Other comprehensive income (loss)	**$ 9,644**	**$ (7,011)**
Comprehensive income (loss)	**$ 15,646**	**$ (1,501)**
Accumulated other comprehensive loss, beginning of period	**$ (12,863)**	**$ (5,852)**
Other comprehensive income (loss)	9,644	(7,011)
Accumulated other comprehensive loss, end of period	**$ (3,219)**	**$ (12,863)**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Years ended October 31	
	2008	**2007**
Cash flows from operating activities		
Net income for the year	$ 6,002	$ 5,510
Add (deduct) items not involving cash:		
Amortization of property and equipment	941	852
Amortization of acquired software and other intangibles	6,208	5,931
Stock-based compensation expense	268	472
Goodwill impairment	-	1,942
Gain on sale of short-term investments	(327)	(810)
Gain on sale of patents	(441)	(462)
Future income taxes	1,149	(177)
	13,800	**13,258**
Changes in operating assets and liabilities		
Decrease in accounts receivable, net	1,205	3,850
(Increase) decrease in prepaid expenses and other assets	(224)	356
Increase (decrease) in accounts payable and accrued liabilities	786	(2,840)
(Decrease) increase in current income taxes payable	(2,659)	83
Decrease in deferred revenue	(1,234)	(711)
Unrealized foreign exchange loss	(2,456)	(1,040)
Cash flows from operating activities	**9,218**	**12,956**
Cash flows from investing activities		
Purchase of property and equipment, net	(881)	(1,245)
Acquisitions, net of cash acquired (Note 10)	(20,246)	(2,004)
Proceeds from sale of patents	441	462
Proceeds from sale of short-term investments	12,583	1,507
	(8,103)	**(1,280)**
Cash flows from financing activities		
Issuance of share capital (Note 6(B))	2,285	151
Payment of cash dividend	(2,531)	(1,266)
Purchase and cancellation of common shares (Note 6(B))	(1,980)	(2,724)
	(2,226)	**(3,839)**
Effect of foreign exchange rate changes on cash	2,121	(2,118)
Net increase in cash during the year	**1,010**	**5,719**
Cash - beginning of year	11,321	5,602
Cash - end of year	**$ 12,331**	**$ 11,321**
Supplemental cash flow information		
Cash paid during the year for income taxes	$ 3,628	$ 5,386

Cash excludes short-term investments (Note 2)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as codified by the Canadian Institute of Chartered Accountants ("CICA"). The significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of Enghouse Systems Limited and its wholly owned subsidiaries ("the Company"). Our primary subsidiaries are: Enghouse (U.K.) Limited, Enghouse Systems, LLC, Enghouse Services Limited, Moore Resource Systems (Ontario) Limited, Syntellect Inc. and Syntellect Limited ("Syntellect"), Transched Systems Limited and Transched Systems LLC ("Transched"), Apropos Technology, Inc. and Apropos Technology, Ltd. ("Apropos"), Ontira Communications Inc. ("Ontira"), acquired March 31, 2007, Gamma Projects Limited ("Gamma"), acquired March 31, 2008, Fluency Voice Technology Limited and Fluency Voice Technology Inc., ("Fluency"), acquired May 31, 2008 and Envox Americas, Inc., Envox UK Ltd., Envox APAC PTE Ltd., Envox Lab d.o.o. and Envox EMEA AB ("Envox"), acquired October 20, 2008.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are required to determine revenue recognition, the allowance for doubtful accounts, the useful lives and recoverability of long-term assets, recoverability of goodwill and the valuation allowance on future income tax assets. Actual results could differ from those estimates and the differences could be material to these consolidated financial statements.

Revenue recognition

Revenue consists primarily of fees for software licenses of the Company's software products, maintenance and professional services and hardware revenue. Support and services revenue is comprised of professional services revenue from consulting, implementation and training services related to the Company's products and maintenance and technical support, which also includes unspecified software upgrades and enhancements.

Revenue from license fees for software products and the resale of hardware products is recognized when there is an unconditional sales order under a license agreement, the product is delivered, the fee is fixed or determinable, provided that no significant future vendor obligations exist and, at the time of performance, the ultimate collection of the consideration is reasonably assured.

Typically, software license agreements are multiple element arrangements that also include the provision of maintenance and professional services. The Company evaluates these contracts to determine whether the professional services are essential to the functionality of the software. Revenue from arrangements that include services that are not essential to the functionality of the software is allocated to each element of the arrangement based on their relative fair values and is recognized when the above-noted revenue recognition criteria have been met for each element. The Company uses vendor specific objective evidence to determine the fair values of the multiple elements, including the price charged when the same elements are sold separately.

If services are deemed essential to the functionality of the licensed software, the licensed software and services revenues are recognized using contract accounting under the percentage of completion method. The Company uses the ratio of incurred labor costs to estimated total labor costs as the measure of its progress toward completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date such loss determination is made.

If services are not deemed essential to the functionality of the software, the service revenue (including hosted services revenue) is recognized as the services are delivered to the customer.

Maintenance contracts entitle the customer to telephone support, solutions to technical problems, and the right to receive software updates as they are released. Revenue from maintenance contracts is recognized over the term of the maintenance contract, which is normally one year.

Foreign exchange translation

The Company considers its investments in foreign subsidiaries to be integrated foreign operations with the exception of Syntellect, Teloquent, Apropos, Fluency and Envox, which are considered to be self-sustaining. Integrated foreign subsidiaries are accounted for under the temporal method. This method is also used to translate foreign currency transactions and balances. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at the average exchange rate in effect for the month of the transactions with amortization translated at the historical rate of the underlying asset to which it relates. Exchange gains or losses arising from the translation are charged to income in the year incurred. During the year, the Company reported foreign exchange gains of $1.9 million, compared to losses of $0.6 million in the prior year, which have been included in selling, general and administrative expenses.

Self-sustaining subsidiaries are accounted for under the current rate method. Under this method assets and liabilities of subsidiaries are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet dates. Revenue and expenses are translated at average exchange rates during the year. Resulting unrealized gains or losses are accumulated and reported as a separate component of accumulated other comprehensive income or loss.

Research and development costs

Research costs are expensed as incurred and are reduced by related investment tax credits. Development costs are expensed as incurred unless the project meets the criteria under Canadian GAAP for deferral and amortization. Income tax credits are recognized when reasonable assurance of realization exists. No costs have been deferred on the consolidated balance sheets as at October 31, 2008 and 2007.

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, as they are held to maturity.

Property and equipment, acquired software and other intangibles

Property and equipment, acquired software and other intangibles are recorded at acquisition cost and amortized to operations over their estimated useful lives as follows:

Furniture and fixtures	20% declining balance
Computer hardware and software	3-years straight-line
Leasehold improvements	Shorter of useful life or initial lease term
Acquired software	6-years straight-line (Syntellect/Apropos/Teloquent)
	5-years straight-line (Transched/Ontira/Gamma/Envox)
	4-years straight-line (Fluency)
Customer relationships and other intangibles	8-years straight-line (Syntellect/Apropos/Teloquent)
	7-years straight-line (Ontira/Gamma/Envox)
	6-years straight-line (Fluency)
Patents	Remaining life

The unamortized portions of property and equipment, acquired software, other intangibles and patents are reviewed when events or circumstances indicate that the carrying amounts may not be recoverable. If the projected undiscounted future cash flows are less than the carrying amounts, the assets are considered to be impaired and an impairment loss is measured as the amount by which the carrying amounts exceed fair values.

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 and intangible assets with indefinite useful lives are 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. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income or discounted cash flow approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to quantify the amount of the impairment loss, if any. Any impairment in the carrying value of goodwill is recognized in operating income.

The impairment test for intangibles with indefinite useful lives consists of a comparison of the fair value of the intangible asset with its carrying amount. When the carrying amount of the intangible asset exceeds its fair value, an impairment loss would be recognized for the difference.

In 2008, the Company performed the annual impairment test and determined there was no impairment in the value of goodwill. In 2007, based on the annual impairment assessment, the Company recorded a non-cash goodwill impairment charge of $1,942 in operating income related to the goodwill of Moore Resource Systems (Ontario) Limited, representing 100% of the Company's investment in Moore. The Company recorded no income tax benefit from this non-cash goodwill impairment charge.

Additional disclosure regarding the results of the annual goodwill impairment test is provided in Note 5.

Income taxes

The Company uses the asset/liability method of measuring income taxes based on temporary differences between the financial reporting and income tax bases of assets and liabilities. Future income tax expense represents the change during the year in the future income tax assets and future income tax liabilities. In addition, the future benefits of income tax assets, including unused tax losses, are recognized to the extent that it is more likely than not, that such losses will ultimately be utilized. These standards also require that the future income tax assets and liabilities are measured using substantively enacted income tax rates and laws that are expected to apply when the income tax liabilities or assets are to be either settled or realized. The Company provides a valuation allowance on future income tax assets when it is more likely than not that such assets will not be realized.

Fair value of financial instruments

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.

Held for trading

Financial assets that are purchased and held with the intention of generating profits in the short-term are classified as held for trading. These investments are accounted for at fair value with the change in fair value recognized in net earnings during the period. No investments are classified as held for trading as of October 31, 2008.

Held-to-maturity

Securities that have a fixed maturity date and that the Company has a positive intention and ability to hold to maturity are classified as held-to-maturity and are accounted for at amortized cost using the effective interest rate method. The Company accrues interest income over the expected life of each instrument. The Company does not recognize gains and losses arising from changes in the fair value of these instruments until the gains and losses are realized, or there is impairment in the value of an asset. When recognized, such gains and losses are recorded directly in net income. The Company's cash, banker's acceptances, mutual/money market funds, bonds and commercial paper are classified as held-to-maturity investments. The Company does not own any asset-backed commercial paper.

Available-for-sale

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 or loss until the gains and losses are realized when equities are sold in the market or there is impairment in the value. The Company considers its portfolio equity investments and corporate class mutual funds 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 quoted market values for each investment at the balance sheet date. The fair value of the Company's equity portfolio is subject to fluctuations in equity markets and, with the exception of one position held in Canadian dollars, is denominated in U.S. dollars as at October 31, 2008.

Receivables

The Company's accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of trade receivables is at amortized cost, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Financial liabilities

Accounts payable, accrued liabilities and dividends payable are classified as other financial liabilities and are measured at amortized cost.

The Company is not party to any derivative financial instruments.

Earnings per share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to calculate diluted earnings per share. This method assumes that proceeds, which could be obtained upon the exercise of in-the-money options, would be used to purchase common shares at the average market price during the year.

Stock-based compensation plans

The Company uses the fair value method to account for all stock-based awards to employees and directors granted after November 1, 2002. The estimated fair value of options granted is determined using the Black-Scholes option pricing model and is recorded as a charge to income on a straight-line basis over the vesting period of the options with a corresponding credit to contributed surplus. Stock options are granted at a price equal to or above the market value of the shares at the date of the grant. 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 6(D).

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

Changes in accounting policy

Effective November 1, 2007, the Company adopted changes in accounting standards for capital disclosures, financial instruments and accounting changes. The standards are set out in the CICA Handbook.

CICA Section 1535, *Capital Disclosures*, establishes disclosure requirements about an entity's capital and how it is managed. The purpose of the new standard is to enable users of the financial statements to evaluate objectives, policies and processes for managing capital.

CICA Sections 3862, *Financial Instruments – Disclosures*, and 3863 *Financial Instruments – Presentation*, replace Section 3861 *Financial Instruments – Disclosure and Presentation*, and revise and enhance disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Section 1506, *Accounting Changes*, was revised in July 2006 and applies to interim and annual financial statements related to fiscal years beginning on or after January 1, 2007. The new standard requires that voluntary changes in accounting policy can only be made if the change results in financial statements that provide reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable and that prior period errors are corrected retrospectively.

The adoption of these new standards in fiscal 2008 did not have a material impact on the Company's consolidated financial statements.

Recent accounting pronouncements issued and not yet applied

CICA Section 3064, *Goodwill and Intangible Assets*, was revised in February 2008 and replaces Section 3062, *Goodwill and Intangible Assets* and Section 3450, *Research and Development Costs*. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for the period commencing November 1, 2008. The Company does not expect the adoption of this standard to have a material impact on the Company's financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP over a transition period, which will end in 2011, when IFRS will be fully adopted for profit-oriented publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS starting in fiscal 2012 and is assessing the potential impact of this changeover.

2. SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	2008		2007	
	Carrying Value	Market Value	Carrying Value	Market Value
Mutual funds	$ 40,457	$ 40,456	$ 19,165	$ 19,166
Commercial paper	-	-	42,340	42,345
Bankers' acceptances	30,073	30,077	1,347	1,347
Corporate bonds	10,088	10,142	25,282	25,259
Equities	1,481	1,481	1,050	1,050
	$ 82,099	**$ 82,156**	**$ 89,184**	**$ 89,167**

3. PROPERTY AND EQUIPMENT

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 1,680	$ 1,226	$ 454	$ 1,277	$ 884	$ 393
Computer hardware and software	7,637	6,014	1,623	6,022	4,896	1,126
Leasehold improvements	1,217	823	394	1,034	623	411
	$ 10,534	**$ 8,063**	**$ 2,471**	**$ 8,333**	**$ 6,403**	**$ 1,930**

4. ACQUIRED SOFTWARE AND OTHER INTANGIBLES

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Acquired software	$ 39,411	$ 22,947	$ 16,464	$ 28,966	$ 17,886	$ 11,080
Other intangibles	15,469	4,560	10,909	9,460	4,721	4,739
	$ 54,880	**$ 27,507**	**$ 27,373**	**$ 38,426**	**$ 22,607**	**$ 15,819**

5. GOODWILL

The continuity of goodwill by reportable segment is as follows:

	2008			2007		
	Syntellect Division	Asset Management Division	Total	Syntellect Division	Asset Management Division	Total
Opening balance	$ 9,017	$ 1,635	$ 10,652	$ 11,177	$ 2,752	$ 13,929
Additions, net	7,628	1,462	9,090	-	1,414	1,414
Acquired tax benefit adjustment	(294)	-	(294)	(212)	-	(212)
Purchase price adjustments	-	(9)	(9)	(240)	(589)	(829)
Goodwill impairment	-	-	-	-	(1,942)	(1,942)
Foreign exchange	2,568	(54)	2,514	(1,708)	-	(1,708)
Ending balance	**$ 18,919**	**$ 3,034**	**$ 21,953**	**$ 9,017**	**$ 1,635**	**$ 10,652**

During each of 2008 and 2007, adjustments for previously unrecognized tax benefits from earlier acquisitions were accounted for as a credit to goodwill. Certain adjustments to the preliminary purchase price allocation related to the acquisition of Ontira were booked in year and resulted in a $9 reduction to goodwill and accrued liabilities. In the prior year, adjustments to the preliminary purchase price allocation related to the acquisition of Transched and Apropos acquired in fiscal 2005 and 2006 respectively, including the resolution of potential litigation, were booked resulting in a $829 reduction to goodwill and accrued liabilities. The balance in goodwill includes $1.2 million related to tradenames.

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

6. SHARE CAPITAL

(A) Authorized

Unlimited common shares
Unlimited Class A, redeemable, retractable, non-voting, non-cumulative, preference shares
Unlimited Class B, redeemable, retractable, non-voting, preference shares

(B) Issued and outstanding

	Number of Shares	Share Capital	Contributed Surplus Amount
Balance – October 31, 2006	**25,495,224**	**$ 49,177**	**$ 1,314**
Stock options exercised (C)	28,000	166	(15)
Stock options expensed (D)	-	-	472
Shares repurchased and cancelled under common share re-purchase plan (E)	(352,100)	(673)	-
Balance – October 31, 2007	**25,171,124**	**$ 48,670**	**$ 1,771**
Stock options exercised (C)	634,000	2,285	-
Stock options expensed (D)	-	212	56
Shares repurchased and cancelled under common share re-purchase plan (E)	(312,400)	(599)	-
Balance – October 31, 2008	**25,492,724**	**$ 50,568**	**$ 1,827**

There were no Class A and no Class B preference shares issued and outstanding as at October 31, 2008 or 2007.

(C) Common share purchase options

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 2,443,300 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, 2008 and 2007, and changes during the years ended on those dates is presented as follows:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	2,209,600	$ 5.03	2,177,600	$ 4.95
Granted	40,000	6.40	60,000	7.93
Exercised	(634,000)	3.61	(28,000)	5.40
Forfeited	(40,000)	8.67	-	-
Outstanding at end of year	**1,575,600**	**$ 5.54**	**2,209,600**	**$ 5.03**
Options exercisable at end of year	**1,411,600**	**$ 5.28**	**1,849,100**	**$ 4.42**

A summary of stock options outstanding as at October 31, 2008 is set out below:

	Outstanding Stock Options			Exercisable Stock Options	
Exercise Price	Number Outstanding as at October 31, 2008	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable as at October 31, 2008	Weighted Average Exercise Price
$2.80 to $4.00	574,500	1.22	$ 2.95	574,500	$ 2.95
$4.20 to $5.50	346,100	3.67	$ 4.97	346,100	$ 4.97
$7.50 to $7.75	340,000	5.03	$ 7.50	275,000	$ 7.66
$7.85 to $10.00	315,000	3.88	$ 8.78	216,000	$ 8.97
	1,575,600			**1,411,600**	

(D) Stock-based compensation

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees and directors in accordance with CICA 3870. For the purposes of expensing stock options, the estimated fair value of the options is amortized to expense over the vesting period of the options on a straight-line basis with a corresponding credit to contributed surplus. During fiscal 2008, the Company recorded a non-cash charge to net income of $268 (2007 - $472). The fair value of each stock option on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions at the measurement date:

	Options Granted 2008	Options Granted 2007
Risk-free interest rate	3.35%	3.91% to 4.63%
Estimated volatility	27%	30% to 32%
Dividend yield	$0.10	$0.075
Expected life in years	5	5
Weighted average fair value (in dollars)	$1.67	$2.69 to $3.30

(E) Common share repurchase plan

On April 14, 2008, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,472,287 common shares of the Company, expiring on April 13, 2009. During the year, the Company repurchased 312,400 shares (2007 – 352,100) for cancellation for $1,980 (2007 - $2,724), of which $599 (2007 - $673) was allocated to share capital and the remainder offset against retained earnings.

7. RESEARCH AND DEVELOPMENT EXPENSE

	2008	2007
Research and development costs incurred	$ 8,250	$ 8,105
Less: Investment tax credits recognized	(393)	-
Net research and development expense	**$ 7,857**	**$ 8,105**

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

8. INCOME TAXES

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

	2008	2007
Current income taxes	$ 2,161	$ 4,428
Future income taxes	1,149	(177)
	$ 3,310	**$ 4,251**

(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 as a result of the following:

	2008		2007	
	$	%	$	%
Combined federal and provincial statutory income tax amount and rate	3,160	33.9	3,525	36.1
Non-deductible expenses	147	1.6	207	2.1
Foreign earnings subject to different income tax rates	155	1.6	323	3.3
Non-taxable portion of capital gain	(290)	(3.1)	(391)	(4.0)
Other	138	1.5	(115)	(1.2)
Effective income tax amount and rate before impact of non-deductible goodwill impairment charge	**3,310**	**35.5**	**3,549**	**36.3**
Impairment of goodwill	-	-	702	7.2
Effective income tax amount and rate	**3,310**	**35.5**	**4,251**	**43.5**

(C) Significant components of future income tax assets and liabilities as at October 31, 2008 and 2007 are as follows:

	2008	2007
Future income tax assets:		
Provisions and reserves	$ 1,853	$ 1,348
Income tax loss carry-forwards	25,396	20,629
Difference in accounting and tax bases of property and equipment	942	1,311
Adjustment to available-for-sale investments	176	65
Investment tax credit	42	11
	28,409	23,364
Valuation allowance	(23,286)	(19,214)
	5,123	4,150
Future income tax liabilities:		
Acquired software	2,061	2,298
Other intangibles	4,664	1,782
Unrealized foreign exchange	1,220	2,547
	7,945	6,627
Future income tax liabilities, net	**$ (2,822)**	**$ (2,477)**
Future income tax liabilities, net is comprised of:		
Future income tax assets – current	$ 1,895	$ 1,359
Future income tax assets – long-term	3,228	2,791
Future income tax liabilities – long-term	(7,945)	(6,627)
	$ (2,822)	$ (2,477)

The Company and its subsidiaries have non-capital losses available for carry-forward for income tax purposes of approximately $167 million (2007 - $53 million). Non-capital losses may be subject to restriction on their availability to shelter income, are related to the Company's US operations $105 million (2007 - $49 million) and expire over periods commencing in 2013 through 2028, UK operations $60 million (2007 - $1 million), which expire indefinitely and Canadian operations $2 million (2007 - $3 million), which expire over periods commencing in 2015 through 2028.

9. EARNINGS PER SHARE

(A) Basic earnings per share

	2008	2007
Numerator:		
Net income for the year	$ 6,002	$ 5,510
Denominator:		
Number of weighted average common shares outstanding	24,278	25,389
Basic earnings per share	**$ 0.25**	**$ 0.22**

(B) Diluted earnings per share

	Income (Numerator)	Number of Shares (Denominator)	Per Share Amount
Year ended October 31, 2008			
Basic earnings per share	$ 6,002	24,278	$ 0.25
Effect of dilutive securities:			
Stock options	-	371	
Income available to common shareholders and assumed conversions and exercised options	**$ 6,002**	**24,649**	**$ 0.24**
Year ended October 31, 2007			
Basic earnings per share	$ 5,510	25,389	$ 0.22
Effect of dilutive securities:			
Stock options	-	850	
Income available to common shareholders and assumed conversions and exercised options	**$ 5,510**	**26,239**	**$ 0.21**

Options to purchase 491,000 (2007 – 295,000) common shares at an average price of $7.55 (2007 – $9.05) 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.

10. ACQUISITIONS

2008 Acquisitions:

Envox

On October 20, 2008, Syntellect Inc. and various other wholly owned subsidiaries of Enghouse, acquired 100% of the issued and outstanding common shares of Envox Americas, Inc., Envox UK Ltd., Envox Lab d.o.o., Envox EMEA AB and Envox APAC PTE Ltd. as well as certain technology assets (collectively "Envox") for a purchase price of US$14.2 million, including transaction costs. Of this total, US$2.5 million is subject to a holdback and is payable in two installments on December 31, 2008 and December 15, 2009 subject to certain conditions. Envox provides IP-based voice self-service and contact center solutions to optimize customer contact center performance.

Fluency Voice Technology Limited

On May 31, 2008, Syntellect Limited, a wholly owned subsidiary of Enghouse, acquired 100% of the issued and outstanding common shares of Fluency Voice Technology Limited ("Fluency") for $0.5 million including transaction costs and acquired debt of $2.2 million. As part of the acquisition, an additional amount may be payable based on revenues recognized before December 31, 2008 from certain Fluency customers. Fluency provides on-premise and hosted packaged speech recognition solutions for call centers to improve customer service and significantly reduce costs.

Gamma Projects Limited

On March 31, 2008, Enghouse (U.K.) Limited, a wholly owned subsidiary of Enghouse, acquired 100% of the issued and outstanding common shares of Gamma Projects Limited ("Gamma") for a cash purchase price of $2.7 million including transaction costs. Of this total $0.4 million is subject to holdback, is held in escrow and is payable January 1, 2009. This has been included in cash at October 31, 2008. Gamma provides network infrastructure management software solutions (collectively known as Gamma NetOne) and consultancy services for telecommunications operators and equipment vendors.

These acquisitions have been recorded under the purchase method of accounting and results have been included in the consolidated statements of operations from the acquisition dates. Accordingly, the allocations of the purchase price to assets and liabilities is based on their fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill. Management has established the preliminary purchase price allocations taking into account all relevant information at the time of preparing these notes to consolidated financial statements. However, the preliminary purchase price allocations are subject to further refinements.

Goodwill is not amortized but is assessed annually for any potential impairment in value. Other intangibles representing acquired software and customer relationships are being amortized over a period of five and seven years, respectively for Gamma and four and six years respectively for Fluency. Acquired software and other intangibles for Envox are being amortized over five and seven years respectively.

2007 Acquisition:

Ontira

On March 31, 2007, Transched Systems Limited, a wholly owned subsidiary of Enghouse, acquired 100% of the issued and outstanding common shares of Ontira Communications Inc. ("Ontira") for consideration of $2.15 million including transaction costs, after adjustment for purchase price adjustments settled in November 2007.

Ontira is a supplier of Automated Travel Information Systems ("ATIS") for the transit and transportation industries, providing a variety of solutions including enhanced Interactive Voice Response ("IVR") and multi-media systems.

The acquisition has been recorded under the purchase method of accounting and results have been included in the consolidated statements of operations from the acquisition date. Accordingly, the allocation of the purchase price to assets and liabilities is based on their fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill. Goodwill is assessed annually for any potential impairment in value. Other intangibles representing acquired software, patents and customer relationships are being amortized over a period of five, three and seven years, respectively.

The Company's purchase price allocations are as follows:

	2008 Envox	2008 Fluency	2008 Gamma	2007 Ontira
Cash	$ 625	$ 263	$ 405	$ 150
Short-term investments	-	-	-	-
Accounts receivable, net	3,063	1,461	1,217	312
Prepaids and other current assets	526	183	39	11
Property and equipment	107	163	67	60
Future income tax assets	920	941	555	367
Acquired software	9,581	374	510	850
Other intangibles	5,389	502	300	350
Goodwill	4,880	2,748	1,462	1,414
Total assets acquired	$ 25,091	$ 6,635	$ 4,555	$ 3,514
Less: Current liabilities assumed	$ 5,792	$ 3,677	$ 1,648	$ 1,283
Less: Future income tax liabilities	3,168	229	228	77
Total liabilities assumed	$ 8,960	$ 3,906	$ 1,876	$ 1,360
Net assets acquired	**$ 16,131**	**$ 2,729**	**$ 2,679**	**$ 2,154**

The Envox, Fluency and Gamma purchase price allocations have not been finalized subject to receipt of additional information related to transaction costs and completion of the fair value assessment of intangible assets and certain other assets and liabilities.

11. COMMITMENTS

As at October 31, 2008, the Company had minimum future payments under operating lease commitments for facilities and equipment requiring annual payments for the years ending October 31, as follows:

2009	$ 3,054
2010	1,683
2011	1,214
2012	719
2013 and thereafter	300
	$ 6,970

12. SEGMENTED INFORMATION

The Company has two reportable segments, the Syntellect Division and the Asset Management Division, 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 reportable segments each develop and market software products and provide services for their respective markets. The Syntellect Division, which includes the results of Envox and Fluency operations since their respective dates of acquisition, serves the customer service market segment through the provision of IVR systems and speech and voice recognition solutions. The Asset Management Division, which also includes the results of Gamma since the date of acquisition, develops, markets and provides services related to visual-based network management software solutions to customers in the telecommunications, transit, cable, electric and gas markets. The Company evaluates segment performance based on revenue and profit or loss before corporate expenses, foreign exchange, interest and other income and income taxes.

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

	Syntellect Division	Asset Management Division	Total
Year ended October 31, 2008			
Revenue	$ 43,193	$ 9,816	$ 53,009
Operating expenses, excluding non-cash charges	(31,450)	(8,881)	(40,331)
Amortization of property and equipment	(764)	(177)	(941)
Amortization of acquired software and other intangibles	(5,539)	(669)	(6,208)
Segmented profit from operations	**$ 5,440**	**$ 89**	**$ 5,529**
Goodwill impairment	-	-	-
Segmented profit	**$ 5,440**	**$ 89**	**$ 5,529**
Corporate expenses			(2,177)
Foreign exchange			1,936
Other income			768
Interest income			3,256
Income before income taxes			**$ 9,312**
Goodwill	$ 18,919	$ 3,034	$ 21,953
Other assets	52,058	15,702	67,760
Short-term investments			82,099
Total assets			**$ 171,812**
Capital expenditures	798	83	881

	Syntellect Division	Asset Management Division	Total
Year ended October 31, 2007			
Revenue	$ 45,876	$ 9,325	$ 55,201
Operating expenses, excluding non-cash charges	(31,494)	(8,155)	(39,649)
Amortization of property and equipment	(730)	(122)	(852)
Amortization of acquired software and other intangibles	(5,417)	(514)	(5,931)
Segmented profit from operations	$ 8,235	$ 534	$ 8,769
Goodwill impairment	-	(1,942)	(1,942)
Segmented profit	**$ 8,235**	**$ (1,408)**	**$ 6,827**
Corporate expenses			(2,018)
Foreign exchange			(635)
Other income			1,272
Interest income			4,315
Income before income taxes			**$ 9,761**
Goodwill	$ 9,017	$ 1,635	$ 10,652
Other assets	36,651	8,433	45,084
Short-term investments			89,184
Total assets			**$ 144,920**
Capital expenditures	1,208	37	1,245

Revenue is distributed geographically as follows: U.S. 73% (2007 – 81%), U.K. 24% (2007 – 14%) and Canada 3% (2007 – 5%). Revenue from customers is attributable to individual countries based on the reporting entity that records the transaction.

13. LITIGATION AND CONTINGENCIES

Apropos Technology, Inc. ("Apropos"), an indirect wholly owned subsidiary of the Company, was named as a defendant in a shareholder class action litigation suit filed in federal court in New York City in November 2001 against Apropos and certain of its former directors and officers and the underwriters of Apropos' initial public offering ("IPO"). This lawsuit alleges that the prospectus and registration statement for the IPO failed to disclose that the underwriters allegedly solicited and received excessive commissions from investors and that some of the investors in the IPO allegedly agreed with the underwriters to buy additional shares in the aftermarket in order to inflate the price of Apropos' stock. The Company understands that approximately 300 other publicly traded companies and their public offering underwriters have had similar suits filed against them.

In June 2003, Apropos and certain issuer defendants entered into a proposed settlement, which will be funded from participating issuers' directors and officers insurance proceeds, less any settlement amounts by the underwriter defendants.

Prior to consummation of the proposed settlement on December 5, 2006, the Third Circuit Court of Appeals issued a ruling concerning class certification that may complicate or prevent final approval of the proposed settlement by the issuer plaintiffs. The Court of Appeals concluded that no class of IPO purchasers can appropriately be certified as the issues are not common among all class members. In light of this Court of Appeals ruling, it appears that the plaintiffs would need to pursue whatever claims they have against the underwriters on an individual, non-class-action basis. A petition seeking a rehearing of this December 5, 2006 ruling was denied by the Court on April 6, 2007. All proceedings against Apropos and the 300 other publicly traded companies have been stayed pending further submissions to the Court regarding class certification. It is not expected that the Court will provide a further ruling on class certification until late 2008, at the earliest. As a result of the Court's ruling on the class certification, the viability of the proposed settlement cannot yet be determined. Apropos expects that its insurance proceeds will be sufficient to cover its allocable share of the settlement costs, if any.

General

The Company provides its customers 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. The Company is not aware of any claims or allegations having been made by any third party patent holder that a specific product offered by the Company infringes any third party patent claim. If the Company is involved in litigation, under a contractual indemnity or any other legal theory, the Company will assert all appropriate defenses.

14. 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.

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, 2008.

15. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Company has determined 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.

Risk management

The Company, through its financial assets and liabilities is exposed to risks of varying degrees of significance, which 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 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 counter-party 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 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 expenses. The Company historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

Approximately 65% of the Company's receivable balances as at October 31, 2008 were from customers in North America, with the balance from Europe, Middle East and Asia.

The Company's trade receivables had a carrying value of $17,515 as at October 31, 2008, representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts of $2.0 million. The Company's allowance for doubtful accounts increased from $1.0 million at October 31, 2007 to reflect allowances recorded on the acquisitions of Gamma, Fluency and Envox during the fiscal year. 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 18% of trade receivables were past due as at October 31, 2008, of which $2.6 million was outstanding more than 90 days, compared to 27% past due as at October 31, 2007. Subsequent to the year end, $0.4 million of the past due balances were collected.

The Company limits its exposure to credit risks from counter-parties to financial instruments by dealing with only 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.

Foreign exchange risk

Foreign currency risk is related to the portion of the Company's business transactions denominated in currencies other than Canadian dollars, the majority of which relates to fluctuations in the value of the Canadian dollar relative to that of the U.S. dollar. The majority of the Company's revenues are derived from sales to customers in the United States, while operating expenses incurred in U.S. dollars are primarily in the Company's Syntellect Division. The Company's head office expenses are incurred in Canadian dollars. The Company attempts, wherever possible, to match cash outlays with cash inflows in the same currency. The Company's revenue denominated in U.S. dollars generates sufficient U.S. dollars to cover its annual U.S. dollar operating costs and act as a natural hedge against exchange rate fluctuations.

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 Canadian dollars at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain or loss included in the Company's selling, general and administrative expenses. For the year ended October 31, 2008, the Company reported foreign exchange gains of $1.9 million, compared to $0.6 million in foreign exchange losses in fiscal 2007. During fiscal 2008 the exchange rate for U.S. dollars to Canadian dollars averaged $1.01, compared to $1.11 in fiscal 2007. If exchange rates were to fluctuate by 10%, the exchange gain or loss on our net monetary assets could be valued at plus or minus $465 due to the fluctuation and would be recorded in the consolidated statement of operations.

Liquidity risk

Liquidity risk is the risk 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 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, 2008 the Company's current liabilities, all of which fall due for payment within twelve months of the balance sheet date, were $40,669. The Company has sufficient funds to settle current liabilities.

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 a shift in interest rates of 10% were to occur, interest income would be increased or decreased by approximately $70 per quarter. The Company is not exposed to interest rate risk on debt as the Company has no long-term debt.

16. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain comparative figures have been reclassified to conform to the current year's consolidated financial statement presentation.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

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

Eric Demirian [1]
Chief Executive Officer
Parklea Capital Inc.

Reid Drury [1, 3]
Partner and Vice President
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

EXECUTIVE OFFICERS

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

Douglas C. Bryson
Vice President Finance and
Corporate Secretary

Todd M. May
Vice President and
General Counsel

Anthony R. Pearlman
President
Asset Management Division

Steven W. Dodenhoff
President
Syntellect Division

[1] Member of Audit Committee
[2] Member of Compensation Committee
[3] Member of Corporate Governance Committee

CORPORATE INFORMATION

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STOCK INFORMATION

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

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ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on Wednesday, March 11, 2009 at 4:30 p.m. at the TSX Broadcast and Conference Centre Gallery Toronto, Ontario, Canada

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