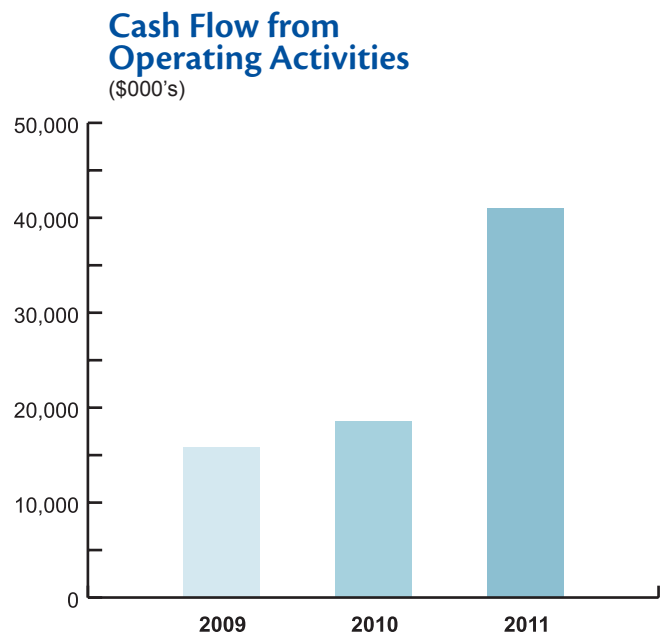
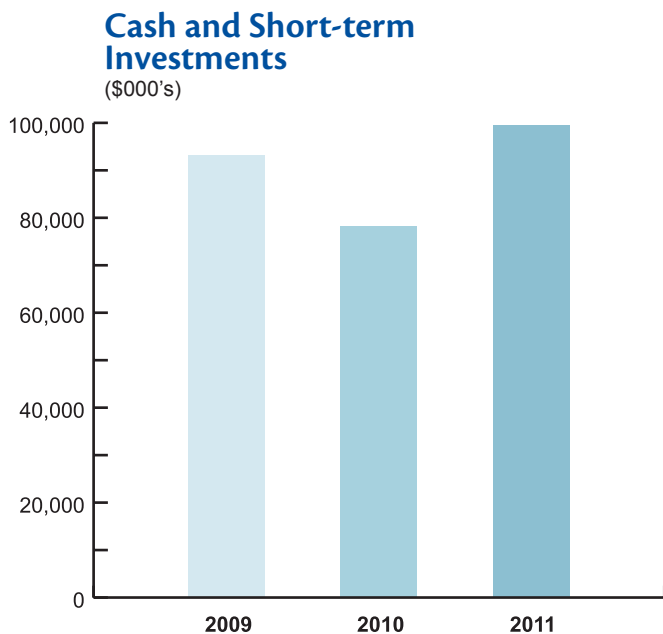
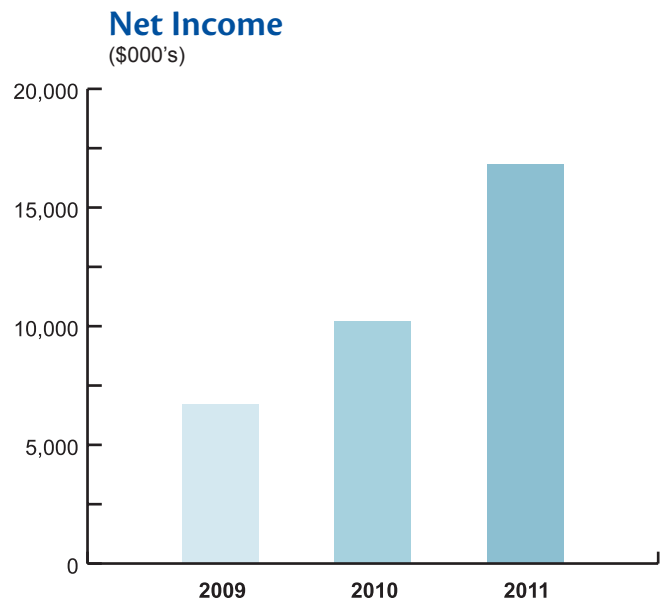
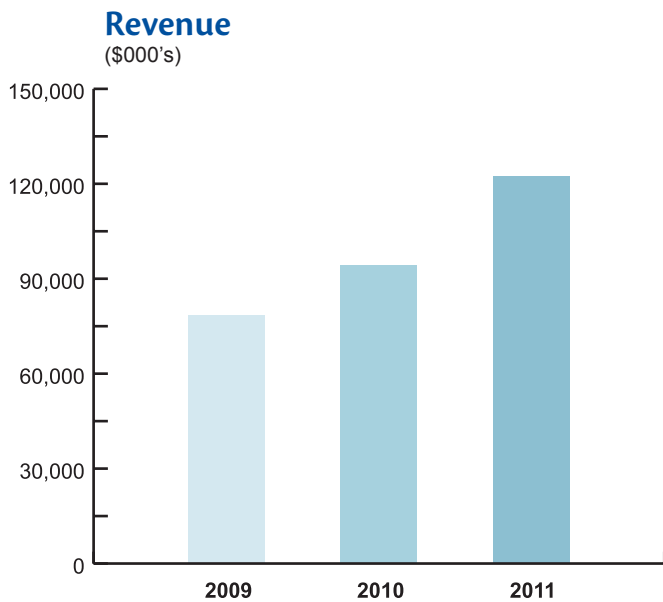




Enghouse Systems

Software engineered for results

“Enghouse continues to demonstrate its ability to drive profitability and consistently generate positive cash flows from operating activities.”



Chairman's Message

Enhouse enjoyed a record year in fiscal 2011, topping the \$100 million mark for the first time in the Company's history and posting record earnings. These results are particularly significant given the continuing economic turmoil in Europe and an underperforming U.S. economy. The Company's growth plans continue to unfold as planned and we are very well positioned to capitalize on opportunities in the evolving software market including cloud computing.

The Company made significant progress during the year on a number of fronts. Revenue for the year closed at \$122.6 million, representing a 30% increase over fiscal 2010 results. Record earnings of \$16.8 million or \$0.66 per diluted share were posted, a 65% increase from last year, while cash flow from operating activities was \$41.1 million in the year. The Company continues to have no long-term debt and closed the year with almost \$100 million in cash and short-term investments.

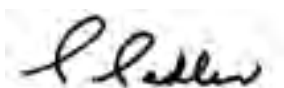
The Company continues to be active in the acquisition market, adding CosmoCom Inc. on April 1, 2011. The acquisition expands the Company's reach into new markets in Israel, Japan, Hong Kong and Europe but, more importantly, adds an open, scalable contact center solution both on premise and in the cloud. The Company believes that cloud computing is a vital and growing segment of the software market as this represents an affordable, scalable and flexible way to reduce customers' overall cost of ownership, which is critical in this challenging economic environment.

Enhouse also successfully launched a rebranding initiative which saw the Company adopt a new logo and the tag line, "Software engineered for results". This reflects Enhouse's singular focus on providing robust software solutions that drive results for our customers. To further enhance market awareness of the Enhouse name, the Company redesigned its web sites and rebranded its product suite to reflect consistent use of the Enhouse brand across the Company's product lines. The Company also successfully restructured its operations to optimize the corporate structure and realize tax efficiencies.

Enhouse continues to demonstrate its ability to drive profitability and consistently generate positive cash flows from operating activities. This enables the Company to capitalize on acquisition opportunities which complement the Company's organic operations and expand our product portfolio through accretive acquisitions. The Company has also, through its rebranding and reorganization initiatives, built a solid foundation to take advantage of buying opportunities in a challenging economy.

We are confident that our past success, strong balance sheet and ongoing commitment to building, organically and by acquisition, a larger and more diverse software company will translate into enhanced shareholder value in the coming year.

We would like to take this opportunity to thank our loyal shareholders, customers and employees alike for their continued patience and support.



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

The following Management Discussion and Analysis (“MD&A”) has been prepared as of December 14, 2011 and all information contained herein is current as of that date. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with Enghouse Systems Limited’s (“Enghouse” or “the Company”) fiscal 2011 consolidated financial statements and the notes thereto, which were prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). This MD&A covers the results of operations, financial condition and cash flows for Enghouse and its wholly owned subsidiaries for the year ended October 31, 2011. This document is intended to assist the reader in better understanding the Company’s 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. Unless otherwise indicated, all references to dollar amounts herein are to Canadian dollars, stated in thousands, except per share amounts.

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

Enhouse 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 (formerly, the Syntellect Division) and the Asset Management Group. The Interactive Management Group serves the customer interaction market segment through the provision of interactive voice response ("IVR") systems and speech and voice recognition solutions as well as an advanced contact center platform that manages multi-channel customer interactions. The Interactive Management Group specializes in communications software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. Its customers include insurance companies, banks and utilities as well as high technology, health care and hospitality companies. The group's offerings can be provided on premise or in the cloud. The Asset Management Group provides visual-based software solutions for the design and management of complex network infrastructures to telecommunications, utilities, public and private transportation and oil and gas companies, as well as data conversion services for these industries.

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

The Company continues to be successful in this regard, completing the acquisition of CosmoCom Inc. ("CosmoCom") on April 1, 2011 for a cash purchase price of approximately \$18.6 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 expands the Company's presence in the hosted services market, moving the Company towards its goal of expanding its revenue from recurring sources.

In the prior fiscal year, the Company completed three acquisitions. On November 1, 2009, the Company acquired Pulse Voice Inc. ("Pulse") of Markham, Ontario for approximately \$4.6 million. Pulse is a leading provider of communications solutions with both a contact

center division (now named Enhouse Interactive (Canada) Inc.) and a networks division (now named Enhouse Networks Limited) providing cost control and intelligent network solutions to the telecom industry. This acquisition expands the Company's presence in the wireless telecommunications market in North America.

The Company acquired Mettoni Limited ("Mettoni") and its wholly owned subsidiaries on April 6, 2010 for a cash purchase price of approximately \$24.6 million. Mettoni provides unified communications software solutions and expands the Company's footprint in Europe, the Middle East, Africa and Asia Pacific, which further reduces the Company's reliance on North American markets.

On June 1, 2010, the Company completed the acquisition of the intellectual property and operations of Telrex LLC ("Telrex"), in an asset purchase transaction for a total purchase price of approximately \$4.1 million. Telrex is a leading provider of internet protocol ("IP") call recording and contact center optimization software solutions. This acquisition provided a synergistic product offering that was previously provided by unrelated third parties, expanding the Company's product offering in the interaction management market.

During the current fiscal year, the Company also undertook and completed a rebranding initiative which saw the Company adopt a new logo and the tag line "Software engineered for results". This reflects the Company's focus on providing solutions that help its business customers improve operating efficiencies and manage customer interactions to improve their results. As part of this exercise, the Company reorganized its operations, rebranded its product line, reduced the number of operating entities and renamed most of its legal entities to align its operations into its Interactive Management and Asset Management operating segments.

The Company continues to be profitable and generated significant cash flows from operating activities in the fiscal year of \$41.1 million, compared to \$18.6 million in fiscal 2010. The Company closed the year with \$99.6 million in cash and short-term investments after spending \$16.8 million on acquisitions and a further \$4.5 million on its cash dividends in the fiscal year. The Company reported net income of \$16.8 million compared to \$10.2 million in fiscal 2010. The outlook for Enhouse remains positive. The Company has a strong balance sheet, improved profitability, generated strong cash flows from operating activities and has expanded both its geographic reach outside of North America and its recurring revenue base with enhanced hosted services capabilities.

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,

Management's Discussion & Analysis

2011) and for the past three fiscal years. The annual information has been derived from the Company's audited consolidated financial statements, while quarterly information has been derived from the Company's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments necessary for the fair presentation of the information presented therein. Historically, the Company's operating results have fluctuated on a quarterly basis, which the Company expects will continue in the future. Fluctuations in results continue to relate to the timing of software license and hardware sales, which may result in large sales orders in any one quarter, and to the timing of acquisitions, staffing and infrastructure changes. See "Risks And Uncertainties" for more details.

For the three months ending	Total revenue	Net income	Earnings per share – basic	Earnings per share – diluted	Cash and short-term investments	Total assets
January 31, 2011	\$ 28,569	\$ 3,112	\$ 0.12	\$ 0.12	\$ 83,443	\$ 185,586
April 30, 2011	30,334	3,211	0.13	0.13	75,662	196,691
July 31, 2011	31,820	4,593	0.18	0.18	87,955	195,863
October 31, 2011	31,836	5,920	0.23	0.23	99,591	205,749
Year ended October 31, 2011	\$ 122,559	\$ 16,836	\$ 0.67	\$ 0.66	\$ 99,591	\$ 205,749
January 31, 2010	19,536	1,903	0.08	0.08	89,819	162,933
April 30, 2010	21,263	1,707	0.07	0.07	72,619	179,808
July 31, 2010	26,031	3,202	0.13	0.13	77,140	184,032
October 31, 2010	27,378	3,426	0.14	0.13	78,267	181,427
Year ended October 31, 2010	\$ 94,208	\$ 10,238	\$ 0.41	\$ 0.40	\$ 78,267	\$ 181,427
Year ended October 31, 2009	\$ 78,418	\$ 6,734	\$ 0.27	\$ 0.27	\$ 93,152	\$ 161,234

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

Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in accordance with Canadian GAAP. The preparation of the Company's consolidated financial statements is based on the selection and application of significant accounting policies, some of which require management to make significant estimates that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, investment tax credits, the useful lives and recoverability of long-term assets, intangible assets, the carrying value of goodwill and the valuation allowance on future income tax assets. The Company bases its estimates on historical experience as well as on various other assumptions that are believed to be reasonable under the circumstances at the time. Under different assumptions or conditions, the actual results would differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are beyond the Company's control.

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

REVENUE RECOGNITION

Revenue consists primarily of fees for licenses of the Company's software, maintenance fees, professional services and hardware revenue. Software license revenue is comprised of license fees charged to customers for the use of software products and is generally licensed under perpetual arrangements in which the fair value of maintenance and professional services are determinable. Services revenue is comprised of professional services revenue from consulting, implementation and training services related to the Company's products as well as maintenance, hosting and technical support services. Maintenance services are typically provided on an annual basis and generally include ongoing customer support, product fixes and certain product upgrades provided on an "if and when available" basis. Customers typically purchase a combination of bundled services and products including licenses, maintenance, professional services and hardware.

Revenue from license fees for software products and the resale of third party software and hardware products is recognized when there is an

unconditional sales order under a license agreement, the product is delivered, the fee is fixed or determinable, provided that no significant future vendor obligations exist and, at the time of performance, the ultimate collection of the consideration is reasonably assured. If collection is not deemed probable, revenue is recognized upon the receipt of cash assuming all other criteria have been met.

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

If services are deemed essential to the functionality of the licensed software, the licensed software and services revenues are recognized using contract accounting under the percentage of completion method. The Company uses the ratio of incurred labor costs to estimated total labor costs as the measure of its progress toward completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date such loss determination is made. If services are not deemed essential to the functionality of the software, the services revenue (including hosted services revenue) is recognized as the services are delivered to the customer.

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company maintains an allowance for doubtful accounts for the estimated losses resulting from the inability of its customers to make required payments. The Company reviews this provision regularly and performs ongoing credit evaluations of its customers' financial condition. Adverse changes in the financial condition of the Company's customers resulting in an impairment of their ability to make payments would likely require the provision of additional allowances. Actual collections could differ materially 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 intangible assets and goodwill. Any goodwill or intangible assets with indefinite useful lives acquired in business combinations are not amortized to income over their useful lives but are assessed annually for any potential impairment in value. All other intangible assets are amortized to operations over their estimated useful lives. Purchase price allocations are derived from a formal valuation, which, where appropriate, is performed by an independent third party valuation expert.

The Company's intangible assets relate to acquired technology, customer lists, patents and trademarks. 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 fiscal years 2011 and 2010, the Company did not record an impairment charge related to intangible assets.

The Company has goodwill arising from business acquisitions, which is comprised of the excess of amounts paid over the fair value of net identifiable assets acquired. The Company performs an annual assessment of the fair value of the businesses to which this goodwill relates. Goodwill is tested for impairment at the "reporting unit" level in accordance with the CICA Handbook Section 3064 "Goodwill and Other Intangible Assets". The Company's reporting units are its Interactive Management Group and Asset Management Group. In assessing the fair value of these reporting units, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the business. If estimates or their related assumptions change in the future, the Company could be required to record impairment charges for these assets. In fiscal years 2011 and 2010, Enghouse did not record an impairment charge related to goodwill.

INCOME TAXES

Management uses significant judgment to determine the provision for income taxes, current and future income tax assets and liabilities and any valuation allowance required against the 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

Management's Discussion & Analysis

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

Changes in Accounting Policy

Recent accounting pronouncements issued and not yet applied

The Company's accounting policies are described in note 1 to the consolidated financial statements.

The Company will cease to prepare its financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook – Accounting for the periods beginning on November 1, 2011 when it will start to apply International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB"). Consequently, future accounting changes to Canadian GAAP are not discussed as they will not be applied by the Company.

HARMONIZATION OF CANADIAN AND INTERNATIONAL ACCOUNTING STANDARDS

In February 2008, the CICA Accounting Standards Board confirmed that IFRS will replace Canadian GAAP effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's first unaudited consolidated

interim financial statements presented in accordance with IFRS will be for the three month period ending January 31, 2012, and its first audited consolidated annual financial statements presented in accordance with IFRS will be for the year ending October 31, 2012 and will include comparative results for fiscal 2011.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. Based on our review, we have determined that in many respects the Company's accounting policies are aligned with IFRS requirements. There are likely to be no material differences in the majority of line items in the Company's balance sheet and income statement from that reported under Canadian GAAP, other than those noted below. However, the Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS.

The Company has developed a detailed conversion plan, established an IFRS implementation team and engaged external advisors to consult on its implementation of IFRS. The Company's Audit Committee is updated on the progress of the conversion plan on at least a quarterly basis.

The Company's conversion project is divided into three phases:

- » *Scoping and diagnostic phase* – this phase involves performing a high-level impact assessment of all relevant IFRS standards to identify key areas that are expected to be impacted.
- » *Impact analysis, evaluation and design phase* – each area identified will be addressed to specify, quantify and design changes to existing accounting policies, information systems and business processes, consider optional IFRS 1 exemptions and develop draft IFRS consolidated financial statements.
- » *Implementation and review phase* – this phase involves the implementation of changes to affected accounting policies and practices, business processes and systems and internal controls and training programs across the organization, as necessary, and preparing detailed reconciliations of Canadian GAAP to IFRS financial statements.

Progress towards completion of our IFRS Changeover Plan

The Company has completed the scoping and diagnostic phase and impact analysis, evaluation and design phase and is continuing to execute on the implementation and review phase.

The following table summarizes the key elements of the transition plan and the expected timing of future activities:

IFRS Conversion Plan Task	Expected Timing
Identification of key areas likely to be impacted by IFRS (Phase I)	Complete
Detailed component evaluations of all relevant IFRS requirements and identification of areas requiring change in accounting policies and alternatives (Phase II)	Complete
Final determination of expected changes to accounting policies and alternatives under IFRS 1 (Phase II)	Complete
Resolution of expected accounting policy change implications on internal controls, IT systems and business processes (Phase III)	Complete
Quantification of expected financial statement impact of changes in accounting policies (Phase III)	Substantially complete – to be finalized in Q1/12
Preparation and approval of Q1/12 financial statements consistent with IFRS presentation and disclosure requirements (Phase II and III)	In progress – continuing through Q1/12
Management and employee education and training	On-going throughout the transition plan

Impact of Transition

The following tables discuss the qualitative transition effects and quantifies the impact (if information is available at the time this Annual Report is written) of the Company's IFRS policy decisions, IFRS 1 optional exemptions and expected accounting differences identified in the preparation of the IFRS financial statements based on current IFRS standards on shareholder's equity at the November 1, 2010 transition date (the "Transition Date") and net income for the year ended October 31, 2011.

The impact of IFRS at transition will depend on the IFRS standards in effect on October 31, 2012. There can be no guarantee that the IASB will not make further pronouncements and that the Canadian Accounting Standards Board will also not adopt further pronouncements before the consolidated financial statements for the year ended October 31, 2012 are prepared. We will continue to monitor changes in IFRS standards and adjust our transition plans accordingly. Quantified estimates are still subject to final review and audit by the Company's auditors and could change.



Management's Discussion & Analysis

Optional IFRS 1 exemptions:

Exemption	Application of Exemption
Cumulative translation differences	The Company has chosen to deem the cumulative translation differences for all foreign operations to be zero as of the Transition Date. Enghouse had cumulative translation losses of \$12.4 million at October 31, 2010. This will be adjusted to reduce retained earnings on the transition balance sheet, with a corresponding increase to accumulated other comprehensive income.
Share based payments	The Company has elected to apply IFRS 2 Share-based Payments only to equity instruments issued after November 7, 2002 and not vested by the Transition Date. Per the requirements of IFRS 1, this adjustment will be recorded in opening retained earnings upon transition to IFRS. We expect the impact of the change at November 1, 2010 will be to decrease retained earnings by \$0.2 million, with a corresponding increase to contributed surplus.
Net book value as deemed cost available for property plant and equipment and intangible assets	The Company has chosen to use historical cost accounting at the Transition Date to value its property and equipment and intangible assets. This is consistent with the Company's current accounting policy and will be used rather than using fair value accounting. The Company will use depreciated cost to value property and equipment and intangible assets subsequent to the transition date.
Business combinations	The Company has decided not to restate business combinations that occurred prior to November 1, 2010.
Leases (IFRIC 4, "Determining whether an Arrangement Contains a Lease")	The Company has chosen not to reassess whether arrangements contain a lease under IFRS where the same determination that would be made under IFRIC 4 was made previously in accordance with Canadian GAAP. Management has also chosen to apply the transitional provisions of IFRIC 4 to leases which the same determination as IFRIC 4 was not previously made in accordance with Canadian GAAP. As a result of this exemption, the determination of whether these arrangements contain a lease is based on the circumstances existing at the Transition Date such that all operating lease arrangements under Canadian GAAP will continue to be assessed as operating leases on adoption of IFRS.

IFRS transition effects:

Key Accounting Area	Differences with potential impact to Company
Presentation of Financial Statements (IAS1)	Additional disclosures and detail will be required in the notes to the financial statements. The format for the financial statements will also change. IFRS requires separate disclosure of provisions whereas Canadian GAAP did not require the identification of provision of a specific subset of liabilities for disclosure. IFRS also requires that future income taxes not be classified as current assets. The effect on Shareholder's Equity is nil.
Business Combinations (IFRS 3R)	Acquisition transaction costs as well as restructuring costs related to acquisitions must be expensed under IFRS, which will reduce the amount of residual goodwill booked on acquisitions. This may also increase the volatility of net income on the Company's income statement. We expect the impact of the change at October 31, 2011 will be to decrease net income, with a corresponding decrease to goodwill. There will be no impact to the Shareholder's Equity as at the Transition Date.
Goodwill Impairment (IAS 16)	Goodwill must be tested at the cash generating unit level of the Company, which could be lower than the reporting unit level at which goodwill is presently being evaluated. Goodwill is tested for impairment using the discounted cash-flow method in a single-step approach. To date, no quantitative effect has been noted.
Share-based payments (IAS 2)	Forfeiture estimates will be recognized in the period in which they are estimated, and will be revised for actual forfeitures in subsequent periods, whereas under current accounting policies, forfeitures are only recognized as they occur. In addition, each tranche of graded option vesting is treated as a separate option grant, which will accelerate the recognition of option expense. Net income for the year ended October 31, 2011 is expected to decrease by \$0.1 million, with a corresponding increase to contributed surplus.
Income Taxes (IAS 12)	Under Canadian GAAP, if additional deferred tax assets that were not recognized at the acquisition date are subsequently realized, the adjustment is recognized first against goodwill, and then against intangible assets, before any adjustment is recognized as a tax recovery on the income statement. Under IFRS, such adjustment is recognized directly in the income statement. The effect on Shareholder's Equity is nil. The Company has determined that there will be adjustments to net income related to this change but has not yet quantified the impact. The reduction to the tax provision is expected to be material. In addition, under IFRS, there is no concept of current versus long-term deferred tax amounts, rather all amounts must be classified as long-term. As a result, in our transition date balance sheet, \$0.4 million of deferred tax assets will be reclassified from current to long-term.
Provisions and contingencies (IAS 37)	Under IFRS, a provision is recognized in the financial statements if it is probable, which is defined as "more likely than not". This is a lower threshold than "likely" under Canadian GAAP, which could have an impact on the timing of when a provision may be recorded. On the Transition Date, any provisions and contingent liabilities that qualify for recognition will be recognized as a liability with a resulting decrease in retained earnings. The Company has determined that there will be some reclassification of amounts to provisions in the consolidated financial statements under IFRS. However, at this time the Company does not believe there will be additional provisions recorded.
Foreign Currencies	Under IFRS, the functional currency of the Company and its subsidiaries is to be determined separately, while the process of considering factors to determine functional currency are somewhat different than under Canadian GAAP. Based on its review, the Company was not required to change the functional currency of the Company or one or more of its subsidiaries on adoption of IFRS. Accordingly, the effect on Shareholder's Equity is nil at the Transition Date.



Other considerations:

Area impacted	Status
Training	IFRS training is ongoing for project team members related to relevant aspects of IFRS, which are expected to impact the Company and will be rolled out as the project progresses to include all project team members, the Audit Committee and other stakeholders.
Information Systems	The adoption of IFRS will not significantly impact the Company's information system requirements. The Company's accounting processes are not heavily dependent on the Company's information systems. The areas where information systems will be most impacted are those related to the ability to track parallel IFRS adjustments in the accounting system, particularly during the fiscal 2011 transition year where the Company is required to retroactively report on an IFRS basis in addition to Canadian GAAP. In addition, in our detailed component evaluations for each area potentially impacted by IFRS, we have reviewed how the accounting system and general ledger structure will need to be modified to address increased financial statement and note disclosure, including nature and function income statement reporting, tracking of the continuity of fixed assets and provisions, acquisition and restructuring costs and functional currency accounting differences. To date, the changes to the systems and processes that have been identified are minimal and the Company believes that the systems and processes can accommodate the necessary changes.
Business Processes	The Company continues to assess the impact of adopting IFRS on its business activities, processes and policies. It is expected that employee incentive plans that are based on Canadian GAAP financial measures may have different values under IFRS. To date no significant changes to our business processes have been identified.
Internal Controls	The Company's certification of disclosure controls and internal controls over financial reporting under NI 52-109 requires that all entity level, financial reporting, IT and disclosure controls be updated and tested, consistent with any changes resulting from the Company's conversion to IFRS. As the majority of change is anticipated to be related to the disclosure requirements in the financial statements, it is anticipated that disclosure controls will be the most impacted. It is also noted that certain adjustments will be required in the transition year that will require calculation, monitoring and disclosure outside of the Company's accounting system, which increases the inherent risk of misstatement. It is anticipated that these adjustments will be managed at the corporate level as part of the Company's disclosure and financial reporting processes. These adjustments will also be tested as part of the Company's certification of controls. To the extent that any material changes are identified, these changes will also be mapped and tested to ensure that no material deficiencies exist as a result of the conversion to IFRS. To date no significant changes to our internal controls and processes have been identified.

Liquidity and Capital Resources

Enhouse closed the year with \$99.6 million in cash and short-term investments, an increase over the prior year's cash reserves of \$78.3 million. This is after payment of approximately \$16.8 million related to the acquisition of CosmoCom on April 1, 2011 and the final holdback on the Mettoni acquisition paid on January 6, 2011.

The Company generated positive cash flows from operating activities of \$41.1 million in fiscal 2011, an increase from \$18.6 million in fiscal 2010, primarily as a result of the impact of increased revenue from acquired operations. Short-term investments continue to be invested in a combination of highly liquid short-term banker's acceptances, GICs, money market mutual funds, government and corporate bonds and equities traded on an active market.

The Company has no long-term debt and has current liabilities related to accounts payable and accrued liabilities, current income taxes payable, dividends payable and deferred revenue, and non-current liabilities related to deferred revenue, long-term income taxes payable and future income taxes as at October 31, 2011.

The Company renewed its stock repurchase plan for a further year, which will expire on April 13, 2012. Pursuant to the normal course issuer bid rules of the Toronto Stock Exchange, the Company is entitled to purchase for cancellation up to 1,630,996 common shares, representing approximately 10% of the publicly listed float, at market prices at the time of repurchase. The Company repurchased 4,800 common shares for cancellation in the fiscal year at an average cost of \$9.00 per common share. The Company did not repurchase any shares for cancellation in fiscal 2010. During the current fiscal year, 170,400 stock options were exercised, contributing additional cash of \$1.1 million to the Company compared to 296,000 options in 2010, which contributed cash of \$0.9 million. As at December 14, 2011 there were 25,337,262 common shares issued and outstanding.

Based on the Company's current plans and projections, management is confident that the Company has the funds necessary to meet its existing and future financial operating commitments. Future acquisition growth may be funded through a combination of cash and equity consideration, which could cause dilution to existing shareholders.

Management's Discussion & Analysis

Dividend Policy

The Company's policy is to pay quarterly dividends subject to Board approval, based on the Company's financial results and relevant circumstances at the time. The Company has paid regular quarterly dividends since May 31, 2007. Enghouse increased its quarterly dividend from \$0.025 to \$0.03 per common share outstanding effective for its May 29, 2009 dividend payment, to \$0.04 per share for its May 31, 2010 dividend payment and to \$0.05 per share for its May 31, 2011 dividend payment. The Company declared and made the following dividend payments in the three most recently completed fiscal years: (i) 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 \$4,796; (ii) 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 \$3,774; and (iii) 2009 - \$0.025 per common share outstanding on February 27, 2009 and \$0.03 per share on each of May 29, 2009, August 28, 2009 and November 30, 2009 for a total of \$2,861.

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 office and computer equipment. The following table summarizes the contractual obligations of the Company for future years.

	Total	2012	2013	2014	2015	2016 and thereafter
Lease obligations	\$ 11,332	\$ 3,472	\$ 2,459	\$ 2,029	\$ 1,682	\$ 1,690

The Company does not have a company-funded pension plan or any obligations related to any deferred compensation arrangements.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

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

Results of Operations

(in thousands of Canadian dollars except per share amounts)

	2011 \$	2010 \$	Year over year change	
			\$	%
Revenue	122,559	94,208	28,351	30.1
Cost of sales	33,808	28,637	5,171	18.1
Gross margin	88,751	65,571	23,180	35.4
Operating expenses	57,026	45,615	11,411	25.0
Income before the undemoted	31,725	19,956	11,769	59.0
Amortization of acquired software and other intangibles	(10,291)	(8,458)	(1,833)	(21.7)
Interest income, net	667	387	280	72.4
Other income, net	800	1,145	(345)	(30.1)
Foreign exchange (loss) gain	(511)	238	(749)	(314.7)
Income before taxes	22,390	13,268	9,122	68.8
Net income	16,836	10,238	6,598	64.4
Earnings per share – basic	0.67	0.41	0.26	63.4
Earnings per share – diluted	0.66	0.40	0.26	65.0
Cash flow from operating activities	41,052	18,630	22,422	120.4

GENERAL

The Company recorded revenue of \$122.6 million for the year ended October 31, 2011 compared to \$94.2 million in the prior year ended October 31, 2010 and net income of \$16.8 million compared to net income of \$10.2 million in the prior year. The increase in revenue in the fiscal year is largely attributable to revenue contributions from acquired operations, which offsets the negative impact of foreign exchange on the Company's revenue, which is reported in Canadian dollars.

As noted in prior years, as the Company continues to grow through acquisitions, the Company's revenue stream and exposure to foreign exchange is further diversified by those acquisitions with operations outside North America. In particular, the Company's acquisition of the Mettoni Group in April 2010 expanded the Company's revenue footprint in the U.K. and Europe, while the acquisition of CosmoCom Inc. on April 1, 2011 extended the Company's marketing reach into Germany, France, Israel and Asia-Pacific. Combined with the prior acquisition of Trio Enterprise AB, which has a significant footprint in the Nordic countries of Sweden, Denmark and Norway, the Company's non-North American presence continues to increase. As a result, the Company's reliance on revenue denominated in U.S. dollars continues to diminish as a growing proportion of its revenue stream is denominated in pounds sterling, Swedish kronor and to a lesser extent, euros.

The Canadian dollar continued to strengthen in world currency markets and appreciated against all of these currencies, as well against the U.S. dollar, in the current fiscal year. This reduced both revenue and operating costs as stated in Canadian dollars, compared to prior year's rates. Specifically, the U.S. dollar was reported using an average foreign exchange rate of \$0.99 in fiscal 2011 versus \$1.05 in fiscal 2010, while the pound sterling averaged \$1.59 in the fiscal year compared to \$1.63 in the prior year and the euro averaged \$1.38 versus \$1.42 in fiscal 2010. The Swedish krona remained comparable year over year, averaging \$0.15 in the fiscal year compared to \$0.14 in the prior year.

Management's Discussion & Analysis

REVENUE

Revenue for the year increased by 30.1% or \$28.4 million to \$122.6 million from the \$94.2 million reported in the prior year, largely as a result of increased license revenue. Revenue is comprised of license, hardware, maintenance, professional consulting and hosted services revenue.

On a consolidated basis, software revenue was \$45.7 million for the year compared to \$30.2 million reported in the prior fiscal year as a result of stronger revenue contributions from Trio, Mettoni and Telrex in the fiscal year as demand for the Company's Interactive Management software improved and also reflects the impact of the acquisition of CosmoCom.

Overall, \$74.3 million or 60.6% of all revenue was derived from services, compared to \$61.3 million or 65.1% in fiscal 2010. This includes revenue from consulting, training, maintenance and hosted services, the latter two of which continue to be a focus for the Company as they represent recurring revenue and increase the predictability of the Company's revenue stream. Hosted services revenue was \$3.2 million in the year compared to \$2.5 million last year and should grow in the coming year after the acquisition of CosmoCom. Maintenance revenue was \$55.3 million or 45.1% of the total revenue for the year, compared to \$44.9 million or 47.7% in fiscal 2010 and represents a significant source of recurring revenue to the Company. The increase in maintenance revenue over the prior year is attributable to the impact of acquisitions, which contributed \$11.6 million in incremental maintenance revenue in the fiscal year. As expected, this contribution was partially offset by the strengthening of the Canadian dollar relative to the U.S. dollar, the pound sterling and the euro in the year. The proportional decline in maintenance revenue as a percentage of total revenue is the result of the proportional increase in license revenue in the fiscal year.

Hardware revenue was \$2.6 million in the year, which is comparable to the prior year and is provided to customers as an added service to complement the Company's software offering.

Interactive Management Group revenue increased by 35.9% to \$109.7 million, up from \$80.7 million in the prior fiscal year. This includes software license revenue contributions of \$42.9 million compared to \$26.7 million in the prior fiscal year, while maintenance revenue increased to \$49.4 million from \$39.3 million in fiscal 2010. As noted, the majority of this increase is attributable to acquisitions, with Mettoni contributing \$34.7 million in its first full fiscal year since acquisition on April 6, 2010 and is compared to revenue contributions of \$15.3 million in fiscal 2010. Also contributing to the increase were Telrex, which added \$2.5 million in incremental revenue in its second year and CosmoCom, which added \$6.8 million since acquisition on April 1, 2011. Services revenue for the group increased in the

fiscal year to \$14.9 million from \$12.7 million, consistent with the incremental professional, maintenance and hosted services revenue base acquired in the CosmoCom and Mettoni acquisitions.

Revenue for the Asset Management Group decreased to \$12.8 million from \$13.5 million in the prior year as a result of weaker license sales in the Company's transportation and Gamma operations. Revenue for the Group included license revenue of \$2.8 million in the year compared to \$3.5 million in fiscal 2010. Maintenance revenue for the Group was \$5.9 million compared to the prior year's revenue of \$5.7 million, with incremental maintenance revenue on new license sales being partially offset by the negative impact of foreign exchange on revenue in the year. Professional services revenue was \$4.1 million compared to \$3.4 million in the prior fiscal year as a result of incremental professional services work recognized in the Company's transportation operations as well as incremental hosted services revenue contributions from Pulse Networks operations.

COST OF SALES

Cost of sales was \$33.8 million or 27.6% of revenue compared to \$28.6 million or 30.4% of revenue in the prior fiscal year. The improvement in margins is related to a decrease in embedded third party software costs which improved overall software revenue margins. Gross margins on services also improved to 64.1% from 63.4% as a result of post-acquisition integration synergies in the Company's Interactive Management Group.

Cost of hardware sales increased to \$2.0 million from \$1.8 million, and reflects a gross margin of 24.6% compared to 31.8% in the prior fiscal year as a result of lower hardware margins on a significant third party sale in the Company's operations in the current year.

OPERATING EXPENSES

The Company's operating expenses were \$57.0 million in the fiscal year compared to \$45.6 million in the prior fiscal year, an increase of 25.0% and reflect increased costs associated with acquired operations, as well as the full year costs of Mettoni and Telrex, both acquired in mid-fiscal 2010. Operating costs reflect administrative efficiencies and include a significant amount of both U.S. dollar and pound sterling denominated costs associated with the Company's growing U.S. and U.K. operations as a result of the Mettoni acquisition. As noted, operating costs were favorably impacted by the continued strengthening of the Canadian dollar relative to both the U.S. dollar and the pound sterling during the fiscal year. The Company has proportionately more expenses associated with its European operations, the majority of which are denominated in pounds sterling, and which form a natural hedge against increased revenue contributions in this currency against changes in the pound sterling relative to the Canadian dollar. A similar natural hedge exists with the Company's U.S. operations.

Management's Discussion & Analysis

Operating costs also included non-cash charges for compensation expenses related to stock options granted, which added \$0.5 million in the current year and \$0.4 million in the prior fiscal year (see Note 6(D) to the consolidated financial statements).

Headcount for the Company on a consolidated basis was 602 as at October 31, 2011 compared to 532 at the prior year end and includes additional headcount from the CosmoCom acquisition, net of attrition in the year.

Government grants and investment tax credits ("ITCs") of \$0.2 million were booked in the current fiscal year compared to \$0.6 million in the prior year and are offset against research and development costs. The decrease in the year relates to the timing of ITCs earned in the U.K. in 2010. The Company records ITCs earned under the Income Tax Act (Canada) and other foreign legislation when there is reasonable assurance of realization. To the extent that the actual ITCs realized vary from the amount accrued, the difference is recognized in the year when such a difference is determined.

AMORTIZATION OF SOFTWARE AND INTANGIBLES

The Company reported charges of \$10.3 million compared to \$8.5 million in the prior fiscal year related to the amortization of software and intangibles recorded on acquisition. The increase in the fiscal year is related to incremental charges on the Mettoni, Telrex and CosmoCom acquisitions, which added \$2.2 million in the fiscal year. This was mitigated by the expiry of amortization expenses on earlier acquisitions.

INTEREST INCOME AND OTHER INCOME

Interest income was \$0.7 million, an increase from the \$0.4 million in the prior year as a result of incremental cash balances invested in the fiscal year compared to fiscal 2010. Net other income reported was \$0.8 million in the year, down from \$1.1 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.

FOREIGN EXCHANGE

The Company continues to earn a significant portion of revenue from sales denominated in currencies other than the Canadian dollar. However, with the acquisition of Mettoni in fiscal 2010 and CosmoCom in fiscal 2011, the Company continues to further diversify the composition of its revenue stream in terms of foreign currencies away from the U.S. dollar. As a result, the Company transacts an increasing proportion of its business in pounds sterling, Swedish kronor and to a lesser extent in euros, as well as currencies in the Asia Pacific region. This principally impacts the Company's Interactive Management Group as the Asset Management Group's operations are more focused on the North American market with the exception

of Gamma Projects Limited (now named Enghouse Networks (UK) Limited) and Enghouse (U.K.) Limited (now named Enghouse Holdings (UK) Limited), which serve the U.K. and European markets. As noted above, the Canadian dollar continued to strengthen against major currencies including the U.S. dollar, the pound sterling and the euro during the fiscal year. While this negatively impacted the Company's revenue as reported in Canadian dollars, it also had a positive impact on the Company's largely U.S. dollar and pound sterling denominated operating costs of its U.S. and U.K. operations.

The Company recorded foreign exchange losses of \$0.5 million in the fiscal year compared to gains of \$0.2 million in the prior fiscal year. 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. operations. Going forward, fluctuations in exchange rates among the Canadian dollar, the U.S. dollar, the pound sterling, 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.

INCOME TAX EXPENSE

During the year, the Company recorded an income tax provision of \$5.6 million reflecting a 24.8% effective tax rate as compared to a provision of \$3.0 million, or a 22.8% effective tax rate, in the prior fiscal year. The increase in the provision in the year reflects the impact of the reversal in the prior year of tax provisions previously set up but no longer required.

NET INCOME

Enghouse reported net income of \$16.8 million in fiscal 2011 compared to \$10.2 million reported in fiscal 2010. Earnings per share on a diluted basis were \$0.66 versus \$0.40 in fiscal 2010.

Management's Discussion & Analysis

FOURTH QUARTER OPERATING RESULTS

(in thousands of Canadian dollars except per share amounts)

	Q4/2011	Q4/2010	Year over year change	
	\$	\$	\$	%
Revenue	31,836	27,378	4,458	16.3
Cost of sales	7,877	7,871	6	0.0
Gross margin	23,959	19,507	4,452	22.8
Operating expenses	15,562	13,285	2,277	17.1
Income before the undernoted	8,397	6,222	2,175	35.0
Amortization of acquired software and other intangibles	(2,687)	(2,475)	(212)	(8.6)
Interest income, net	274	92	182	197.8
Other income, net	631	203	428	210.8
Foreign exchange gain	853	90	763	847.8
Income before taxes	7,468	4,132	3,336	80.7
Net income	5,920	3,426	2,494	72.8
Earnings per share – basic	0.23	0.14	0.09	64.3
Earnings per share – diluted	0.23	0.13	0.10	76.9
Cash flow from operating activities	8,279	2,372	5,907	249.0

Total revenue for the quarter was \$31.8 million, an increase of 16.3% from \$27.4 million in the prior year's fourth quarter and includes license revenue of \$11.7 million in the quarter compared to \$8.8 million in the prior year's fourth quarter. The increase is attributable to stronger license and maintenance revenue in the Interactive Management Group related to acquired operations.

The Interactive Management Group reported revenue of \$28.8 million compared to \$23.9 million in the fourth quarter of fiscal 2010. The increase over last year's fourth quarter is primarily attributable to the impact of incremental software license and maintenance revenue from CosmoCom, which was not included in the prior year's fourth quarter results as well as improved results from Telrex and Mettoni.

The Asset Management Group contributed \$3.1 million in revenue in the fourth quarter, compared to \$3.5 million reported in the fourth quarter of fiscal 2010 as a result of reduced license revenue. The decrease is attributable to reduced contributions from the Group's Gamma operations, which had a significant license order in the comparative quarter last year.

Cost of sales for the quarter was \$7.9 million or 24.7% of revenue compared to \$7.9 million or 28.7% in the prior year's fourth quarter and reflects improved margins on software licenses. Cost of services was \$6.9 million or 34.5 % of services revenue compared to \$6.5 million or 36.3% in the prior year's fourth quarter.

Operating expenses for the quarter were \$15.6 million, an increase from the \$13.3 million reported in the fourth quarter of last year, primarily related to incremental operating costs associated with acquired operations and include year-end compensation adjustments. The Company reported \$0.9 million in foreign exchange gains in the quarter, largely as a result of gains on converting excess U.S. dollar cash balances to Canadian dollars in the quarter, and is compared to \$0.1 million in foreign exchange gains in the prior year's fourth quarter. The Canadian dollar was stronger relative to the U.S. dollar, the pound sterling and the euro in the fourth quarter compared to last year's fourth quarter, although the exchange rates are much more comparable than in prior quarters. The Canadian dollar averaged \$0.99 versus the U.S. dollar for the quarter compared to \$1.04 in the prior year's fourth quarter and \$1.59 versus the pound sterling compared to \$1.62 last year. As noted previously, the Company has reduced its proportionate exposure to the U.S. dollar as a result of acquisitions with an increasing proportion of its revenue and expenses being denominated in pounds sterling, Swedish kronor and euros.

The Company recorded non-cash amortization charges in the quarter of \$2.7 million compared to \$2.5 million in the prior year's fourth quarter related to the amortization of software and intangibles including those recorded as part of the CosmoCom acquisition.

Management's Discussion & Analysis

During the fourth quarter, the Company recognized interest income of \$0.3 million compared to \$0.1 million in the fourth quarter of fiscal 2010, up marginally in the quarter reflective of incremental cash balances invested. The Company reported \$0.6 million in net other income primarily related to the sale of equity positions in the quarter, compared to \$0.2 million in the prior year's fourth quarter.

The Company established a tax provision of \$1.5 million or 20.7% in the fourth quarter compared to a provision of \$0.7 million or 17.1% in the prior year's fourth quarter. The increase in the provision in the quarter reflects the impact of the reversal of tax provisions previously set up but no longer required in the prior year's fourth quarter. The Company made tax instalment payments of \$0.7 million in the fourth quarter compared to \$0.1 million in the prior year's fourth quarter.

The Company reported net income of \$5.9 million or \$0.23 per diluted share compared to net income of \$3.4 million or \$0.13 per diluted share in the fourth quarter of fiscal 2010. The improvement reflects stronger license revenue reported in the quarter.

The Company generated cash from operating activities of \$8.3 million compared to \$2.4 million in the prior year's fourth quarter and closed the year with \$99.6 million in cash and short-term investments.

Risks and Uncertainties

The Company continues to operate in a dynamic business and volatile economic environment that exposes the Company to a number of risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that may adversely impact our business, financial condition or results of operations. Additional risks and uncertainties not described below or not presently known to the Company may also impact our business. For a full description of the Risk Factors affecting Enghouse, the reader should review the Company's Annual Information Form dated December 15, 2011, 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

As a result of the Company's acquisition strategy, the Company's

exposure to revenue denominated in foreign currencies has broadened to include less exposure to the U.S. dollar, and increasing exposure to the pound sterling, Swedish krona and to a lesser extent, the euro. Similarly, the Company's organizational structure has changed to include a more prominent U.K. based operating center along with the Company's 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 Australia. As a result, the Company's operating costs reflect reduced U.S. dollar exposure and increased exposure to the pound sterling, particularly in the Company's Interactive Management Group.

In fiscal 2011, the Canadian dollar continued to strengthen relative to each of these currencies, which favorably affected operating costs, but negatively impacted revenues. The relative exchange rate measured in Canadian dollars against the U.S. dollar averaged \$0.99 in the fiscal year compared to \$1.05 in the prior fiscal year. The pound sterling averaged \$1.59 for the fiscal year compared to \$1.63 in the prior fiscal year, while the euro averaged \$1.38 versus \$1.42 in the prior year compared to the Canadian dollar. The Swedish krona has remained relatively stable averaging \$0.15 in the fiscal year compared to \$0.14 in the prior fiscal year.

Overall, 31% of the Company's revenue was generated by operations in the U.K. compared to 25% in the prior fiscal year, while revenue generated by European operations decreased to 16% from 18% in the prior fiscal year. Revenue generated by the Company's U.S. based operations was 44% compared to 49% in the prior fiscal year. Approximately 3% of the Company's revenue was generated by operations in the Asia-Pacific region compared to 2% in fiscal 2010. Further changes in foreign exchange rates between Canada, the United States and the U.K. 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 for revenues and expenses. 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 seek acquisitions that will be accretive to earnings and are a good fit for the strategic direction of the Company, both within and outside the Company's current market sectors. During the fiscal year, the Company completed the acquisition of CosmoCom Inc., on April 1, 2011 for a cash purchase price of \$18.6 million. While Enghouse has both the experience and financial resources required to execute this strategy, the Company does not have control over the market conditions prevailing or likely to prevail in the future, which may impact the ability to execute this strategy. There can be no assurance that the Company will be able to identify suitable acquisition candidates available for sale at reasonable

Management's Discussion & Analysis

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 affect on the Company's financial condition and liquidity. In addition, the resolution of those matters may require the Company to issue additional common shares, which could potentially result in dilution. Expenses incurred in connection with these matters (which include fees of lawyers and other professional advisors and potential obligations to indemnify officers and directors who may be parties to such actions) could adversely affect the Company's cash position. The Company is subject to one such action, which is more fully described in Note 13 to the consolidated financial statements.

COMPETITION

The Company experiences intense competition from other software companies. Competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse 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 (\$55.3 million in fiscal 2011 compared to \$44.9 million in fiscal 2010) 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.

TAX ISSUES

The Company conducts its business operations in various foreign jurisdictions and through legal entities primarily in Canada, the United States, Sweden and the United Kingdom. Accordingly, the Company is subject to income taxes as well as non-income based taxes in Canada, the United States, Sweden, the United Kingdom and other

Management's Discussion & Analysis

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, 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 and the United Kingdom's HM Revenue and Customs, could challenge the validity of the Company's tax filings. If any of these taxation authorities are successful in challenging the Company's tax filings, the Company's income tax expense may be adversely affected and it could also be subject to interest and penalty charges. Any such increase in the Company's income tax expense and related interest and penalties could have a significant impact on future net earnings and future cash flows.

Outlook

The Company continues to diversify its revenue stream, both geographically and by type of revenue. During the fiscal year the Company acquired CosmoCom Inc., which provides an open, scalable contact center solution both on premise and in the cloud. CosmoCom's cloud based product offering is a key element to the Company's strategy of increasing its recurring revenue stream as the cloud offering represents an affordable, scalable and flexible way for customers to reduce their overall cost of ownership in this challenging economic environment. The Company is keen to expand its cloud based product suite as a means to reach new markets and increase the predictability of its revenue stream.

In the prior fiscal year, the Company completed three acquisitions which have further expanded the Company's footprint in the customer interaction market. The acquisitions extended the Company's presence in the European and Asia-Pacific markets from its U.K. based sales and operations office. This continues to reduce the Company's reliance on the U.S. market and gives the Company a broader global footprint. This diversity is important as volatile

economic conditions continue and local and regional economic issues threaten the global recovery. The Company believes it is well positioned and diversified to prosper with its current product offerings as well as to take advantage of buying opportunities as the slowing global recovery dampens company valuations.

During the fiscal year, the Company has taken the opportunity to retrench its operations, introducing a new branding strategy to better align its product offerings acquired through its acquisitions. As part of this strategy, the Company has reduced the number of its legal entities, amalgamated operations, redesigned its product suite and web-sites and renamed most of its companies to leverage the Enghouse name in the market. This initiative also leverages operating synergies and administrative efficiencies.

The Company has proven that it can consistently generate positive operating cash flows, strong revenues and solid earnings each quarter. Despite acquiring CosmoCom Inc. at a cost of \$18.6 million and paying the final balance on the Mettoni acquisition during the fiscal year, the Company still closed the fiscal year with \$99.6 million in cash and short-term investments. The Company generated cash flows from operating activities of \$41.1 million in the year and net income of \$16.8 million. Being debt-free and armed with its acquisition expertise, significant cash resources and newly aligned organizational structure, the Company is well positioned to augment its organic growth and operations through acquisition that will be accretive to the bottom line and provide shareholder value in the coming year.

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, 2011, 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

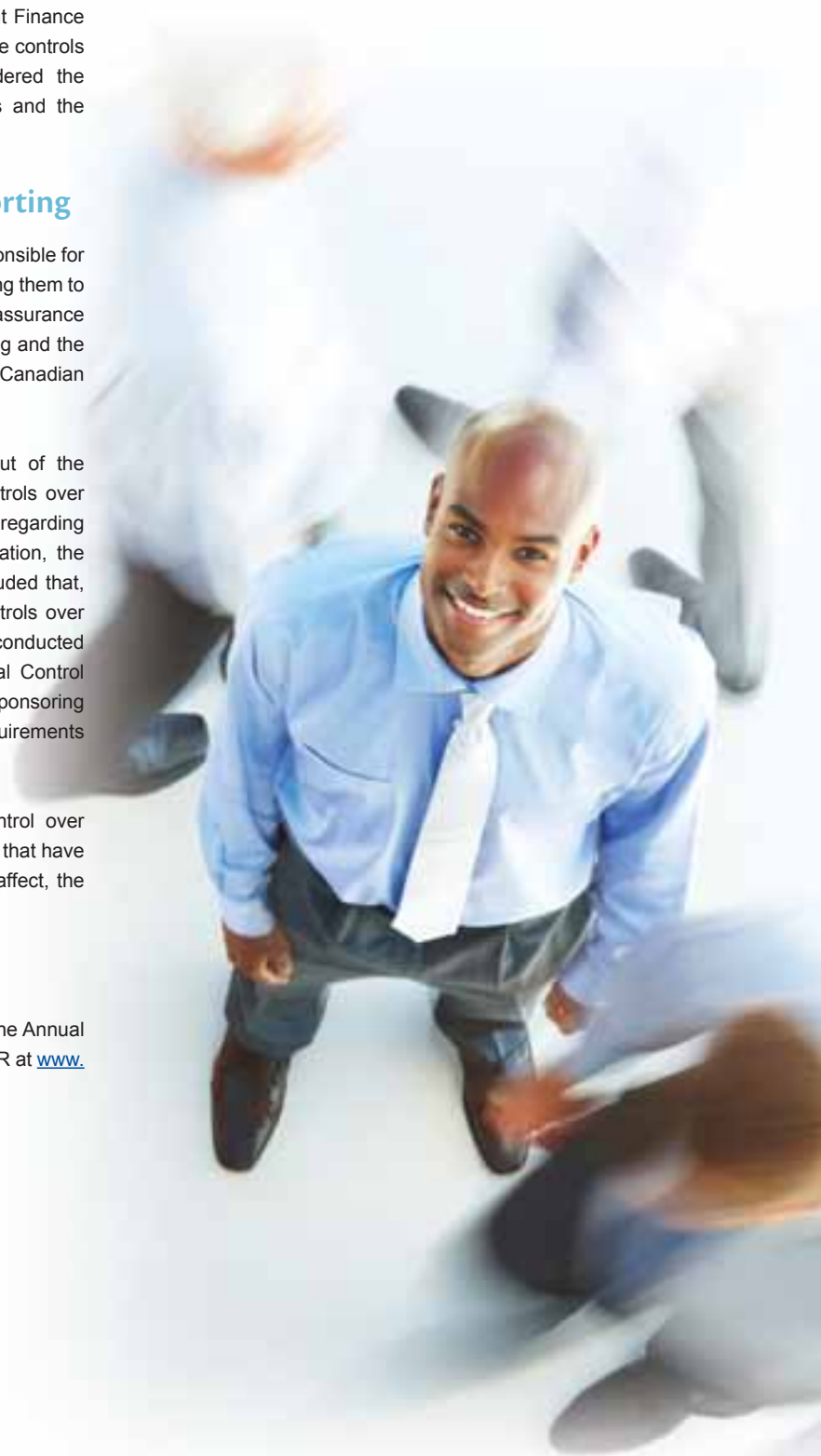
The Company's CEO and Vice President Finance are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial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

As at October 31, 2011, 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, 2011, the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards established in "Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission", and the requirements of NI 52-109.

There were no changes to the Company's internal control over financial reporting during the year ended October 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to the Company, including the Annual Information Form, has been filed and is available on SEDAR at www.sedar.com.



Management's Responsibility for Financial Reporting

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

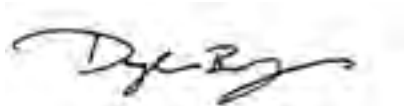
Management is responsible for the preparation of the consolidated financial statements and believes that they fairly represent the Company's financial position, the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles. Management has included amounts in the Company's consolidated financial statements based on estimates, judgments and policies that it believes 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, 2011 and 2010 outlines the scope of their examination and their opinion thereon.



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



Douglas C. Bryson
Vice President Finance and
Corporate Secretary

Markham, Ontario
December 14, 2011



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 balance sheets as at October 31, 2011 and October 31, 2010, the consolidated statements of operations and retained earnings, consolidated statements of comprehensive income and accumulated other comprehensive loss and consolidated statements of cash flows, for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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 System Limited and its subsidiaries as at October 31, 2011 and October 31, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

December 14, 2011
Toronto, Ontario

Consolidated Balance Sheets

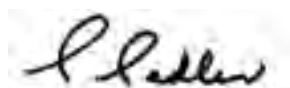
(in thousands of Canadian dollars)

	October 31, 2011	October 31, 2010
Assets		
Current Assets:		
Cash (Note 2)	\$ 65,624	\$ 46,640
Short-term investments (Note 2)	33,967	31,627
Accounts receivable, net	23,006	24,500
Income tax receivable	-	591
Future income taxes (Note 8)	1,769	447
Prepaid expenses and other assets	3,479	3,360
	127,845	107,165
Property and equipment (Note 3)	1,791	1,844
Acquired software and other intangibles (Note 4)	28,531	34,330
Goodwill (Note 5)	38,287	35,137
Future income taxes (Note 8)	9,295	2,951
	\$ 205,749	\$ 181,427
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 25,128	\$ 20,115
Income taxes payable	3,579	-
Dividends payable	1,267	1,007
Deferred revenue	28,933	26,040
	58,907	47,162
Future income taxes (Note 8)	10,283	12,571
Long-term income taxes payable	420	522
Deferred revenue	1,404	790
	71,014	61,045
Shareholders' Equity		
Share capital (Note 6(B))	52,134	50,705
Contributed surplus (Note 6(B))	2,613	2,429
Retained earnings	91,613	79,606
Accumulated other comprehensive loss	(11,625)	(12,358)
	134,735	120,382
	\$ 205,749	\$ 181,427

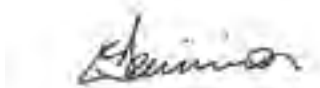
Commitments and contingencies (Notes 11 and 13)

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

On Behalf of the Board of Directors:



Stephen J. Sadler
Director



Eric Demirian
Director



Enghouse Systems

Software engineered for results

Consolidated Statements of Operations and Retained Earnings

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

	Year Ended October 31, 2011	Year Ended October 31, 2010
Revenue		
Software licenses	\$ 45,691	\$ 30,198
Services	74,260	61,304
Hardware	2,608	2,706
	122,559	94,208
Cost of sales		
Software licenses	5,208	4,363
Services	26,634	22,429
Hardware	1,966	1,845
	33,808	28,637
Gross margin	88,751	65,571
Operating expenses		
Selling, general and administrative	40,244	31,807
Research and development (Note 7)	15,672	12,477
Amortization of property and equipment	1,110	1,331
	57,026	45,615
Income before the undernoted	31,725	19,956
Amortization of acquired software and other intangibles	(10,291)	(8,458)
Interest income, net	667	387
Other income, net	800	1,145
Foreign exchange (loss) gain	(511)	238
Income before income taxes	22,390	13,268
Provision for income taxes (Note 8)	5,554	3,030
Net income for the year	\$ 16,836	\$ 10,238
Retained earnings – beginning of year	\$ 79,606	\$ 73,142
Net income for the year	16,836	10,238
Dividends	(4,796)	(3,774)
Purchase and cancellation of common shares (Note 6(E))	(33)	-
Retained earnings – end of year	\$ 91,613	\$ 79,606
Earnings per share (Note 9)		
Basic	\$ 0.67	\$ 0.41
Diluted	\$ 0.66	\$ 0.40

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

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Loss

(in thousands of Canadian dollars)

	Year Ended October 31, 2011	Year Ended October 31, 2010
Net income for the period	\$ 16,836	\$ 10,238
Other comprehensive income (loss):		
Unrealized loss on translating financial statements of self-sustaining foreign operations	(763)	(4,044)
Transfer to net income of realized gains on available for sale investments, net of tax of (\$126); 2010 – (\$244)	(674)	(1,303)
Unrealized gain on available for sale investments, net of tax of \$395; 2010 – \$352	2,112	1,881
Unrealized foreign currency translation gain (loss) on available for sale investments, net of tax of \$11; 2010 – (\$25)	58	(133)
Other comprehensive income (loss)	\$ 733	\$ (3,599)
Comprehensive income	\$ 17,569	\$ 6,639
Accumulated other comprehensive loss, beginning of period	\$ (12,358)	\$ (8,759)
Other comprehensive income (loss)	733	(3,599)
Accumulated other comprehensive loss, end of period	\$ (11,625)	\$ (12,358)

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, 2011	Year Ended October 31, 2010
Cash flows from operating activities		
Net income for the year	\$ 16,836	\$ 10,238
Add (deduct) items not involving cash		
Amortization of property and equipment	1,110	1,331
Amortization of acquired software and other intangibles	10,291	8,458
Stock-based compensation expense	492	382
Gain on sale of short-term investments	(800)	(1,547)
Future income taxes	1,491	2,395
	29,420	21,257
Changes in operating assets and liabilities		
Decrease in accounts receivable, net	6,466	151
Decrease in prepaid expenses and other assets	193	194
Increase (decrease) in accounts payable & accrued liabilities	1,430	(5,587)
Increase (decrease) in income taxes payable	2,223	(3,240)
Increase in deferred revenue	1,267	6,329
Unrealized foreign exchange loss (gain)	53	(474)
Cash flows from operating activities	41,052	18,630
Cash flows from investing activities		
Purchase of property and equipment, net	(947)	(887)
Acquisitions, net of cash acquired (Note 10)	(16,842)	(30,131)
Proceeds from sale of short-term investments	695	23,664
	(17,094)	(7,354)
Cash flows from financing activities		
Issuance of share capital (Note 6(B))	1,131	925
Payment of cash dividends	(4,536)	(3,514)
Purchase and cancellation of common shares (Note 6)	(43)	-
	(3,448)	(2,589)
Effect of foreign exchange rate changes on cash	(1,526)	(1,323)
Net increase in cash during the year	18,984	7,364
Cash - beginning of year	46,640	39,276
Cash - end of year	\$ 65,624	\$ 46,640
Supplemental cash flow information		
Cash paid during the year for income taxes	\$ 1,762	\$ 2,509

Cash excludes short-term investments (Note 2)

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

Notes to Consolidated Financial Statements

October 31, 2011 and 2010 (in thousands of Canadian dollars, except per share amounts)

1. Summary of significant accounting policies

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

Basis of consolidation

These consolidated financial statements include the accounts of Enghouse Systems Limited and its wholly owned subsidiaries ("the Company"). All significant intercompany transactions and balances have been eliminated upon consolidation. The Company does not have any entities to be consolidated under Accounting Guideline 15, Consolidation of Variable Interest Entities. During the year, the Company completed certain acquisitions as described in Note 10 to these consolidated financial statements. The results of operations of these acquired companies have been included in these consolidated financial statements from the date of acquisition.

Use of estimates

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

Revenue recognition

Revenue consists primarily of fees for licenses of the Company's software, maintenance fees, professional services and hardware revenue. Software license revenue is comprised of license fees charged to customers for the use of software products and is generally licensed under perpetual arrangements in which the fair value of maintenance and professional services are determinable. Services revenue is comprised of professional services revenue from consulting, implementation and training services related to the Company's products as well as maintenance and technical support services. Maintenance services are typically provided on an annual basis and generally include ongoing customer support, product fixes and certain product upgrades provided on an "if and when available" basis. Customers typically purchase a combination of bundled services and products including licenses, maintenance, professional services and hardware.

Revenue from license fees for software products and the resale of third party software and hardware products is recognized when there is an unconditional sales order under a license agreement, the product is delivered, the fee is fixed or determinable, provided that no significant future vendor obligations exist and, at the time of performance, the ultimate collection of the consideration is reasonably assured. If collection is not deemed probable, revenue is recognized upon the receipt of cash assuming all other criteria have been met.

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

If services are deemed essential to the functionality of the licensed software, the licensed software and services revenues are recognized using contract accounting under the percentage of completion method. The Company uses the ratio of incurred labor costs to estimated total labor costs as the measure of its progress toward completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date such loss determination is made. If services are not deemed essential to the functionality of the software, the services revenue (including hosted services revenue) is recognized as the services are delivered to the customer. Maintenance contracts entitle the customer to telephone support, solutions to technical problems, and the right to receive software updates



Notes to Consolidated Financial Statements

October 31, 2011 and 2010 (in thousands of Canadian dollars, except per share amounts)

as and when they are released. Revenue from maintenance contracts is recognized over the term of the maintenance contract, which is typically one year.

Foreign exchange translation

The Company considers its investments in foreign subsidiaries to be self-sustaining foreign operations with the exception of Gamma Projects Limited (now named Enghouse Networks (UK) Limited), Enghouse (U.K.) Limited (now named Enghouse Holdings (UK) Limited), Enghouse Systems LLC (now named Enghouse Networks LLC) and Transched Systems LLC (now named Enghouse Transportation LLC), which are considered to be integrated foreign operations. Integrated foreign subsidiaries are accounted for under the temporal method. This method is also used to translate foreign currency transactions and balances. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at the average exchange rate in effect for the month of the transactions with amortization translated at the historical rate of the underlying asset to which it relates. Exchange gains or losses arising from the translation are charged to income in the year incurred.

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

Research and development costs

The Company qualifies for certain investment tax credits related to its research and development activities. Research costs are expensed as incurred and are reduced by related investment tax credits, which are recognized when reasonable assurance of realization exists. Development costs are expensed as incurred unless the project meets the criteria under Canadian GAAP for deferral and amortization. No costs have been deferred on the consolidated balance sheets as at October 31, 2011 and 2010.

Short-term investments

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

Property and equipment, acquired software and other intangibles

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

Furniture and fixtures	20% declining balance
Computer hardware and software	3 years straight-line
Leasehold improvements	Shorter of useful life or initial lease term
Acquired software	3 to 6 years straight-line
Customer relationships and other intangibles	3 to 8 years straight-line
Patents	Remaining life

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

Goodwill

Goodwill represents the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired in such acquisitions and is allocated as at the date of the business combination. Goodwill and intangible assets with indefinite useful lives are not subject to amortization but are assessed for impairment on at least an annual basis and, additionally, whenever events and changes in

Notes to Consolidated Financial Statements

October 31, 2011 and 2010 (in thousands of Canadian dollars, except per share amounts)

circumstances suggest that the carrying amount may not be recoverable. The impairment test for intangibles with indefinite useful lives consists of a comparison of the fair value of the intangible asset with its carrying amount. When the carrying amount of the intangible asset exceeds its fair value, an impairment loss would be recognized for the difference.

The Company's intangible assets relate to acquired technology, customer lists and trademarks. The Company 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 fiscal years 2011 and 2010, the Company did not record an impairment charge related to intangible assets.

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

In fiscal years 2011 and 2010, the Company performed the annual impairment test and determined there was no impairment in the value of goodwill. Additional disclosure regarding the results of the annual goodwill impairment test is provided in Note 5.

Income taxes

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

Fair value of financial instruments

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

Notes to Consolidated Financial Statements

October 31, 2011 and 2010 (in thousands of Canadian dollars, except per share amounts)

Held-for-trading

Financial assets that are purchased and held with the intention of generating profits in the short-term are classified as held-for-trading. These investments are accounted for at fair value with the change in fair value recognized in net earnings during the period. No investments were classified as held-for-trading as of October 31, 2011 or October 31, 2010.

Held-to-maturity

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

Available-for-sale

Available-for-sale investments are carried at fair market value, except where the instrument does not have a quoted market price in an active market, with foreign exchange and revaluation gains and losses included in other comprehensive income or loss until the gains and losses are realized when equities are sold in the market or there is impairment in the value. The Company considers its portfolio equity investments to be available-for-sale assets. The equities held by the Company are those of publicly traded companies whose fair values are determined by the quoted market values for each investment at the balance sheet date. The fair value of the Company's equity portfolio is subject to market price fluctuations.

Receivables

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

Financial liabilities

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

The Company is not party to any derivative financial instruments.

Earnings per share

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

Stock-based compensation plans

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

Changes in accounting policy

Recent accounting pronouncements issued and not yet applied

The Company will cease to prepare its financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook – Accounting for the periods beginning on November 1, 2011 when it will start to apply International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board. Consequently, future accounting changes to Canadian GAAP are not discussed as they will not be applied by the Company.

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Harmonization of Canadian and International Accounting Standards

In February 2008, the CICA Accounting Standards Board confirmed that IFRS will replace Canadian GAAP effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's first unaudited consolidated interim financial statements presented in accordance with IFRS will be for the three month period ending January 31, 2012, and its first audited consolidated annual financial statements presented in accordance with IFRS will be for the year ending October 31, 2012 and will include comparative results for fiscal 2011. Based on the scoping and diagnostic analysis performed, the Company cannot yet quantify the full impact that the future adoption of IFRS will have on its financial statements and operating performance measures, however, such impact could be material.

2. Cash and Short-term investments

	2011		2010	
	Carrying Value	Market Value	Carrying Value	Market Value
Cash	\$ 65,624	\$ 65,624	\$ 46,640	\$ 46,640
Mutual funds	\$ 16,638	\$ 16,638	\$ 17,677	\$ 17,684
Banker's acceptances	10,532	10,520	8,780	8,779
Government/Corporate bonds	3,779	3,768	4,037	4,041
Equities	3,018	3,018	1,133	1,133
Short-term investments	\$ 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 10) into escrow to be released to the vendors, subject to holdback and adjustment, on April 1, 2012. Of this amount, \$1.2 million was released to the Company in July 2011 in settlement of the first 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, 2011.

3. Property and equipment

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 1,359	\$ (1,218)	\$ 141	\$ 1,372	\$ (1,157)	\$ 215
Computer hardware and software	10,054	(8,785)	1,269	9,364	(8,126)	1,238
Leasehold improvements	1,229	(848)	381	1,078	(687)	391
	\$ 12,642	\$ (10,851)	\$ 1,791	\$ 11,814	\$ (9,970)	\$ 1,844

4. Acquired software and other intangibles

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Acquired software	\$ 56,579	\$ (40,870)	\$ 15,709	\$ 52,331	\$ (33,808)	\$ 18,523
Other intangibles	25,522	(12,700)	12,822	25,419	(9,612)	15,807
	\$ 82,101	\$ (53,570)	\$ 28,531	\$ 77,750	\$ (43,420)	\$ 34,330

Notes to Consolidated Financial Statements

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5. Goodwill

The continuity of goodwill by reportable segment is as follows:

	2011			2010		
	Interactive Management Group	Asset Management Group	Total	Interactive Management Group	Asset Management Group	Total
Opening balance	\$ 30,722	\$ 4,415	\$ 35,137	\$ 16,877	\$ 3,088	\$ 19,965
Additions, net	10,865	-	10,865	17,027	1,400	18,427
Acquired tax benefit adjustment	(6,921)	(487)	(7,408)	(2,972)	-	(2,972)
Purchase price adjustments	-	-	-	(158)	(55)	(213)
Foreign exchange	(219)	(88)	(307)	(52)	(18)	(70)
Ending balance	\$ 34,447	\$ 3,840	\$ 38,287	\$ 30,722	\$ 4,415	\$ 35,137

During each of fiscal years 2011 and 2010, adjustments for previously unrecognized tax benefits from earlier acquisitions were accounted for as a credit to goodwill. Certain adjustments to the purchase price allocation related to the acquisitions of Gamma Projects Limited and Trio were booked in the prior year resulting in a decrease to goodwill of \$213. No net adjustments were booked in the current year. The balance in goodwill includes \$1.9 million related to trade names (2010 - \$2.0 million).

6. Share capital

(A) Authorized

Unlimited common shares

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

Unlimited Class B, redeemable, retractable, non-voting, preference shares

(B) Issued and outstanding

	Number of Common Shares	Share Capital Amount	Contributed Surplus Amount
Balance – October 31, 2009	24,875,662	\$ 49,780	\$ 2,047
Stock options exercised (C)	296,000	925	-
Stock options expensed (D)	-	-	382
Balance – October 31, 2010	25,171,662	\$ 50,705	\$ 2,429
Stock options exercised (C)	170,400	1,439	(308)
Stock options expensed (D)	-	-	492
Shares repurchased and cancelled under common share re-purchase plan (E)	(4,800)	(10)	-
Balance – October 31, 2011	25,337,262	\$ 52,134	\$ 2,613

There were no Class A and no Class B preference shares issued and outstanding as at October 31, 2011 or 2010.

(C) Common share purchase options

The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 2,344,400 (2010 – 1,814,800) 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.

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A summary of the status of the Company's Plan as at October 31, 2011 and 2010, and changes during the years ended on those dates is presented as follows:

	2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	1,563,100	\$ 7.10	1,329,100	\$ 5.82
Granted	195,000	9.57	545,000	8.10
Exercised	(170,400)	6.63	(296,000)	3.12
Forfeited	(100,000)	9.49	(15,000)	8.70
Outstanding at end of year	1,487,700	\$ 7.32	1,563,100	\$ 7.10
Options exercisable at end of year	846,700	\$ 6.86	866,600	\$ 6.92

A summary of stock options outstanding as at October 31, 2011 is set out below:

Exercise Price	Outstanding Stock Options			Exercisable Stock Options	
	Number Outstanding as at October 31, 2011	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable as at October 31, 2011	Weighted Average Exercise Price
\$4.20 to \$5.50	450,100	2.93	\$ 5.03	330,100	\$ 5.04
\$5.51 to \$7.75	120,000	2.53	7.30	120,000	7.30
\$7.76 to \$10.00	837,600	4.48	8.28	396,600	8.25
\$10.01 to \$10.10	80,000	6.43	10.10	-	-
	1,487,700			846,700	

(D) Stock-based compensation

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees and directors in accordance with CICA 3870. For the purposes of expensing stock options, the estimated fair value of the options is amortized to expense over the vesting period of the options on a straight-line basis with a corresponding credit to contributed surplus. During fiscal 2011, the Company recorded a non-cash charge to net income of \$492 (2010 - \$382). The fair value of each stock option on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions at the measurement date:

	Options Granted					
	June 2011	April 2011	March 2011	June 2010	April 2010	Dec 2009
Risk-free interest rate	2.10%	2.38%	2.36%	2.28%	2.59%	2.12%
Estimated volatility	34%	35%	35%	35%	34%	35%
Dividend yield	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.16	\$ 0.16	\$ 0.12
Expected life in years	5	5	5	5	5	5
Fair value (in dollars)	\$ 2.66	\$ 2.61	\$ 2.54	\$ 2.60	\$ 2.24	\$ 2.53

(E) Common share repurchase plan

On April 14, 2011, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,630,996 common shares of the Company. The Company's share repurchase plan expires on April 13, 2012. In 2011, the Company repurchased 4,800 shares for cancellation for \$43, of which \$10 was allocated to share capital and the remainder offset against retained earnings. The Company did not repurchase any shares for cancellation in fiscal 2010.

7. Research and development expense

	2011	2010
Research and development costs incurred	\$ 15,867	\$ 13,122
Investment tax credits recognized	(195)	(645)
Net research and development expense	\$ 15,672	\$ 12,477

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8. Income taxes

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

	2011	2010
Current income taxes	\$ 4,063	\$ 635
Future income taxes	1,491	2,395
	\$ 5,554	\$ 3,030

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

	2011		2010	
	\$	%	\$	%
Combined federal and provincial statutory income tax amount and rate	6,400	28.6	4,180	31.5
Foreign earnings subject to different income tax rates	218	1.0	(5)	-
Change in tax rates	(331)	(1.5)	234	1.8
Resolution of tax positions	(399)	(1.8)	(1,137)	(8.7)
Change in valuation allowance	(328)	(1.5)	-	-
Other	(6)	-	(242)	(1.8)
Effective income tax amount and rate	5,554	24.8	3,030	22.8

(C) Significant components of future income tax assets and liabilities as at October 31, 2011 and 2010 are as follows:

	2011	2010
Future income tax assets:		
Provisions and reserves	\$ 1,769	\$ 447
Income tax loss carry-forwards	38,962	36,273
Difference in accounting and tax bases of property and equipment	1,426	1,263
Adjustment to available-for-sale investments	(325)	(45)
	41,832	37,938
Valuation allowance	(30,768)	(34,540)
	11,064	3,398
Future income tax liabilities:		
Acquired software	3,188	3,664
Other intangibles	5,551	6,631
Unrealized foreign exchange	1,544	2,276
	10,283	12,571
Future income tax assets (liabilities), net	\$ 781	\$ (9,173)
Future income tax assets (liabilities), net is comprised of:		
Future income tax assets – current	\$ 1,769	\$ 447
Future income tax assets – long-term	9,295	2,951
Future income tax liabilities – long-term	(10,283)	(12,571)
	\$ 781	\$ (9,173)

The Company and its subsidiaries have non-capital losses available for carry-forward for income tax purposes of approximately \$114 million (2010 - \$109 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 \$65 million (2010 - \$52 million) and expire over periods commencing in 2013 through 2029; U.K. operations, approximately \$45 million (2010 - \$53 million), which have no expiry; Canada, approximately \$3 million (2010 - \$3 million), which expire over periods commencing in 2015 through 2030 and other jurisdictions of approximately \$1 million (2010 - \$1 million), which have no expiry.

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9. Earnings per share

(A) Basic earnings per share

	2011	2010
Numerator:		
Net income for the year	\$ 16,836	\$ 10,238
Denominator:		
Number of weighted average common shares outstanding	25,214	25,097
Basic earnings per share	\$ 0.67	\$ 0.41

(B) Diluted earnings per share

	Income (Numerator)	Number of Shares (Denominator)	Per Share Amount
Year ended October 31, 2011			
Basic earnings per share	\$ 16,836	25,214	\$ 0.67
Effect of dilutive securities:			
Stock options	-	324	
Income available to common shareholders and assumed conversions and exercised options	\$ 16,836	25,538	\$ 0.66
Year ended October 31, 2010			
Basic earnings per share	\$ 10,238	25,097	\$ 0.41
Effect of dilutive securities:			
Stock options	-	229	
Income available to common shareholders and assumed conversions and exercised options	\$ 10,238	25,326	\$ 0.40

Options to purchase 100,000 (2010 – 255,000) common shares at an average price of \$10.06 (2010 – \$9.12) per share were outstanding during the year but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares during the fiscal year.

10. Acquisitions

2011 Acquisitions:

CosmoCom

On April 1, 2011, the Company acquired 100% of the issued and outstanding common shares of CosmoCom, Inc., for a cash purchase price of approximately \$18.6 million, which includes estimated transaction costs of approximately \$0.2 million. Of this total, U.S. \$3.0 million was paid into escrow to be released to the vendors, subject to holdback and adjustment, on April 1, 2012. Of this amount, U.S. \$1.2 million was released to the Company in July 2011 in settlement of the first holdback obligation. 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.

2010 Acquisitions:

Telrex LLC

On June 1, 2010, Enghouse completed the acquisition of the intellectual property of Telrex LLC, and acquired the Telrex operations for a total purchase price of approximately \$4.1 million plus the assumption of maintenance obligations, including transaction costs of approximately \$0.1 million. Of this amount, \$0.5 million was subject to hold back and adjustment and was paid on November 1, 2010. Telrex is a leading provider of IP call recording and contact center optimization software solutions with operations in North America and EMEA.

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Mettoni Group

On April 6, 2010, the Company acquired 100% of the issued and outstanding common shares of Mettoni Limited for a cash purchase price of approximately \$24.6 million, which includes estimated transaction costs of approximately \$0.4 million. Of this total, approximately \$2.4 million was subject to hold back and adjustment. Approximately \$2.0 million was paid on January 6, 2011 as full payment of the obligation. Mettoni provides unified communications software solutions with operations in North America, Europe, Middle East and Africa and Asia Pacific.

Pulse Voice Inc.

On November 1, 2009, the Company acquired 100% of the issued and outstanding common shares of Pulse Voice Inc. for approximately \$4.6 million, including transaction costs. It is a leading provider of communications solutions with both a contact center division (now named Enghouse Interactive (Canada) Inc.) and a networks division (now named Enghouse Networks Limited) providing cost control and intelligent network solutions to the telecom industry. This acquisition expands the Company's presence in the wireless telecommunications market in North America.

These 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 their fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill. Management has established the preliminary purchase price allocations taking into account all relevant information at the time of preparing these notes to consolidated financial statements. The Pulse, Telrex and Mettoni purchase equations have now been finalized, whereas the CosmoCom purchase price allocation has not been finalized subject to receipt of additional information related to transaction costs and settlement of holdbacks. The CosmoCom purchase equation was adjusted for the settlement of the first holdback, which decreased goodwill by \$0.8 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. Other intangibles representing acquired software and customer relationships are being amortized over a period of four and six years respectively for Pulse. Acquired software in the Mettoni acquisition is being amortized over five years, while customer intangibles are being amortized over seven years. Acquired software in the Telrex acquisition is being amortized over four years, while customer intangibles are being amortized over three years. Acquired software in the CosmoCom acquisition is being amortized over five years, while customer intangibles are being amortized over seven years.

The Company's purchase price allocations are as follows:

	FY 11 CosmoCom	FY 10 Telrex	FY 10 Mettoni	FY 10 Pulse
Cash	\$ 2,497	\$ -	\$ 1,456	\$ 216
Accounts receivable, net	5,770	159	6,428	1,990
Prepays and other current assets	144	9	1,161	69
Property and equipment	85	14	383	440
Other assets	238	-	-	-
Future income tax assets	2,374	-	1,287	122
Acquired software	4,373	2,616	7,440	760
Other intangibles	1,671	377	7,650	490
Goodwill	11,367	1,712	13,413	2,800
Total assets acquired	\$ 28,519	\$ 4,887	\$ 39,218	\$ 6,887
Less: Current liabilities assumed	\$ 8,716	\$ 830	\$ 10,378	\$ 1,869
Less: Future income tax liabilities	1,194	-	4,225	400
Total liabilities assumed	\$ 9,910	\$ 830	\$ 14,603	\$ 2,269
Net assets acquired for cash consideration	\$ 18,609	\$ 4,057	\$ 24,615	\$ 4,618

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11. Commitments

As at October 31, 2011, the Company had minimum future payments under operating lease commitments for facilities and equipment requiring annual payments for the years ending October 31, as follows:

2012	\$ 3,472
2013	2,459
2014	2,029
2015	1,682
2016 and thereafter	1,690
	<u>\$ 11,332</u>

12. Segmented information

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

The Company's reportable segments each develop and market software products and provide services for their respective markets. The Interactive Management Group, which includes the operations of CosmoCom, Telrex, Mettoni and the IVR operations of Pulse Voice Inc. (now named Enghouse Interactive (Canada) Inc.) since their respective dates of acquisition, serves the customer service market segment through the provision of IVR systems and speech and voice recognition solutions. The Asset Management Group, which also includes the results of the network operations of Pulse Voice Inc. (now named Enghouse Networks Limited) since the date of acquisition, develops, markets and provides services related to visual-based network management software solutions to customers in the telecommunications, transit, cable, electric and gas markets.

The Company evaluates segment performance based on revenue and profit or loss before corporate expenses, foreign exchange, interest and other income and income taxes.

	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	(76,980)	(9,187)	(86,167)
Amortization of property and equipment	(936)	(174)	(1,110)
Amortization of acquired software and other intangibles	(9,843)	(448)	(10,291)
Segmented profit	<u>\$ 21,958</u>	<u>\$ 3,033</u>	<u>\$ 24,991</u>
Corporate expenses			(3,557)
Foreign exchange			(511)
Other income, net			800
Interest income, net			667
Income before income taxes			<u>\$ 22,390</u>
Goodwill	\$ 34,447	\$ 3,840	38,287
Other assets	91,791	41,704	133,495
Short-term investments			33,967
Total assets			<u>\$ 205,749</u>
Capital expenditures	\$ 823	\$ 124	\$ 947

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	Interactive Management Group	Asset Management Group	Total
Year ended October 31, 2010			
Revenue	\$ 80,705	\$ 13,503	\$ 94,208
Operating expenses, excluding non-cash charges	(60,368)	(9,854)	(70,222)
Amortization of property and equipment	(1,149)	(182)	(1,331)
Amortization of acquired software and other intangibles	(7,901)	(557)	(8,458)
Segmented profit	\$ 11,287	\$ 2,910	\$ 14,197
Corporate expenses			(2,699)
Foreign exchange			238
Other income, net			1,145
Interest income, net			387
Income before income taxes			\$ 13,268
Goodwill	\$ 30,722	\$ 4,415	35,137
Other assets	89,986	24,677	114,663
Short-term investments			31,627
Total assets			\$ 181,427
Capital expenditures	\$ 730	\$ 157	\$ 887

Revenue is distributed geographically as follows: U.S. 44% (2010 – 49%), U.K. 31% (2010 – 25%), Europe 16% (2010 – 18%), Canada 6% (2010 – 6%) and Asia-Pacific 3% (2010 – 2%). Revenue from customers is attributable to individual countries based on the reporting entity that records the transaction.

13. 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 of 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 have been filed objecting to the definition of the settlement class and fairness of the settlement, and those appeals remain pending. If the final order relating to the settlement is not granted, and litigation against the Company continues, Apropos will continue to defend the action vigorously. Apropos expects that its insurance proceeds will be sufficient to cover any outcome of this litigation, including its allocable share of any 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

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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 is expected to be posted subsequent to year end, 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.

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.

14. Capital disclosures

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

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. There has been no change with respect to the overall capital risk management strategy during the year ended October 31, 2011.

15. 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.

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



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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 \$23,006 as at October 31, 2011 (\$24,500 – 2010), representing the maximum exposure to credit risk of those financial assets, net of the allowance for doubtful accounts of \$3.4 million. The Company's allowance for doubtful accounts increased from \$2.1 million at October 31, 2010 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% of trade receivables were past due as at October 31, 2011, of which \$4.7 million was outstanding more than 90 days, compared to 21% past due as at October 31, 2010. Subsequent to the year end, \$0.9 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, an increasing proportion of revenue is now generated by the Company's European operations.

Through acquisition, 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 31% 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 16% 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 3% of revenues are derived from sales to customers in Australia and are denominated in Australian dollars. Approximately 44% of the Company's revenues are derived from sales to customers in the United States, which are naturally hedged by the Company's U.S. based operating costs associated primarily with the Company's Interactive Management Group U.S. operations. This is a decrease from the prior year when 49% of revenue was generated by the 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.

Notes to Consolidated Financial Statements

October 31, 2011 and 2010 (in thousands of Canadian dollars, except per share amounts)

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, 2011 the Company reported foreign exchange losses of \$0.5 million, compared to \$0.2 million in foreign exchange gains in fiscal 2010. During fiscal 2011 the exchange rate for U.S. dollars to Canadian dollars averaged \$0.99, compared to \$1.05 in fiscal 2010, while the pound sterling averaged \$1.59 compared to \$1.63 in the prior year. 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 \$307 due to the fluctuation and would be recorded in the consolidated statement 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 \$91 per year. The Company is not exposed to interest rate risk on debt as the Company has no long-term debt.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it has sufficient liquidity to meet its obligations, mainly accounts payable, accrued liabilities 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, 2011 the Company's current liabilities, all of which fall due for payment within twelve months of the balance sheet date, were \$58,907 (2010 - \$47,162). At October 31, 2011 the Company had a working capital surplus of \$68,938 (2010 - \$60,003).

16. Comparative consolidated financial statements

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



Corporate Directory

Board Of Directors

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

Eric Demirian¹
Chief Executive Officer
 Parklea Capital Inc.

Reid Drury^{1,3}
Partner and Vice President
 Polar Capital Corporation

John Gibson^{1,2,3}
President and Chief Executive Officer
 E.E.S. Financial Services Limited

Paul Stoyan³
Chairman
 Gardiner Roberts LLP

Pierre Lassonde²
Chairman
 Franco-Nevada Corporation

Executive Officers

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

Douglas C. Bryson
*Vice President Finance and
 Corporate Secretary*

Kevin M. Derbyshire
Chief Corporate Officer

Todd M. May
*Vice President and
 General Counsel*

Steven W. Dodenhoff
President
 Interactive Management Group

¹ Member of Audit Committee

² Member of Compensation Committee

³ Member of Corporate Governance Committee

Corporate Directory

Independent Auditors

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 Chartered Accountants
 18 York Street, Suite 2600
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 Canada

Transfer Agent

Equity Transfer Services Inc.
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 Toronto, Ontario M5H 4H1
 Canada

Stock Information

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

Investor Inquiries

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Annual Meeting of Shareholders

The Annual Meeting
 of Shareholders will be held on
Tuesday, March 6, 2012 at 4:30 p.m. at the
 Sheraton Centre Toronto Hotel
 123 Queen Street West
 Toronto, Ontario, Canada

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Software engineered for results

