



**Enghouse Systems**

Software engineered for results

**Third Quarter Report | July 31, 2012**

## ENGHOUSE SYSTEMS LIMITED

September 6, 2012

To our Shareholders,

Third quarter revenue was \$35.4 million, compared to \$31.8 million in the corresponding quarter last year. Results from operating activities for the quarter were \$8.3 million compared to \$8.5 million in the prior year's third quarter. Net income for the third quarter was \$4.3 million or \$0.16 per share on a diluted basis compared to the prior year's third quarter net income of \$4.6 million or \$0.18 per share. The increase in revenue continues to reflect incremental revenue contributions from acquisitions, including recently acquired Zeacom Group Limited ("Zecom"), which closed on June 1, 2012. Revenue also reflects improved hosted and maintenance services contributions of \$19.4 million in the quarter, an increase of 28% over last year, largely as a result of incremental hosted revenue contributions from recently acquired CustomCall Data Systems Inc. ("CustomCall"). Hosted and maintenance revenue accounted for 55% of the Company's total revenue in the quarter. On a year to date basis, revenue was \$97.4 million up from \$90.7 million, while net income increased to \$12.5 million or \$0.48 per diluted share from \$9.7 million or \$0.38 per diluted share in the prior year.

Operating expenses increased to \$17.5 million from \$15.4 million in the prior year's third quarter and include operating and acquisition related restructuring charges of \$0.5 million related to recently acquired Zeacom and a full quarter's operating costs related to CustomCall. Research and development costs increased to \$5.3 million from \$3.7 million in the prior year's third quarter as the Company increased its software investment. Non-cash amortization charges were \$2.9 million compared to \$2.7 million last year and include amortization of acquired software and customer relationships from acquisitions.

The Company closed the quarter with \$79.7 million in cash, cash equivalents and short-term investments, which is after the payment of approximately \$26.7 million related to the acquisitions. Enghouse continues to have no long-term debt and did not repurchase any shares in the quarter.

The Board of Directors also announced today an eligible quarterly dividend of \$0.065 per common share, payable on November 30, 2012 to shareholders of record at the close of business on November 16, 2012.

The Company continues to seek further acquisitions to continue to grow its market share globally.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis ("MD&A") has been prepared as of September 6, 2012 and all information contained herein is current as of that date. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with the Company's unaudited consolidated interim financial statements and the notes thereto for the periods ended July 31, 2012 and 2011, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2011, contained in the Company's 2011 Annual Report to Shareholders. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse Systems Limited (the "Company" or "Enghouse") and its subsidiaries, all wholly owned, for the third quarter ended July 31, 2012. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, stated in thousands, except per share amounts. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and IFRS refers to Canadian GAAP subsequent to the adoption of IFRS. For a full understanding of the Company's transition to IFRS, the Company's consolidated interim financial statements for the three months ended January 31, 2012 discloses IFRS information for the year ended October 31, 2011 that is material to an understanding of these consolidated interim financial statements and this MD&A.

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

**Non-IFRS Measures**

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

**Forward-looking Statements**

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

For additional information with respect to certain of these risks or factors, reference should be made to the "Risks and Uncertainties" section of the MD&A and notes to the consolidated financial statements for the year ended October 31, 2011, as well as to the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, copies of which are filed electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

## ENGHOUSE SYSTEMS LIMITED

### **Corporate Overview**

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

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

### **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 July 31, 2012). Historically, the Company's operating results have fluctuated on a quarterly basis, which the Company expects will continue in the future. Fluctuations in results continue to relate to the timing of software license and hardware sales, which may result in large sales orders in any one quarter, movements in foreign currency exchange rates and to the timing of acquisitions, staffing and infrastructure changes. See "Risks and Uncertainties" for more details. Data for periods prior to November 1, 2010 is as calculated under Canadian GAAP, while data thereafter reflect adjustments to IFRS.

	Q3/12	Q2/12	Q1/12	Q4/11	Q3/11	Q2/11	Q1/11	Q4/10
Revenue	\$ 35,427	\$ 31,456	\$ 30,533	\$ 31,836	\$ 31,820	\$30,334	\$ 28,569	\$ 27,378
Net Income	4,288	4,180	4,060	13,851*	4,577	2,091	3,052	3,426
Basic income per share	0.17	0.16	0.16	0.55	0.18	0.08	0.12	0.14
Diluted income per share	0.16	0.16	0.16	0.54	0.18	0.08	0.12	0.13
Cash, cash equivalents and short-term investments	79,700	100,403	101,491	99,591	87,955	75,662	83,443	78,267
Total assets	238,574	222,961	215,797	212,200	193,914	194,741	185,410	181,251

\*Includes credit adjustment to tax provision of \$7.9 million on transition to IFRS (see page 14, note (e))

**Results of Operations:**

(in thousands of Canadian dollars except per share amounts)

	Q3/2012	Q3/2011	Year over year change		YTD July	YTD July
			\$	%	31, 2012	31, 2011
Interactive Management Group	\$ 30,702	\$ 28,642	2,060	7.2	\$ 85,897	\$ 80,956
Asset Management Group	4,725	3,178	1,547	48.6	11,519	9,767
<b>Total revenue</b>	<b>35,427</b>	<b>31,820</b>	<b>3,607</b>	<b>11.3</b>	<b>97,416</b>	<b>90,723</b>
Direct costs	9,617	7,910	1,707	21.6	25,858	25,932
<b>Revenue, net of direct costs</b>	<b>25,810</b>	<b>23,910</b>	<b>1,900</b>	<b>7.9</b>	<b>71,558</b>	<b>64,791</b>
Operating expenses	17,464	15,390	2,074	13.5	48,070	44,747
<b>Results from operating activities</b>	<b>8,346</b>	<b>8,520</b>	<b>(174)</b>	<b>(2.0)</b>	<b>23,488</b>	<b>20,044</b>
Amortization of acquired software and customer relationships	(2,949)	(2,670)	(279)	(10.4)	(7,770)	(7,604)
Finance income	194	150	44	29.3	698	414
Finance expenses	(72)	(54)	(18)	(33.3)	(183)	(152)
Other income	13	256	(243)	(94.9)	168	327
<b>Income before income taxes</b>	<b>5,532</b>	<b>6,202</b>	<b>(670)</b>	<b>(10.8)</b>	<b>16,401</b>	<b>13,029</b>
Provision for income taxes	1,244	1,625	(381)	(23.4)	3,873	3,309
<b>Net Income</b>	<b>\$ 4,288</b>	<b>\$ 4,577</b>	<b>(289)</b>	<b>(6.3)</b>	<b>\$ 12,528</b>	<b>\$ 9,720</b>
Earnings per share – basic	\$ 0.17	\$ 0.18	(0.01)	(5.6)	\$ 0.49	\$ 0.39
Earnings per share – diluted	\$ 0.16	\$ 0.18	(0.02)	(11.1)	\$ 0.48	\$ 0.38
<b>Cash flow from operating activities</b>	<b>\$ 8,763</b>	<b>\$ 13,199</b>	<b>(4,436)</b>	<b>(33.6)</b>	<b>\$ 18,966</b>	<b>\$32,993</b>

**Revenue**

Total revenue for the quarter was \$35.4 million compared to \$31.8 million in the prior year's third quarter, an increase of 11.3% over the prior year as a result of acquisitions. Zeacom Group Limited ("Zecom") contributed \$3.9 million in revenue since being acquired on June 1, 2012. Hosted services and maintenance revenue was \$19.5 million compared to \$15.2 million in the prior year's third quarter, an increase of 28%. This includes maintenance revenue of \$17.4 million compared to \$14.5 million in the prior year's third quarter and reflects incremental maintenance revenue on license sales in the past fiscal year as well as contributions from acquired operations. Hosted revenue is also up 153% in the quarter to \$2.1 million as a result of contributions from CustomCall subsequent to its acquisition on March 1, 2012. Recurring revenue is important to the Company as it increases the predictability of future cash flows and is consistent with the Company's strategy of growing its hosted revenue base. Revenue also includes total license sales of \$10.9 million compared to \$11.8 million in the prior year's third quarter.

On a year to date basis, revenue was \$97.4 million compared to \$90.7 million in fiscal 2011, with the increase being largely the result of increased hosted and maintenance services revenue from both organic growth and acquisitions, which increased from \$42.3 million to \$51.5 million and represents 53% of total revenue year to date. Year to date license and hardware revenue was down from \$34.3 million to \$32.0 million and \$2.4 million to \$1.0 million, respectively, over last year as a result of lower third party software and hardware sales.

The Interactive Management Group contributed \$30.7 million in revenue in the quarter, compared to \$28.6 million reported in the third quarter of fiscal 2011. On a year to date basis, revenue was \$85.9 million compared to \$81.0 million last year. The increase is attributable to incremental revenue contributions from Zeacom, as well as from incremental maintenance on existing product lines, which mitigated decreased license and professional services revenue in the traditional operations of the group. The Asset Management Group contributed revenue of \$4.7 million in the quarter and \$11.5 million year to date, compared to \$3.2 million reported in the third quarter of fiscal 2011 and \$9.8 million in the prior year to date. Much of the improvement is attributable to hosted services revenue contributions from recently acquired CustomCall. This incremental revenue was augmented by increased license revenue in the Company's Networks operations related to the timing of orders in the quarter.

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Revenue was impacted by foreign exchange in the quarter as the U.S. dollar compared to the Canadian dollar averaged \$1.01 in the third quarter compared to \$0.96 in the prior year's third quarter. The Pound Sterling averaged \$1.60 in the current year's third quarter compared to \$1.58 in the prior year, while the Swedish Kronor averaged \$0.15 in the current years' third quarter and \$0.16 in the prior year.

### **Direct costs**

Direct costs for the quarter were \$9.6 million or 27.1% of revenue compared to \$7.9 million or 24.9% of revenue in the prior year's third quarter. On a year to date basis, direct costs were \$25.9 million or 26.5% compared to \$25.9 million or 28.6% of revenue. The decrease in revenue, net of direct costs as a percentage of revenue in the quarter, is attributable to higher service costs related to third party contractor and maintenance costs and the increased proportion of hosted services costs in the quarter. On a year to date basis, while the same trends exist, they have been overshadowed by higher third party software and hardware costs in the prior year due to the timing of a significant lower margin third party license and hardware sale recognized in the first and second quarters of fiscal 2011.

### **Operating expenses**

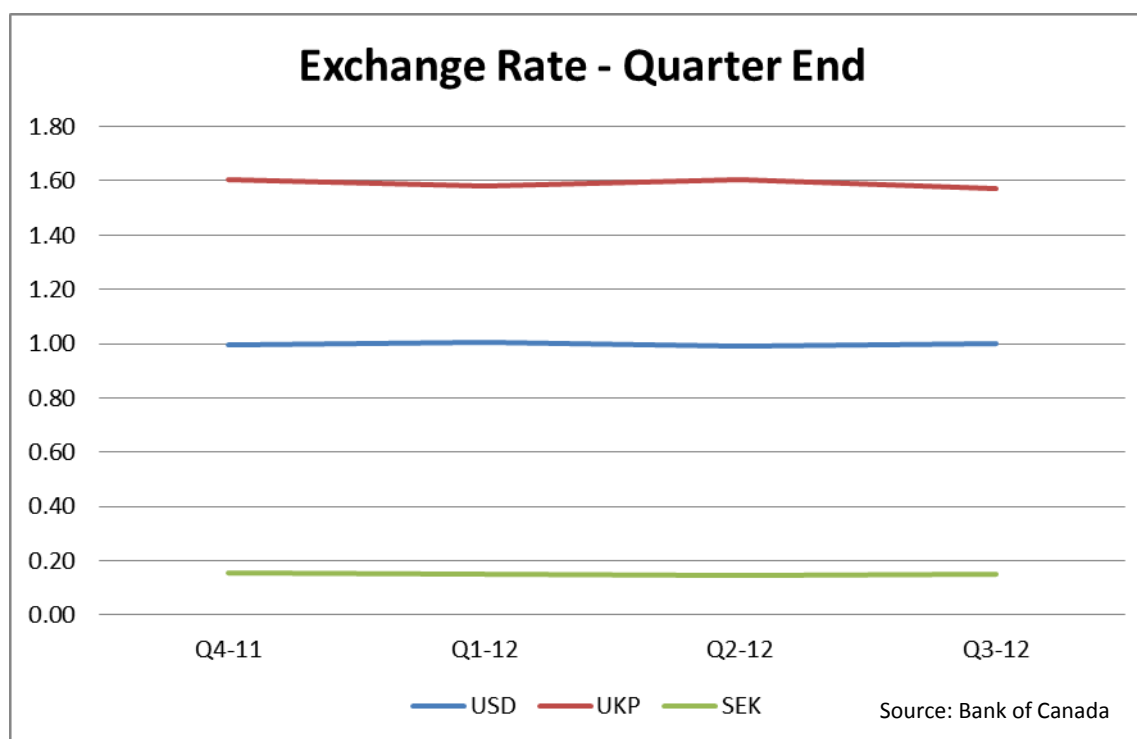
Operating expenses for the quarter were \$17.5 million, compared to \$15.4 million reported in the third quarter of last year. The current year's third quarter operating expenses include a full quarter of CustomCall's operating expenses, and those of Zeacom Group Limited subsequent to its acquisition on June 1, 2012. Included in Zeacom's costs were \$0.5 million in acquisition related restructuring expenses. R&D expenses reflect the cost offset related to investment tax credits recognized in the quarter of \$1.0 million. Operating costs as a percentage of total revenue increased from 48.4% to 49.3% in the quarter as a result of acquisition related restructuring charges incurred following the Zeacom acquisition as well as increased R&D costs. On a year to date basis, operating costs were \$48.1 million or 49.3% of revenue compared to \$44.7 million (49.3%) in the prior year.

Non-cash charges for amortization of acquired software and customer relationships related to acquisitions were \$2.9 million or \$7.8 million for the year, up \$0.3 million compared to the prior year's third quarter charges and up \$0.2 million to the prior year to date as a result of incremental amortization on new acquisitions, net of expiring amortization charges from previous acquisitions.

### **Foreign exchange**

The Company continues to transact a significant portion of its business activities in foreign currencies including U.S. Dollars, Pounds Sterling and Swedish Kronor. The Company has both revenue and operating expenses denominated in these currencies, which act as a natural hedge. However, the fluctuation in these currencies against the Canadian dollar impacts the amount of recorded revenue and expenses for the Company, which as noted above. The Company records foreign exchange gains and losses in selling, general and administrative expenses in the consolidated interim statements of operations and comprehensive income (loss).

The Company recorded foreign exchange gains related to working capital in the current quarter of \$0.5 million compared to losses of \$0.1 million in the prior year's third quarter. The Canadian dollar remained relatively stable against other major currencies in which its revenue and expenses are denominated. The table below outlines the movement in foreign exchange rates relative to the Canadian dollar.



**Finance and other income**

During the quarter, the Company recognized finance income of \$0.2 million, up marginally compared to the third quarter of fiscal 2011, as a result of improved yields. The Company reported no other income and had nominal finance expense in both years' third quarters. For the year to date, finance income was \$0.7 million compared to \$0.4 million consistent with the improvement in yields on invested cash, while other income was \$0.2 million, down from \$0.3 million in the prior year as a result of the timing of the sale of equities held by the Company.

**Income tax expense**

During the quarter, the Company established a tax provision of \$1.2 million or a 22.5% effective tax rate as compared to a provision of \$1.6 million or 26.2% in the prior year's third quarter. The decrease in the effective tax rate relates to the reversal of tax provisions previously set up, but no longer required. The Company paid \$1.4 million and \$3.2 million in tax installments in the quarter and year to date, respectively, compared to \$0.2 million in the third quarter of fiscal 2011 and \$1.1 million year to date in fiscal 2011. On a year to date basis, the Company provided \$3.9 million or a 23.6% effective tax rate compared to \$3.3 million or a 25.4% effective tax rate in the prior year.

**Net Income**

Net income was \$4.3 million or \$0.16 per diluted share in the quarter compared to \$4.6 million or \$0.18 per diluted share, respectively, in the third quarter of fiscal 2011, as a result of incremental operating and restructuring costs associated with acquired operations. On a year to date basis, net income was \$12.5 million or \$0.48 per diluted share compared to \$9.7 million or \$0.38 per diluted share in the prior year.

**Liquidity and Capital Resources:**

The Company closed the quarter with cash and short-term investments of \$79.7 million, compared to a balance of \$99.6 million at October 31, 2011. This is after the payment of approximately \$6.6 million related to the acquisition of CustomCall and its office facility paid on March 1, 2012, and \$0.4 million in holdbacks paid on June 1, 2012 as well as \$26.3 million paid on June 1, 2012 related to the acquisition of Zeacom. The Company has no long-term debt and sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend strategy. During the quarter, the Company generated cash flow from operating activities of \$8.8 million compared to \$13.2 million in the third quarter of 2011 as a result of changes in working capital items. On a year to date basis, cash generated from operating activities was \$19.0 million compared to \$33.0 million last year. Excluding changes in non-cash

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working capital items, cash flows from operating activities on a year to date basis were \$17.7 million compared to \$17.3 million in the prior year.

The Company had 25,669,562 Common Shares issued and outstanding as at September 6, 2012. During the third quarter, 64,000 stock options were exercised contributing \$0.4 million in cash to the Company. Last year 47,400 options were exercised in the third quarter. On a year to date basis, contributions from option exercises added \$2.3 million in cash to the Company and increased the common shares outstanding by 332,300. The Company granted 155,000 options in the third quarter of this fiscal year compared to 10,000 in the third quarter of the prior fiscal year. Enghouse did not repurchase any shares of its common stock in either the third quarter or year to date under its Normal Course Issuer Bid and purchased 4,800 shares in the prior fiscal year, all in the second quarter.

### **Off-Balance Sheet Arrangements**

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

### **Transactions with Related Parties**

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

### **Basis of Preparation and Adoption of IFRS**

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

The Company's significant accounting policies are described in note 3 of the consolidated interim financial statements as at July 31, 2012. The policies applied in these consolidated interim financial statements are based on IFRS issued and outstanding as of September 6, 2012, the date the Board of Directors approved the consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in our annual consolidated financial statements for the year ending October 31, 2012 could result in restatement of these consolidated interim financial statements, including the transition adjustments recognized on change over to IFRS discussed below.

The following discussion sets forth the estimates and judgments that the Company considers as critical in applying significant accounting policies and preparing the consolidated financial statements.

### **Critical Accounting Policies, Estimates and Judgments**

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

Estimates and underlying assumptions are reviewed on a regular basis. Significant areas requiring the Company to make estimates, assumptions and judgments include those related to revenue recognition, the impairment of financial and non-financial assets, accrued provisions, the carrying value of goodwill and the recoverability of 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. Revisions to the accounting estimates are recognized in the period in which the estimates are revised and will be recorded with corresponding impact on comprehensive income.



## **Revenue recognition**

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

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

Typically, the Company's software license agreements are multiple-element arrangements that also include the provision of maintenance, hosted services, professional services and hardware. These multiple-element arrangements are assessed to determine whether they can be sold separately in order to determine whether they can be treated as more than one unit of accounting or element for the purposes of revenue recognition. Consideration from the arrangement is allocated in multiple-element arrangements to the separate units of accounting, or elements, on a relative fair value basis as determined by an internal analysis of prices. Revenue is recognized for each element according to the revenue recognition policy stated above. If the elements cannot be sold separately, revenue for the arrangement as a whole is accounted for as a single unit of accounting or element and is deferred until all elements have been delivered.

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

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

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

## **Impairment of financial assets**

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

The Company maintains an allowance for doubtful accounts for the estimated losses resulting from the inability of its customers to make required payments. The Company reviews this provision regularly and performs ongoing credit evaluations of its customers' financial condition. Adverse changes in the financial condition of the Company's customers resulting in an impairment of their ability to make payments would

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likely require the provision of additional allowances. Actual collections could materially differ from management's estimates.

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

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

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

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

### **Impairment of non-financial assets**

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. One of the most significant estimates relates to the determination of the fair value of the assets and liabilities acquired. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, purchase price allocations are derived from a formal valuation, which, where appropriate, is performed by an independent third party valuation expert. Fair values are determined using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows and are closely linked to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied. This process involves considerable use of judgment and requires all parties to make estimates and assumptions which impact the amount and timing of amortization expense to be recognized over the estimated useful lives of the intangibles assets. The Company's intangible assets relate to acquired technology, patents and customer relationships.

The unamortized portions of property, plant and equipment, acquired software, customer relationships and patents are reviewed when events or circumstances indicate that the carrying amounts 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.

Intangible assets with an indefinite useful life or intangible assets not yet available for use are subject to an annual impairment test. Goodwill is not subject to amortization but is assessed for impairment on at least an annual basis and, additionally, whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. The recoverable amount is estimated annually.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units - "CGUs"). The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is measured as the

amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. Impairment losses are recognized in the consolidated interim statements of operations and comprehensive income (loss). Impairment tests involve considerable use of judgment and require management to make estimates and assumptions. The fair values of CGUs are derived from valuation models which consider various factors such as discount rates, future earnings and perpetual growth rates. Changes in estimates and assumptions can affect the reported value of goodwill and intangible assets with indefinite useful lives.

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

### **Accrued provisions**

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

### **Income taxes**

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

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

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

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

A deferred income tax liability is recognized for all taxable temporary differences, except to the extent that the deferred income tax liability arises from the initial recognition of certain assets and liabilities acquired other than in a business combination and, at the time of the transaction, affects neither accounting profit

## ENGHOUSE SYSTEMS LIMITED

nor taxable profit (tax loss). Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be recognized simultaneously. Deferred income tax assets and liabilities are presented as non-current.

Income taxes on income in interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

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

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

### **Transition to IFRS**

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

As discussed above, our consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 and IFRS 1. Subject to certain transition elections disclosed in note 5 to our consolidated interim financial statements, and discussed below, we have consistently applied the same accounting policies in our opening IFRS consolidated statement of financial position as November 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

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

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- a) To elect not to apply retrospective treatment to certain aspects of IAS 21, *The Effects of Changes in Foreign Exchange Rates*, and deem the cumulative translation differences for all foreign operations to be \$nil at the transition date.
- b) To apply IFRS 2, *Share-based Payments*, retrospectively only to awards that were issued after November 7, 2002 which had not vested by the transition date.
- c) To apply IFRS 3, *Business Combinations*, prospectively from the transition date and, therefore, not restate business combinations that took place prior to the transition date. As such, Canadian GAAP balances relating to business combinations entered into before the transition date, including goodwill, have been carried forward without adjustment.
- d) To apply the transition provisions of International Financial Reporting Interpretations Committee 4 ("IFRIC 4") – Determining Whether an Arrangement Contains a Lease, to determine if arrangements existing at the transition date contain a lease based on the circumstances existing at the transition date rather than the historical date.
- e) To elect to use historical cost accounting at the transition date to value its property, plant and equipment and intangible assets. IFRS 1 provides a choice between measuring equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historic valuation under Canadian GAAP.

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

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

- (a) **Stock-based compensation:** Under Canadian GAAP, each grant was treated as a single arrangement and compensation expense determined at the time of grant and amortized over the vesting period on a straight line basis. Under IFRS, stock-based compensation costs are based on the estimated number of instruments expected to vest using the graded method of amortization for each vesting tranche on a straight line basis as if they each were a separate grant. Under Canadian GAAP, forfeitures of stock-based compensation awards can be accounted for in the period in which the forfeiture occurs. Under IFRS, forfeitures must be estimated and will be revised for actual forfeitures in subsequent periods. Generally this results in accelerated expense recognition under IFRS. Under IFRS, as compared to Canadian GAAP, this increased contributed surplus and reduced retained earnings at the date of transition and increased staff costs by \$17 and \$124 for the three and nine months ended July 31, 2011 respectively.
- (b) **Deferred income tax:** Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of assets or liabilities to which the deferred income tax relates or to the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or current liabilities must be classified as current. Accordingly, current deferred income tax reported under Canadian GAAP of \$447 at November 1, 2010 (\$542 at July 31, 2011 and \$1,769 at October 31, 2011) has been reclassified as non-current under IFRS.
- (c) **Business combinations:** In accordance with IFRS transitional provisions under IFRS 1, the Company has elected to apply IFRS relating to business combinations prospectively from November 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward without adjustment. Under Canadian GAAP, transaction costs as well as restructuring costs related to acquisitions are capitalized as part of the purchase cost. Under IFRS, these costs are expensed in the consolidated interim statements of operations and comprehensive income (loss) in the period in which they are incurred. The transaction and restructuring costs of \$1,775 incurred in the acquisition of CosmoCom, Inc. on April 1, 2011 have been expensed under IFRS in the consolidated interim statements of operations and comprehensive income

## ENGHOUSE SYSTEMS LIMITED

(loss) for the nine months ended July 31, 2011 and are reflected in the consolidated interim statement of financial position as a reduction to goodwill and retained earnings at October 31, 2011.

(d) **Property, plant and equipment:** Under Canadian GAAP certain of the Company's business units used the declining balance method to depreciate property, plant and equipment, while other business units used the straight line method. Under IFRS, uniform accounting policies must be used for reporting similar activity and transactions. The Company's depreciation policy is disclosed in note 3. This resulted in an increase in depreciation expense and accumulated depreciation of \$256 at November 1, 2010, \$250 at July 31, 2011 and \$248 at October 31, 2011.

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

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

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

	Ref	October 31, 2011	July 31, 2011	November 1, 2010
Retained earnings as reported under Canadian GAAP		\$ 91,613	\$ 86,960	\$ 79,606
IFRS adjustments increase (decrease):				
Amortization of stock based compensation	a	(357)	(348)	(224)
Cumulative translation adjustment	-	(12,660)	(12,660)	(12,660)
Restructuring and transaction costs on business combinations	c	(1,775)	(1,775)	-
Tax on restructuring and transaction costs	c	701	701	-
Property, plant and equipment	d	(248)	(250)	(256)
Tax on property, plant and equipment	d	74	76	80
Goodwill and intangibles	e	7,940	-	-
<b>Retained earnings as reported under IFRS</b>		<b>\$ 85,288</b>	<b>\$ 72,704</b>	<b>\$ 66,546</b>

### Accounting Standards issued but not yet applied

The IASB has issued the following standards which have not yet been adopted by the Company. Each of these new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new standards.

The following is a description of the new standards.

*IFRS 9, Financial Instruments ("IFRS 9")* was issued in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models used in IAS 39 for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, wherein such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return on investment; however, other

gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and largely carry forward existing requirements in *IAS 39, Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss).

*IFRS 10 – Consolidation (“IFRS 10”)* requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12 Consolidation – Special Purpose Entities* and parts of *IAS 27 Consolidated and Separate Financial Statements*.

*IFRS 11 – Joint Arrangements (“IFRS 11”)* requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supercedes *IAS 31, Interests in Joint Ventures*, and *SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

*IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”)* establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities.

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

### **Amendments to Existing Standards not yet effective**

In addition to the issuance of new standards, there have been amendments to existing standards, including *IAS 1, “Presentation of Financial Statements (“IAS 1”)*, *IAS 19, “Employee Benefits” (“IAS 19”)*, *IAS 27, Separate Financial Statements (“IAS 27”)* and *IAS 28, Investments in Associates and Joint Ventures (“IAS 28”)*. *IAS 27* addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. *IAS 28* has been amended to include joint ventures in its scope and to address the changes in *IFRS 10* to *13*. Amendments to *IAS 27* and *IAS 28* are applicable to annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The amendments to *IAS 1* will require entities to group items presented in other comprehensive income (“OCI”) based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date. Amendments to *IAS 1* are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. Amendments to *IAS 19* eliminate an entity's option to defer the recognition of certain gains and losses related to post-employment benefits, require re-measurement of associated assets and liabilities in OCI and provide for additional disclosure of all employee benefits. Amendments to *IAS 19* are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The IASB also issued amendments to *IAS 32, Financial Instruments: Presentation (“IAS 32”)*. The amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. These amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

## **Risks and Uncertainties**

The primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations are substantially unchanged from those discussed in the Company's latest Annual Information Form and its Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2011, contained in the Company's 2011 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

## **Controls and Procedures**

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

## **Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed under the supervision of the CEO and Vice President Finance, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by the Company is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 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.

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.

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

## **Additional Information**

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



**Notice of No Auditor Review of Interim Financial Statements**

The accompanying unaudited consolidated interim financial statements of the Company for the three and nine months ended July 31, 2012 have been prepared by and are the responsibility of the Company's management.

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

## ENGHOUSE SYSTEMS LIMITED

### Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	July 31, 2012	October 31, 2011	November 1, 2010
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 6)	\$ 39,863	\$ 65,624	\$ 46,640
Short-term investments (Note 6)	39,837	33,967	31,627
Accounts receivable, net	31,573	23,006	24,500
Income tax receivable	-	-	591
Prepaid expenses and other assets	4,111	3,479	3,360
	<b>115,384</b>	<b>126,076</b>	<b>106,718</b>
<b>Non-current assets:</b>			
Property, plant and equipment (Note 7)	3,562	1,543	1,588
Acquired software and customer relationships (Note 7)	45,654	29,709	34,330
Goodwill (Note 8)	62,933	43,734	35,137
Deferred income taxes	11,041	11,138	3,478
	<b>122,190</b>	<b>86,124</b>	<b>74,533</b>
<b>Total assets</b>	<b>\$ 238,574</b>	<b>\$ 212,200</b>	<b>\$ 181,251</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Trade payables	\$ 25,478	\$ 22,686	\$ 18,808
Income taxes payable	3,330	2,878	-
Dividends payable	1,669	1,267	1,007
Accrued provisions (Note 9)	1,887	2,442	1,307
Deferred revenue	40,977	28,933	26,040
	<b>73,341</b>	<b>58,206</b>	<b>47,162</b>
<b>Non-current liabilities:</b>			
Deferred income tax liabilities	14,476	10,743	12,571
Long-term income taxes payable	56	420	522
Deferred revenue	1,214	1,404	790
<b>Total liabilities</b>	<b>89,087</b>	<b>70,773</b>	<b>61,045</b>
<b>Shareholders' Equity</b>			
Share capital (Note 10)	55,085	52,134	50,705
Contributed surplus (Note 10)	2,838	2,970	2,653
Retained earnings	93,208	85,288	66,546
Accumulated other comprehensive (loss) gain	(1,644)	1,035	302
<b>Total equity</b>	<b>149,487</b>	<b>141,427</b>	<b>120,206</b>
<b>Total liabilities and equity</b>	<b>\$ 238,574</b>	<b>\$ 212,200</b>	<b>\$ 181,251</b>
Commitments and contingencies (Note 16)			

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

## ENGHOUSE SYSTEMS LIMITED

### Consolidated Interim Statements of Operations and Comprehensive Income

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

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
<b>Revenue</b>				
Software licenses	\$ 10,853	\$ 11,842	\$ 32,001	\$ 34,305
Hosted and maintenance services	19,475	15,190	51,494	42,344
Professional services	4,727	4,272	12,873	11,685
Hardware	372	516	1,048	2,389
	<b>35,427</b>	<b>31,820</b>	<b>97,416</b>	<b>90,723</b>
<b>Direct costs</b>				
Software licenses	808	909	2,583	4,439
Services	8,567	6,684	22,549	19,764
Hardware	242	317	726	1,729
	<b>9,617</b>	<b>7,910</b>	<b>25,858</b>	<b>25,932</b>
<b>Revenue, net of direct costs</b>	<b>25,810</b>	<b>23,910</b>	<b>71,558</b>	<b>64,791</b>
<b>Operating expenses</b>				
Selling, general and administrative	11,255	11,403	31,092	30,690
Research and development	5,341	3,726	15,545	11,465
Depreciation of property, plant and equipment	377	261	942	817
Special charges (Note 9)	491	-	491	1,775
	<b>17,464</b>	<b>15,390</b>	<b>48,070</b>	<b>44,747</b>
<b>Results from operating activities</b>	<b>8,346</b>	<b>8,520</b>	<b>23,488</b>	<b>20,044</b>
Amortization of acquired software and customer relationships	(2,949)	(2,670)	(7,770)	(7,604)
Finance income	194	150	698	414
Finance expenses	(72)	(54)	(183)	(152)
Other income	13	256	168	327
<b>Income before income taxes</b>	<b>5,532</b>	<b>6,202</b>	<b>16,401</b>	<b>13,029</b>
<b>Provision for income taxes (Note 12)</b>	<b>1,244</b>	<b>1,625</b>	<b>3,873</b>	<b>3,309</b>
<b>Net income for the period</b>	<b>\$ 4,288</b>	<b>\$ 4,577</b>	<b>\$ 12,528</b>	<b>\$ 9,720</b>
Foreign currency translation differences from foreign operations	(373)	(409)	(1,664)	(3,563)
Transfer to net income of realized gains on available for sale investments, net of tax of (\$nil); nine months – (\$24)	-	(51)	(132)	(142)
Unrealized (loss) gain on available for sale investments, net of tax of (\$54); nine months – (\$166)	(291)	254	(891)	735
Unrealized foreign currency translation gain (loss) on available for sale investments, net of tax of \$nil; nine months - \$1	-	4	8	(69)
<b>Other comprehensive loss</b>	<b>(664)</b>	<b>(202)</b>	<b>(2,679)</b>	<b>(3,039)</b>
<b>Comprehensive income</b>	<b>\$ 3,624</b>	<b>\$ 4,375</b>	<b>\$ 9,849</b>	<b>\$ 6,681</b>
<b>Earnings per share</b>				
Basic	\$ 0.17	\$ 0.18	\$ 0.49	\$ 0.39
Diluted	\$ 0.16	\$ 0.18	\$ 0.48	\$ 0.38

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

## ENGHOUSE SYSTEMS LIMITED

### Consolidated Interim Statements of Changes in Equity

(in thousands of Canadian dollars)

(Unaudited)

	Share Capital -number	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Retained earnings \$	Total \$
<b>Balance – November 1, 2011</b>	<b>25,337,262</b>	<b>52,134</b>	<b>2,970</b>	<b>1,035</b>	<b>85,288</b>	<b>141,427</b>
Net income	-	-	-	-	12,528	12,528
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	(1,664)	-	(1,664)
Transfer to net income of realized gains on available-for-sale investments, net of tax	-	-	-	(132)	-	(132)
Unrealized gain (loss) on available-for-sale investments, net of tax	-	-	-	(891)	-	(891)
Unrealized foreign currency translation gain (loss) on available-for-sale investments, net of tax	-	-	-	8	-	8
<b>Comprehensive income (loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,679)</b>	<b>12,528</b>	<b>9,849</b>
Employee share options:						
Value of services recognized	-	-	502	-	-	502
Proceeds on issuing shares	332,300	2,951	(634)	-	-	2,317
Purchase and cancellation of common shares	-	-	-	-	-	-
Dividends	-	-	-	-	(4,608)	(4,608)
<b>Balance – July 31, 2012</b>	<b>25,669,562</b>	<b>55,085</b>	<b>2,838</b>	<b>(1,644)</b>	<b>93,208</b>	<b>149,487</b>
<b>Balance – November 1, 2010</b>	<b>25,171,662</b>	<b>50,705</b>	<b>2,653</b>	<b>302</b>	<b>66,546</b>	<b>120,206</b>
Net income	-	-	-	-	9,720	9,720
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	(3,563)	-	(3,563)
Transfer to net income of realized gains on available-for-sale investments, net of tax	-	-	-	(142)	-	(142)
Unrealized gain (loss) on available-for-sale investments, net of tax	-	-	-	735	-	735
Unrealized foreign currency translation gain (loss) on available-for-sale investments, net of tax	-	-	-	(69)	-	(69)
<b>Comprehensive income (loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,039)</b>	<b>9,720</b>	<b>6,681</b>
Employee share options:						
Value of services recognized	-	-	493	-	-	493
Proceeds on issuing shares	75,400	565	(101)	-	-	464
Purchase and cancellation of common shares	(4,800)	(10)	-	-	(33)	(43)
Dividends	-	-	-	-	(3,529)	(3,529)
<b>Balance – July 31, 2011</b>	<b>25,242,262</b>	<b>51,260</b>	<b>3,045</b>	<b>(2,737)</b>	<b>72,704</b>	<b>124,272</b>

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

## ENGHOUSE SYSTEMS LIMITED

### Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended		Nine months ended	
	2012	July 31 2011	2012	July 31 2011
<b>Cash flows from operating activities</b>				
Net income	\$ 4,288	\$ 4,577	\$ 12,528	\$ 9,720
<b>Adjustments for:</b>				
Depreciation of property, plant and equipment	377	261	942	817
Amortization of acquired software and customer relationships	2,949	2,670	7,770	7,604
Stock-based compensation expense	216	168	502	493
Deferred income tax expense	(1,128)	62	(832)	(110)
Finance expenses and other income	59	(202)	15	(175)
Income tax paid	(1,360)	(150)	(3,188)	(1,093)
	<b>5,401</b>	<b>7,386</b>	<b>17,737</b>	<b>17,256</b>
Changes in non-cash operating working capital (Note 17)	3,362	5,813	1,229	15,737
<b>Net cash flows from operating activities</b>	<b>8,763</b>	<b>13,199</b>	<b>18,966</b>	<b>32,993</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment, net	(224)	(190)	(1,893)	(630)
Finance income	(194)	(150)	(698)	(414)
Acquisitions, net of cash acquired (Note 14)	(26,651)	-	(32,453)	(16,648)
Net proceeds (purchase) from sale of short-term investments	2,565	(14,363)	(7,994)	(3,711)
<b>Net cash flows used in investing activities</b>	<b>(24,504)</b>	<b>(14,703)</b>	<b>(43,038)</b>	<b>(21,403)</b>
<b>Cash flows from financing activities</b>				
Issuance of share capital	441	324	2,317	464
Payment of cash dividend	(1,664)	(1,260)	(4,206)	(3,274)
Purchase and cancellation of common shares	-	-	-	(43)
<b>Net cash flows used in financing activities</b>	<b>(1,223)</b>	<b>(936)</b>	<b>(1,889)</b>	<b>(2,853)</b>
Effect of currency translation adjustments on cash and cash equivalents	440	206	200	(3,105)
<b>Net (decrease) increase in cash and cash equivalents during the period</b>	<b>(16,524)</b>	<b>(2,234)</b>	<b>(25,761)</b>	<b>5,632</b>
Cash and cash equivalents- beginning of period	56,387	54,506	65,624	46,640
<b>Cash and cash equivalents - end of period</b>	<b>\$ 39,863</b>	<b>\$ 52,272</b>	<b>\$ 39,863</b>	<b>\$ 52,272</b>

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

**Notes to Consolidated Interim Financial Statements**

**For the three and nine months ended July 31, 2012 and 2011**

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

**1. Description of the business and reporting entity**

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

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

These consolidated interim financial statements have been prepared by management in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) as codified in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), which require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated interim financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS and IFRS refers to Canadian GAAP subsequent to the adoption of IFRS.

These consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 *Financial Reporting*. These are the Company’s first IFRS consolidated interim financial statements and IFRS 1 *First time Adoption of International Financial Reporting Standards* has been applied. Subject to certain transition elections disclosed in note 5, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at November 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended October 31, 2011.

The policies applied in these consolidated interim financial statements are based on IFRS policies as of September 6, 2012, the date the Board of Directors approved the consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending October 31, 2012 could result in restatement of these consolidated interim financial statements, including the transition adjustments recognized on change-over to IFRS.

The consolidated interim financial statements should be read in conjunction with the Company’s consolidated interim financial statements for the three months ended January 31, 2012 and Canadian GAAP annual financial statements for the year ended October 31, 2011. Note 5 of the Company’s consolidated interim financial statements for the three months ended January 31, 2012 discloses IFRS information for the year ended October 31, 2011 that is material to an understanding of these consolidated interim financial statements.

The accounting policies used in the preparation of these consolidated interim financial statements should be read in conjunction with the consolidated interim financial statements and notes thereto for the three

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months ended January 31, 2012 as these consolidated interim financial statements follow the same accounting policies and methods of application.

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

**Summary of significant accounting policies**

**Basis of measurement**

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

**Basis of consolidation**

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

Subsidiaries are those entities which Enghouse controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Enghouse controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Enghouse and are de-consolidated from the date that control ceases.

**Business combinations**

Acquisitions on or after November 1, 2010 have been accounted for using the acquisition method required under IFRS 3 – *Business Combinations*. Goodwill arising on acquisition is measured as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred in the consolidated interim statements of operations and comprehensive income (loss).

**Foreign currency translation**

*(i) Functional and presentation currency*

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

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

*(ii) Transactions and balances*

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

## Notes to Consolidated Interim Financial Statements For the three and nine months ended July 31, 2012 and 2011

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monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated interim statement of operations and comprehensive income.

### *(iii) Foreign operations*

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

### **Cash and cash equivalents**

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

### **Short-term investments**

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

### **Financial instruments**

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

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

#### *Available-for-sale*

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



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

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

*Loans and Receivables*

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

*Financial liabilities at amortized cost*

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

The Company is not party to any derivative financial instruments.

**Impairment of financial assets**

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

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

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

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

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The reversal of the previously recognized impairment loss is recognized in

## ENGHOUSE SYSTEMS LIMITED

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

the consolidated interim statements of operations and comprehensive income (loss). Impairment losses on available-for-sale equity instruments are not reversed.

#### **Property, plant and equipment**

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

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

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

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

#### **Acquired software and customer relationships**

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

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

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

#### **Goodwill**

Goodwill represents the excess of the purchase price of business acquisitions over the fair values of identifiable net assets acquired in such acquisitions and is allocated as at the date of the business combination. Goodwill acquired through a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal

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management purposes, which is not higher than an operating segment. The Company has two CGUs, the Interactive Management Group and the Asset Management Group, which the goodwill has been allocated between. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

**Impairment of non-financial assets**

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

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

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

No such impairment losses have been recognized during the period.

**Employee benefits***(i) Post-employment benefit obligations*

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

*(ii) Stock-based compensation plans*

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

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

*(iii) Termination benefits*

The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees in accordance with a detailed formal plan without possibility for

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withdrawal, or providing benefits as a result of an offer made to encourage voluntary termination. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

*(iv) Short-term employee benefits*

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

**Accrued provisions**

Accrued provisions, including those for onerous contracts, legal claims and restructuring, are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Accrued provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

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

Disclosure of a contingent liability is included where it is likely that no present obligation exists at the end of the period, unless the possibility of outflows is remote.

**Income taxes**

Income tax expense comprises current income tax expense and deferred income tax expense. Current income tax and deferred income tax expense are recognized in the consolidated interim statements of operations and comprehensive income (loss), except to the extent that it relates to items recognized directly in comprehensive income (loss) or equity, in which case the income tax is also recognized directly in comprehensive income (loss) or equity.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is

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probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilized. The carrying value of deferred income tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be recovered. Deferred income tax liabilities are not recognized on temporary differences that arise from goodwill, which is not deductible for tax purposes.

A deferred income tax liability is recognized for all taxable temporary differences, except to the extent that the deferred income tax liability arises from the initial recognition of certain assets and liabilities acquired other than in a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be recognized simultaneously. Deferred income tax assets and liabilities are presented as non-current.

Income taxes on income in interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

**Dividends**

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

**Share capital**

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

**Revenue recognition**

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

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

Typically, the Company's software license agreements are multiple-element arrangements that also include the provision of maintenance, hosted services, professional services and hardware. These multiple-element arrangements are assessed to determine whether they can be sold separately in order to determine whether they can be treated as more than one unit of accounting or element for the purposes of revenue recognition. Consideration from the arrangement is allocated in multiple-element arrangements to the separate units of accounting, or elements, on a relative fair value basis as determined by an internal analysis of prices. Revenue is recognized for each element according to the revenue recognition policy stated above. If the elements cannot be sold separately, revenue for the arrangement as a whole is accounted for as a single unit of accounting or element and is deferred until all elements have been delivered.

Services revenue is comprised of hosted and maintenance services revenue and professional services revenue, which includes consulting and training revenue. The amount of the selling price associated with hosted and maintenance services revenue agreements is deferred and recognized as revenue over the

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period during which the services are performed. This deferred income is included on the consolidated statement of financial position as a current liability to the extent the services are to be delivered in the next twelve months. Set-up fees on hosted services revenue is deferred and recognized on a straight-line basis over the estimated life of the customer relationship period. The customer relationship period is assessed annually and has been estimated to be 60 months. Professional services revenue is recognized as delivered.

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

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

#### **Direct costs**

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

#### **Research and development costs**

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

#### **Special charges**

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

#### **Finance income and finance expenses**

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

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

#### **Earnings per share**

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

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

#### **Segmented reporting**

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

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**Critical accounting estimates and judgments**

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

Estimates and underlying assumptions are reviewed on a regular basis. Significant areas requiring the Company to make estimates, assumptions and judgments include those related to revenue recognition, allowance for doubtful accounts, 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. Revisions to the accounting estimates are recognized in the period in which the estimates are revised and will be recorded with corresponding impact on comprehensive income.

**Revenue recognition**

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

**Allowance for doubtful accounts**

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

**Acquired assets and liabilities including intangible assets and goodwill**

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

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

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

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

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

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

### **Income taxes**

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

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

### **4. Accounting standards issued but not yet applied**

The IASB has issued the following standards which have not yet been adopted by the Company. Each of these new standards is effective for annual periods beginning on or after January 1, 2013 with early



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adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new standards.

The following is a description of the new standards.

*IFRS 9, Financial Instruments ("IFRS 9")* was issued in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models used in IAS 39 for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, wherein such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and largely carry forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss).

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

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

*IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12")* establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities.

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

**Amendments to existing standards not yet effective**

In addition to the issuance of new standards, there have been amendments to existing standards, including *IAS 1, "Presentation of Financial Statements ("IAS 1")*, *IAS 19, "Employee Benefits" ("IAS 19")*, *IAS 27, Separate Financial Statements ("IAS 27")* and *IAS 28, Investments in Associates and Joint Ventures ("IAS*

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28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The amendments to IAS 1 will require entities to group items presented in other comprehensive income ("OCI") based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date. Amendments to IAS 1 are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. Amendments to IAS 19 eliminate an entity's option to defer the recognition of certain gains and losses related to post-employment benefits, require re-measurement of associated assets and liabilities in OCI and provide for additional disclosure of all employee benefits. The amendments to IAS 19 are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The IASB also issued amendments to *IAS 32, Financial Instruments: Presentation* ("IAS 32"). The amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. These amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

**5. Transition to IFRS**

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

**(i) Transition elections**

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

The transition elections used in the preparation of these consolidated interim financial statements are the same transition elections as disclosed in the consolidated interim financial statements and notes thereto for the three months ended January 31, 2012. Refer to the consolidated interim financial statements and notes thereto for the three months ended January 31, 2012 for details of the transitional exceptions and exemptions to full retrospective application of IFRS applied by the Company in its preparation of the opening IFRS consolidated statement of financial position as at November 1, 2010, the Company's "transition date".

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

Ref	October 31, 2011			July 31, 2011			November 1, 2010		
	CDN GAAP	Adj.	IFRS	CDN GAAP	Adj.	IFRS	CDN GAAP	Adj.	IFRS
<b>Current assets:</b>									
	\$ 65,624		\$ 65,624	\$ 52,272		\$ 52,272	\$ 46,640		\$ 46,640
	33,967		33,967	35,683		35,683	31,627		31,627
	23,006		23,006	23,800		23,800	24,500		24,500
	-		-	-		-	591		591
b,g	1,769	(1,769)	-	542	(542)	-	447	(447)	-
	3,479		3,479	3,519		3,519	3,360		3,360
	<b>127,845</b>	<b>(1,769)</b>	<b>126,076</b>	<b>115,816</b>	<b>(542)</b>	<b>115,274</b>	<b>107,165</b>	<b>(447)</b>	<b>106,718</b>
<b>Non-current assets:</b>									
	1,791	(248)	1,543	1,702	(250)	1,452	1,844	(256)	1,588
e	28,531	1,178	29,709	31,870		31,870	34,330		34,330
f	38,287	5,447	43,734	43,309	(1,775)	41,534	35,137		35,137
d,f	9,295	1,843	11,138	3,166	618	3,784	2,951	527	3,478
b,g									
	<b>\$205,749</b>	<b>\$6,451</b>	<b>\$212,200</b>	<b>\$ 195,863</b>	<b>\$ (1,949)</b>	<b>\$193,914</b>	<b>\$ 181,427</b>	<b>\$ (176)</b>	<b>\$ 181,251</b>
<b>Liabilities</b>									
<b>Current liabilities:</b>									
	\$ 25,128	(2,442)	\$ 22,686	\$ 23,370	\$(2,135)	\$ 21,235	\$ 20,115	\$(1,307)	\$ 18,808
h	3,579	(701)	2,878	1,609	(701)	908	-		-
f	1,267		1,267	1,262		1,262	1,007		1,007
	-	2,442	2,442	-	2,135	2,135	-	1,307	1,307
h	28,933		28,933	30,200		30,200	26,040		26,040
	<b>58,907</b>	<b>(701)</b>	<b>58,206</b>	<b>56,441</b>	<b>(701)</b>	<b>55,740</b>	<b>47,162</b>	<b>-</b>	<b>47,162</b>
<b>Non-current liabilities:</b>									
	10,283	460	10,743	12,138		12,138	12,571		12,571
d , b	420		420	574		574	522		522
	1,404		1,404	1,190		1,190	790		790
	<b>71,014</b>	<b>(241)</b>	<b>70,773</b>	<b>70,343</b>	<b>(701)</b>	<b>69,642</b>	<b>61,045</b>	<b>-</b>	<b>61,045</b>
<b>Equity</b>									
	52,134		52,134	51,260		51,260	50,705		50,705
	2,613	357	2,970	2,697	348	3,045	2,429	224	2,653
a	91,613	(6,325)	85,288	86,960	(14,256)	72,704	79,606	(13,060)	66,546
cde,j									
	(11,625)	12,660	1,035	(15,397)	12,660	(2,737)	(12,358)	12,660	302
c,i									
	<b>134,735</b>	<b>6,692</b>	<b>141,427</b>	<b>125,520</b>	<b>(1,248)</b>	<b>124,272</b>	<b>120,382</b>	<b>(176)</b>	<b>120,206</b>
	<b>\$205,749</b>	<b>\$6,451</b>	<b>\$212,200</b>	<b>\$ 195,863</b>	<b>\$ (1,949)</b>	<b>\$193,914</b>	<b>\$ 181,427</b>	<b>\$ (176)</b>	<b>\$ 181,251</b>

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	Ref	Three months ended July 31, 2011			Nine months ended July 31, 2011		
		CDN GAAP	Adj.	IFRS	CDN GAAP	Adj.	IFRS
<b>Revenue</b>							
Software licenses		\$ 11,842		\$ 11,842	\$ 34,305		\$ 34,305
Hosted and maintenance services		15,190		15,190	42,344		42,344
Professional services		4,272		4,272	11,685		11,685
Hardware		516		516	2,389		2,389
		<b>31,820</b>	<b>-</b>	<b>31,820</b>	<b>90,723</b>	<b>-</b>	<b>90,723</b>
<b>Direct costs</b>							
Software licenses		909		909	4,439		4,439
Services	a	6,684		6,684	19,763	1	19,764
Hardware		317		317	1,729		1,729
		<b>7,910</b>	<b>-</b>	<b>7,910</b>	<b>25,931</b>	<b>1</b>	<b>25,932</b>
<b>Revenue, net of direct costs</b>		<b>23,910</b>		<b>23,910</b>	<b>64,792</b>	<b>(1)</b>	<b>64,791</b>
<b>Operating expenses</b>							
Selling, general and administrative	a,k	11,094	309	11,403	29,182	1,508	30,690
Research and development	a	3,725	1	3,726	11,459	6	11,465
Depreciation of property, plant and equipment	e	264	(3)	261	823	(6)	817
Special charges	d	-	-	-	-	1,775	1,775
		<b>15,083</b>	<b>307</b>	<b>15,390</b>	<b>41,464</b>	<b>3,283</b>	<b>44,747</b>
<b>Results from operating activities</b>		<b>8,827</b>	<b>(307)</b>	<b>8,520</b>	<b>23,328</b>	<b>(3,284)</b>	<b>20,044</b>
Amortization of acquired software and customer intangibles		(2,670)		(2,670)	(7,604)		(7,604)
Finance income	k	144	6	150	393	21	414
Finance expenses	k	-	(54)	(54)	-	(152)	(152)
Other income (expense)	k	61	195	256	169	158	327
Foreign exchange losses		(146)	146	-	(1,364)	1,364	-
<b>Income before income taxes</b>		<b>6,216</b>	<b>(14)</b>	<b>6,202</b>	<b>\$ 14,922</b>	<b>(1,893)</b>	<b>\$ 13,029</b>
<b>Provision for income taxes</b>	f	1,623	2	1,625	4,006	(697)	3,309
<b>Net income for the year</b>		<b>\$ 4,593</b>	<b>\$ (16)</b>	<b>\$ 4,577</b>	<b>\$ 10,916</b>	<b>\$ (1,196)</b>	<b>\$ 9,720</b>
<b>Net income attributable to:</b>							
Owners of the parent		\$ 4,593	\$ (16)	\$ 4,577	\$ 10,916	\$ (1,196)	\$ 9,720
Non-controlling interests		-	-	-	-	-	-
		<b>\$ 4,593</b>	<b>\$ (16)</b>	<b>\$ 4,577</b>	<b>\$ 10,916</b>	<b>\$ (1,196)</b>	<b>\$ 9,720</b>
<b>Other comprehensive income (loss):</b>		<b>\$ 4,593</b>	<b>\$ (16)</b>	<b>\$ 4,577</b>	<b>\$ 10,916</b>	<b>\$ (1,196)</b>	<b>\$ 9,720</b>
Foreign currency translation differences from foreign operations		(409)		(409)	(3,563)		(3,563)
Transfer to net income of realized gains on available for sale investments, net of tax		(51)		(51)	(142)		(142)
Unrealized gain (loss) on available for sale investments, net of tax		254		254	735		735
Unrealized foreign currency translation (loss) gain on available for sale investments, net of tax		4		4	(69)		(69)
<b>Other comprehensive income (loss)</b>		<b>(202)</b>	<b>-</b>	<b>(202)</b>	<b>(3,039)</b>	<b>-</b>	<b>(3,039)</b>
<b>Comprehensive income (loss)</b>		<b>\$ 4,391</b>	<b>\$ (16)</b>	<b>\$ 4,375</b>	<b>\$ 7,877</b>	<b>\$ (1,196)</b>	<b>\$ 6,681</b>

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**(iii) Explanatory notes:**

(a) **Stock-based compensation:** Under Canadian GAAP, each grant was treated as a single arrangement and compensation expense determined at the time of grant and amortized over the vesting period on a straight line basis. Under IFRS, stock-based compensation costs are based on the estimated number of instruments expected to vest using the graded method of amortization for each vesting tranche on a straight line basis as if they each were a separate grant. Under Canadian GAAP, forfeitures of stock-based compensation awards can be accounted for in the period in which the forfeiture occurs. Under IFRS, forfeitures must be estimated and will be revised for actual forfeitures in subsequent periods. Generally this results in accelerated expense recognition under IFRS. Under IFRS, as compared to Canadian GAAP, this increased contributed surplus and reduced retained earnings at the date of transition and increased staff costs by \$17 and \$124 for the three and nine months ended July 31, 2011 respectively.

(b) **Deferred income tax:** Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of assets or liabilities to which the deferred income tax relates or to the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or current liabilities must be classified as current. Accordingly, current deferred income tax reported under Canadian GAAP of \$447 at November 1, 2010 (\$542 at July 31, 2011 and \$1,769 at October 31, 2011) has been reclassified as non-current under IFRS.

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

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

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

	October 31, 2011	July 31, 2011	November 1, 2010
Decrease in:			
Property, plant and equipment	\$ (248)	\$ (250)	\$ (256)
Decrease in retained earnings	<u>\$ (248)</u>	<u>\$ (250)</u>	<u>\$ (256)</u>

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

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### Notes to Consolidated Interim Financial Statements For the three and nine months ended July 31, 2012 and 2011

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	<b>Three months ended July 31, 2011</b>	<b>Nine months ended July 31, 2011</b>
Increase (decrease) in:		
Depreciation	\$ (3)	\$ (6)
(Increase) decrease in income before income taxes	<b>\$ (3)</b>	<b>\$ (6)</b>

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

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

	Ref	October 31, 2011	July 31, 2011	November 1, 2010
Restructuring and transaction costs on business combinations	d	(701)	(701)	-
Property, plant and equipment	e	(74)	(76)	(80)
Goodwill and intangibles	f	460	-	-
		<b>\$ (315)</b>	<b>\$ (777)</b>	<b>\$ (80)</b>

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

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

	Ref	October 31, 2011	July 31, 2011	November 1, 2010
Accumulated other comprehensive loss as reported under Canadian GAAP		\$ (11,625)	\$ (15,397)	\$ (12,358)
IFRS adjustments increase (decrease):				
Cumulative translation adjustment	c	12,660	12,660	12,660
<b>Accumulated other comprehensive gain (loss) as reported under IFRS</b>		<b>\$ 1,035</b>	<b>\$ (2,737)</b>	<b>\$ 302</b>

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

	Ref	October 31, 2011	July 31, 2011	November 1, 2010
Retained earnings as reported under Canadian GAAP		\$ 91,613	\$ 86,960	\$ 79,606
IFRS adjustments increase (decrease):				
Amortization of stock based compensation	a	(357)	(348)	(224)
Cumulative translation adjustment	c	(12,660)	(12,660)	(12,660)
Restructuring and transaction costs on business combinations	d	(1,775)	(1,775)	-
Tax on restructuring and transaction costs	d	701	701	-
Property, plant and equipment	e	(248)	(250)	(256)
Tax on property, plant and equipment	e	74	76	80
Goodwill and intangibles	f	7,940	-	-
<b>Retained earnings as reported under IFRS</b>		<b>\$ 85,288</b>	<b>\$ 72,704</b>	<b>\$ 66,546</b>

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

**(iv) Adjustments to the consolidated interim statement of cash flows**

The transition to IFRS from Canadian GAAP had no significant impact on the cash flows generated by the Company except that, under IFRS, cash flows relating to interest are classified in a consistent manner as operating, investing or financing each period. Under Canadian GAAP, cash flows relating to interest payments were classified as investing.

### 6. Cash and cash equivalents and Short-term investments

	July 31, 2012		October 31, 2011	
	Carrying Value	Market Value	Carrying Value	Market Value
<b>Cash and cash equivalents</b>	<b>\$ 39,863</b>	<b>\$ 39,863</b>	<b>\$ 65,624</b>	<b>\$ 65,624</b>
<b>Short-term investments:</b>				
Mutual funds	\$ 2,653	\$ 2,653	\$ 16,638	\$ 16,638
Banker's acceptances	30,947	30,949	10,532	10,520
Government/Corporate bonds	3,772	3,751	3,779	3,768
Equities	2,465	2,465	3,018	3,018
<b>Total</b>	<b>\$ 39,837</b>	<b>\$ 39,818</b>	<b>\$ 33,967</b>	<b>\$ 33,944</b>

On April 1, 2011, the Company paid U.S. \$3.0 million on the acquisition of CosmoCom, Inc. (Note 14) into escrow to be released to the vendors, subject to hold back and adjustment, on April 1, 2012. Of this amount, \$1.2 million was released to the Company in July 2011 in settlement of the initial holdback obligation, while the remaining balance was paid to the Company in April 2012 in settlement of the final holdback obligation.

In March 2012, the Company posted a standby letter of credit in the amount of US\$7.8 million pending the outcome of an appeal of a litigation matter (see Note 16). The amount will only be paid out in the event the Company is unsuccessful in the appeal. A cash deposit of CDN\$9.7 million underlying the standby letter of credit to offset potential foreign exchange risk is restricted as to use and has been reflected on the consolidated interim statement of financial position in cash and cash equivalents.

## ENGHOUSE SYSTEMS LIMITED

### Notes to Consolidated Interim Financial Statements For the three and nine months ended July 31, 2012 and 2011

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On June 1, 2012, the Company paid approximately US \$4.5 million on the acquisition of Zeacom Group Limited (Note 14) into escrow to be released to the vendors, subject to holdback and adjustment on June 1, 2013. The use of the cash held in escrow is restricted and has been included in cash on the Company's balance sheet as at July 31, 2012.

#### 7. Property, plant and equipment and intangible assets

##### (i) Property, plant and equipment

	Plant (1)	Furniture and Fixtures	Computer Hardware and Software	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
<b>At November 1, 2010</b>					
Cost	-	1,372	9,364	1,078	11,814
Accumulated depreciation	-	(1,234)	(8,305)	(687)	(10,226)
<b>Net book value</b>	<b>-</b>	<b>138</b>	<b>1,059</b>	<b>391</b>	<b>1,588</b>
<b>Year ended October 31, 2011</b>					
Opening net book value	-	138	1,059	391	1,588
Additions	-	2	902	128	1,032
Disposals	-	-	-	-	-
Depreciation	-	(94)	(814)	(194)	(1,102)
Exchange difference	-	39	(70)	56	25
<b>Closing net book value</b>	<b>-</b>	<b>85</b>	<b>1,077</b>	<b>381</b>	<b>1,543</b>
<b>At November 1, 2011</b>					
Cost	-	1,359	10,054	1,229	12,642
Accumulated depreciation	-	(1,274)	(8,977)	(848)	(11,099)
<b>Net book value</b>	<b>-</b>	<b>85</b>	<b>1,077</b>	<b>381</b>	<b>1,543</b>
<b>Period ended July 31, 2012</b>					
Opening net book value	-	85	1,077	381	1,543
Additions	741	209	1,524	417	2,891
Disposals	-	-	-	-	-
Depreciation	(5)	(33)	(707)	(197)	(942)
Exchange difference	10	8	116	(64)	70
<b>Closing net book value</b>	<b>746</b>	<b>269</b>	<b>2,010</b>	<b>537</b>	<b>3,562</b>
<b>At July 31, 2012</b>					
Cost	751	1,751	12,397	1,640	16,539
Accumulated depreciation	(5)	(1,482)	(10,387)	(1,103)	(12,977)
<b>Net book value</b>	<b>746</b>	<b>269</b>	<b>2,010</b>	<b>537</b>	<b>3,562</b>

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



## ENGHOUSE SYSTEMS LIMITED

### Notes to Consolidated Interim Financial Statements For the three and nine months ended July 31, 2012 and 2011

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

(ii) Intangible assets

	Acquired Software \$	Customer Relationships \$	Total \$
<b>At November 1, 2010</b>			
Cost	52,331	25,419	77,750
Accumulated amortization	(33,808)	(9,612)	(43,420)
<b>Net book value</b>	<b>18,523</b>	<b>15,807</b>	<b>34,330</b>
<b>Year ended October 31, 2011</b>			
Opening net book value	18,523	15,807	34,330
Acquisition	4,373	1,671	6,044
Disposal	-	-	-
Amortization	(7,051)	(3,240)	(10,291)
Exchange difference	(136)	(238)	(374)
<b>Closing net book value</b>	<b>15,709</b>	<b>14,000</b>	<b>29,709</b>
<b>At November 1, 2011</b>			
Cost	56,579	26,700	83,279
Accumulated depreciation	(40,870)	(12,700)	(53,570)
<b>Net book value</b>	<b>15,709</b>	<b>14,000</b>	<b>29,709</b>
<b>Period ended July 31, 2012</b>			
Opening net book value	15,709	14,000	29,709
Acquisition	16,649	7,749	24,398
Disposals	-	-	-
Amortization	(5,051)	(2,719)	(7,770)
Exchange difference	(393)	(290)	(683)
<b>Closing net book value</b>	<b>26,914</b>	<b>18,740</b>	<b>45,654</b>
<b>At July 31, 2012</b>			
Cost	73,228	34,449	107,677
Accumulated amortization	(46,314)	(15,709)	(62,023)
<b>Net book value</b>	<b>26,914</b>	<b>18,740</b>	<b>45,654</b>

### 8. Goodwill

The Continuity of goodwill by operating segment is as follows:

	July 31, 2012			October 31, 2011		
	Interactive Management Group	Asset Management Group	Total	Interactive Management Group	Asset Management Group	Total
Opening Balance	\$ 39,408	\$ 4,326	\$ 43,734	\$ 30,722	\$ 4,415	\$ 35,137
Additions, Net	16,258	5,272	21,530	9,090	-	9,090
Acquired tax benefit adjustment	-	-	-	(185)	(1)	(186)
Purchase price adjustments	(1,721)	-	(1,721)	-	-	-
Foreign exchange	(780)	170	(610)	(219)	(88)	(307)
<b>Ending balance</b>	<b>\$ 53,165</b>	<b>\$ 9,768</b>	<b>\$ 62,933</b>	<b>\$ 39,408</b>	<b>\$ 4,326</b>	<b>\$ 43,734</b>

## ENGHOUSE SYSTEMS LIMITED

### Notes to Consolidated Interim Financial Statements For the three and nine months ended July 31, 2012 and 2011

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

#### 9. Accrued Provisions

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

	<b>Total</b>
<b>At November 1, 2010</b>	<b>\$ 1,307</b>
Additional provisions	2,716
Unused amounts reversed	(334)
Utilized during the period	(1,244)
Effect of movements in foreign exchange	(3)
<b>At October 31, 2011</b>	<b>\$ 2,442</b>
<b>At November 1, 2011</b>	<b>\$ 2,442</b>
Additional provisions	549
Unused amounts reversed	(213)
Utilized during the period	(825)
Effect of movements in foreign exchange	(66)
<b>At July 31, 2012</b>	<b>\$ 1,887</b>

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

##### Capital Stock

The authorized share capital of the Company consists of an unlimited number of common shares, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 25,669,562 common shares outstanding as at July 31, 2012. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2011 or July 31, 2012.

##### Common share repurchase plan

On April 16, 2012, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,731,416 common shares of the Company, expiring on April 15, 2013. The Company did not repurchase any common shares in fiscal 2012 or the third quarter of 2011. The Company repurchased 4,800 common shares in fiscal 2011.

##### Accumulated other comprehensive income (loss)

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

##### *Cumulative translation account*

The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

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

Available-for-sale differences comprise the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

##### Dividends

During the three months ended July 31, 2012, the Company declared a dividend of \$0.065 per common share (three months ended July 31, 2011 - \$0.05 per common share).

**Notes to Consolidated Interim Financial Statements**  
**For the three and nine months ended July 31, 2012 and 2011**

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

**11. Stock-based Compensation**

The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 2,012,100 (October 31, 2011 – 2,344,400) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four years and expire seven to ten years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

A summary of the status of the Company's Plan as at July 31, 2012 and October 31, 2011, and changes during the nine and twelve months ended respectively on those dates is presented as follows:

	July 31, 2012		October 31, 2011	
	Number of Options	Weighted Average Exercise Price in \$	Number of Options	Weighted Average Exercise Price in \$
Outstanding at beginning of period	1,487,700	7.32	1,563,100	7.10
Granted	510,000	13.21	195,000	9.57
Exercised	(332,300)	6.97	(170,400)	6.63
Forfeited	(75,000)	7.16	(100,000)	9.49
Outstanding at end of period	<b>1,590,400</b>	<b>9.29</b>	<b>1,487,700</b>	<b>7.32</b>
Options exercisable at end of period	<b>731,900</b>	<b>7.10</b>	<b>846,700</b>	<b>6.86</b>

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. During the third quarter of 2012, the Company recorded a non-cash charge of \$216 (Q3/2011 - \$168).

For options granted in the period, the fair value of each stock option on the date of the grant was estimated using the Black-Scholes option pricing model as set out below. Estimated volatility is calculated on a daily basis using historical closing prices over a five year period, which reflects the expected life of the options.

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

## ENGHOUSE SYSTEMS LIMITED

### Notes to Consolidated Interim Financial Statements For the three and nine months ended July 31, 2012 and 2011

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

#### 12. Income tax

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The annual rate used for the year ended October 31, 2011 was (15%), while the estimated rate for the year ended October 31, 2012 was 23.6%. Prior to adjustments made on transition to IFRS, the effective annual tax rate for the year ended October 31, 2011 was 24.8%.

#### 13. Earnings per share:

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

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Net income attributable to owners of the parent	\$ 4,288	\$ 4,577	\$ 12,528	\$ 9,720
Weighted average number of common shares in issue	25,638	25,207	25,528	25,185
<b>Basic earnings per share</b>	<b>\$ 0.17</b>	<b>\$ 0.18</b>	<b>\$ 0.49</b>	<b>\$ 0.39</b>

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

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Net income attributable to owners of the parent	\$ 4,288	\$ 4,577	\$ 12,528	\$ 9,720
Weighted average number of common shares issued	25,638	25,207	25,528	25,185
Adjustments for:				
Stock options	515	413	480	349
Weighted average number of common shares for diluted earnings per share	26,153	25,620	26,008	25,534
<b>Diluted earnings per share</b>	<b>\$ 0.16</b>	<b>\$ 0.18</b>	<b>\$ 0.48</b>	<b>\$ 0.38</b>

#### 14. Acquisitions

##### 2012 Acquisitions:

##### ***Zeacom Group Limited***

On June 1, 2012, the Company acquired 100% of the issued and outstanding shares of Zeacom Group Limited for a cash purchase price of approximately \$31.7 million. Of this total, U.S. \$4.5 million was paid into escrow to be released to the vendors, subject to holdback and adjustment. Zeacom provides multi-channel contact center and business process automation solutions and is headquartered in Auckland, New Zealand with offices in Australia, the U.K. and the U.S. Results have been reported in the Interactive Management Group since the date of acquisition.

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#### **CustomCall Data Systems, Inc.**

On March 1, 2012, the Company acquired 100% of the issued and outstanding common shares of CustomCall Data Systems, Inc., for a cash purchase price of approximately \$7.0 million. Of this total, \$1.2 million was subject to holdback and adjustment. On June 1, 2012 \$0.4 million of this holdback was paid. CustomCall provides billing, provisioning and workflow solutions to Communications Service Providers in a hosted environment, with operations based in Madison, WI. Results have been reported in the Asset Management Group since the date of acquisition.

#### **2011 Acquisitions:**

##### **CosmoCom, Inc.**

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

The acquisitions have been recorded under the purchase method of accounting and results have been included in the consolidated interim statements of operations and comprehensive income (loss) from their respective acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill. Management has established the preliminary purchase price allocation taking into account all relevant information at the time of preparing these notes to consolidated interim financial statements. The Zeacom and CustomCall purchase price allocations have not been finalized subject to receipt of additional information related to the settlement of the holdback obligations.

The CosmoCom purchase price allocation has now been finalized with the settlement of the final holdback. The CosmoCom purchase equation was adjusted for the settlement of all holdback obligations, which in aggregate decreased goodwill by \$2.5 million, accounts receivable by \$0.1 million and increased current liabilities by \$0.3 million.

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

	<b>Zeacom</b>	<b>CustomCall</b>	<b>CosmoCom</b>
Cash	\$ 796	\$ 14	\$ 2,497
Accounts receivable, net	6,493	857	5,770
Prepays and other current assets	970	451	144
Property, plant and equipment	883	115	85
Other assets	385	-	238
Deferred income tax assets	828	-	2,374
Acquired software	14,489	2,161	4,373
Customer relationships	6,002	1,746	1,671
Goodwill	16,258	5,272	7,872
Total assets acquired	<u>\$ 47,104</u>	<u>\$10,616</u>	<u>\$ 25,024</u>
Less: Current liabilities assumed	\$ 10,303	\$ 2,040	\$ 7,135
Less: Deferred income tax liabilities	5,125	1,543	1,194
Total liabilities assumed	<u>\$ 15,428</u>	<u>\$ 3,583</u>	<u>\$ 8,329</u>
<b>Net assets acquired for cash consideration</b>	<u><b>\$ 31,676</b></u>	<u><b>\$ 7,033</b></u>	<u><b>\$ 16,695</b></u>

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### Notes to Consolidated Interim Financial Statements For the three and nine months ended July 31, 2012 and 2011

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#### 15. Segmented information

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

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

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

	Interactive Management Group	Asset Management Group	Total
<b>Three months ended July 31, 2012</b>			
Revenue	\$ 30,702	\$ 4,725	\$ 35,427
Operating expenses excluding non-cash charges	(22,328)	(3,374)	(25,702)
Depreciation of property, plant and equipment	(312)	(65)	(377)
Amortization of acquired software and customer relationships	(2,679)	(270)	(2,949)
<b>Segmented profit</b>	<b>\$ 5,383</b>	<b>\$ 1,016</b>	<b>\$ 6,399</b>
Corporate expenses			(1,002)
Finance income			194
Finance expenses			(72)
Other income			13
<b>Income before income taxes</b>			<b>\$ 5,532</b>
Goodwill	\$ 53,165	\$ 9,768	\$ 62,933
Other assets	113,454	22,350	135,804
Short-term investments			39,837
<b>Total assets</b>			<b>\$ 238,574</b>
Capital Expenditures	\$ 174	\$ 50	\$ 224

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### Notes to Consolidated Interim Financial Statements For the three and nine months ended July 31, 2012 and 2011

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	Interactive Management Group	Asset Management Group	Total
<b>Three months ended July 31, 2011</b>			
Revenue	\$ 28,642	\$ 3,178	\$ 31,820
Operating expenses excluding non-cash charges	(20,181)	(2,089)	(22,270)
Depreciation of property, plant and equipment	(218)	(43)	(261)
Amortization of acquired software and customer relationships	(2,558)	(112)	(2,670)
<b>Segmented profit</b>	<b>\$ 5,685</b>	<b>\$ 934</b>	<b>\$ 6,619</b>
Corporate expenses			(769)
Finance income			150
Finance expenses			(54)
Other income			256
<b>Income before income taxes</b>			<b>\$ 6,202</b>
Goodwill	\$ 37,164	\$ 4,370	\$ 41,534
Other assets	84,287	32,410	116,697
Short-term investments			35,683
<b>Total assets</b>			<b>\$ 193,914</b>
Capital Expenditures	\$ 179	\$ 11	\$ 190

	Interactive Management Group	Asset Management Group	Total
<b>Nine months ended July 31, 2012</b>			
Revenue	\$ 85,897	\$ 11,519	\$ 97,416
Operating expenses excluding non-cash charges	(61,535)	(8,821)	(70,356)
Depreciation of property, plant and equipment	(775)	(167)	(942)
Amortization of acquired software and customer relationships	(7,157)	(613)	(7,770)
<b>Segmented profit</b>	<b>\$ 16,430</b>	<b>\$ 1,918</b>	<b>\$ 18,348</b>
Corporate expenses			(2,630)
Finance income			698
Finance expenses			(183)
Other income			168
<b>Income before income taxes</b>			<b>\$ 16,401</b>
Capital Expenditures	\$ 995	\$ 898	\$ 1,893

## ENGHOUSE SYSTEMS LIMITED

### Notes to Consolidated Interim Financial Statements For the three and nine months ended July 31, 2012 and 2011

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

	Interactive Management Group	Asset Management Group	Total
<b>Nine months ended July 31, 2011</b>			
Revenue	\$ 80,956	\$ 9,767	\$ 90,723
Operating expenses excluding non-cash charges	(60,097)	(7,369)	(67,466)
Depreciation of property, plant and equipment	(692)	(125)	(817)
Amortization of acquired software and customer relationships	(7,267)	(337)	(7,604)
<b>Segmented profit</b>	<b>\$ 12,900</b>	<b>\$ 1,936</b>	<b>\$ 14,836</b>
Corporate expenses			(2,396)
Finance income			414
Finance expenses			(152)
Other income			327
<b>Income before income taxes</b>			<b>\$ 13,029</b>
Capital Expenditures	\$ 520	\$ 110	\$ 630

#### 16. Litigation and contingencies

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

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

Prior to consummation of the proposed settlement on December 5, 2006, the Third Circuit Court of Appeals issued a ruling concerning class certification, in which it concluded that the proposed class of IPO purchasers could not be certified, as the issues were not common among all class members. A petition seeking a rehearing of this December 5, 2006 ruling was denied by the Court on April 6, 2007. In light of this Court of Appeals ruling, the District Court entered an order on June 25, 2007 terminating the proposed settlement between the plaintiffs and the issuers, including Apropos.

In February 2009, an agreement to settle the litigation in its entirety was reached and definitive settlement documents were filed with the District Court. Final court approval of the settlement was received in October 2009. Several appeals were filed objecting to the definition of the settlement class and fairness of the settlement, however the last such appeal was dismissed January 10, 2012 and the process of distributing the settlement has begun. The insurance proceeds will be sufficient to cover its allocable share of the settlement.

*Southern California Gas Company v. Syntellec, Inc.:* Southern California Gas Company ("SoCal") filed a lawsuit against a wholly owned subsidiary of the Company relating to the indemnification provisions in a contract between the parties. The United States District Court, Southern District of California, has issued a judgment ("Judgment") in favor of SoCal which, together with certain additional SoCal costs and



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interest, amounts to U.S. \$7.8 million (“Award”). The Judgment has been appealed to the United States Ninth Circuit Court of Appeals, and a standby letter of credit in the full amount of the Award has been posted, pending the outcome of the appeal. SoCal may receive payment of all or part of the Award only if it is ultimately successful in the lawsuit.

**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.

**17. Changes in non-cash operating working capital**

	Three months ended July 31,		Nine months ended July 31,	
	2012	2011	2012	2011
Decrease (increase) in accounts receivable, net	\$ 3,656	\$ 8,574	\$ (1,108)	\$ 5,017
Decrease in prepaid expenses and other assets	1,252	222	1,199	22
(Decrease) increase in trade payables & accrued provisions	(6,955)	(1,902)	(12,756)	1,756
Increase in income taxes payable	1,149	202	3,153	3,360
Increase (decrease) in deferred revenue	4,220	(2,029)	10,742	3,676
Unrealized foreign exchange loss (gain)	40	746	(1)	1,906
	<b>\$ 3,362</b>	<b>\$ 5,813</b>	<b>\$ 1,229</b>	<b>\$ 15,737</b>