First Quarter Report
January 31, 2008

Enghouse Systems Limited

March 5, 2008

To our Shareholders,

First quarter revenue was $10.9 million, compared to $13.4 million reported in the same period last year. Net income for the first quarter was $0.8 million or $0.03 per share on a diluted basis compared to the prior year's first quarter net income of $1.8 million or $0.07 per share. The decline in revenue and profit was primarily a result of the impact of foreign exchange on translated revenue as well as decreased license and services revenue in the Company's Syntellect Division.

Operating expenses decreased to $6.4 million from $7.1 million in the prior year's first quarter. Included in the operating expenses are non-cash amortization charges of $1.5 million consistent with the prior year's first quarter charges and relate to the amortization of software and other intangibles. The Company reported $0.1 million in non-cash compensation expense related to stock options, marginally down from the expense reported in the prior year's first quarter as stock options become fully amortized.

The Company generated cash flows from operations of $2.0 million in the first quarter compared to $5.1 million in the prior year's first quarter, closing the quarter with $104.5 million in cash and short-term investments compared to $100.5 million at October 31, 2007. The Company continues to have no long-term debt.

The Board of Directors authorized the payment of an eligible quarterly dividend of $0.025 per share, payable on May 30, 2008 to shareholders of record at the close of business on May 14, 2008. The Company remains committed to its strategy of seeking further acquisitions to continue to diversify its revenue stream and expand its market presence.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis has been prepared as of March 5, 2008 and should be read in conjunction with the Company's interim unaudited consolidated financial statements and the notes thereto for the periods ended January 31, 2008 and 2007, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2007, contained in the Company's 2007 Annual Report to Shareholders.

Accounting Policies, Accounting Standards and Estimates:

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

The Company believes that these accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. These policies remain substantially unchanged from those discussed in the Company's latest Management's Discussion and Analysis for the year ended October 31, 2007, contained in the Company's 2007 Annual Report to Shareholders, with the exception of four new accounting standards issued by The Canadian Institute of Chartered Accountant's ("CICA") Accounting Standards Board and adopted by the Company on November 1, 2007.

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

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

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

The Company does not expect the adoption of these standards in fiscal 2008 to have a material impact on its consolidated financial statements.

Results of Operations:

Total revenue for the quarter was $10.9 million compared to $13.4 million in the prior year's first quarter. The decrease in revenue is attributable to weaker license revenue contributions from the live-service operations of the Syntellect Division and the impact of foreign exchange on the conversion of U.S. dollar revenue into Canadian dollars. During the first quarter the average foreign exchange rate used was $0.98 compared to $1.14 in the prior year's first quarter.

The Syntellect Division contributed $8.9 million in revenue in the quarter, a decrease from the $11.0 million reported in the first quarter of fiscal 2007. The decrease is mainly attributable to weaker license sales in the live-service operations of Apropos as a result of not closing transactions in the sales pipeline as anticipated. In U.S. dollar terms, the Syntellect Division reported revenue of $9.1 million in the first quarter compared to $9.6 million in the first quarter of fiscal 2007. Had the current year's first quarter U.S. dollar results been translated at the average foreign exchange rate used in the first quarter of fiscal 2007, this would have increased revenue by $1.5 million. The Asset Management Division contributed $2.0 million in the first quarter, compared to $2.4 million reported in the first quarter of fiscal 2007, which included incremental maintenance revenue related to the final year of a major Asset Management Division customer, valued at $0.7 million. The current year's first quarter revenue also included contributions from Ontira Communications Inc. ("Ontira"), acquired March 31, 2007.

Cost of sales for the quarter was $4.3 million or 40% of revenue compared to $4.5 million or 34% of revenue in the prior year's first quarter. The proportionate increase is the result of services being a higher percentage of total revenue.

Operating expenses for the quarter were $6.4 million, a decrease of $0.7 million from the $7.1 million reported in the first quarter of last year and reflect the benefit of translating the U.S. dollar denominated operating expenses into Canadian dollars at lower exchange rates than in the first quarter of 2007. Operating costs also include a full quarter of operating costs of Ontira, which was not acquired until the second quarter of fiscal 2007. Selling, general and administrative expenses include foreign exchange gains of $0.4 million in the first quarter compared to gains of $0.5 million in the first quarter of the prior fiscal year. Operating expenses also include non-cash charges related to the compensation expense attributed to stock option grants, which added $0.1 million in expense in the quarter but which is decreasing over prior year's expenses as option grants become fully amortized.

Non-cash charges for amortization of acquired software and other intangibles related to acquisitions were $1.5 million, comparable to the prior year's first quarter non-cash charges.

During the first quarter the Company recognized interest income of $1.1 million compared to $1.0 million in the first quarter of fiscal 2007 as a result of increased average cash balances in the quarter as well as improved returns on investments. The Company recorded no other income in the quarter compared to $0.1 million in gains on the sale of equity investments in the prior year's first quarter. The Company also had unrealized gains on available for sale investments reported in other comprehensive income of $0.3 million, net of tax, based on the increase in fair market valuations of portfolio investments held at January 31, 2008. These will not be reflected into net income until such time as the gains are realized.

During the quarter, the Company established a tax provision of $0.4 million or a 35.5% effective tax rate as compared to a provision of $1.0 million or 36% in the prior year's first quarter as the Company continues to provide for all future tax obligations. During the quarter, the Company paid $2.6 million in tax installments, compared to $2.7 million in the first quarter of fiscal 2007.

Net income decreased to $0.8 million, or $0.03 per share on a diluted basis in the first quarter compared to $1.8 million and $0.07 per share respectively in the first quarter of fiscal 2007 as a result of decreased license sales in the Syntellect Division and the impact of foreign exchange on translated revenue.

Liquidity and Capital Resources:

The Company closed the quarter with cash reserves of $104.5 million, an increase from the year end balance of $100.5 million. The Company continues to have no long-term debt and has sufficient cash resources to fund both its current and future financial operating commitments as well as dividend obligations. During the quarter the Company generated cash flow from operations of $2.0 million compared to $5.1 million in the first quarter of 2007. The Company had 25,400,724 Common Shares outstanding as at January 31, 2008. During the first quarter 259,000 stock options were exercised contributing cash of $1.2 million compared to 5,000 options exercised in the first quarter of fiscal 2007. The Company repurchased 29,400 shares of its common stock, for $0.2 million at an average price of approximately $7.00 under its Normal Course Issuer Bid in the first quarter (Q1-2007 – 38,000).

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, 2007, contained in the Company's 2007 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

Internal Control Over Financial Reporting:

The Company's Chief Executive Officer and Vice President Finance are responsible for designing internal control 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. There were no changes to the Company's internal control over financial reporting during the quarter ended January 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited consolidated interim financial statements of the Company for the three months ended January 31, 2008 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.

Consolidated Balance Sheets

(in thousands of Canadian dollars)
(Unaudited)

	January 31, 2008	October 31, 2007
Assets		
Current		
Cash	$ 12,831	$ 11,321
Short-term investments (Note 2)	91,700	89,184
Accounts receivable, net	9,068	10,376
Future income taxes	1,431	1,359
Prepaid expenses and other assets	1,846	1,488
	116,876	113,728
Property and equipment, net	1,873	1,930
Acquired software and other intangibles, net	14,586	15,819
Goodwill	11,100	10,652
Future income taxes	4,673	4,128
	$ 149,108	$ 146,257
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 7,722	$ 9,258
Income taxes payable	5,378	7,342
Dividend payable (Note 5)	635	629
Deferred revenue	15,056	12,602
	28,791	29,831
Future income taxes	8,030	7,964
Deferred revenue	889	953
	37,710	38,748
Shareholders' Equity		
Share capital	49,788	48,670
Contributed surplus	1,845	1,771
Retained earnings	69,917	69,931
Accumulated other comprehensive loss	(10,152)	(12,863)
	111,398	107,509
	$ 149,108	$ 146,257

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

Consolidated Statements of Operations and Retained Earnings
For the three months ended January 31

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

	2008	2007
Revenue		
Software licenses	$ 1,810	$ 2,753
Services	8,696	10,286
Hardware	358	389
	10,864	**13,428**
Cost of sales		
Software licenses	521	469
Services	3,536	3,763
Hardware	288	273
	4,345	4,505
Gross margin	**6,519**	**8,923**
Operating expenses		
Selling, general and administrative	2,865	3,345
Research and development	1,764	1,971
Stock-based compensation	76	117
Amortization of property and equipment	211	232
Amortization of acquired software and other intangibles	1,460	1,477
	6,376	7,142
Income before the undernoted	**143**	**1,781**
Interest income, net	1,053	971
Other income	-	132
Income before income taxes	**$ 1,196**	**$ 2,884**
Provision for income taxes	425	1,039
Net income for the period	**$ 771**	**$ 1,845**
Retained earnings, beginning of period	69,931	68,367
Dividends	(635)	-
Purchase and cancellation of common shares	(150)	(227)
Retained earnings, end of period	**$ 69,917**	**$ 69,985**
Earnings per share		
Basic	$ 0.03	$ 0.07
Diluted	$ 0.03	$ 0.07
Weighted average shares outstanding during period (millions)		
- basic	25.2	25.5
- diluted	26.0	26.4

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

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Loss
For the three months ended January 31

(in thousands of Canadian dollars)
(Unaudited)

	2008	2007
Net income for the period	$ 771	$ 1,845
Other comprehensive income:		
Unrealized gain on translating financial statements of self-sustaining foreign operations	2,482	447
Transfer to net income of realized gains on available for sale investments, net of tax of nil, (Q1/07 - $48)	-	(84)
Unrealized gain on available for sale investments, net of tax of $164 (Q1/07 - $413)	291	734
Unrealized foreign currency translation (loss) gain on available for sale investments, net of tax of $35 (Q1/07 - $22)	(62)	39
Other comprehensive income	**$ 2,711**	**$ 1,136**
Comprehensive income	**$ 3,482**	**$ 2,981**
Accumulated other comprehensive loss, beginning of period	**$ (12,863)**	**$ (5,852)**
Other comprehensive income	2,711	1,136
Accumulated other comprehensive loss, end of period	**$ (10,152)**	**$ (4,716)**

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

Consolidated Statements of Cash Flows
For the three months ended January 31

(in thousands of Canadian dollars)
(Unaudited)

	2008	2007
Cash flows from operating activities		
Net income for the period	$ 771	$ 1,845
Add (deduct) items not involving cash		
Amortization of property and equipment	211	232
Amortization of acquired software and other intangibles	1,460	1,477
Stock-based compensation expense	76	117
Gain on sale of short-term investments	-	(132)
Future income taxes	(381)	(21)
Cash flows before changes in operating assets and liabilities	**2,137**	**3,518**
Changes in operating assets and liabilities		
Decrease in accounts receivable, net	1,739	1,515
Increase in prepaid expenses and other assets	(284)	(15)
Decrease in accounts payable and accrued liabilities	(1,907)	(2,029)
Decrease in current income taxes payable	(2,091)	(1,552)
Increase in deferred revenue	1,744	3,757
Unrealized foreign exchange gain (loss)	618	(64)
Cash flows from operating activities	**1,956**	**5,130**
Cash flows from investing activities		
Purchase of property and equipment, net	(141)	(130)
Purchase of short-term investments, net	(1,265)	(912)
	(1,406)	**(1,042)**
Cash flows from financing activities		
Issuance of share capital	1,175	41
Payment of cash dividend	(629)	-
Purchase and cancellation of common shares	(207)	(301)
	339	**(260)**
Effect of foreign exchange rate changes on cash	621	300
Net increase in cash during the period	**1,510**	**4,128**
Cash – beginning of period	11,321	5,602
Cash – end of period	**$ 12,831**	**$ 9,730**
Supplementary cash flow information:		
Cash paid during the period for income taxes	$ 2,607	$ 2,722

Note: Cash excludes short-term investments (Note 2)

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

Notes to Interim Consolidated Financial Statements
(Unaudited)
January 31, 2008 and 2007
(in thousands of Canadian dollars)

1. Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in Canadian dollars in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and follow the same accounting policies and methods of application as the October 31, 2007 annual audited consolidated financial statements, with the exception of accounting for certain disclosures related to new accounting policies. These interim consolidated financial statements do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis contained in the Company's Annual Report for the fiscal year ended October 31, 2007.

Effective November 1, 2007 the Company adopted the following standards related to recent accounting pronouncements.

CICA Section 1535, *Capital Disclosures*, establishes disclosure requirements about an entity's capital and how it is managed. The new standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what an entity regards as capital and whether the entity has complied with any externally imposed capital requirements and the consequences of any non-compliance.

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

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

The Company does not expect the adoption of these standards in fiscal 2008 to have a material impact on its consolidated financial statements. The additional disclosures, required as a result of the adoption of these standards, have been included in Note 3, Capital Disclosures and Note 8, Financial Instruments.

2. Short-term investments

Short-term investments consist of the following:

	January 31, 2008		**October 31, 2007**	
	Cost	Market Value	Cost	Market Value
Mutual funds	$ 51,963	$ 51,963	$ 19,165	$ 19,166
Commercial paper	10,008	10,013	42,340	42,345
Banker's acceptances	24,211	24,227	1,347	1,347
Corporate bonds	4,113	4,114	25,282	25,259
Equities	1,405	1,405	1,050	1,050
Total	**$ 91,700**	**$ 91,722**	**$ 89,184**	**$ 89,167**

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3. Segmented Information

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

The Company's reportable segments each develop and market software products and provide services for their respective markets. The Syntellect Division, which also includes the operations of Apropos and Teloquent, develops, markets and integrates self-service software solutions including voice and speech based applications as well as traditional Interactive Voice Response ("IVR") systems, with a vertical market focus on the financial services, media, telecommunications, public utility and healthcare industries. The Asset Management Division, which includes the results of Ontira since the date of acquisition, March 31, 2007, develops, markets and provides services related to visual based network management software solutions to customers in the telecommunications, cable, electric and gas markets. The Company evaluates segment performance based on revenue and profit or loss before investment income and income taxes.

	Syntellect Division	Asset Management Division	Total
Three months ended January 31, 2008			
Revenue	$ 8,901	$ 1,963	$ 10,864
Operating expenses, excluding non-cash charges	6,847	2,069	8,916
Amortization of property and equipment	166	45	211
Amortization of acquired software and intangibles	1,264	196	1,460
Segmented profit	**$ 624**	**$ (347)**	**$ 277**
Corporate expense			(488)
Foreign exchange			354
Other income			0
Interest income			1,053
Income before income taxes			$ 1,196
Goodwill	$ 9,465	$ 1,635	$ 11,100
Other assets	37,696	8,612	46,308
Short-term investments			91,700
Total assets			**$149,108**

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	Syntellect Division	Asset Management Division	Total
Three months ended January 31, 2007			
Revenue	$ 10,983	$ 2,445	$ 13,428
Operating expenses, excluding non-cash charges	7,997	1,880	9,877
Amortization of property and equipment	205	27	232
Amortization of acquired software and intangibles	1,362	115	1,477
Segmented profit	**$ 1,419**	**$ 423**	**$ 1,842**
Corporate expense			(560)
Foreign exchange			499
Other income			132
Interest income			971
Income before income taxes			$ 2,884
Goodwill	$ 11,493	$ 2,378	$ 13,871
Other assets	44,991	9,758	54,749
Short-term investments			95,628
Total assets			**$164,248**

4. Acquisitions

On March 31, 2007, Transched Systems Limited, a wholly owned subsidiary of Enghouse, acquired 100% of the issued and outstanding common shares of Ontira Communications Inc. (“Ontira”) for consideration of $2.15 million including transaction costs, after adjustment for purchase price adjustments settled in November 2007. Ontira is a supplier of Automated Travel Information Systems (“ATIS”) for the transit and transportation industries, including a variety of solutions including enhanced IVR and multi-media systems.

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

Goodwill is assessed annually for any potential impairment in value. Other intangibles representing acquired software, patents and customer relationships are being amortized over a period of five, three and seven years, respectively.

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The Company's preliminary purchase price allocation is as follows:

Cash	$ 150
Accounts receivable, net	312
Prepaids and other current assets	11
Property and equipment	60
Future income tax assets	367
Acquired software	850
Other intangibles	350
Goodwill	1,414
Total assets acquired	$ 3,514
Less: Current liabilities assumed	$ 1,283
Less: Future income tax liabilities	77
Total liabilities assumed	1,360
Net assets acquired	$ 2,154

5. Dividends

In March 2007, the Company announced its plans to commence paying an eligible dividend of $0.025 per common share per quarter. The Company has paid dividends on May 31, 2007, August 31, 2007 and November 30, 2007. On December 17, 2007 the Company declared a dividend, which was paid on February 29, 2008 to shareholders of record as of February 14, 2008 for $635 which is reflected as dividends payable on the balance sheet at January 31, 2008.

6. Litigation and Contingencies

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

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

Prior to consummation of the proposed settlement on December 5, 2006, the Third Circuit Court of Appeals issued a ruling concerning class certification that may complicate or prevent final approval of the proposed settlement by the issuer plaintiffs. The Court of Appeals concluded that no class of IPO purchasers can appropriately be certified as the issues are not common among all class members. In light of this Court of Appeals ruling, it appears that the plaintiffs would need to pursue whatever claims they have against the underwriters on an individual, non-class-action basis. A petition seeking a rehearing of this December 5, 2006 ruling was denied by the Court on April 6, 2007. All proceedings against Apropos and the 300 other publicly

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traded companies have been stayed pending further submissions to the Court regarding class certification. It is not expected that the Court will provide a further ruling on class certification until the summer of 2008, at the earliest. As a result of the Court's ruling on the class certification, the viability of the proposed settlement cannot yet be determined. Apropos expects that its insurance proceeds will be sufficient to cover its allocable share of the settlement costs, if any.

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

In response to correspondence from and, in a few instances, litigation instigated by, third party patent holders, a few of the Company's customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. The Company does not believe that it currently has any obligation to provide such a defense or that the Company's products infringe any third party patent. The Company is not aware of any claims or allegations having been made by any third party patent holder that a specific product offered by the Company infringes any third party patent claim. If the Company does become involved in litigation, under a contractual indemnity or any other legal theory, the Company will assert all appropriate defenses.

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

The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

8. Financial Instruments
Under the new standards, financial assets and financial liabilities are initially recorded at fair value and are subsequently measured based on their classification as described below. The Company classifies its financial instruments into various categories based on the purpose for which the financial instruments were acquired and their characteristics.

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

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

Available-for-sale
Available-for sale investments are carried at fair market value, except where the instrument does not have a quoted market price in an active market, with foreign exchange and revaluation gains and losses included in other comprehensive income or loss until the gains and losses are realized when equities are sold in the market or there is impairment in the value. The Company considers its portfolio equity investments to be available for sale assets. The equities held by the Company are those of publicly traded companies whose fair values are determined by the quoted market values for each investment at the balance sheet date. The fair value of the Company's equity portfolio is subject to fluctuations in equity markets and is denominated in U.S. dollars as at January 31, 2008.

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

Financial liabilities
Accounts payable, accrued liabilities, dividends payable, income tax payable and deferred revenue are classified as other financial liabilities and are measured at amortized cost.

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

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

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

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(in thousands of Canadian dollars)

Credit Risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The amounts reported in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company believes that its credit risk with respect to accounts receivable is limited for a number of reasons including dealing primarily with large companies and governmental agencies, diversifying its customer base across varying industries and geographic locations and past experience with bad debt expenses. The Company historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

The Company limits its exposure to credit risks from counter-parties to financial instruments by dealing with only major financial institutions and large multi-national corporations with high credit-ratings. Management does not expect any counter-parties to fail to meet their obligations. The carrying amount of financial assets represents the maximum credit exposure to the Company.

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

For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the Canadian dollar will create volatility in the Company's cash flows and the reported amounts for revenue and selling, general and administrative expenses on a period-to-period basis.

Additional earnings volatility arises from the translation of monetary assets and liabilities denominated in currencies other than Canadian dollars at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain or loss included in the Company's selling, general and administrative expenses. For the quarter ended January 31, 2008 the Company reported foreign exchange gains of $0.4 million, compared to gains of $0.5 million in the first quarter of fiscal 2007. During the first quarter of fiscal 2008 the exchange rate for U.S. dollars to Canadian dollars averaged $0.98, compared to $1.14 in the first quarter of fiscal 2007.

Interest rate risk
The Company is not exposed to interest rate risk on debt as the Company has no long-term debt.