ENGHOUSE SYSTEMS LIMITED

First Quarter Report | January 31, 2010

March 8, 2010

To our Shareholders,

First quarter revenue was $19.5 million, compared to $18.2 million reported in the same period last year, Operating income for the quarter was $3.7 million compared to $2.6 million in the prior year's first quarter, an increase of 45%. Net income for the first quarter was $1.9 million or $0.08 per share on a diluted basis compared to the prior year's first quarter net income of $0.8 million or $0.03 per share. The increase in revenue was primarily a result of increased license sales in the quarter and contributions from acquisitions. As has become the norm, revenue and operating costs are impacted by the volatility of foreign exchange as outlined in the MD&A.

Operating expenses increased to $9.5 million from $8.6 million in the prior year's first quarter and include incremental operating costs related to the Trio and Pulse acquisitions, not included in the prior quarter's results. Non-cash amortization charges were $1.8 million compared to $2.0 million in the prior year's first quarter and include amortization charges for acquired software and other intangibles from the acquired operations including Trio and Pulse.

The Company generated cash flows from operations of $2.1 million in the first quarter compared to $2.0 million in the prior year's first quarter. Enghouse closed the quarter with $89.8 million in cash and short-term investments, after payment of $4.2 million related to the acquisition of Pulse and $1.3 million for the final holdback on the Envox acquisition, compared to $93.2 million at October 31, 2009. The Company continues to have no long-term debt and did not repurchase any shares in the quarter.

During the quarter the Company integrated the acquisition of Pulse Voice Inc., completed on November 1, 2009 into its Asset Management and Syntellect (IVR) divisions. The Board of Directors today authorized a 33.3% increase to the eligible quarterly dividend from $0.03 per common share to $0.04 per common share, payable on May 31, 2010 to shareholders of record at the close of business on May 17, 2010. 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 8, 2010 and should be read in conjunction with the Company's unaudited consolidated interim financial statements and the notes thereto for the periods ended January 31, 2010 and 2009, as well as the Company's audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2009, contained in the Company's 2009 Annual Report to Shareholders.

Non-GAAP Measures

The Company uses non-GAAP measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP 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 operating income as a measure of performance. Therefore, operating income may not be comparable to similar measures presented by other issuers. Operating income is calculated as net income before amortization of acquired software and other intangibles, net interest income, other income, foreign exchange gains and losses and the provision for income taxes. This is denoted as "Income before the undernoted" on the Consolidated Statements of Operations and Retained Earnings of the Company. Management uses operating income to evaluate performance as it excludes amortization of software and intangibles and foreign exchange gains and losses.

Accounting Policies, Accounting Standards and Estimates

The Company's unaudited consolidated interim financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The preparation of the Company's unaudited consolidated interim 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 unaudited consolidated interim 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, 2009, contained in the Company's 2009 Annual Report to Shareholders, with the exception of new accounting standards issued by The Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board and adopted by the Company on November 1, 2009.

Changes in accounting policy:

In January 2009, the CICA issued Emerging Issue Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC 173"), which requires the consideration of the Company's own credit risk and the credit risk of the Company's counterparty when determining the fair value of financial assets and liabilities. The adoption of these new recommendations has had no significant impact on the Company's unaudited consolidated interim financial statements.

CICA Handbook section 1506, *Accounting Changes,* was amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The amendments apply to interim and annual financial statements for years beginning on or after July 1, 2009.

The impact of this amendment did not have an impact on the unaudited consolidated interim financial statements.

Recent accounting pronouncements issued and not yet applied:

In January 2009, CICA Section 1582, *Business Combinations* was issued replacing Section 1581 *Business Combinations.* The Section establishes standards for the accounting for business combinations and provides the Canadian equivalent to the International Financial Reporting Standards ("IFRS") standard, IFRS 3 (revised), *Business Combinations.* The Section applies prospectively to business combinations for which the acquisition date is on or after October 1, 2011 and allows for earlier application. CICA Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests* were issued replacing Section 1600, *Consolidated Financial Statements.* These sections establish standards for the preparation of consolidated financial statements and accounting for non-controlling interest in a subsidiary subsequent to a business combination. The sections are equivalent to the corresponding provisions of the IFRS standard, IAS 27 (revised), *Consolidated and Separate Financial Statements.* The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2011 and allows for earlier adoption. The Company is currently assessing the impact the adoption of these new Standards may have on the Company's results of operations and consolidated financial position.

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This EIC (a) provides updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; (b) requires, in situations where the vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling prices, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (c) eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method and (d) requires expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes required under EIC 175 are effective for fiscal years beginning on or after January, 1, 2011, with earlier adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If EIC 175 is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal year. The Company is currently assessing the impact of these amendments on its financial statements and has not yet determined either the timing or method of its adoption.

Harmonization of Canadian and International Accounting Standards

In February 2008 the CICA Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company expects that its first unaudited consolidated interim financial statements presented in accordance with IFRS will be for the three month period ending January 31, 2012, and its first audited consolidated annual financial statements presented in accordance with IFRS will be for the year ending October 31, 2012 and will include comparative results for 2011.

The Company's conversion project consists of three phases:

- *Scoping and diagnostic phase* – this phase involves performing a high-level impact assessment to identify key areas that are expected to be impacted by the transition to IFRS. The objective of this phase is to perform a detailed review of all relevant IFRS standards to identify differences with our current policies and practices, consider one-time accounting policy alternatives available on the adoption of IFRS and to prioritize those differences that could have a material impact on the financial statements, business processes and IT systems.

- *Impact analysis, evaluation and design phase* – each area identified from the scoping and diagnostic phase will be addressed in order of descending priority. The objective of this phase will be to specify, quantify and design changes to existing accounting policies, information systems and business processes, together with a detailed analysis of policy choices under IFRS and the development of draft IFRS consolidated financial statements.

- *Implementation and review phase* – this phase involves the implementation of changes to affected accounting policies and practices, business processes and systems and internal controls and training programs across the organization, as necessary. It will culminate in the collection of the financial information necessary to compile IFRS-compliant financial statements.

Progress towards completion of our IFRS Changeover Plan:

The Company's Audit Committee is updated on the progress of the conversion plan on a quarterly basis. As at January 31, 2010, the following progress has been made relating to the Company's IFRS conversion plan:

The Company completed its preliminary scoping and diagnostic analysis in the fourth quarter of Fiscal 2009 identifying the key differences between Canadian GAAP and IFRS that will impact our financial statements, including accounting differences and policy alternatives under IFRS as compared to Canadian GAAP. The Company is currently in the process of reviewing and refining the diagnostic analysis and finalizing the project team to be comprised of both internal resources and external consultants. IFRS training is currently ongoing for relevant project team members and will be rolled out as the project progresses to include all project team members, the Audit Committee and other stakeholders.

We have determined that in many respects the Company's accounting policies are aligned with IFRS requirements and that there are likely to be no material differences in the majority of line items in the Company's balance sheet and income statement from that reported under Canadian GAAP. However, the Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and will identify and assess the extent of these additional disclosure requirements as well as the impact on internal systems and disclosure controls in the second phase of its IFRS conversion plan.

Based on the scoping and diagnostic phase of the conversion plan, the areas of accounting difference with the greatest potential impact to the Company, based on existing IFRS as at January 31, 2010, include the following areas:

- Presentation of Financial Statements (IAS 1)
- Business Combinations (IAS 3)
- Revenue Recognition (IAS 11 and 18)
- Provisions and Contingent Liabilities (IAS 37)
- Impairment of Assets (IAS 36)
- Income Taxes (IAS 12)
- First-time Adoption of IFRS (IFRS 1) which includes a number of optional exemptions and mandatory exceptions to full retroactive restatement on adoption of IFRS.

The list should not be regarded as an exhaustive list of the changes that may result from the adoption of IFRS. It is intended to highlight those areas we believe to be of the most significant impact to the Company. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board ("IASB") will also continue to issue new accounting standards during the conversion period and is presently in the process of amending standards on areas such as revenue recognition, lease accounting, financial statement presentation and income taxes. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all applicable standards at the conversion date are known.

In Phase II of the conversion plan, a detailed evaluation and analysis of the financial impact of the various options and alternative methodologies of these areas will be undertaken. Further analysis will also be concluded regarding the IFRS 1 optional exemptions and mandatory exceptions to the general requirement for full retroactive application of IFRS on adoption. The evaluation will also include an assessment of the potential impact on the Company's financial reporting, accounting policies, internal systems, internal control over financial reporting, disclosure controls and business activities.

It is anticipated that the adoption of IFRS will impact the Company's information system requirements. The areas where information systems will be most impacted are those related to the ability to track IFRS adjustments in the accounting system as well as the need for additional reporting to support increased financial statement and note disclosure. The Company will continue to assess the impact on information systems as part of Phase II.

The Company will also assess the impact of adopting IFRS on the business activities of the Company. It is expected that employee incentive plans that are based on Canadian GAAP financial measures may have different values under IFRS and that the Company's budgeting and forecasting processes and procedures may need to be amended to consider the impact of IFRS.

The Company's certification of disclosure controls and internal controls over financial reporting under NI 52-109 requires that all entity level, financial reporting, IT and disclosure controls will be required to be updated and tested consistent with any changes resulting from the Company's conversion to IFRS. As the majority of change is anticipated to be related to the disclosure requirements in the financial statements, it is anticipated that disclosure controls will be the most impacted. To the extent that material changes are identified, these changes will be mapped and tested to ensure that no material deficiencies exist as a result of the conversion to IFRS.

The Company will continue to provide quarterly updates on the progress towards the Company's conversion plan throughout the conversion process to allow stakeholders to assess the potential impact of the IFRS conversion on the Company's financial performance, and to assess the Company's ability to meet the November 1, 2011 transition date. At January 31, 2010, the Company cannot reasonably determine the full impact that adopting IFRS would have on its financial statements as changes in circumstances such as changes in existing IFRS, regulatory and economic conditions could alter the Company's assumptions regarding its conversion plan.

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 January 31, 2010). Historically, the Company's operating results have fluctuated on a quarterly basis, which the Company expects will continue in the future. Fluctuations in results continue to relate to the timing of software license and hardware sales, which may result in large sales orders in any one quarter, and to the timing of acquisitions, staffing and infrastructure changes. See "Risks And Uncertainties" for more details. All financial results are in thousands, unless otherwise stated, with the exception of per share amounts.

	Q1/10	**Q4/09**	**Q3/09**	**Q2/09**	**Q1/09**	**Q4/08**	**Q3/08**	**Q2/08**
Revenue	$19,536	$20,003	$23,353	$16,834	$18,228	$14,648	$14,693	$12,804
Net Income	1,903	2,571	2,431	938	794	2,333	1,584	1,314
Basic income per share	0.08	0.10	0.10	0.04	0.03	0.09	0.06	0.05
Diluted income per share	0.08	0.10	0.10	0.04	0.03	0.09	0.06	0.05

Results of Operations:

Total revenue for the quarter was $19.5 million compared to $18.2 million in the prior year's first quarter and includes license revenue of $6.0 million compared to $5.1 million in the prior year's first quarter. The increase in revenue is attributable to revenue contributions from the Trio and Pulse Voice Inc. ("Pulse") acquisitions, completed on April 1, 2009 and November 1, 2009 respectively, whose results were not included in the comparable quarter's results. This was mitigated by the negative impact of foreign exchange on the conversion of U.S. dollar revenue into Canadian dollars in the comparative quarters. During the first quarter the average foreign exchange rate used to convert U.S. denominated revenue and expenses into Canadian dollars was $1.06 compared to $1.23 in the prior year's first quarter.

The Syntellect Division contributed $16.6 million in revenue in the quarter, an increase from the $15.8 million reported in the first quarter of fiscal 2009 and reflects a more geographically diverse revenue base than in the prior year. The increase is attributable to incremental license revenue contributions from Trio and the IVR division of Pulse. This was mitigated by the negative impact of the weaker U.S. dollar on U.S. denominated revenue translated into Canadian dollars. The Asset Management Division contributed revenue of $2.9 million in the first quarter, compared to $2.5 million reported in the first quarter of fiscal 2009. The increase in revenue is attributable to revenue contributions from the network operations of Pulse since acquisition on November 1, 2009.

Cost of sales for the quarter was $6.3 million or 32.2% of revenue compared to $7.0 million or 38.5% of revenue in the prior year's first quarter and includes the cost of third party software and hardware. The decrease in cost of sales is consistent with the proportional decrease in revenue contributions from the sale of lower margin third party hardware and software in the current year's first quarter compared to the prior year's first quarter.

Operating expenses for the quarter were $9.5 million, an increase of 10.5% from the $8.6 million reported in the first quarter of last year and include a full quarter of operating costs of Trio and Pulse, not included in the comparative quarter of last year. The majority of operating expenses are denominated in U.S. dollars and reflect the benefit of translating these expenses into Canadian dollars at lower exchange rates than in the first quarter of 2009.

Non-cash charges for amortization of acquired software and other intangibles related to acquisitions were $1.8 million, down from $2.0 million in the prior year's first quarter as amortization charges on new acquisitions were offset by reductions related to the final amortization charges on the Company's earlier acquisitions.

During the first quarter the Company recognized net interest income of $0.2 million compared to $0.4 million in the first quarter of fiscal 2009 consistent with the significant decline in interest rates and returns available in the market. The Company reported gains on the sale of equities of $0.6 million in the quarter.

The Company established a tax provision of $0.8 million or a 30.2% effective tax rate in the quarter as compared to a provision of $0.4 million or 33.8% in the prior year's first quarter. The Company paid $1.6 million in tax installments in the first quarter, compared to $0.5 million in the first quarter of fiscal 2009.

Net income was $1.9 million, or $0.08 per share on a diluted basis in the first quarter compared to $0.8 million and $0.03 per share respectively in the first quarter of fiscal 2009 as a result of increased revenue on comparable operating costs.

Liquidity and Capital Resources:

The Company closed the quarter with cash reserves of $89.8 million, compared to the October 31, 2009 balance of $93.2 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 $2.1 million compared to $2.0 million in the first quarter of 2009, and paid $4.2 million on closing for the Pulse acquisition and $1.3 million as part of the final holdback on the Envox acquisition. The Company had 25,167,662 Common Shares issued and outstanding as at March 8, 2010. During the first quarter 252,000 stock options were exercised contributing $0.7 million in cash compared to 15,000 options exercised in the first quarter of fiscal 2009. The Company granted 60,000 options in the quarter at an exercise price of $8.60. Enghouse did not repurchase any shares of its common stock in the first quarter under its Normal Course Issuer Bid. In comparison, in the prior year's first quarter, the Company repurchased 590,224 shares at a cost of $2.7 million representing an average price of approximately $4.55 per common share.

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, 2009, contained in the Company's 2009 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, 2010 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, 2010 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, 2010	October 31, 2009
Assets		
Current		
Cash	$ 34,293	$ 39,276
Short-term investments (Note 2)	55,526	53,876
Accounts receivable, net	19,771	17,017
Future income taxes	374	973
Prepaid expenses and other assets	2,791	2,434
	112,755	**113,576**
Property and equipment, net	1,925	1,576
Acquired software and other intangibles, net	22,158	22,934
Goodwill (Note 3)	22,408	19,965
Future income taxes	3,687	3,183
	$ 162,933	**$ 161,234**
Liabilities		
Current		
Accounts payable and accrued liabilities	14,221	$ 17,107
Income taxes payable	1,031	1,473
Dividend payable (Note 4)	754	746
Deferred revenue	20,189	15,765
	36,195	**35,091**
Future income taxes	8,823	8,693
Long-term income taxes payable	717	1,043
Deferred revenue	189	197
	45,924	**45,024**
Shareholders' Equity		
Share capital (Note 5)	50,517	49,780
Contributed surplus (Note 5)	2,097	2,047
Retained earnings	74,291	73,142
Accumulated other comprehensive loss	(9,896)	(8,759)
	117,009	**116,210**
	$ 162,933	**$ 161,234**

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)

	2010	2009
Revenue		
Software licenses	$ 5,989	$ 5,106
Services	12,778	12,044
Hardware	769	1,078
	19,536	**18,228**
Cost of sales		
Software licenses	936	1,024
Services	4,887	5,059
Hardware	466	951
	6,289	7,034
Gross margin	**13,247**	**11,194**
Operating expenses		
Selling, general and administrative	6,249	5,314
Research and development	2,969	2,964
Amortization of property and equipment	300	338
	9,518	8,616
Income before the undernoted	**3,729**	**2,578**
Amortization of acquired software and other intangibles	(1,801)	(1,952)
Foreign exchange gain	82	130
Other income	564	-
Interest income, net	151	443
Income before income taxes	**$ 2,725**	**$ 1,199**
Provision for income taxes		
Current	797	513
Future	25	(108)
Net income for the period	**$ 1,903**	**$ 794**
Retained earnings, beginning of period	73,142	72,015
Dividends	(754)	(621)
Purchase and cancellation of common shares	-	(1,560)
Retained earnings, end of period	**$74,291**	**$ 70,628**
Earnings per share		
Basic	$ 0.08	$ 0.03
Diluted	$ 0.08	$ 0.03
Weighted average shares outstanding during period (millions)		
- basic	24.9	25.2
- diluted	25.1	25.4

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

(in thousands of Canadian dollars)
(Unaudited)

	2010	2009
Net income for the period	$ 1,903	$ 794
Other comprehensive income:		
Unrealized loss on translating financial statements of self-sustaining foreign operations	(1,364)	(307)
Transfer to net income of realized gains on available for sale investments, net of tax of ($170)	(394)	-
Unrealized gain (loss) on available for sale investments, net of tax of $290 (Q1/09 – ($76))	670	(147)
Unrealized foreign currency translation (loss) gain on available for sale investments, net of tax of ($21) (Q1/09 - $16)	(49)	32
Other comprehensive loss	**$ (1,137)**	**$ (422)**
Comprehensive income	**$ 766**	**$ 372**
Accumulated other comprehensive loss, beginning of period	**$ (8,759)**	**$ (3,219)**
Other comprehensive loss	(1,137)	(422)
Accumulated other comprehensive loss, end of period	**$ (9,896)**	**$ (3,641)**

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)

	2010	2009
Cash flows from operating activities		
Net income for the period	$ 1,903	$ 794
Add (deduct) items not involving cash		
Amortization of property and equipment	300	338
Amortization of acquired software and other intangibles	1,801	1,952
Gain on sale of short-term investments	(564)	-
Stock-based compensation expense	50	18
Future income taxes	25	(108)
Cash flows before changes in operating assets and liabilities	**3,515**	**2,994**
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable, net	(927)	825
(Increase) decrease in prepaid expenses and other assets	(306)	84
Decrease in accounts payable and accrued liabilities	(3,712)	(2,884)
Decrease in current income taxes payable	(732)	(605)
Increase in deferred revenue	4,165	2,479
Unrealized foreign exchange loss (gain)	87	(911)
Cash flows from operating activities	**2,090**	**1,982**
Cash flows from investing activities		
Purchase of property and equipment, net	(224)	(126)
Acquisitions, net of cash acquired (Note 6)	(5,529)	(358)
(Purchase) proceeds of short-term investments	(1,014)	7,455
	(6,767)	**6,971**
Cash flows from financing activities		
Issuance of share capital	737	53
Payment of cash dividend	(746)	(636)
Purchase and cancellation of common shares	-	(2,687)
	(9)	**(3,270)**
Effect of foreign exchange rate changes on cash	(297)	113
Net (decrease) increase in cash during the period	**(4,983)**	**5,796**
Cash – beginning of period	39,276	12,331
Cash – end of period	**$ 34,293**	**$ 18,127**
Supplementary cash flow information:		
Cash paid during the period for income taxes	$ 1,580	$ 514

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, 2010 and 2009
(in thousands of Canadian dollars)

1. Significant Accounting Policies
These unaudited consolidated interim 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, 2009 annual audited consolidated financial statements, with the exception of accounting for certain disclosures related to new accounting policies. These unaudited consolidated interim 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, 2009.

(a) Changes in accounting policy:

In January 2009, the CICA issued Emerging Issue Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC 173"), which requires the consideration of the Company's own credit risk and the credit risk of the Company's counterparty when determining the fair value of financial assets and liabilities. The adoption of these new recommendations has had no significant impact on the Company's unaudited consolidated interim financial statements.

CICA Handbook section 1506, *Accounting Changes,* was amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The amendments apply to interim and annual financial statements for years beginning on or after July 1, 2009. The impact of this amendment did not have an impact on the unaudited consolidated interim financial statements.

(b) Recent accounting pronouncements issued and not yet applied:

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Notes to Interim Consolidated Financial Statements
(Unaudited)
January 31, 2010 and 2009
(in thousands of Canadian dollars)

applied retroactively from the beginning of the Company's fiscal year. The Company is currently assessing the impact of these amendments on its financial statements and has not yet determined either the timing or method of its adoption.

Harmonization of Canadian and International Accounting Standards
In February 2008 the CICA Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company expects that its first unaudited consolidated interim financial statements presented in accordance with IFRS will be for the three month period ending January 31, 2012, and its first audited consolidated annual financial statements presented in accordance with IFRS will be for the year ending October 31, 2012 and will include comparative results for 2011.

Based on our preliminary scoping analysis and project planning we cannot yet quantify the impact that the future adoption of IFRS will have on our financial statements and operating performance measures; however, such impact could be material. Additional information will be provided on a quarterly basis as we progress towards implementation.

2. Short-term investments

Short-term investments consist of the following:

	January 31, 2010		October 31, 2009	
	Carrying Value	Market Value	Carrying Value	Market Value
Mutual funds	$ 31,733	$ 31,733	$ 28,897	$ 28,897
Banker's acceptances	17,968	17,968	18,341	18,345
Corporate bonds	3,526	3,543	3,526	3,546
Equities	2,299	2,299	3,112	3,112
Total	**$ 55,526**	**$ 55,543**	**$ 53,876**	**$ 53,900**

3. Goodwill

The Continuity of goodwill by reportable segment is as follows:

	January 31, 2010			October 31, 2009		
	Syntellect Division	Asset Management Division	Total	Syntellect Division	Asset Management Division	Total
Opening Balance	$ 16,877	$ 3,088	$ 19,965	$ 18,919	$ 3,034	$ 21,953
Additions, Net	-	3,082	3,082	2,174	-	2,174
Acquired tax benefit adjustment	(379)	-	(379)	(2,587)	-	(2,587)
Purchase price adjustments	-	-	-	431	-	431
Foreign exchange	(260)	-	(260)	(2,060)	54	(2,006)
Ending balance	**$ 16,238**	**$ 6,170**	**$ 22,408**	**$ 16,877**	**$ 3,088**	**$ 19,965**

Notes to Interim Consolidated Financial Statements
(Unaudited)
January 31, 2010 and 2009
(in thousands of Canadian dollars)

During each of the first quarter ended January 31, 2010 and the year ended October 31, 2009, adjustments for previously unrecognized tax benefits from earlier acquisitions were accounted for as a credit to goodwill. Certain adjustments to the preliminary purchase price allocation related to the acquisition of Envox were booked in the prior year and resulted in a $431 increase to goodwill and offsetting reduction to acquired software and other intangibles.

4. Dividends

The Company's policy is to pay quarterly dividends subject to Board approval, based on the Company's financial results. The Board of Directors determines if and when dividends should be declared and paid based on all relevant circumstances at the relevant time. The Company established its dividend policy in fiscal 2007 and increased its quarterly dividend from $0.025 to $0.03 per common share outstanding effective for its May 29, 2009 dividend payment. The Company has paid regular quarterly dividends since May 31, 2007. On December 17, 2009 the Company declared an eligible dividend, which was paid on February 26, 2010 to shareholders of record as of February 12, 2010 of $754, which is reflected as a liability of the Company on the balance sheet as at January 31, 2010.

5. Share capital

(A) Authorized

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

(B) Issued and outstanding

	Number of Common Shares	Share Capital Amount	Contributed Surplus Amount
Balance – October 31, 2008	**25,492,724**	**$ 50,568**	**$ 1,827**
Stock options exercised (C)	332,500	1,006	-
Stock options expensed (D)	-	20	220
Shares repurchased and cancelled under common share re-purchase plan (E)	(949,562)	(1,814)	-
Balance – October 31, 2009	**24,875,662**	**$ 49,780**	**$ 2,047**
Stock options exercised (C)	252,000	737	-
Stock options expensed (D)	-	-	50
Shares repurchased and cancelled under common share re-purchase plan (E)	-	-	-
Balance – January 31, 2010	**25,127,662**	**$50,517**	**$ 2,097**

There were no Class A and no Class B preference shares issued and outstanding as at January 31, 2010 or October 31, 2009.

Notes to Interim Consolidated Financial Statements
(Unaudited)
January 31, 2010 and 2009
(in thousands of Canadian dollars)

(C) Common share purchase options
The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 1,858,800 (October 31, 2009 – 2,110,800) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four years and expire seven to ten years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

A summary of the status of the Company's Plan as at January 31, 2010 and October 31, 2009, and changes during the three and twelve months ended respectively on those dates is presented as follows:

	January 31, 2010		**October 31, 2009**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,329,100	$ 5.82	1,575,600	$ 5.54
Granted	60,000	8.60	260,000	5.00
Exercised	(252,000)	2.93	(332,500)	3.02
Forfeited	-	-	(174,000)	7.37
Outstanding at end of period	**1,137,100**	**$ 6.61**	**1,329,100**	**$ 5.82**
Options exercisable at end of period	**791,100**	**$ 6.94**	**1,035,100**	**$ 5.96**

(D) Stock-based compensation
The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with CICA 3870. For the purposes of expensing stock options, the estimated fair value of the options is amortized to expense over the vesting period of the options on a straight-line basis with a corresponding credit to contributed surplus. During the first quarter of 2010, the Company recorded a non-cash charge of $50 (Fiscal 2009 - $240). 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 follows:

	2010	**2009**
Risk-free interest rate	2.12%	1.85%
Estimated volatility	35%	33%
Dividend yield	$0.12	$ 0.12
Expected life in years	5	5
Weighted average fair value (in dollars)	$ 2.53	$ 1.23

(E) Common share repurchase plan
On April 14, 2009, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,655,470 common shares of the Company, expiring on April 13, 2010. During the first quarter of fiscal 2010, the Company did not repurchase any shares for cancellation (Q1/2009 – 590,224 shares for proceeds of $2,687). In the first quarter of 2009, $1,127 was allocated to share capital and the remainder offset against retained earnings.

Notes to Interim Consolidated Financial Statements
(Unaudited)
January 31, 2010 and 2009
(in thousands of Canadian dollars)

6. Acquisitions

Pulse Voice Inc.
On November 1, 2009 the Company acquired 100% of the issued and outstanding common shares of Pulse Voice Inc. for a cash purchase price of approximately $4.9 million, subject to holdback, including transaction costs. Pulse is a leading provider of communications solutions with a contact center division providing solutions to over 200 customers (reported as part of the Syntellect Division) and a network division providing cost control and intelligent network solutions to the telecom industry (reported as part of the Asset Management Division). The transaction will be accounted for as a purchase and was included in the operations of the Company from November 1, 2009.

Trio Enterprise AB
On April 1, 2009, Enghouse acquired the business and outstanding common shares of Trio Enterprise AB ("Trio") for a cash purchase price of $7.1 million and incurred transaction costs of $0.3 million. Trio provides Enterprise Communication, presence, call and message management solutions in Northern Europe.

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

Goodwill is not amortized but is assessed annually for any potential impairment in value. Other intangibles representing acquired software and customer relationships are being amortized over a period of three and six years, respectively for Trio and four and six years respectively for Pulse.

The Company's preliminary purchase price allocations are as follows:

	Pulse	**Trio**
Cash	$ 216	$ 780
Accounts receivable, net	1,990	3,279
Prepaids and other current assets	69	528
Property and equipment	440	86
Future income tax assets	122	1,374
Acquired software	760	1,680
Other intangibles	490	2,498
Goodwill	3,082	2,186
Total assets acquired	$ 7,169	$12,411
Less: Current liabilities assumed	$ 1,869	$ 5,054
Less: Future income tax liabilities	400	-
Total liabilities assumed	$ 2,269	$ 5,054
Net assets acquired	$ 4,900	$ 7,357

Notes to Interim Consolidated Financial Statements
(Unaudited)
January 31, 2010 and 2009
(in thousands of Canadian dollars)

7. 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 includes the operations of Trio Enterprise AB and the Pulse Voice IVR operations since the dates of acquisition on April 1, 2009 and November 1, 2009 respectively, 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 network operations of Pulse Voice Inc. since the date of acquisition, November 1, 2009, develops, markets and provides services related to visual based network management software solutions to customers in the telecommunications, cable, electric, gas and public and private transit 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, 2010			
Revenue	$ 16,674	$ 2,862	$ 19,536
Operating expenses, excluding non-cash charges	(12,387)	(2,581)	(14,968)
Amortization of property and equipment	(256)	(44)	(300)
Amortization of acquired software and intangibles	(1,590)	(211)	(1,801)
Segmented profit	**$ 2,441**	**$ 26**	**$ 2,467**
Corporate expenses			(539)
Foreign exchange			82
Other income			564
Interest income			151
Income before income taxes			**$ 2,725**
Goodwill	$ 16,238	$ 6,170	$ 22,408
Other assets	60,854	$24,145	84,999
Short-term investments			55,526
Total assets			**$162,933**

Notes to Interim Consolidated Financial Statements
(Unaudited)
January 31, 2010 and 2009
(in thousands of Canadian dollars)

	Syntellect Division	**Asset Management Division**	**Total**
Three months ended January 31, 2009			
Revenue	$ 15,751	$ 2,477	$ 18,228
Operating expenses, excluding non-cash charges	(12,314)	(2,449)	(14,763)
Amortization of property and equipment	(322)	(16)	(338)
Amortization of acquired software and intangibles	(1,772)	(180)	(1,952)
Segmented profit	**$ 1,343**	**$ (168)**	**$ 1,175**
Corporate expenses			(549)
Foreign exchange			130
Other income			-
Interest income			443
Income before income taxes			**$ 1,199**
Goodwill	$ 18,556	$ 3,088	$ 21,644
Other assets	57,397	14,331	71,728
Short-term investments			74,868
Total assets			**$168,240**

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

In February 2009, an agreement to settle the litigation in its entirety was reached and definitive settlement documents filed with the District Court. Final court approval of the settlement was received in October, 2009. A group of objectors to the settlement is seeking leave to appeal. If the final order relating to the settlement is not granted, and litigation against the Company continues, Apropos will continue to defend the action vigorously. Apropos expects that its insurance proceeds will be sufficient to cover any outcome of this litigation, including its allocable share of any settlement.

Notes to Interim Consolidated Financial Statements
(Unaudited)
January 31, 2010 and 2009
(in thousands of Canadian dollars)

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. However, the Company is currently subject to two actions 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 vigorously assert all appropriate defenses.

9. Comparative consolidated financial statements

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