Enghouse Systems

Software engineered for results

Annual Report | October 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") has been prepared as of December 13, 2012 and all information contained herein is current as of that date. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with Enghouse System Limited's ("Enghouse" or "the Company") fiscal 2012 audited consolidated financial statements and the notes thereto. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse and its subsidiaries, all wholly owned, for the year ended October 31, 2012. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, stated in thousands, except per share amounts. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and IFRS refers to Canadian GAAP subsequent to the adoption of IFRS.

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

Non-IFRS Measures

The Company uses non-IFRS measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company uses results from operating activities as a measure of operating performance. Therefore, results from operating activities may not be comparable to similar measures presented by other issuers. Results from operating activities are calculated as net income before amortization of acquired software and customer relationships, finance income, finance expenses, other income, and the provision for income taxes. Management uses results from operating activities to evaluate operating performance as it excludes amortization of software and intangibles which is an accounting allocation of the cost of software and intangible assets arising on acquisition, and does not represent the allocation of the cost of an asset that must be replaced as is the case with depreciation of property, plant and equipment.

Forward-looking Statements

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

Corporate Overview

Enghouse is a Canadian publicly traded company (TSX:ESL) that develops enterprise software solutions for a variety of vertical markets. The Company is organized around two business segments: the
Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in communications software and services that are designed to enhance customer service, increase efficiency and improve person to person communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, call recording and workforce optimization solutions that support any telephony environment, on premise or in the cloud. The Group's customers include carriers, service providers, insurance companies, banks, government and utilities as well as high technology, health care and hospitality companies. The Asset Management Group provides telecom billing, data conversion and visual-based software solutions for the design and management of complex network infrastructures to the telecommunications, utilities, public and private transportation and oil and gas sectors.

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

Enghouse completed two acquisitions in fiscal 2012. On March 1, 2012, the Company acquired 100% of the issued and outstanding common shares of CustomCall Data Systems, Inc., for a cash purchase price of approximately $7.0 million. The Company also purchased CustomCall's office facility for $0.7 million. CustomCall provides billing, provisioning and workflow solutions to Communications Service Providers in a hosted environment, with operations based in Madison, WI. CustomCall expands the Company's hosted services offering in the telecom space.

On June 1, 2012, the Company acquired 100% of the issued and outstanding shares of Zeacom Group Limited for a cash purchase price of approximately $31.0 million. Of this total, U.S. $4.5 million was paid into escrow to be released to the vendors, subject to hold back and adjustment. In September 2012, U.S. $0.7 million of this holdback was released to Enghouse. Zeacom provides multi-channel contact center and business process automation solutions and is headquartered in Auckland, New Zealand with offices in Australia, the U.K. and the U.S. The acquisition added Microsoft Lync capability to the Company's call center offering. Through its acquisition of Zeacom, the Company has expanded its product suite and marketing reach in the Asia-Pacific market to leverage and potentially cross-sell its existing product suite.

In fiscal 2011 the Company also completed the acquisition of CosmoCom Inc. ("CosmoCom") on April 1, 2011 for a cash purchase price of approximately $16.7 million. CosmoCom provides open, scalable contact center solutions on premise and in the cloud and has operations in the U.S., U.K., Europe, Japan, Hong Kong and Israel. This acquisition expanded the Company's presence in the hosted services market and was the Company's first foray into cloud computing.

During the fiscal year the Company continued to integrate a number of its operations under the Enghouse brand name, reducing the number of entities, creating geographic reporting centers and streamlining its operations to improve operating and administrative efficiencies.

The Company reported revenues of $136.4 million, an increase of $13.8 million over fiscal 2011 and recorded net income of $20.9 million compared to $23.1 million last year. The decrease in net income over last year relates to IFRS transition adjustments to credit the tax provision by $7.9 million on the set-up of future net operating losses for tax purposes as well as a credit to the tax provision for tax losses earned and previously credited to goodwill under GAAP. In comparison, in the current year, $2.5 million of net operating losses for tax purposes were set up.

Cash and short-term investments were used in the fiscal year to invest in acquisitions, with $32.5 million invested in the fiscal year, leaving cash and short-term investment balances of $83.7 million at October 31, 2012. The Company generated operating cash flows before non-cash working capital items of $36.2 million in the fiscal year compared to $31.8 million in fiscal 2011.

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, 2012). Historically, the Company's operating results have fluctuated on a quarterly basis, which the Company expects will continue in the future. Fluctuations in results continue to relate to the timing of software license and hardware sales, which may result in large sales orders in any one quarter, movements in foreign currency exchange rates and to the timing of acquisitions, staffing and infrastructure changes. See "Risks and Uncertainties" for more details. Data for periods prior to November 1, 2010 is as calculated under Canadian GAAP, while data thereafter reflect adjustments to IFRS.

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, 2012	$ 30,533	$ 4,060	$ 0.16	$ 0.16	$100,491	$ 215,797
April 30, 2012	31,456	4,180	0.16	0.16	100,403	222,961
July 31, 2012	35,427	4,288	0.17	0.16	79,700	238,574
October 31, 2012	38,952	8,345^	0.32	0.32	83,652	239,710
Year ended Oct. 31, 2012	**$ 136,368**	**$ 20,873**	**$ 0.82**	**$ 0.80**	**$ 83,652**	**$ 239,710**
January 31, 2011	$ 28,569	$ 3,052	$ 0.12	$ 0.12	$ 83,443	$ 185,410
April 30, 2011	30,334	2,091	0.08	0.08	75,662	195,249
July 31, 2011	31,820	4,577	0.18	0.18	87,955	194,422
October 31, 2011	31,836	13,345*	0.53	0.52	99,591	211,118
Year ended Oct. 31, 2011	**$ 122,559**	**$ 23,065***	**$ 0.91**	**$ 0.90**	**$ 99,591**	**$ 211,118**
Year ended Oct. 31, 2010	**$ 94,208**	**$ 10,238**	**$ 0.41**	**$ 0.40**	**$ 78,267**	**$ 181,251**

^Includes credit adjustment to tax provision of $2.5 million on set-up of deferred tax losses related to non-capital losses
*Includes credit adjustment to tax provision of $7.9 million on transition to IFRS (see page 16, note (e))

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

	2012	2011	Year over year change	
			$	%
Interactive Management Group	$ 119,060	$ 109,717	9,343	8.5
Asset Management Group	17,308	12,842	4,466	34.8
Total revenue	**136,368**	**122,559**	**13,809**	**11.3**
Direct costs	36,659	33,809	2,850	8.4
Revenue, net of direct costs	99,709	88,750	10,959	12.3
	73.1%	*72.4%*		
Operating expenses	66,491	59,416	7,075	11.9
Results from operating activities	33,218	29,334	3,884	13.2
	24.4%	*23.9%*		
Amortization of acquired software and customer relationships	(10,974)	(10,291)	(683)	(6.7)
Finance income	987	692	295	42.6
Finance expense	(269)	(201)	(68)	(33.8)
Other income, net	145	956	(811)	(84.8)
Income before taxes	23,107	20,490	2,617	12.8
Provision for (recovery of) income taxes	2,234	(2,575)	4,809	187.6
Net Income	**$ 20,873**	**$ 23,065**	**(2,192)**	**(9.5)**
Earnings per share – basic	$ 0.82	$ 0.91	(0.09)	(9.9)
Earnings per share – diluted	$ 0.80	$ 0.90	(0.10)	(11.1)
Cash flow from operating activities	$ 23,475	$ 41,052	(17,577)	(42.8)
Cash flow from operating activities excluding changes in working capital	36,212	31,753	4,459	14.0

General
Enghouse revenue for the year ended October 31, 2012 was $136.4 million compared to $122.6 million in the prior year ended October 31, 2011, while net income was $20.9 million compared to net income of $23.1 million in the prior year. The increase in revenue in the fiscal year is largely attributable to contributions from acquired operations.

The Company continued to execute against its acquisition strategy in the year, completing acquisitions in both segments during the year. During fiscal 2012, the Company increased its footprint in the Australia/New Zealand market with the acquisition of Zeacom and expanded in North America in the telecom billing services market with the addition of CustomCall. While both Zeacom and CustomCall have a North American presence, the Company's strategy is to expand its global presence and marketing reach to leverage the sale of this product suite into new markets and reduce its traditional reliance on revenue from the North American market. The Company is now well represented in North America, the UK, Europe, the Nordic region, Asia-Pacific and the Middle East.

Subsequent to year end, the Company acquired Visionutveckling AB, on November 1, 2012, and Albatross Scandinavia AB, on December 1, 2012, both based in Sweden. These acquisitions further strengthen the Company's footprint in Scandinavia, which began with the acquisition of Trio Enterprise AB in 2009. As a result, this diminishes the Company's reliance on U.S. dollar denominated revenue and spreads foreign exchange risk across the U.S. dollar, U.K. pound sterling, Swedish krona, Australian dollar, New Zealand dollar and to a lesser extent, the euro and other currencies.

The Canadian dollar held its own against major world currencies and appreciated marginally against the U.S. dollar over the fiscal year, remaining close to or above par for much of the year. This marginally reduced both revenue and operating costs stated in Canadian dollars, the Company's functional and reporting currency. Specifically, the U.S. dollar was reported using an average foreign exchange rate of $1.00 in fiscal 2012 versus $0.99 in fiscal 2011, while the pound sterling averaged $1.59 in the fiscal year, which was comparable to the rate in the prior year. The euro weakened the most over the year, averaging $1.30 versus $1.38 in fiscal 2011. The Swedish krona remained comparable year over year, averaging $0.15 in both fiscal years.

Revenue
Revenue for the year increased by 11.3% or $13.8 million to $136.4 million from the $122.6 million reported in the prior year, primarily as a result of increased hosted and maintenance revenue contributions from acquired operations and maintenance on incremental license revenue. Revenue continues to be comprised of license, hardware, maintenance, professional consulting and an increasing proportion of hosted services revenue.

On a consolidated basis, software revenue was $45.1 million for the year compared to $45.7 million reported in the prior fiscal year as a result of weaker revenue contributions from the Company's North American Interactive Management operations, which mitigated incremental license revenue contributions from acquired operations and the Company's APAC operations.

Overall, $89.7 million or 65.8% of all revenue was derived from services, compared to $74.3 million or 60.6% in fiscal 2011. This includes revenue from consulting, training, maintenance and hosted services.

Maintenance revenue remains a strategic focus of the Company and contributed $64.9 million or 47.6% of total revenue in the fiscal year, compared to $55.3 million or 45.1% in fiscal 2011. The increase in maintenance revenue over the prior year is also attributable to the impact of acquired operations, which contributed $4.5 million in maintenance revenue in the fiscal year. Excluding acquisitions, maintenance revenue was $60.4 million, which represents an increase of 9.2% over fiscal 2011. Combined with the hosted services revenue stream this represents an important strategic source of revenue to the Company, given its generally recurring nature. During the fiscal year, the Company expanded its hosted revenue capabilities with the acquisition of CustomCall, which provides hosted billing services to the telecom market. Hosted services revenue accounted for $6.7 million of the services revenue stream, up from $3.2 million in fiscal 2011.

Hardware revenue was $1.6 million in the year, compared to $2.6 million in the prior year, with the decrease being attributable to a large third party hardware and software order recognized in fiscal 2011. Hardware is provided to customers as an added service to complement the Company's software offering.

Revenue for the Interactive Management Group increased to $119.1 million, an increase of 8.5% from $109.7 million in the prior fiscal year. This includes hosted and maintenance service revenue, which increased 17.3% to $61.6 million from $52.5 million in fiscal 2011 as a result of both contributions from acquisitions and organic growth. Software license revenue in the group was $41.6 million compared to $42.9 million in the prior fiscal year as a result of lower contributions from North American operations, which offset incremental license revenue generated by Zeacom in the fiscal year. Third party hardware and software revenue was $3.2 million in the fiscal year, down from $6.4 million in the prior year as a result of a significant third party sale by the Group's North American operations in the prior year. Zeacom contributed revenue of $9.7 million in the fiscal year subsequent to acquisition on June 1, 2012.

Asset Management Group revenue increased 34.8% to $17.3 million from $12.8 million in the prior year as a result of incremental revenue contributions from CustomCall, which added $4.7 million, primarily as hosted and maintenance services revenue, subsequent to acquisition on March 1, 2012. Revenue in organic Asset Management Group operations was down marginally in the fiscal year as a result of weaker consulting services revenue. License revenue for the group was $3.5 million in the year compared to $2.8 million in fiscal 2011, with incremental license revenue coming from the Group's Transportation operations and CustomCall. Hosted and maintenance services revenue for the Group was $10.0 million compared to the prior year's revenue of $5.9 million as a result of acquisitions.

Direct Costs

Direct costs were $36.7 million or 26.9% of revenue compared to $33.8 million or 27.6% of revenue in the prior fiscal year. The improvement in margins is related to a decrease in embedded and resale third party software costs which improved overall software revenue margins. Direct services costs as a percentage of services revenue also decreased to 35.0% from 35.9% as a result of post-acquisition integration synergies in the Company's Interactive Management Group.

Direct hardware costs decreased to $1.1 million from $2.0 million, and reflect a direct cost as a percentage of hardware revenue of 27.7% compared to 24.6% in fiscal 2011. This is consistent with the decrease in hardware revenue sales in the fiscal year related to a large third party software and hardware revenue transaction recognized last year.

Operating Expenses

The Company's operating expenses were $66.5 million in the fiscal year compared to $59.4 million in the prior fiscal year, an increase of 11.9%. This includes special charges for acquisition related restructuring expenses of $0.5 million in the year incurred on the Zeacom acquisition, compared to $1.8 million in the prior year related to CosmoCom. Excluding special charges, operating expenses were 48.4% of revenue in the fiscal year compared to 47.0% in fiscal 2011. Operating expenses reflect increased costs associated with acquired operations, as well as the full year costs of CosmoCom, acquired in mid-fiscal 2011. Operating expenses also include $21.5 million in research and development related expenses compared to $15.7 million in fiscal 2011, an increase in investment of 37.1% related primarily to acquisitions.

Research and development expenses are net of government grants and investment tax credits earned in the year in various jurisdictions of $1.8 million compared to $0.2 million recorded in fiscal 2011. The increase in the year relates to the timing of tax credits earned in Canada, the U.K. and New Zealand. The Company records tax credits earned under the *Income Tax Act* (Canada) and other foreign legislation when there is reasonable assurance of realization. To the extent that the actual tax credits realized vary from the amount accrued, the difference is recognized in the year when such a difference is determined.

Operating expenses also included non-cash charges for compensation expenses related to stock options granted, which added $0.6 million in the current year and $0.6 million in the prior fiscal year (see Note 11 to the consolidated financial statements).

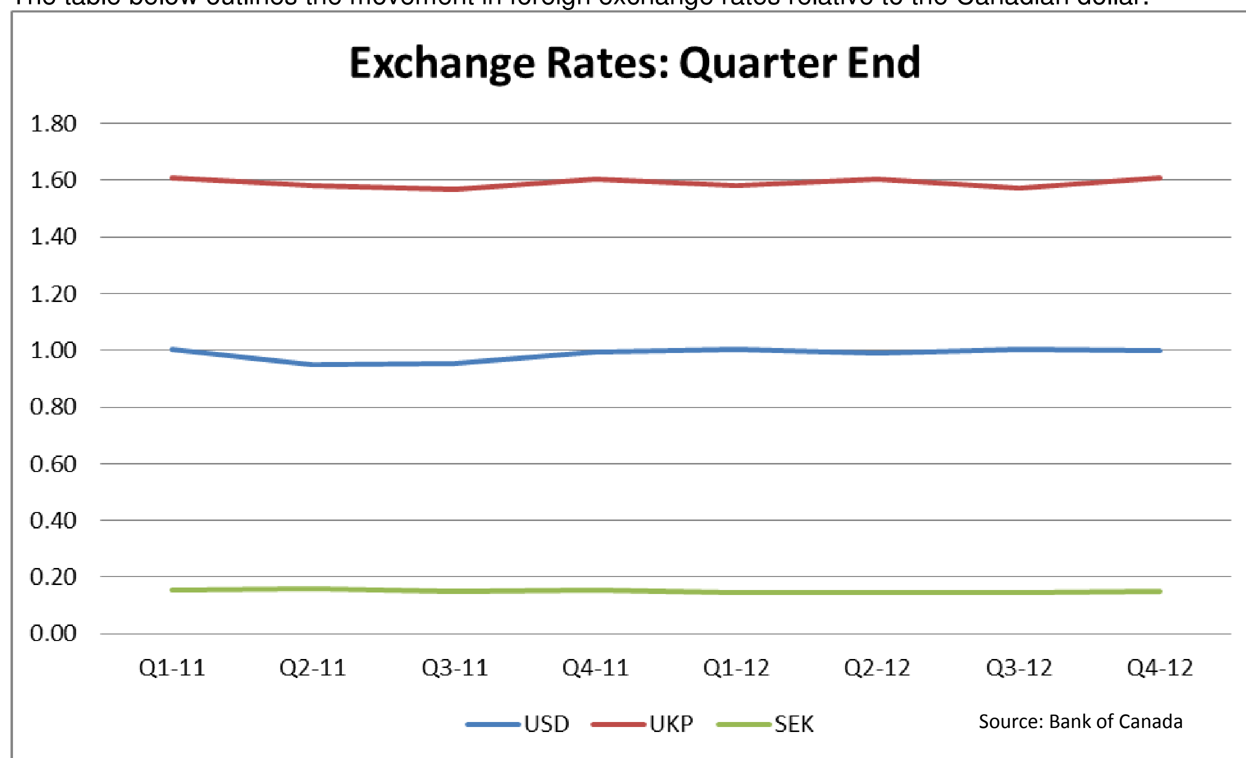
Headcount for the Company on a consolidated basis was 820 as at October 31, 2012 compared to 602 at the prior year end and includes additional headcount from the Zeacom and CustomCall acquisitions, net of attrition in the year.

Foreign Exchange

The Company continues to earn a significant portion of revenue from sales denominated in currencies other than the Canadian dollar. As a result of acquisitions, a large proportion of revenue is derived from operations outside of the U.S. and denominated in currencies other than the U.S. dollar. Accordingly, the Company transacts a significant proportion of its business in pounds sterling, Swedish kronor and to a lesser extent in euros, as well as currencies in the Asia Pacific region, particularly after the Zeacom acquisition. This principally impacts the Company's Interactive Management Group as the Asset Management Group's operations have traditionally been more focused on the North American market with the exception of Enghouse Networks (UK) Limited and Enghouse Holdings (UK) Limited, which serve the U.K. and European markets.

The Company recorded foreign exchange gains related to foreign currency denominated working capital in the current year of $0.8 million compared to losses of $0.5 million in the prior year. During the past two fiscal years the Canadian dollar has been relatively stable as measured against major currencies including the U.S. dollar, the pound sterling, the Swedish krona and the euro. As the Company has both revenue and operating expenses denominated in these currencies, this acts as a natural hedge. Accordingly, the fluctuation in these currencies against the Canadian dollar impacts both the amount of recorded revenue and expenses for the Company. The Company records foreign exchange gains and losses in selling, general and administrative expenses in the consolidated statements of operations.

The table below outlines the movement in foreign exchange rates relative to the Canadian dollar.



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

Amortization of Software and Customer Relationships
The Company reported charges of $11.0 million compared to $10.3 million in the prior fiscal year related to the amortization of software and customer relationships recorded on acquisition. The increase in the fiscal year is related to incremental charges on the recent Zeacom and CustomCall acquisitions as well as the full year amortization related to the CosmoCom acquisition completed in April 2011, which added $2.5 million in total in the fiscal year. This was mitigated by the expiry of amortization expenses on prior acquisitions.

Finance Income and Other Income
Finance income was $1.0 million in the year; an increase from the $0.7 million in the prior year as a result of incremental cash balances invested and improved yields compared to fiscal 2011. Net other income reported was $0.1 million in the year, down from $1.0 million in the prior year due to the timing of gains realized on equity investments sold during the two fiscal years. There can be no assurance that similar gains will be recorded in future years.

Income Tax Expense
During the year, the Company recorded an income tax provision of $2.2 million reflecting a 9.7% effective tax rate as compared to a recovery of ($2.6) million, or a (12.6%) effective tax rate, in the prior fiscal year. The current year's tax provision reflects a credit of $2.5 million booked for the set-up of future net operating losses for tax purposes. Last year's provision reflects a credit of $7.9 million booked to the tax provision on the set-up of future net operating losses for tax purposes as well as an IFRS transition adjustment to credit the tax provision for tax losses earned and previously credited to goodwill under GAAP.

Net Income
Enghouse reported net income of $20.9 million in fiscal 2012 compared to $23.1 million reported in fiscal 2011, which was after credit adjustment of $7.9 million related to IFRS income tax adjustments. Earnings per share on a diluted basis were $0.80 versus $0.90 in fiscal 2011.

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

	Q4/2012	Q4/2011	Year over year change	
			$	%
Interactive Management Group	$ 33,162	$ 28,761	4,401	15.3
Asset Management Group	5,790	3,075	2,715	88.3
Total revenue	38,952	31,836	7,116	22.4
Direct costs	10,801	7,877	2,924	37.1
Revenue, net of direct costs	28,151	23,959	4,192	17.5
	72.3%	*75.3%*		
Operating expenses	18,421	14,669	3,752	25.6
Results from operating activities	9,730	9,290	440	4.7
	25.0%	*22.9%*		
Amortization of acquired software and customer receivables	(3,204)	(2,687)	(517)	(19.2)
Finance income	289	278	11	4.0
Finance expense	(86)	(49)	(37)	(75.5)
Other income	(23)	629	(652)	(103.7)
Income before taxes	6,706	7,461	(755)	(10.1)
Provision for (recovery of) income taxes	(1,639)	(5,884)	4,245	72,1
Net Income	**$ 8,345**	**$ 13,345**	**(5,000)**	**(37.5)**
Earnings per share – basic	$ 0.32	$ 0.53	(0.21)	(39.6)
Earnings per share – diluted	$ 0.32	$ 0.52	(0.20)	(38.5)
Cash flow from operating activities	$ 5,207	$ 8,473	(3,266)	(38.5)
Cash flow from operating activities excluding working capital items	10,582	9,985	597	6.0

Total revenue for the quarter was $39.0 million; an increase of 22.4% from $31.8 million reported in the prior year's fourth quarter and includes license revenue of $13.1 million in the quarter compared to $11.4 million in the prior year's fourth quarter. Hosted and maintenance services revenue was $20.1 million in the quarter compared to $16.2 million in the prior year and reflects hosted services revenue contributions from CustomCall and incremental maintenance revenue from recently acquired Zeacom.

The Interactive Management Group reported revenue of $33.2 million compared to $28.8 million in the fourth quarter of fiscal 2011, including license revenue of $11.6 million in the quarter compared to $11.0 million last year. The increase over last year's fourth quarter revenue is primarily attributable to the impact of incremental software license and maintenance revenue from Zeacom, which was not included in the prior year's fourth quarter results. Hosted and maintenance revenue was $16.9 million in the quarter compared to $14.5 million last year.

The Asset Management Group contributed $5.8 million in revenue in the fourth quarter, compared to $3.1 million reported in the fourth quarter of fiscal 2011 on the strength of hosted revenue contributions from CustomCall and stronger license revenue in the Group's transportation operations. All other revenue categories were comparable to last year's fourth quarter revenue excluding contributions from CustomCall.

Direct costs for the quarter were $10.8 million or 27.7% of revenue compared to $7.9 million or 24.7% of revenue in the prior year's fourth quarter and reflect incremental third party costs on software license revenue and higher third party contractor and maintenance costs on services revenue in the quarter. Cost of third party software licenses was $1.5 million or 11.7% of license revenue in the quarter compared to $0.8 million or 6.8% last year as a result of changes in product mix in the quarter. Cost of services was $8.9 million or 35.0% of services revenue compared to $6.9 million or 34.0% in the prior year's fourth quarter and reflect incremental costs related to a larger proportionate share of hosted services revenue in the services revenue mix.

Operating expenses for the quarter were $18.4 million, an increase from the $14.7 million reported in the fourth quarter of last year, primarily related to incremental operating costs associated with acquired operations, which were not included in the prior year's fourth quarter results. The Company reported $0.4 million in foreign exchange gains in the quarter, related to the translation of working capital balances, compared to $0.9 million in foreign exchange gains recorded in the prior year's fourth quarter. These have been offset against selling, general and administrative expenses. Government grants of $0.8 million earned in the U.K. and New Zealand were recorded in the quarter and were offset against research and development costs. The Canadian dollar averaged $0.99 versus the U.S. dollar in both the current and prior year's fourth quarters and $1.57 for the pound sterling compared to $1.59 last year. The Swedish krona averaged $0.15 for both the current and comparative year's fourth quarters.

The Company recorded non-cash amortization charges in the quarter of $3.2 million compared to $2.7 million in the prior year's fourth quarter related to the amortization of software and customer relationships. The increase relates to amortization recorded as part of the Zeacom and CustomCall acquisitions, net of expiring amortization on prior acquisitions.

During the fourth quarter, the Company recognized finance income of $0.3 million, comparable to that recorded in the fourth quarter of fiscal 2011. The Company reported nominal net other income in the quarter compared to $0.6 million in the prior year's fourth quarter, which reflected gains on the sale of equity positions.

The Company established a tax recovery of ($1.6) million or (24.4%) in the fourth quarter, compared to a recovery of ($5.9) million or (78.9%) in the prior year's fourth quarter. In both fourth quarters the Company booked adjustments to its tax provision to reflect the set-up of deferred tax assets related to net operating losses. Last year's fourth quarter provision was also adjusted under IFRS to reflect the impact of adjustments for net operating losses earned for tax purposes which, were previously credited to goodwill under GAAP. The Company made tax instalment payments of $1.3 million in the fourth quarter compared to $0.7 million in the prior year's fourth quarter related to payments due on tax returns filed in the quarter for fiscal 2011.

The Company reported net income of $8.3 million or $0.32 per diluted share compared to net income of $13.3 million or $0.52 per diluted share in the fourth quarter of fiscal 2011. The decline reflects the impact of tax adjustments made in the prior year.

The Company generated cash flows from operating activities of $5.2 million compared to $8.5 million in the prior year's fourth quarter and closed the year with $83.7 million in cash and short-term investments.

Liquidity and Capital Resources:

The Company closed the quarter with cash and short-term investments of $83.7 million, compared to a balance of $99.6 million at October 31, 2011. This is after the payment of approximately $7.3 million related to the acquisition of CustomCall and its office facility paid on March 1, 2012, and $0.4 million in holdbacks paid on June 1, 2012, as well as $26.4 million paid on June 1, 2012 related to the acquisition of Zeacom. Of this amount, $0.7 million was returned to the Company from the initial holdback in September 2012. The Company has no long-term debt and has sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend strategy. During the year, the Company generated cash flow from operating activities of $23.5 million compared to $41.1 million in 2011 as a result of changes in working capital items. Excluding changes in non-cash working capital items, cash flows from operating activities on a year to date basis were $36.2 million compared to $31.8 million in the prior year.

The Company had 25,780,562 Common Shares issued and outstanding as at December 13, 2012. During the year, 443,300 stock options were exercised contributing $2.9 million in cash to the Company. Last year 170,400 options were exercised in the year, adding $1.1 million in cash. The Company granted 510,000 options in the fiscal year compared to 195,000 in the prior fiscal year. Enghouse did not repurchase any shares of its common stock in the fiscal year under its Normal Course Issuer Bid, but purchased 4,800 shares in the prior fiscal year.

The Company had working capital of $51.6 million at October 31, 2012 compared to $67.2 million at the end of fiscal 2011. 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's policy is to pay quarterly dividends subject to Board approval, based on the Company's financial results and relevant circumstances at the time. The Company has paid regular quarterly dividends since May 31, 2007 and has increased its dividend in each of the past four years from $0.025 per common share in 2007 to $0.065 per common share presently. The Company declared and made the following dividend payments in the three most recently completed fiscal years: (i) 2012 - $0.05 per common share outstanding on February 29, 2012, and $0.065 per common share on each of May 31, 2012, August 31, 2012 and November 30, 2012 for a total of $6.3 million; (ii) 2011 - $0.04 per common share outstanding on February 28, 2011 and $0.05 per common share on each of May 31, 2011, August 31, 2011 and November 30, 2011 for a total of $4.8 million; (iii) 2010 - $0.03 per common share outstanding on February 26, 2010 and $0.04 per share on each of May 31, 2010, August 31, 2010 and November 30, 2010 for a total of $3.8 million.

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

Commitments and Contractual Obligations

The Company has no significant commercial commitments or obligations other than for the leases of the facilities it currently occupies, the latest of which expires in fiscal 2018, and operating leases for automobiles, office and computer equipment. The following table summarizes the contractual obligations of the Company for future years.

	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Lease obligations	$ 3,892	$ 7,678	$ 88	$ 11,658

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

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

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

Critical Accounting Policies, Estimates and Judgments

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

Estimates and underlying assumptions are reviewed on a regular basis. Significant areas requiring the Company to make estimates, assumptions and judgments include those related to revenue recognition, the impairment of financial and non-financial assets, accrued provisions, the carrying value of goodwill and the recoverability of deferred 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, actual results could differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are beyond the Company's control. Revisions to the accounting estimates are recognized in the period in which the estimates are revised and will be recorded with corresponding impact on comprehensive income.

Revenue recognition

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

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

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

Services revenue is comprised of hosted and maintenance services revenue and professional services revenue, which includes consulting and training revenue. The amount of the selling price associated with hosted and maintenance services revenue agreements is deferred and recognized as revenue over the period during which the services are performed. This deferred income is included on the consolidated statement of financial position as a current liability to the extent the services are to be delivered in the next twelve months. Set-up fees on hosted services revenue are deferred and recognized on a straight-line basis over the estimated life of the customer relationship period. The customer relationship period is assessed annually and has been estimated to be 60 months. Professional services revenue is recognized as delivered.

The timing of revenue recognition often differs from contract payment schedules and milestones, resulting in revenue that has been earned but not billed. These amounts are included as accounts receivable. Amounts billed in accordance with customer contracts, but in advance of revenue being recognized, are classified as deferred revenue.

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

Impairment of financial assets

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

The Company 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.

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

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

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

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

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

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

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

No such impairment losses have been recognized during the period.

Accrued provisions
Accrued provisions, including those for onerous contracts, legal claims and restructuring, are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Accrued provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. While management believes these estimates are reasonable, differences in actual results or changes in estimates could have an impact on the liabilities and results of operations recorded by the Company.

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

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

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

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

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

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

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

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

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

Changes in Accounting Policy

Basis of Preparation and Adoption of IFRS

The Company historically prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the CICA Handbook. In 2010, the CICA Handbook was revised to incorporate IFRS, which require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, effective November 1, 2011, the Company ceased to prepare its consolidated financial statements in accordance with Canadian GAAP as set out in part V of the CICA Handbook. On November 1, 2011, the Company has applied IFRS as published by the International Accounting Standards Board ("IASB").

The Company's significant accounting policies are described in note 3 of the consolidated financial statements as at October 31, 2012, which is available on SEDAR (www.sedar.com). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 13, 2012, the date the Board of Directors approved the consolidated financial statements.

Transition to IFRS

The Company's IFRS conversion project began in 2009. A project plan and project team, including an external adviser was established. The Company's philosophy in executing its conversion plan was to select accounting policies which: (i) retain current accounting practices and policies such that financial results are presented in such a way that best reflects the true results of operations; and (ii) where possible, minimizes the impact of any changes to the business. Regular updates are provided to senior management and the Audit Committee of the Board of Directors. The IFRS conversion project consisted of three discrete phases: (i) scoping and diagnostic; (ii) impact analysis, evaluation and design; and (iii) implementation and review. The Company has completed all of these phases.

Subject to certain transition elections disclosed in note 5 to the consolidated financial statements, and discussed below, we have consistently applied the same accounting policies in the opening IFRS consolidated statement of financial position as November 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The adoption of IFRS requires the application of IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the Company's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The Company has applied the following transitional exceptions and exemptions to full retrospective application of IFRS in its preparation of the opening IFRS consolidated statement of financial position as at November 1, 2010, the Company's "transition date":

a) To elect not to apply retrospective treatment to certain aspects of IAS 21, *The Effects of Changes in Foreign Exchange Rates*, and deem the cumulative translation differences for all foreign operations to be $nil at the transition date.

b) To apply IFRS 2, *Share-based Payments*, retrospectively only to awards that were issued after November 7, 2002 which had not vested by the transition date.

c) To apply IFRS 3, *Business Combinations*, prospectively from the transition date and, therefore, not restate business combinations that took place prior to the transition date. As such, Canadian GAAP balances relating to business combinations entered into before the transition date, including goodwill, have been carried forward without adjustment.

d) To apply the transition provisions of International Financial Reporting Interpretations Committee 4 ("IFRIC 4") – Determining Whether an Arrangement Contains a Lease, to determine if arrangements existing at the transition date contain a lease based on the circumstances existing at the transition date rather than the historical date.

e) To elect to use historical cost accounting at the transition date to value its property, plant and equipment and intangible assets. IFRS 1 provides a choice between measuring equipment at its fair

value at the date of transition and using those amounts as deemed cost or using the historic valuation under Canadian GAAP.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS consolidated statement of financial position as at the transition date are consistent with those made under current Canadian GAAP.

In addition to the above-noted impact on the consolidated statement of financial position at November 1, 2010, the following have impacted the 2011 consolidated statement financial position and subsequent quarterly financials, as a result of the Company's conversion to IFRS:

a) **Stock-based compensation:** Under Canadian GAAP, each grant was treated as a single arrangement and compensation expense determined at the time of grant and amortized over the vesting period on a straight line basis. Under IFRS, stock-based compensation costs are based on the estimated number of instruments expected to vest using the graded method of amortization for each vesting tranche on a straight line basis as if they each were a separate grant. Under Canadian GAAP, forfeitures of stock-based compensation awards can be accounted for in the period in which the forfeiture occurs. Under IFRS, forfeitures must be estimated and will be revised for actual forfeitures in subsequent periods. Generally this results in accelerated expense recognition under IFRS. Under IFRS, as compared to Canadian GAAP, this increased contributed surplus and reduced retained earnings at the date of transition and increased staff costs by $133 for year ended October 31, 2011.

b) **Deferred income tax:** Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of assets or liabilities to which the deferred income tax relates or to the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or current liabilities must be classified as current. Accordingly, current deferred income tax reported under Canadian GAAP of $447 at November 1, 2010 and $1,769 at October 31, 2011 has been reclassified as non-current under IFRS. In addition, offsetting deferred income tax assets and liabilities of $1,218 have been reclassified between deferred income tax assets and liabilities at October 31, 2011.

c) **Business combinations**: In accordance with IFRS transitional provisions under IFRS 1, the Company has elected to apply IFRS relating to business combinations prospectively from November 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward without adjustment. Under Canadian GAAP, transaction costs as well as restructuring costs related to acquisitions are capitalized as part of the purchase cost. Under IFRS, these costs are expensed in the consolidated statements of operations in the period in which they are incurred. The transaction and restructuring costs of $1,775 incurred in the acquisition of CosmoCom, Inc. on April 1, 2011 have been expensed under IFRS in the consolidated statements of operations for the year ended October 31, 2011 and are reflected in the consolidated statement of financial position as a reduction to goodwill and retained earnings at October 31, 2011. The deferred tax asset of $506 recognized on these restructuring costs under Canadian GAAP has also been reversed against goodwill on transition to IFRS at October 31, 2011.

d) **Property, plant and equipment**: Under Canadian GAAP certain of the Company's business units used the declining balance method to depreciate property, plant and equipment, while other business units used the straight line method. Under IFRS, uniform accounting policies must be used for reporting similar activity and transactions. The Company's depreciation policy is disclosed in note 3. This resulted in an increase in depreciation expense and accumulated depreciation of $256 at November 1, 2010 and $248 at October 31, 2011.

e) **Goodwill and intangibles**: Under IFRS, the benefit related to additional tax assets that were not recognized at the acquisition date, which are subsequently realized, are recognized as a tax recovery on the consolidated statements of operations. Under Canadian GAAP these are recognized first against goodwill, and then against intangibles before being recognized as a tax recovery on the consolidated statements of operations. Under IFRS at October 31, 2011, this has been adjusted as

an increase to goodwill of $7,222, an increase to intangibles of $1,178, an increase to the future tax liability of $460 and a reduction in income tax expense and increase in retained earnings of $7,940.

f) **Accrued provisions:** Under IFRS, provisions, which were classified as accounts payable and accrued liabilities on the Canadian GAAP consolidated financial statements, have been reclassified as accrued provisions.

g) **Retained earnings:** The following is a summary of transition adjustments to the Company's retained earnings from Canadian GAAP to IFRS:

	Ref	**October 31, 2011**	**November 1, 2010**
Retained earnings as reported under Canadian GAAP		$ 91,613	$ 79,606
IFRS adjustments increase (decrease):			
Amortization of stock based compensation	a	(357)	(224)
Cumulative translation adjustment	-	(12,660)	(12,660)
Restructuring and transaction costs on business combinations	c	(1,775)	-
Tax on restructuring and transaction costs	c	195	-
Property, plant and equipment	d	(248)	(256)
Tax on property, plant and equipment	d	74	80
Goodwill and intangibles	e	7,940	-
Retained earnings as reported under IFRS		**$ 84,782**	**$ 66,546**

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

The following is a description of the new standards:

International Accounting Standard ("IAS 1") – Presentation of Financial Statements ("OCI") was amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to income or loss in the future. This amendment is effective for years beginning on or after July 1, 2012.

IAS 12 – Deferred tax accounting for investment property at fair value was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. This amendment is effective for years beginning on or after January 1, 2012.

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

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

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39*,* except that fair value changes due to credit risk for liabilities designated at FVTPL would generally be recorded in other comprehensive income (loss). This standard is effective for years beginning on or after January 1, 2015.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (*SIC)-12 – Consolidation – Special Purpose Entities* and parts of *IAS 27 – Consolidated and Separate Financial Statements*. This standard is effective for years beginning on or after January 1, 2013.

IFRS 11 – Joint Arrangements ("IFRS 11") requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes *IAS 31 – Interests in Joint Ventures,* and *SIC-13 – Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This standard is effective for years beginning on or after January 1, 2013.

IFRS 12 – Disclosure of Interests in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for years beginning on or after January 1, 2013.

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

Amendments to Existing Standards not yet effective

In addition, there have been amendments to existing standards, including *IAS 27 – Separate Financial Statements ("IAS 27"),* and *IAS 28 – Investments in Associates and Joint Ventures ("IAS 28").* IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. These amendments are effective for years beginning on or after January 1, 2013.

Risks and Uncertainties

The Company operates in an ever changing business and turbulent economic environment that exposes the Company to a number of risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that may adversely impact our business, financial condition or results of operations. Additional risks and uncertainties not described below or not presently known to the Company may also impact our business. For a full description of the Risk Factors affecting Enghouse, the reader should review the Company's Annual Information Form dated December 13, 2012, filed and available on www.sedar.com, which Risk Factors are incorporated by reference herein.

If any of these risks occur, the Company's business, financial condition or results of operations could be seriously harmed and the trading price of the Company's common shares could be materially affected. The reader should understand that the sole purpose of discussing these risks and uncertainties is to alert the reader to factors that could cause actual results to differ materially from past results or from those described

in forward-looking statements and not to describe facts, trends and circumstances that could have a favorable impact on the Company's results or financial position.

Impact of Foreign Exchange Fluctuations

Enghouse actively pursues a growth by acquisition strategy, which exposes the Company to revenue denominated in numerous foreign currencies. The Company's organizational structure has changed to include a larger administrative presence in Australia/New Zealand, a more prominent U.K. based operating center along with the Company's existing presence in Phoenix, Arizona and the Company's headquarters in Canada. The Company also has sales offices in Sweden, Germany, France, Hong Kong, Japan and has more recently added incremental operational capacity in New Zealand and Australia as a result of the Zeacom acquisition. Accordingly, the Company's operating costs reflect exposure to the U.S. dollar, the pound sterling, Swedish krona and Australian and New Zealand dollars, particularly in the Company's Interactive Management Group.

In fiscal 2012, the Canadian dollar continued to hold its own against other major world currencies and was relatively comparable to the prior year's exchange rates on the U.S. dollar, the pound sterling and the Swedish krona. The relative exchange rate measured in Canadian dollars against the U.S. dollar averaged $1.00 in the fiscal year compared to $0.99 in the prior fiscal year. The pound sterling averaged $1.59 in both fiscal years, while the Swedish krona has remained relatively stable averaging $0.15 in both fiscal years. Although the euro continued to weaken significantly against the Canadian dollar in the year to average $1.30 versus $1.38 in the prior year, the Company is not significantly exposed to the euro.

Overall, 26% of the Company's revenue was generated by operations in the U.K. compared to 31% in the prior fiscal year, while revenue generated by European operations decreased to 15% from 16% in the prior fiscal year. Revenue generated by the Company's U.S. based operations was 46% compared to 44% in the prior fiscal year. Approximately 7% of the Company's revenue was generated by operations in the Asia-Pacific region compared to 3% in fiscal 2011 after the acquisition of Zeacom, with the balance being generated by Canadian operations. Further changes in foreign exchange rates between Canada, the United States, the U.K. and other countries could have a material effect, either favorable or adverse, on both the revenue and expenses of the Company going forward, although these currencies act as a natural hedge as the Company has both revenues and expenses denominated in these currencies. There can be no assurances that the Company will prove successful in its effort to manage this risk, which may adversely impact the Company's operating results.

Acquisitions

The Company continues to execute against its acquisition strategy, having completed the acquisitions of CustomCall and Zeacom for an aggregate net cash purchase price in the year of $32.5 million. Further acquisitions were completed shortly after year end in the Nordic region to strengthen the Company's operations in that region. While Enghouse has both the experience and financial resources required to execute this strategy, the Company does not have control over the market conditions prevailing or likely to prevail in the future, which may impact the ability to execute this strategy. There can be no assurance that the Company will be able to identify suitable acquisition candidates available for sale at reasonable valuations, consummate any acquisition or successfully integrate any acquired business into its operations. The Company has and will likely continue to face competition for acquisition candidates from other parties including those that have greater resources or are willing to pay higher valuation multiples. Acquisitions may involve a number of other risks including: diversion of management's attention; disruption to the Company's ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development, or the entire acquired business.

Intellectual Property Claims

A number of competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. Some of these patents may grant very broad protection to the owners of the patents. The Company cannot determine with certainty whether any existing third party patents or the issuance of any third party patents would require the Company to alter its technology, obtain licenses or cease certain activities. The Company may become subject to claims by third parties alleging its

technology infringes their property rights due to the growth of software products in the Company's target markets, the overlap in functionality of these products and the prevalence of software products. The Company provides its customers with a qualified indemnity against the infringement of third party intellectual property rights. From time to time, various owners of patents and copyrighted works send the Company or its customers letters alleging that the Company's products do or might infringe upon the owner's intellectual property rights. Accordingly, where appropriate, the Company forwards any such allegation or licensing request to outside legal counsel for review. The Company generally attempts to resolve any such matter by informing the owner of the Company's position concerning non-infringement or invalidity. Even though the Company attempts to resolve these matters without litigation, it is always possible that the owner of a patent or copyrighted work will bring a suit against the Company. Litigation may be necessary to determine the scope, enforceability and validity of such third party proprietary rights or to establish the Company's proprietary rights. Some competitors have substantially greater resources and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than the Company could. Regardless of their merit, any such claims could: be time consuming; be expensive to defend; divert management's attention and focus away from the business; cause product shipment delays or stoppages; subject the Company to significant liabilities; and require the Company to enter into costly royalty or licensing agreements or to modify or stop using the infringing technology.

Litigation
In addition to being subject to litigation in the ordinary course of business, the Company may become subject to class actions, securities litigation or other actions, including anti-trust and anti-competitive actions. Any litigation may be time consuming, expensive and distracting from the conduct of the Company's day-to-day business. The adverse resolution of any specific lawsuit could have a material adverse effect on the Company's financial condition and liquidity. In addition, the resolution of those matters may require the Company to issue additional common shares, which could potentially result in dilution. Expenses incurred in connection with these matters (which include fees of lawyers and other professional advisors and potential obligations to indemnify officers and directors who may be parties to such actions) could adversely affect the Company's cash position. The Company is subject to one such action, which is more fully described in Note 18 to the consolidated financial statements.

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

Development of New Products and Enhancement of Existing Products
To keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance, the Company must enhance and improve existing products and continue to introduce new products and services. If the Company is unable to successfully develop new products, integrate acquired products or enhance and improve existing products or if it fails to position and/or price its products to meet market demand, the Company's business and operating results will be adversely affected. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development that could adversely affect the Company's results of operations. Further, the introduction of new products could require long development and testing periods

and may not be introduced in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenue.

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

Loss of Rights to Use Software Licensed by Third Parties

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

Product Liability

As a result of their complexity, software products may contain undetected errors or failures when entering the market. Despite conducting testing and quality assurance, defects and errors may be found in new software products after commencement of commercial shipments or the offering of a network service using these software products. In these circumstances, the Company may be unable to successfully correct the errors in a timely manner or at all. The occurrence of errors and failures in the Company's software products could result in negative publicity and a loss of, or delay in, market acceptance of those software products. Such publicity could reduce revenue from new licenses and lead to increased customer attrition. Alleviating these errors and failures could require significant expenditure of capital and other resources by the Company. The consequences of these errors and failures could have a material adverse effect on the Company's business, results of operations, and financial condition. Because many of the Company's customers use its software products for business-critical applications, any errors, defects, or other performance problems could result in financial or other damage to its customers. The Company's customers or other third parties could seek to recover damages from the Company in the event of actual or alleged failures of its software solutions.

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

Reliance on Maintenance Renewals

The Company continues to realize a significant amount ($64.9 million in fiscal 2012 compared to $55.3 million in fiscal 2011) 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 tenet to the Company's revenue growth strategy. However, there can be no assurances that the rate of customer attrition, which would result in lower revenue, will be

offset by a combination of new maintenance revenue associated with incremental license sales, acquisitions and contract price increases. The Company has recently expanded its operations to incorporate hosted services arrangements, which provide a generally recurring revenue stream. The recent acquisition of CustomCall expedited this initiative and expands the Company's recurring revenue stream in the hosted billing services market for the telecom industry.

Tax Issues

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

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

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

Outlook

Enghouse remains committed to its strategy of running a consistently profitable operation with strong recurring revenues and growth through acquisition. The Company is focused on expanding its product portfolio and diversifying its marketing reach on a global basis. From this perspective fiscal 2012 was a success as the Company grew its revenue to $136.4 million, reported net income of $20.9 million, completed two acquisitions and closed the fiscal year with $83.7 million in cash and short-term investments.

During the year, the Company completed the acquisition of CustomCall Data Systems Inc. to expand its Asset Management Group product offering to the telecom market by adding billing and workflow provisioning services in a hosted environment.

The Company also completed the acquisition of Zeacom Group Limited based in New Zealand. The acquisition added multi-channel contact center and business process automation solutions, which expands the Company's Interactive Management Group product suite both into the smaller contact center market, as well as expands Enghouse's marketing reach in the Australian and New Zealand markets. The acquisition also provides the Company with a product offering in the growing Microsoft Lync market.

Subsequent to year end, the Company completed two acquisitions in Scandinavia, expanding its presence in the Interactive Management market by acquiring Visionutveckling AB, a competitor of Trio Enterprise AB, as well as expanding its Asset Management Group's footprint in Sweden with the acquisition of Albatross Scandinavia AB. Albatross provides a real-time intelligent network platform to deliver voice and SMS routing products to telecom operators and complements the Company's Pulse Intelligent Network platform.

Going forward, the Company continues to seek further acquisitions to expand its marketing reach geographically, broaden its product suite and add complementary technologies that will expedite its growth in its target markets. The Company's ability to generate positive operating cash flows, remain debt

free and report strong revenues and earnings are all critical to successfully executing against this strategy. Management is confident that it has the financial expertise, experience and resources to fulfill this strategic mandate.

Controls and Procedures

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

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed under the supervision of the CEO and Vice President Finance, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by the Company is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2012, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the CEO and Vice President Finance. Based on this evaluation, the CEO and the Vice President Finance concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered the Company's disclosure policy, a sub-certification process and the functioning of the Company's Disclosure Committee.

Internal Controls over Financial Reporting

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

As at October 31, 2012, an evaluation was carried out of the effectiveness of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation, the Company's CEO and Vice President Finance have concluded that, as at October 31, 2012, the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission", and the requirements of NI 52-109.

Other than changes required as a result of the adoption of IFRS, there were no changes to the Company's internal control over financial reporting during the year ended October 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

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

Management's Responsibility for Financial Reporting

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

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

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

PricewaterhouseCoopers LLP were appointed the Company's auditors at the Annual General Meeting of Shareholders. Their report on the consolidated financial statements of the Company for the years ended October 31, 2012 and 2011 outlines the scope of their examination and their opinion thereon.

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

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

Markham, Ontario
December 13, 2012

Independent Auditor's Report

To the Shareholders of
Enghouse System Limited

We have audited the accompanying consolidated financial statements of Enghouse System Limited and its subsidiaries, which comprise the consolidated statements of financial position as at October 31, 2012, October 31, 2011 and November 1, 2010, the consolidated statements of operations and comprehensive income, changes in equity and cash flows, for the years ended October 31, 2012 and October 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enghouse Systems Limited and its subsidiaries as at October 31, 2012, October 31, 2011 and November 1, 2010 and the results of its operations and its cash flows for the years ended October 31, 2012 and October 31, 2011 in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopersLLP"

Chartered Accountants, Licensed Public Accountants

December 13, 2012
Toronto, Ontario

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	October 31, 2012	October 31, 2011	November 1, 2010
Assets			
Current assets:			
Cash and cash equivalents (Note 6)	$ 59,544	$ 65,624	$ 46,640
Short-term investments (Note 6)	24,108	33,967	31,627
Accounts receivable, net	31,368	23,006	24,500
Income tax receivable	-	-	591
Prepaid expenses and other assets	3,853	3,479	3,360
	118,873	**126,076**	**106,718**
Non-current assets:			
Property, plant and equipment (Note 7)	3,365	1,543	1,588
Acquired software and customer relationships (Note 7)	42,637	29,709	34,330
Goodwill (Note 8)	64,358	44,242	35,137
Deferred income taxes (Note 13)	10,477	9,548	3,478
Total assets	**$ 239,710**	**$ 211,118**	**$ 181,251**
Liabilities			
Current liabilities:			
Trade payables	$ 26,053	$ 22,686	$ 18,808
Income taxes payable	2,008	3,520	-
Dividends payable (Note 10)	1,676	1,267	1,007
Accrued provisions (Note 9)	1,621	2,442	1,307
Deferred revenue	35,935	28,933	26,040
	67,293	**58,848**	**47,162**
Non-current liabilities:			
Deferred income tax liabilities (Note 13)	13,241	9,525	12,571
Long-term income taxes payable	-	420	522
Deferred revenue	1,236	1,404	790
Total liabilities	**81,770**	**70,197**	**61,045**
Shareholders' Equity			
Share capital (Note 10)	55,751	52,134	50,705
Contributed surplus (Note 10)	2,847	2,970	2,653
Retained earnings	99,371	84,782	66,546
Accumulated other comprehensive (loss) gain	(29)	1,035	302
Total equity	**157,940**	**140,921**	**120,206**
Total liabilities and equity	**$ 239,710**	**$ 211,118**	**$ 181,251**
Commitments and contingencies (Note 16)			

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

Consolidated Statements of Operations and Comprehensive Income

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

	Year ended October 31, 2012	Year ended October 31, 2011
Revenue		
Software licenses	$ 45,108	$ 45,691
Hosted and maintenance services	71,608	58,526
Professional services	18,083	15,734
Hardware	1,569	2,608
	136,368	**122,559**
Direct costs		
Software licenses	4,115	5,208
Services	31,410	26,635
Hardware	1,134	1,966
	36,659	**33,809**
Revenue, net of direct costs	**99,709**	**88,750**
Operating expenses		
Selling, general and administrative	43,069	40,861
Research and development (Note 12)	21,492	15,678
Depreciation of property, plant and equipment	1,386	1,102
Special charges (Note 9)	544	1,775
	66,491	**59,416**
Results from operating activities	**33,218**	**29,334**
Amortization of acquired software and customer relationships	(10,974)	(10,291)
Finance income	987	692
Finance expenses	(269)	(201)
Other income	145	956
Income before income taxes	**23,107**	**20,490**
Provision for (recovery of) income taxes (Note 13)	2,234	(2,575)
Net income for the period	**$ 20,873**	**$ 23,065**
Foreign currency translation differences from foreign operations	(12)	(763)
Transfer to net income of realized gains on available for sale investments, net of tax of ($24); 2011 – ($126)	(132)	(674)
Unrealized (loss) gain on available for sale investments, net of tax of ($173); 2011 – $352	(928)	2,112
Unrealized foreign currency translation gain on available for sale investments, net of tax of $1; 2011 - $11	8	58
Other comprehensive (loss) income	**(1,064)**	**733**
Comprehensive income	**$ 19,809**	**$ 23,798**
Earnings per share (Note 14)		
Basic	$0.82	$0.91
Diluted	$0.80	$0.90

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

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Share Capital -number	Share capital $	Contributed surplus $	Accumulated other comprehensive income $	Retained earnings $	Total $
Balance – November 1, 2011	**25,337,262**	**52,134**	**2,970**	**1,035**	**84,782**	**140,921**
Net income	-	-	-	-	20,873	20,873
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	(12)	-	(12)
Transfer to net income of realized gains on available-for-sale investments, net of tax	-	-	-	(132)	-	(132)
Unrealized loss on available-for-sale investments, net of tax	-	-	-	(928)	-	(928)
Unrealized foreign currency translation gain on available-for-sale investments, net of tax	-	-	-	8	-	8
Comprehensive income (loss) for the period	**-**	**-**	**-**	**(1,064)**	**20,873**	**19,809**
Employee share options:						
Value of services recognized	-	-	621	-	-	621
Proceeds on issuing shares	443,300	3,617	(744)	-	-	2,873
Purchase and cancellation of common shares	-	-	-	-	-	-
Dividends	-	-	-	-	(6,284)	(6,284)
Balance – October 31, 2012	**25,780,562**	**55,751**	**2,847**	**(29)**	**99,371**	**157,940**
Balance – November 1, 2010	**25,171,662**	**50,705**	**2,653**	**302**	**66,546**	**120,206**
Net income	-	-	-	-	23,065	23,065
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	(763)	-	(763)
Transfer to net income of realized gains on available-for-sale investments, net of tax	-	-	-	(674)	-	(674)
Unrealized gain on available-for-sale investments, net of tax	-	-	-	2,112	-	2,112
Unrealized foreign currency translation gain on available-for-sale investments, net of tax	-	-	-	58	-	58
Comprehensive income (loss) for the period	**-**	**-**	**-**	**733**	**23,065**	**23,798**
Employee share options:						
Value of services recognized	-	-	625	-	-	625
Proceeds on issuing shares	170,400	1,439	(308)	-	-	1,131
Purchase and cancellation of common shares	(4,800)	(10)	-	-	(33)	(43)
Dividends	-	-	-	-	(4,796)	(4,796)
Balance – October 31, 2011	**25,337,262**	**52,134**	**2,970**	**1,035**	**84,782**	**140,921**

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

Consolidated Statements of Cash Flows

(*in thousands of Canadian dollars)*

	Year ended October 31, 2012	Year ended October 31, 2011
Cash flows from operating activities		
Net income	$ 20,873	$ 23,065
Adjustments for:		
Depreciation of property, plant and equipment	1,386	1,102
Amortization of acquired software and customer relationships	10,974	10,291
Stock-based compensation expense	621	625
Income tax expense (recovery)	2,234	(2,575)
Finance expenses and other income	124	(755)
	36,212	**31,753**
Changes in non-cash operating working capital (Note 21)	(8,245)	11,061
Income tax paid	(4,492)	(1,762)
Net cash flows from operating activities	**23,475**	**41,052**
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(2,295)	(947)
Acquisitions, net of cash acquired of $810 (2011 - $2,497)	(32,453)	(16,842)
Net proceeds from sale of short-term investments	8,704	695
Net cash flows used in investing activities	**(26,044)**	**(17,094)**
Cash flows from financing activities		
Issuance of share capital	2,873	1,131
Payment of cash dividend	(5,875)	(4,536)
Purchase and cancellation of common shares	-	(43)
Net cash flows used in financing activities	**(3,002)**	**(3,448)**
Effect of currency translation adjustments on cash and cash equivalents	(509)	(1,526)
Net (decrease) increase in cash and cash equivalents during the period	**(6,080)**	**18,984**
Cash and cash equivalents- beginning of period	65,624	46,640
Cash and cash equivalents - end of period	**$ 59,544**	**$ 65,624**

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

1. Description of the business and reporting entity

Enghouse Systems Limited and its wholly owned subsidiaries (together the "Company" or "Enghouse") develop enterprise software solutions for a variety of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in communications software and services that are designed to enhance customer service, increase efficiency and improve person to person communications across the enterprise. The Asset Management Group provides telecom billing, data conversion and visual-based software solutions for the design and management of complex network infrastructures to the telecommunications, utilities, public and private transportation and oil and gas sectors. Enghouse is incorporated and domiciled in Canada. The address of its registered office is 80 Tiverton Court, Suite 800, Markham, Ontario, L3R 0G4. The Company has offices around the world including the United States, the United Kingdom, Sweden, Norway, Denmark, Australia, New Zealand, Israel and Croatia.

2. Basis of preparation and adoption of International Financial Reporting Standards

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and IFRS refers to Canadian GAAP subsequent to the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections and exceptions disclosed in note 5, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at November 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended October 31, 2011 prepared under Canadian GAAP.

These consolidated financial statements were approved by the Board of Directors for issue on December 13, 2012.

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

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

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets to fair value including available-for-sale investments.

Basis of consolidation

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

Subsidiaries are those entities which Enghouse controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Enghouse controls another entity. Subsidiaries are

fully consolidated from the date on which control is obtained by Enghouse and are de-consolidated from the date that control ceases.

Business combinations
The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

The Company expenses acquisition related expenses as incurred.

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

Any contingent consideration to be transferred by the group is recognized at fair value as at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

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

Foreign currency translation
(i) Functional and presentation currency

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

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of

monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of operations in selling, general and administrative expenses.

(iii) Foreign operations

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

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

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

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

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

Available-for-sale
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as loans and receivables. The Company considers its portfolio equity investments to be available-for-sale assets. The equities held by the Company are those of publicly traded companies whose fair values are determined by the closing quoted market values for each investment at the statement of financial position date. Available-for-sale investments are carried at fair market value, except where the instrument does not have a quoted market price in an active market, with foreign exchange and revaluation gains and losses included in other comprehensive income (loss) until the gains and losses are realized when equities are sold in the market or there is impairment in the value. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the consolidated statements of operations and comprehensive income (loss) and included in other gains and losses. The fair value of the Company's equity portfolio is subject to fluctuations in equity markets and is denominated in U.S. dollars as at October 31, 2012.

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

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

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, accounts receivable and short-term investments (including mutual funds but excluding equity securities). These are classified in current assets, except for the portion expected to be realized or paid beyond 12 months of the consolidated statement of financial position date, which is classified as non-current. They are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequent measurement is at amortized cost using the effective interest rate method, less a provision for impairment.

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

The Company is not party to any derivative financial instruments.

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

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

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

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

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

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

charged to the consolidated statements of operations and comprehensive income (loss) during the period in which they are incurred.

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

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

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

Acquired software and customer relationships

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

Acquired software	3 to 6 years straight-line
Customer relationships	3 to 8 years straight-line
Patents	Remaining life

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

Goodwill

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

Impairment of non-financial assets

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

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

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

No such impairment losses have been recognized during the period.

Employee benefits

(i)Post-employment benefit obligations

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

(ii)Stock-based compensation plans

The Company grants stock options to certain employees. Stock options are granted at a price equal to or above the market value of the shares at the date of the grant. When the stock options are exercised, the Company issues new common shares. The consideration received on the exercise of stock options is credited to share capital at the time of exercise. The Company's stock option compensation plan is described in Note 11.

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

(iii)Termination benefits

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

(iv)Short-term employee benefits

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

Accrued provisions

Accrued provisions, including those for onerous contracts, legal claims and restructuring, are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be

reliably estimated. Accrued provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

basis over the estimated life of the customer relationship period. The customer relationship period is assessed annually and has been estimated to be 60 months. Professional services revenue is recognized as delivered.

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

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

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

Research and development costs
The Company qualifies for certain investment tax credits related to the research and development of its computer software. Expenditures related to research are expensed as incurred and are reduced by related investment tax credits, which are recognized when reasonable assurance of realization exists. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use or sell the technology, are met; otherwise they are expensed as incurred. No costs have been deferred on the consolidated statements of financial position as at October 31, 2012, October 31, 2011 or November 1, 2010.

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

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

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

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

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

Segmented reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or persons who are responsible for allocating resources and assessing performance of the operating segments.

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

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

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

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

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

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

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

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

In accordance with IFRS 1, the Company performed a test for impairment of goodwill at November 1, 2010 and October 31, 2011 with the details regarding these impairment tests discussed below.

The goodwill recorded in the consolidated financial statements relates to two CGUs: the Asset Management Group and the Interactive Management Group. The Company's assumptions used in testing goodwill for

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

As at November 1, 2010, October 31, 2011 and October 31, 2012, the Company's estimate of the recoverable amounts for each of the Asset Management CGU and Interactive Management CGU exceeded their respective carrying values by a significant margin, and as such the Company determined that the CGUs with goodwill had not been impaired. Based on its sensitivity analysis, management believes that any reasonable possible change in key assumptions used to calculate the recoverable amounts would have no impact on the results of the impairment test.

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

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

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

The following is a description of the new standards:

International Accounting Standard ("IAS 1") – Presentation of Financial Statements ("OCI") was amended to change the disclosure of items presented in OCI, including a requirement to separate items presented

in OCI into two groups based on whether or not they may be recycled to income or loss in the future. This amendment is effective for years beginning on or after July 1, 2012.

IAS 12 – Deferred tax accounting for investment property at fair value was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. This amendment is effective for years beginning on or after January 1, 2012.

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

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

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at FVTPL would generally be recorded in other comprehensive income (loss). This standard is effective for years beginning on or after January 1, 2015.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (*SIC)-12 – Consolidation – Special Purpose Entities* and parts of *IAS 27 – Consolidated and Separate Financial Statements*. This standard is effective for years beginning on or after January 1, 2013.

IFRS 11 – Joint Arrangements ("IFRS 11") requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes *IAS 31 – Interests in Joint Ventures,* and *SIC-13 – Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This standard is effective for years beginning on or after January 1, 2013.

IFRS 12 – Disclosure of Interests in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for years beginning on or after January 1, 2013.

IFRS 13 – Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement

basis or consistent disclosures. This standard is effective for years beginning on or after January 1, 2013.

Amendments to Existing Standards not yet effective
In addition, there have been amendments to existing standards, including *IAS 27 – Separate Financial Statements ("IAS 27"),* and *IAS 28 – Investments in Associates and Joint Ventures ("IAS 28").* IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. These amendments are effective for years beginning on or after January 1, 2013. The IASB has issued the following standards which have not yet been adopted by the Company. Each of these new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new standards.

5. Transition to IFRS
The effect of the Company's transition to IFRS, described in Note 2, is summarized as follows:(i) transition elections; (ii) reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS; (iii) explanatory notes; and (iv) adjustments to the consolidated statement of cash flows.

(i) Transition elections
The adoption of IFRS requires the application of IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the Company's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

(ii) Reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS

	Ref	October 31, 2011			November 1, 2010		
		CDN GAAP	Adj.	IFRS	CDN GAAP	Adj.	IFRS
Current assets:							
Cash and cash equivalents		$ 65,624		$ 65,624	$ 46,640		$ 46,640
Short-term investments		33,967		33,967	31,627		31,627
Accounts receivable, net		23,006		23,006	24,500		24,500
Income tax receivable		-		-	591		591
Deferred income tax	b,g	1,769	(1,769)	-	447	(447)	-
Prepaid expenses and other assets		3,479		3,479	3,360		3,360
		127,845	**(1,769)**	**126,076**	**107,165**	**(447)**	**106,718**
Non-current assets:							
Property, plant and equipment	e	1,791	(248)	1,543	1,844	(256)	1,588
Acquired software and customer relationships	f	28,531	1,178	29,709	34,330		34,330
Goodwill	d,f	38,287	5,955	44,242	35,137		35,137
Deferred income taxes	b,g	9,295	253	9,548	2,951	527	3,478
Total Assets		**$205,749**	**$5,369**	**$211,118**	**$ 181,427**	**$ (176)**	**$ 181,251**
Liabilities							
Current liabilities:							
Trade payables	h	$ 25,128	$(2,442)	$ 22,686	$ 20,115	$(1,307)	$ 18,808
Income taxes payable	f	3,579	(59)	3,520	-		-
Dividends payable		1,267		1,267	1,007		1,007
Accrued provisions	h	-	2,442	2,442	-	1,307	1,307
Deferred revenue		28,933		28,933	26,040		26,040
		58,907	**(59)**	**58,848**	**47,162**	**-**	**47,162**
Non-current liabilities:							
Deferred income tax liabilities	d,f,b	10,283	(758)	9,525	12,571		12,571
Long-term income taxes payable		420		420	522		522
Deferred revenue		1,404		1,404	790		790
Total liabilities		**71,014**	**(817)**	**70,197**	**61,045**	**-**	**61,045**
Share capital		52,134		52,134	50,705		50,705
Contributed surplus	a	2,613	357	2,970	2,429	224	2,653
Retained earnings	cdej	91,613	(6,831)	84,782	79,606	(13,060)	66,546
Accumulated other comprehensive (loss) gain	c,i	(11,625)	12,660	1,035	(12,358)	12,660	302
Total equity		**134,735**	**6,186**	**140,921**	**120,382**	**(176)**	**120,206**
Total liabilities and equity		**$205,749**	**$5,369**	**$211,118**	**$ 181,427**	**$ (176)**	**$ 181,251**

	Ref	Year ended October 31, 2011 CDN GAAP	Adj.	IFRS
Revenue				
Software licenses		$ 45,691		$ 45,691
Hosted and maintenance services		58,526		58,526
Professional services		15,734		15,734
Hardware		2,608		2,608
		122,559	**-**	**122,559**
Direct costs				
Software licenses		5,208		5,208
Services	**a**	26,634	1	26,635
Hardware		1,966		1,966
		33,808	**1**	**33,809**
Revenue, net of direct costs		**88,751**	**(1)**	**88,750**
Operating expenses				
Selling, general and administrative	a,k	40,244	617	40,861
Research and development	a	15,672	6	15,678
Depreciation of property, plant and equipment	e	1,110	(8)	1,102
Special charges	d	-	1,775	1,775
		57,026	**2,390**	**59,416**
Results from operating activities		**31,725**	**(2,391)**	**29,334**
Amortization of acquired software and customer intangibles		(10,291)		(10,291)
Finance income	k	667	25	692
Finance expenses	k	-	(201)	(201)
Other income (expense)	k	800	156	956
Foreign exchange losses		(511)	511	-
Income before income taxes		**$ 22,390**	**(1,900)**	**$ 20,490**
Provision for income taxes	f	5,554	(8,129)	(2,575)
Net income for the year		**$ 16,836**	**$ 6,229**	**$ 23,065**
Net income attributable to:				
Owners of the parent		$ 16,836	$ 6,229	$ 23,065
Non-controlling interests		-	-	-
		$ 16,836	**$ 6,229**	**$ 23,065**
Other comprehensive income (loss):		**$ 16,836**	**$ 6,229**	**$ 23,065**
Foreign currency translation differences from foreign operations		(763)		(763)
Transfer to net income of realized gains on available for sale investments, net of tax		(674)		(674)
Unrealized gain (loss) on available for sale investments, net of tax		2,112		2,112
Unrealized foreign currency translation (loss) gain on available for sale investments, net of tax		58		58
Other comprehensive income (loss)		**733**	**-**	**733**
Comprehensive income (loss)		**$ 17,569**	**$ 6,229**	**$ 23,798**

(iii) Explanatory notes:

(a) **Stock-based compensation:** Under Canadian GAAP, each grant was treated as a single arrangement and compensation expense determined at the time of grant and amortized over the vesting period on a straight line basis. Under IFRS, stock-based compensation costs are based on the estimated number of instruments expected to vest using the graded method of amortization for each vesting tranche on a straight line basis as if they each were a separate grant. Under Canadian GAAP, forfeitures of stock-based compensation awards can be accounted for in the period in which the forfeiture occurs. Under IFRS, forfeitures must be estimated and will be revised for actual forfeitures in subsequent periods. Generally this results in accelerated expense recognition under IFRS. Under IFRS, as compared to Canadian GAAP, this increased contributed surplus and reduced retained earnings at the date of transition and increased staff costs by $133 for the year ended October 31, 2011.

(b) **Deferred income tax:** Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of assets or liabilities to which the deferred income tax relates or to the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or current liabilities must be classified as current. Accordingly, current deferred income tax reported under Canadian GAAP of $447 at November 1, 2010 and $1,769 at October 31, 2011 has been reclassified as non-current under IFRS. In addition, offsetting deferred income tax assets and liabilities of $1,218 have been reclassified between deferred income tax assets and liabilities at October 31, 2011.

(c) **Cumulative translation adjustments:** In accordance with IFRS transitional provisions under IFRS 1, the Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS. Accumulated other comprehensive loss as at the transition date has been decreased and retained earnings have been reduced by $12,660.

(d) **Business combinations**: In accordance with IFRS transitional provisions under IFRS 1, the Company has elected to apply IFRS relating to business combinations prospectively from November 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward without adjustment. Under Canadian GAAP, transaction costs as well as restructuring costs related to acquisitions are capitalized as part of the purchase cost. Under IFRS, these costs are expensed in the consolidated statements of operations in the period in which they are incurred. The transaction and restructuring costs of $1,775 incurred in the acquisition of CosmoCom Inc. on April 1, 2011 have been expensed under IFRS in the consolidated statements of operations for the year ended October 31, 2011 and are reflected in the consolidated statement of financial position as a reduction to goodwill and retained earnings at October 31, 2011. The deferred tax asset of $506 recognized on these restructuring costs under Canadian GAAP has also been reversed against goodwill on transition to IFRS at October 31, 2011.

(e) **Property plant and equipment**: Under Canadian GAAP certain of the Company's business units used the declining balance method to depreciate property, plant and equipment, while other business units used the straight line method. Under IFRS, uniform accounting policies must be used for reporting similar activity and transactions. The Company's depreciation policy is disclosed in note 3. The IFRS statement of financial position differs from the amounts reported in the Canadian GAAP balance sheets by the following amounts:

	October 31, 2011	**November 1, 2010**
Decrease in:		
Property, plant and equipment	$ (248)	$ (256)
Decrease in retained earnings	**$ (248)**	**$ (256)**

The IFRS consolidated statements of operations and comprehensive income differ from the amounts reported in the Canadian GAAP statements of operations by the following amounts:

	Year ended October 31, 2011
Increase (decrease) in:	
Depreciation	$ (8)
Increase in income before income taxes	**$ 8**

(f) **Goodwill and intangibles**: Under IFRS, the benefit related to additional tax assets that were not recognized at the acquisition date, which are subsequently realized, are recognized as a tax recovery on the consolidated statements of operations. Under Canadian GAAP these are recognized first against goodwill, and then against intangibles before being recognized as a tax recovery on the consolidated statements of operations. Under IFRS at October 31, 2011 this has been adjusted as an increase to goodwill of $7,222, an increase to intangibles of $1,178, an increase to the future tax liability of $460 and a reduction in income tax expense and increase in retained earnings of $7,940.

(g) **Income tax assets and liabilities:** Current and deferred income tax assets and liabilities have been adjusted to give effect to adjustments as follows:

	Ref	October 31, 2011	November 1, 2010
Restructuring and transaction costs on business combinations	d	(313)	-
Property, plant and equipment	e	74	80
Goodwill and intangibles	f	(460)	-
		$ (699)	**$ 80**

(h) **Accrued provisions:** Under IFRS, provisions, which were classified as accounts payable and accrued liabilities on the Canadian GAAP consolidated financial statements, have been reclassified as accrued provisions.

(i) **Accumulated other comprehensive gain (loss):** The following is a summary of transition adjustments to the Company’s accumulated other comprehensive gain (loss) from Canadian GAAP to IFRS:

	Ref	October 31, 2011	November 1, 2010
Accumulated other comprehensive loss as reported under Canadian GAAP		$ (11,625)	$ (12,358)
IFRS adjustments increase (decrease):			
Cumulative translation adjustment	c	12,660	12,660
Accumulated other comprehensive gain as reported under IFRS		**$ 1,035**	**$ 302**

(j) **Retained earnings:** The following is a summary of transition adjustments to the Company's retained earnings from Canadian GAAP to IFRS:

	Ref	October 31, 2011	November 1, 2010
Retained earnings as reported under Canadian GAAP		$ 91,613	$ 79,606
IFRS adjustments increase (decrease):			
Amortization of stock based compensation	a	(357)	(224)
Cumulative translation adjustment	c	(12,660)	(12,660)
Restructuring and transaction costs on business combinations	d	(1,775)	-
Tax on restructuring and transaction costs	d	195	-
Property, plant and equipment	e	(248)	(256)
Tax on property, plant and equipment	e	74	80
Goodwill and intangibles	f	7,940	-
Retained earnings as reported under IFRS		**$ 84,782**	**$ 66,546**

(k) **Other amounts:** In transitioning to IFRS, the Company has reclassified certain amounts within the consolidated statement of financial position and consolidated statements of operations and comprehensive income (loss).

(iv) Adjustments to the consolidated statement of cash flows

The transition to IFRS from Canadian GAAP had no significant impact on the cash flows generated by the Company.

6. Cash and cash equivalents and Short-term investments

	October 31, 2012		October 31, 2011		November 1, 2010	
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
Cash and cash equivalents	**$ 59,544**	**$ 59,544**	**$ 65,624**	**$ 65,624**	**$46,640**	**$46,640**
Short-term investments:						
Mutual funds	$ 2,123	$ 2,123	$ 16,638	$ 16,638	$17,677	$17,684
Banker's acceptances	15,794	15,794	10,532	10,520	8,780	8,779
Government/Corporate bonds	3,772	3,757	3,779	3,768	4,037	4,041
Equities	2,419	2,419	3,018	3,018	1,133	1,133
Total	**$ 24,108**	**$ 24,093**	**$ 33,967**	**$ 33,944**	**$31,627**	**$31,637**

On April 1, 2011, the Company paid U.S. $3.0 million on the acquisition of CosmoCom, Inc. (Note 15) into escrow to be released to the vendors, subject to hold back and adjustment, on April 1, 2012. Of this amount, $1.2 million was released to the Company in July 2011 in settlement of the initial holdback obligation, while the remaining balance was returned to Enghouse in April 2012 in settlement of the final hold back obligation.

In March 2012, the Company posted a standby letter of credit in the amount of US$7.8 million pending the outcome of an appeal of a litigation matter (Note 18). The amount will only be paid out in the event the Company is unsuccessful in the appeal. A cash deposit of CDN$9.7 million underlying the standby letter of credit to offset potential foreign exchange risk is restricted as to use and has been reflected on the consolidated statement of financial position in cash and cash equivalents.

On June 1, 2012, the Company paid approximately U.S. $4.5 million on the acquisition of Zeacom Group Limited (Note 15) into escrow to be released to the vendors, subject to hold back and adjustment, on June 1, 2013. Of this amount, $0.7 million was released to the Company in September 2012 in settlement of the initial holdback obligation. The use of the remaining cash held in escrow is restricted and has been included in cash on the Company's balance sheet as at October 31, 2012.

7. Property, plant and equipment and intangible assets

(i) Property, plant and equipment

	Plant (1)	Furniture and Fixtures	Computer Hardware and Software	Leasehold Improvements	Total
	$	$	$	$	$
At November 1, 2010					
Cost	-	1,372	9,364	1,078	11,814
Accumulated depreciation	-	(1,234)	(8,305)	(687)	(10,226)
Net book value	**-**	**138**	**1,059**	**391**	**1,588**
Year ended October 31, 2011					
Opening net book value	-	138	1,059	391	1,588
Additions	-	2	902	128	1,032
Depreciation	-	(94)	(814)	(194)	(1,102)
Exchange difference	-	39	(70)	56	25
Closing net book value	**-**	**85**	**1,077**	**381**	**1,543**
At November 1, 2011					
Cost	-	1,359	10,054	1,229	12,642
Accumulated depreciation	-	(1,274)	(8,977)	(848)	(11,099)
Net book value	**-**	**85**	**1,077**	**381**	**1,543**
Period ended October 31, 2012					
Opening net book value	-	85	1,077	381	1,543
Additions	741	221	1,830	408	3,200
Depreciation	(8)	(69)	(991)	(318)	(1,386)
Exchange difference	9	11	13	(25)	8
Closing net book value	**742**	**248**	**1,929**	**446**	**3,365**
At October 31, 2012					
Cost	750	1,766	12,663	1,670	16,849
Accumulated depreciation	(8)	(1,518)	(10,734)	(1,224)	(13,484)
Net book value	**742**	**248**	**1,929**	**446**	**3,365**

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

(ii) Intangible assets

	Acquired Software $	Customer Relationships $	Total $
At November 1, 2010			
Cost	52,331	25,419	77,750
Accumulated amortization	(33,808)	(9,612)	(43,420)
Net book value	**18,523**	**15,807**	**34,330**
Year ended October 31, 2011			
Opening net book value	18,523	15,807	34,330
Acquisition	4,373	1,671	6,044
Amortization	(7,051)	(3,240)	(10,291)
Exchange difference	(136)	(238)	(374)
Closing net book value	**15,709**	**14,000**	**29,709**
At November 1, 2011			
Cost	56,579	26,700	83,279
Accumulated depreciation	(40,870)	(12,700)	(53,570)
Net book value	**15,709**	**14,000**	**29,709**
Period ended October 31, 2012			
Opening net book value	15,709	14,000	29,709
Acquisition	16,649	7,749	24,398
Amortization	(7,168)	(3,806)	(10,974)
Exchange difference	(328)	(168)	(496)
Closing net book value	**24,862**	**17,775**	**42,637**
At October 31, 2012			
Cost	73,228	34,449	107,677
Accumulated amortization	(48,366)	(16,674)	(65,040)
Net book value	**24,862**	**17,775**	**42,637**

8. Goodwill

The Continuity of goodwill by operating segment is as follows:

	October 31, 2012			**October 31, 2011**		
	Interactive Management Group	**Asset Management Group**	**Total**	**Interactive Management Group**	**Asset Management Group**	**Total**
Opening Balance	$ 39,916	$ 4,326	$ 44,242	$ 30,722	$ 4,415	$ 35,137
Additions, Net	15,457	5,270	20,727	10,094	-	10,094
Acquired tax benefit adjustment				(185)	(1)	(186)
Purchase price adjustments	(1,720)	-	(1,720)	(491)	-	(491)
Foreign exchange	949	160	1,109	(224)	(88)	(312)
Ending balance	**$ 54,602**	**$ 9,756**	**$ 64,358**	**$ 39,916**	**$ 4,326**	**$ 44,242**

9. Accrued Provisions

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

	Total
At November 1, 2010	**$ 1,307**
Additional provisions	2,716
Unused amounts reversed	(334)
Utilized during the period	(1,244)
Effect of movements in foreign exchange	(3)
At October 31, 2011	**$ 2,442**
At November 1, 2011	**$ 2,442**
Additional provisions	708
Unused amounts reversed	(364)
Utilized during the period	(1,144)
Effect of movements in foreign exchange	(21)
At October 31, 2012	**$ 1,621**

10. Share capital and other components of shareholder's equity

Capital Stock

The authorized share capital of the Company consists of an unlimited number of common shares with no par value, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 25,780,562 common shares outstanding as at October 31, 2012. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2012 or October 31, 2011.

Dividends per share

During the year ended October 31, 2012 the Company declared dividends of $6.3 million ($0.245 per common share), of which $1.7 million was payable on November 30, 2012 and reflected as a liability in the statement of financial position at October 31, 2012. In the year ended October 31, 2011 dividends declared were $4.8 million or $0.19 per common share.

.

Common share repurchase plan

On April 16, 2012, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,731,416 common shares of the Company, expiring on April 15, 2013. The Company did not repurchase any common shares in fiscal 2012 but repurchased 4,800 common shares for cancellation in fiscal 2011 for $43, of which $10 was allocated to share capital and the remainder offset against retained earnings.

Accumulated other comprehensive income (loss)

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

Cumulative translation account

The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations net of income tax expense of $0.3 million (2011- $0.7 million).

Unrealized gains/losses on available-for-sale financial assets

Available-for-sale differences comprise the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired net of income tax expense of $0.2 million (2011- recovery of $0.3 million).

11. Stock-based Compensation

The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 1,901,100 (October 31, 2011 – 2,344,400) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four years and expire seven 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, 2012 and October 31, 2011, and changes during the years ended on those dates is presented as follows:

	2012		2011	
	Number of Options	**Weighted Average Exercise Price in $**	**Number of Options**	**Weighted Average Exercise Price in $**
Outstanding at beginning of period	1,487,700	7.32	1,563,100	7.10
Granted	510,000	13.21	195,000	9.57
Exercised	(443,300)	6.48	(170,400)	6.63
Forfeited	(200,000)	9.88	(100,000)	9.49
Outstanding at end of period	**1,354,400**	**9.43**	**1,487,700**	**7.32**
Options exercisable at end of period	**620,900**	**7.47**	**846,700**	**6.86**

A summary of stock options outstanding as at October 31, 2012 is set out below:

	Outstanding Stock Options			Exercisable Stock Options	
Exercise Price	Number Outstanding as at October 31, 2012	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price in $	Number Exercisable as at October 31, 2012	Weighted Average Exercise Price in $
$5.00 to $5.50	180,000	3.38	5.00	127,500	5.00
$5.51 to $7.75	90,000	1.67	7.15	90,000	7.15
$7.76 to $10.00	619,400	3.66	8.28	395,400	8.28
$10.01 to $14.50	465,000	6.29	13.13	8,000	10.10
	1,354,400			**620,900**	

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. During fiscal 2012, the Company recorded a non-cash charge of $0.6 million (2011 - $0.6 million).

For options granted in the period, the fair value of each stock option on the date of the grant was estimated using the Black-Scholes option pricing model as set out below. Estimated volatility is calculated

on a daily basis using historical closing prices over a five year period, which reflects the expected life of the options.

	Options Granted July 2012	Options Granted June 2012	Options Granted April 2012	Options Granted March 2012	Options Granted December 2011	Options Granted FY 2011
Risk-free interest rate (%)	1.18%	1.25%	1.47%	1.32%	1.31%	2.10%-2.38%
Estimated volatility (%)	35%	35%	34%	34%	34%	34%-35%
Dividend yield	$0.26	$0.26	$0.26	$0.20-$0.26	$0.20	$ 0.20
Expected life (in years)	5	5	5	5	5	5
Weighted average fair value (in dollars)	$3.51	$3.20	$3.74	$3.55-$4.09	$2.87	$2.54-$2.66

12. Research and development expense

	2012	2011
Research and development costs incurred	$ 23,266	$ 15,873
Investment tax credits recognized	(1,774)	(195)
Net research and development expense	**$ 21,492**	**$ 15,678**

13. Income taxes

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

	2012	2011
Current income taxes:		
Current tax on profits for the year	$ 3,825	$ 5,934
Adjustments for prior periods	815	(1,930)
	$ 4,640	$ 4,004
Deferred income taxes:		
Origination and reversal of timing differences	$ 1,262	$ 906
Changes in tax rate	(366)	(331)
Recognition of previously unrecognized tax losses	(3,302)	(7,154)
	(2,406)	(6,579)
Total income tax provision (recovery)	**$ 2,234**	**$ (2,575)**

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

	2012 $	2012 %	2011 $	2011 %
Profit before tax at a statutory rate of 26.8% (2011 – 28.6%)	6,181	26.8	5,857	28.6
Foreign earnings subject to different income tax rates	249	1.1	218	1.1
Change in tax rates	(366)	(1.6)	(331)	(1.6)
Non-deductible expenses	276	1.2	603	2.9
Tax exempt income	(522)	(2.3)	(114)	(0.6)
Resolution of tax positions	(282)	(1.2)	(2,820)	(13.8)
Changes in recognized assets	(3,302)	(14.3)	(5,988)	(29.2)
Effective income tax amount and rate	**2,234**	**9.7**	**(2,575)**	**(12.6)**

During the year as a result of a change in the Canadian corporate tax rates from 28.6% to 26.75% for 2012 (effective June 2012) and to 26.5% thereafter, the deferred tax balances have been revalued. Similarly, the corporate tax rate in the U.K. has decreased from 26% to 24% effective April 2012, while the corporate tax rates in Japan, Israel and France have also changed from 41%, 24% and 34.43% to 38%, 25% and 33.33% respectively.

(C) The Company has recognized deferred income tax assets and liabilities as at October 31, 2012 and 2011 of the following:

	2012 $	2011 $
Deferred income tax assets:		
Provisions and reserves	1,472	1,398
Income tax loss carry-forwards	7,008	6,650
SRED expenditures	271	-
Property, plant and equipment	1,726	1,500
	10,477	9,548
Deferred income tax liabilities:		
Adjustment to available-for-sale investments	111	326
Deferred revenue reserves	252	-
Acquired software	5,793	3,648
Other intangibles	7,085	5,551
	13,241	9,525
Deferred income tax assets (liabilities), net	**(2,764)**	**23**

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

	Balance November 1, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2011
Provisions and reserves	448	116	-	834	-	1,398
Income tax loss carry-forwards	1,733	4,351	(1,544)	1,036	1,074	6,650
SRED expenditures	-	-	-	-	-	-
Property, plant and equipment	1,342	158	-	-	-	1,500
Available for sale investments	(45)	-	-	-	45	-
Other	-	(335)	-	-	335	-
	3,478	4,290	(1,544)	1,870	1,454	9,548

	Balance November 1, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2011
Acquired software	3,663	(562)	-	547	-	3,648
Intangible assets	6,631	(1,727)	-	647	-	5,551
Available for sale investments	-	-	281	-	45	326
Unrealized foreign exchange	2,277	-	(2,277)	-	-	-
	12,571	(2,289)	(1,996)	1,194	45	9,525

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

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

(D) The Company and its subsidiaries have non-capital losses available for carry-forward for income tax purposes of approximately $103 million (2011 - $114 million). Non-capital losses may be subject to restriction on their availability to shelter income and are related to the Company's U.S. operations, approximately $63 million (2011 - $65 million) and expire over periods commencing in 2013 through 2029; U.K. operations, approximately $33 million (2011 - $45 million), which have no expiry; Canada,

approximately $2 million (2011 - $3 million), which expire over periods commencing in 2015 through 2030 and other jurisdictions of approximately $5 million (2011 - $1 million), which have no expiry.

The Company has not recognized a deferred income tax asset in respect of $72 million of non-capital losses and $2 million of deductible temporary differences as it is uncertain whether future taxable income will be available with which to realize the benefits therefrom.

14. Earnings per share:

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

	2012	2011
Net income attributable to owners of the parent	$ 20,873	$ 23,065
Weighted average number of common shares in issue	25,569	25,214
Basic earnings per share	**$ 0.82**	**$ 0.91**

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

	2012	2011
Net income attributable to owners of the parent	$ 20,873	$ 23,065
Weighted average number of common shares issued	25,569	25,214
Adjustments for:		
Stock options	407	324
Weighted average number of common shares for diluted earnings per share	25,976	25,538
Diluted earnings per share	**$ 0.80**	**$ 0.90**

Options to purchase 350,000 (2011 – 100,000) common shares at an average price of $13.93 (2011 – $10.06) 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.

15. Acquisitions

2012 Acquisitions:

Zeacom Group Limited

On June 1, 2012, the Company acquired 100% of the issued and outstanding shares of Zeacom Group Limited for a net cash purchase price of approximately $31.0 million, with U.S. $4.5 million of this being paid into escrow to be released to the vendors, subject to hold back and adjustment. Of this hold back amount, U.S. $0.7 million was released to the Company in September 2012. Zeacom provides multi-channel contact center and business process automation solutions and is headquartered in Auckland, New Zealand with offices in Australia, the U.K. and the U.S. Results have been reported in the Interactive Management Group since the date of acquisition.

CustomCall Data Systems, Inc.

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

2011 Acquisitions:

CosmoCom, Inc.

On April 1, 2011, the Company acquired 100% of the issued and outstanding common shares of CosmoCom, Inc., for a net cash purchase price of approximately $16.7 million. On April 1, 2011, U.S. $3.0 million of the purchase price was paid into escrow to be released to the vendors, subject to hold back and adjustment. Of this amount, U.S. $1.2 million was released to the Company in July 2011 as settlement of the initial hold back obligation, with the remaining U.S. $1.8 million released to the Company in April 2012 as settlement of the final hold back obligation. CosmoCom provides open, scalable contact center cloud and premise based solutions with operations in the U.S., U.K., Europe, Japan, Hong Kong and Israel.

The acquisitions have been recorded under the purchase method of accounting and results have been included in the consolidated statements of operations from their respective acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill. 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. The Zeacom purchase price allocation has not been finalized subject to receipt of additional information related to the settlement of the holdback obligations.

The CosmoCom and CustomCall purchase price allocations have now been finalized with the settlement of the final hold backs. The CosmoCom purchase equation was adjusted for the settlement of all hold back obligations, which in aggregate decreased goodwill by $2.5 million, accounts receivable by $0.1 million and increased current liabilities by $0.3 million.

Goodwill is not amortized but is assessed annually for any potential impairment in value. Acquired software in the CosmoCom acquisition is being amortized over five years, while customer relationships are being amortized over seven years. Acquired software is being amortized over five years in the CustomCall and Zeacom acquisitions while customer intangibles are being amortized over five and seven years respectively. The Company's purchase price allocations are as follows:

	Zeacom 2012	CustomCall 2012	CosmoCom 2011
Cash	$ 796	$ 14	$ 2,497
Accounts receivable, net	6,493	857	5,770
Prepaids and other current assets	970	451	144
Property, plant and equipment	790	115	85
Other assets	385	-	238
Deferred income tax assets	-	-	1,870
Acquired software	14,489	2,161	4,373
Customer relationships	6,002	1,746	1,671
Goodwill	15,457	5,270	8,376
Total assets acquired	$ 45,382	$10,614	$ 25,024
Less: Current liabilities assumed	$ 10,118	$ 2,040	$ 7,135
Less: Deferred income tax liabilities	4,297	1,541	1,194
Total liabilities assumed	$ 14,415	$ 3,581	$ 8,329
Net assets acquired for cash consideration	**$ 30,967**	**$ 7,033**	**$ 16,695**

16. Commitments and Operating Leases

The Company leases premises and certain equipment and automobiles under operating leases. The operating rental expense for the year ended October 31, 2012 was $4,111 (2011 - $3,904). The annual minimum future lease commitments are as follows:

	October 31, 2012	October 31, 2011	November 1, 2010
Less than 1 year	$ 3,892	$ 3,472	$ 3,411
Between 1 and 5 years	7,678	7,826	7,633
More than 5 years	88	34	317
Total	**$ 11,658**	**$ 11,332**	**$ 11,361**

17. Segmented information

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

The Company's operating segments each develop and market software products and provide services for their respective markets. The Interactive Management Group, which includes the operations of Zeacom since its date of acquisition on June 1, 2012, provides communications software and services that are designed to enhance customer service, increase efficiency and improve person to person communications across the enterprise. Its customers include carriers, service providers, insurance companies, banks, government, utilities, high technology, health care and hospitality companies. The Asset Management Group provides telecom billing, data conversion and visual-based software solutions for the design and management of complex network infrastructures to the telecommunications, utilities, public and private transportation and oil and gas sectors. The results of CustomCall have been included in the Asset Management Group since acquisition on March 1, 2012.

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

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

	Interactive Management Group	Asset Management Group	Total
Year ended October 31, 2011			
Revenue	$ 109,717	$ 12,842	$ 122,559
Operating expenses excluding non-cash charges	(78,969)	(9,537)	(88,506)
Depreciation of property, plant and equipment	(928)	(174)	(1,102)
Amortization of acquired software and customer relationships	(9,843)	(448)	(10,291)
Segmented profit	**$ 19,977**	**$ 2,683**	**$ 22,660**
Corporate expenses			(3,617)
Finance income			692
Finance expenses			(201)
Other income			956
Income before income taxes			**$ 20,490**
Goodwill	$ 39,916	$ 4,326	$ 44,242
Other assets	90,576	42,333	132,909
Short-term investments			33,967
Total assets			**$ 211,118**
Capital Expenditures	$ 823	$ 124	$ 947

Revenue is distributed geographically as follows: U.S. 46% (2011 – 44%), U.K. 26% (2011 – 31%), Europe 15% (2011 – 16%), Canada 6% (2010 – 6%) and Asia-Pacific 7% (2011 – 3%). Revenue from customers is attributable to individual countries based on the reporting entity that records the transaction.

18. Litigation and contingencies

Mark Atlas v. Apropos Technology, Inc.: A wholly owned subsidiary of the Company (“Apropos”) 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 would 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, in which it concluded that the proposed class of IPO purchasers could not be certified, as the issues were not common among all class members. A petition seeking a rehearing of this December 5, 2006 ruling was denied by the Court on April 6, 2007. In light of this Court of Appeals ruling, the District Court entered an order on June 25, 2007 terminating the proposed settlement between the plaintiffs and the issuers, including Apropos.

In February 2009, an agreement to settle the litigation in its entirety was reached and definitive settlement documents were filed with the District Court. Final court approval of the settlement was received in October 2009. Several appeals were filed objecting to the definition of the settlement class and fairness of the settlement, however the last such appeal was dismissed January 10, 2012 and the process of

distributing the settlement has begun. The insurance proceeds will be sufficient to cover the Company's allocable share of the settlement.

Southern California Gas Company v. Syntellect, Inc.: Southern California Gas Company ("SoCal") filed a lawsuit against a wholly owned subsidiary of the Company relating to the indemnification provisions in a contract between the parties. The United States District Court, Southern District of California, has issued a judgment ("Judgment") in favor of SoCal which, together with certain additional SoCal costs and interest, amounts to U.S. $7.8 million ("Award"). The Judgment has been appealed to the United States Ninth Circuit Court of Appeals, and a standby letter of credit in the full amount of the Award has been posted, pending the outcome of the appeal. SoCal may receive payment of all or part of the Award only if it is ultimately successful in the lawsuit, at which time the expense related to such Award will be recorded in the Company's financial statements.

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

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

19. 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, 2012.

20. Financial instruments

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

Fair Value Hierarchy

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

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

Financial assets that are measured at fair value as at October 31, 2012 and October 31, 2011 in the financial statements are summarized below. The Company has no financial liabilities measured at fair value initially other than those recognized in connection with business combinations. There were no transfers of fair value measurements between Level 1 and Level 2 of the fair value hierarchy in 2012 and 2011.

	October 31, 2012			**October 31, 2011**		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Equities	$ 2,419	$ -	$ 2,419	$ 3,018	$ -	$ 3,018
Total	**$ 2,419**	**$ -**	**$ 2,419**	**$ 3,018**	**$ -**	**$ 3,018**

Risk management

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

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

Credit risk

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

The Company's trade receivables had a carrying value of $31.4 million as at October 31, 2012 (2011 - $23.0 million), representing the maximum exposure to credit risk of those financial assets, net of the allowance for doubtful accounts of $4.1 million. The Company's allowance for doubtful accounts increased from $3.4 million at October 31, 2011 as a result of acquisitions. The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 30 to 60 days. Approximately 23% or $8.2 million of trade receivables at October 31, 2012 were outstanding more than 90 days, compared to 18% past due as at October 31, 2011. The past due balances are offset by a combination of deferred revenue and acquisition reserves of $4.7 million related to these receivables and $3.5 million of the Company's allowance for doubtful accounts. The balance in the allowance for doubtful accounts of $0.6 million is applied against receivables not considered past due. Subsequent to year end to the date of this report, $1.1 million of these past due balances were collected.

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

Market risk

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

Foreign exchange risk

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

Through acquisitions, the Company has established a larger presence in the U.K., which generates revenue in pounds sterling, euros and U.S. dollars. This mitigates the Company's exposure to its U.K. office's operating costs, which are predominantly denominated in pounds sterling.

Approximately 26% of the Company's revenues are now derived from sales by its U.K. operations, which may be denominated in pounds sterling, euros or U.S. dollars, while 15% of its revenue are generated from sales by the Company's European offices, primarily in Sweden and Denmark and are denominated in Swedish kronor and Danish kroner. Approximately 7% of revenues are derived from sales to customers in Australia and New Zealand and are denominated in Australian and New Zealand dollars. Approximately 46% of the Company's revenues are derived from sales to customers in the United States, which are naturally hedged by the Company's U.S. based operating costs associated primarily with the Company's Interactive Management Group U.S. operations. This is a slight increase from the prior year when 44% of revenue was generated by the U.S. operations as a result of adding CustomCall and Zeacom's U.S. operations. In contrast, 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. If the U.S. dollar were to fluctuate by 10% from existing rates, results from operating activities would be increased or decreased by approximately $2.5 million in the statement of operations. The Company performed a similar sensitivity analysis on results from operating activities for operational activity denominated in pounds sterling and Swedish kronor and determined that the impact on results from operating activities was not significant.

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. For the year ended October 31, 2012 the Company reported foreign exchange gains of $0.8 million, compared to $0.5 million in foreign exchange losses in fiscal 2011. During fiscal 2012, the exchange rate for U.S. dollars to Canadian dollars averaged $1.00 (2011 - $0.99), while the pound sterling averaged $1.59 (2011 - $1.59) and the Swedish krona was stable in both years at $0.15. 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 $244 due to the fluctuation and would be recorded in the consolidated statements of operations.

Interest rate risk
Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and short-term investments. If interest rates were to fluctuate proportionally by 10% from existing rates, interest income would be increased or decreased by approximately $25 per year. The Company is not exposed to interest rate risk on debt as the Company has no long-term debt.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it has sufficient liquidity to meet its obligations, mainly trade payables, accrued provisions and deferred revenue, when due. The Company does not have any short-term borrowing or debt facilities and settles its financial obligations out of cash. The ability to do so relies on the Company's ability to generate cash from operations and collect accounts receivable in a timely manner and by maintaining sufficient cash on hand. As at October 31, 2012 the Company's current liabilities, all of which fall due for payment within twelve months of the balance sheet date, were $67.3 million (2011 - $58.8 million). At October 31, 2012 the Company had a working capital surplus of $51.6 million (2011 - $67.2 million).

21. Changes in non-cash operating working capital

	2012	2011
	$	$
(Increase) decrease in accounts receivable, net	(1,694)	6,466
Decrease in prepaid expenses and other assets	1,351	193
(Decrease) increase in trade payables & accrued provisions	(6,525)	2,459
(Decrease) increase in income taxes payable	(2,473)	623
Increase in deferred revenue	1,272	1,267
Unrealized foreign exchange (gain) loss	(176)	53
	(8,245)	**11,061**

22. Additional IFRS Information

(i) **Expense by nature**:
Expenses incurred by nature are as follows:

	2012	2011
Third party license, maintenance and services	$ 8,035	$ 7,997
Hardware	1,134	1,966
Staff costs	73,410	61,933
Supplies	1,768	1,850
Other administrative expenses	2,820	2,781
Travel and marketing	7,311	5,859
Communications	2,132	1,570
Occupancy	4,111	3,904
Professional services	1,256	1,977
Restructuring	544	1,775
Foreign exchange (gain) loss	(757)	511
Depreciation	1,386	1,102
	$103,150	**$ 93,225**

(ii) Staff costs:

Expenditures for staff costs are as follows:

	2012	2011
Salaries and wages	$ 52,500	$ 42,579
Employee benefits	10,576	8,907
Stock-based compensation	621	625
Termination benefits	333	1,116
Bonuses	2,479	3,231
Contractors and commissions	6,901	5,475
	$ 73,410	**$ 61,933**

Included in employee benefits are the Company's share of costs related to defined contribution pension plans of $1.1 million (2011 - $1.0 million).

23. Related parties

The key management personnel of the Company are the members of the Company's executive management team and Board of Directors, and control approximately 33% of the outstanding shares of Enghouse.

	2012	2011
Salaries, bonus and employee benefits	$ 2,896	$ 1,775
Stock options	294	353
Total	**$ 3,190**	**$ 2,128**

24. Subsequent events

On November 1, 2012 the Company acquired 100% of the issued and outstanding common shares of Visionutveckling AB and 100% of the issued and outstanding common shares of Albatross Scandinavia AB on December 1, 2012 for an aggregate cash purchase price of approximately $12.7 million. Of this amount, approximately $2.0 million is subject to hold back and adjustment. The purchase price allocations have not been established subject to receipt of additional information. Visionutveckling provides attendant and contact center software solutions with offerings both on-premise and in the cloud, with operations based in Sweden, Norway and Denmark. Results will be included in the Interactive Management Group from the date of acquisition. Albatross, based in Sweden, provides a real-time intelligent network platform that delivers voice and SMS routing products to telecom operators, with results included in the Asset Management Division from the date of acquisition.