

SECOND QUARTER ENDED
APRIL 30, 2019



Enghouse Systems
Software engineered for results

June 6, 2019

To our Shareholders,

Second quarter revenue increased to \$89.2 million, compared to revenue of \$85.2 million in the second quarter of the prior year. The revenue increase primarily reflects contributions from acquisitions and incremental license revenue in both operating groups. Results from operating activities were \$26.6 million compared to \$24.7 million in the prior year's second quarter, an increase of 7.9%. Net income for the quarter was \$16.5 million or \$0.30 per diluted share compared to \$15.3 million or \$0.28 per diluted share in the prior year's second quarter.

Adjusted EBITDA for the second quarter was \$27.2 million or \$0.49 per diluted share, compared to \$25.4 million or \$0.46 per diluted share last year, with the increase being attributable to incremental revenue contributions from acquisitions and operating cost synergies.

On a year-to-date basis, revenue was \$175.2 million, compared to revenue of \$170.3 million in the prior year. Results from operating activities was \$52.4 million compared to \$49.2 million in the prior year-to-date, an increase of 6.6%. On a year-to-date basis Adjusted EBITDA was \$53.5 million or \$0.97 per diluted share compared to \$50.7 million or \$0.93 per diluted share last year.

Operating expenses before special charges related to restructuring of acquired operations were \$35.1 million compared to \$34.4 million in the prior year's second quarter and reflect incremental operating costs related to acquisitions, net of operating cost synergies. Non-cash amortization charges on acquired software and customer relationships from acquired operations were \$6.9 million for the quarter compared to \$7.4 million in the prior year's second quarter.

The Company generated cash flows from operating activities of \$21.6 million compared to \$21.8 million in the second quarter of fiscal 2018. On a year to date basis, cash flows from operating activities was \$45.8 million, an increase of 1.9% compared to the prior year. As a result, Enghouse closed the quarter with \$205.5 million in cash, cash equivalents and short-term investments, compared to \$193.9 million at October 31, 2018. The cash balance was achieved after payments of \$9.8 million for cash dividends and \$25.6 million (net of cash acquired) for acquisitions concluded in the current fiscal year and \$1.1 million for acquisitions closed in prior years.

Subsequent to quarter end, Enghouse completed the acquisitions of Vidyo, Inc. and Espial Group Inc. The acquisitions extend the Company's product portfolio to include enterprise-class video software solutions to enable customers to more efficiently collaborate and interact, as well as a solution portfolio to help video service providers launch the next generation video offerings for cable, IPTV and App-based IP video services.

Today, the Board of Directors approved the Company's eligible quarterly dividend of \$0.11 per common share, payable on August 30, 2019 to shareholders of record at the close of business on August 16, 2019.



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 June 6, 2019 and all information contained herein is current as of that date unless otherwise indicated. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with Enghouse Systems Limited's ("Enghouse Systems") and its subsidiaries (together "the Company" or "Enghouse") fiscal 2018 audited consolidated financial statements and the notes thereto. This MD&A covers the consolidated interim results of operations, financial condition and cash flows of Enghouse Systems and its subsidiaries, all wholly owned, for the second quarter ended April 30, 2019. 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 and as otherwise indicated.

This document is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The condensed 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 Adjusted EBITDA as a measure of operating performance. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Adjusted EBITDA is calculated based on results from operating activities adjusted for depreciation of property, plant and equipment and special charges for acquisition related restructuring costs. Management uses Adjusted EBITDA 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), any impact of finance and tax related activities, asset depreciation, foreign exchange gains and losses, and other income and restructuring costs primarily related to acquisitions.

Forward-looking statements

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

For additional information with respect to certain of these risks or factors, reference should be made to section "Risks and Uncertainties" of the MD&A and notes to the consolidated financial statements for the year ended October 31, 2018, 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.

Corporate overview

Enghouse is a Canadian publicly traded company (TSX:ENGH) that develops enterprise software solutions for a number 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 customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, dialers, agent performance optimization and analytics that support any telephony environment, and may be deployed on-premise or in the cloud. Its customers are varied and include insurance companies, telecoms, banks and utilities as well as technology, health care and hospitality companies. The Asset Management Group provides a portfolio of products to telecom service providers, utilities and the oil and gas industry. Its products include Operations Support Systems (OSS), Business Support Systems (BSS), Mobile Value Added Services (VAS) solutions as well as data conversion services. The Asset Management Group also provides fleet routing, dispatch, scheduling, communications and emergency control center solutions for the transportation, government, first responders, distribution and security sectors.

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

Second quarter overview

During the second quarter the Company completed one acquisition. On February 14, 2019 Enghouse acquired 100% of the issued and outstanding common shares of ProOpti AB ("ProOpti"). Headquartered in Stockholm, Sweden, ProOpti is a leading Nordic software provider in the Telecom Expense Management and Technology Optimization Management sectors.

The acquisition was completed for a purchase price of approximately \$3.3 million, with \$0.6 million held in escrow that is subject to adjustment. Results are included in the Interactive Management Group from the date of acquisition.

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 April 30, 2019). 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.

ENGHOUSE SYSTEMS LIMITED

For the three months ending	Total revenue	Net income	Earnings per share – basic	Earnings per share – diluted	Cash and short-term investments	Total assets
	\$	\$	\$	\$	\$	\$
April 30, 2019	89,203	16,537	0.30	0.30	205,519	540,351
January 31, 2019	86,045	14,964	0.27	0.27	190,537	526,442
October 31, 2018	85,822	19,552 [^]	0.36	0.36	193,937	495,200
July 31, 2018	86,743	16,062	0.30	0.29	178,439	491,269
April 30, 2018	85,205	15,318	0.28	0.28	155,319	487,970
January 31, 2018	85,075	6,813 [*]	0.13	0.12	144,967	471,684
October 31, 2017	84,229	18,900 [^]	0.35	0.35	130,345	461,837
July 31, 2017	82,756	11,182	0.21	0.21	103,800	441,125

* Includes adjustment of U.S. \$6.2 million relating to *The United States Tax Cuts and Jobs Act* as described in the Income Tax Expense section of the MD&A

[^] Includes credit adjustment to tax provision of \$2.4 million in fiscal 2018 and \$2.6 million in fiscal 2017 on the recognition of deferred tax assets related to non-capital losses

Results of operations:

(in thousands of Canadian Dollars except per share amounts)

	Three months ended		Period-over-period change		Six months ended		Period-over-period change	
	April 30 2019	April 30 2018	\$	%	April 30 2019	April 30 2018	\$	%
Interactive Management Group	\$ 44,530	\$ 47,554	(3,024)	(6.4)	\$ 87,994	\$ 95,949	(7,955)	(8.3)
Asset Management Group	44,673	37,651	7,022	18.7	87,254	74,331	12,923	17.4
Total revenue	89,203	85,205	3,998	4.7	175,248	170,280	4,968	2.9
Direct costs	27,460	26,097	1,363	5.2	54,672	52,741	1,931	3.7
Revenue, net of direct costs	61,743	59,108	2,635	4.5	120,576	117,539	3,037	2.6
<i>As a % of revenue</i>	<i>69.2%</i>	<i>69.4%</i>			<i>68.8%</i>	<i>69.0%</i>		
Operating expenses	35,066	34,391	675	2.0	68,104	68,181	(77)	(0.1)
Special charges	56	52	4	7.7	56	181	(125)	(69.1)
Results from operating activities	26,621	24,665	1,956	7.9	52,416	49,177	3,239	6.6
<i>As a % of revenue</i>	<i>29.8%</i>	<i>28.9%</i>			<i>29.9%</i>	<i>28.9%</i>		
Amortization of acquired software and customer relationships	(6,884)	(7,356)	472	6.4	(14,000)	(14,518)	518	3.6
Foreign exchange gains (losses)	674	1,407	(733)	(52.1)	564	(1,124)	1,688	150.2
Finance income	507	66	441	668.2	1,005	188	817	434.6
Finance expenses	(24)	(24)	-	-	(55)	(84)	29	34.5
Other income	447	694	(247)	(35.6)	475	1,436	(961)	(66.9)
Income before income taxes	21,341	19,452	1,889	9.7	40,405	35,075	5,330	15.2
Provision for income taxes	4,804	4,134	670	16.2	8,904	12,944	(4,040)	(31.2)
Net Income	\$ 16,537	\$ 15,318	1,219	8.0	\$ 31,501	\$ 22,131	9,370	42.3
Earnings per share – basic	\$ 0.30	\$ 0.28	0.02	7.1	\$ 0.58	\$ 0.41	0.17	41.5
Earnings per share – diluted	\$ 0.30	\$ 0.28	0.02	7.1	\$ 0.57	\$ 0.41	0.16	39.0
Cash flow from operating activities	\$ 21,630	\$ 21,842	(212)	(1.0)	\$ 45,784	\$ 44,947	837	1.9
Cash flow from operating activities excluding changes in working capital	\$ 29,010	\$ 27,333	1,677	6.1	\$ 56,131	\$ 50,505	5,626	11.1

Adjusted EBITDA:

The table below reconciles Adjusted EBITDA to the most directly comparable IFRS measure, Results from operating activities:

	Three Months ended		Six Months ended	
	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
Total Revenue	\$ 89,203	\$ 85,205	\$ 175,248	\$ 170,280
Results from operating activities	26,621	24,665	52,416	49,177
Depreciation of property, plant and equipment	499	659	1,029	1,329
Special charges	56	52	56	181
Adjusted EBITDA	\$ 27,176	\$ 25,376	\$ 53,501	\$ 50,687
Adjusted EBITDA margin	30.5%	29.8%	30.5%	29.8%
Adjusted EBITDA per diluted share	\$ 0.49	\$ 0.46	\$ 0.97	\$ 0.93

Revenue

Total revenue for the quarter was \$89.2 million compared to \$85.2 million in the prior year's second quarter, a 4.7% increase over the prior year. The increase primarily reflects contributions from acquisitions, as well as increased license revenue in both operating groups. Revenue includes hosted and maintenance services revenue of \$49.5 million compared to \$47.7 million in the second quarter last year, an increase of 3.6%. The increase is attributable to incremental contributions from acquisitions and increased hosted revenue, which increased by 3.0% or \$0.3 million to \$9.7 million in the quarter. This also includes maintenance revenue of \$39.8 million compared to \$38.3 million in the prior year's second quarter and reflects incremental maintenance revenue from license sales in the past fiscal year as well as contributions from acquired operations. License revenue was \$21.5 million in the quarter compared to \$20.9 million in the prior year's second quarter as a result of stronger license orders in both operating groups. The change in foreign exchange rates had a negative impact on revenue in the current quarter compared to the prior year reducing revenue by \$0.9 million. IFRS 15 introduced more volatility to the Company's revenue as the new standard requires up-front recognition of revenue on certain term license arrangements that were previously recognized over time under the previous revenue standard, IAS 18. For the year to date, revenue was \$175.2 million compared to \$170.3 million last year with the biggest source of improvement being related to hosted and maintenance revenue, which increased by \$6.2 million to \$100.3 million.

The Interactive Management Group contributed \$44.5 million to revenue in the quarter, compared to \$47.6 million reported in the second quarter of fiscal 2018. The Asset Management Group contributed revenue of \$44.7 million in the quarter, compared to \$37.7 million reported in the second quarter of fiscal 2018. The increase in the Asset Management Group is attributable to incremental revenue contributions from acquisitions across all revenue categories, while the decrease in the Interactive Management group is primarily related to weaker license, maintenance and professional services revenue in the quarter. For the fiscal year to date, Interactive Management Group revenue was \$88.0 million compared to \$95.9 million last year, while Asset Management revenue grew 17.4% to \$87.3 million from \$74.3 million last year as a result of incremental contributions from acquisitions.

Revenue was positively impacted by the stronger U.S. dollar, but was offset by the Canadian dollar strengthening against all other major currencies in which the Company records revenue. As a result, overall, the Company's revenue was negatively impacted by approximately \$0.9 million compared to revenue from the second quarter of last year.

Direct costs

Direct costs for the quarter were \$27.5 million or 30.8% of revenue compared to \$26.1 million or 30.6% of revenue in the prior year's second quarter. This reflects higher hardware costs on proportionately higher contributions from hardware revenue in the product mix as well as higher services costs, whereas software license margins improved in the quarter. Direct costs for services include costs for both hosted and

maintenance services as well as professional services. Direct costs for the year to date increased over last year and were \$54.7 million or 31.2% of revenue in fiscal 2019 compared to \$52.7 million or 31.0% in fiscal 2018.

On a segment basis, direct costs in the quarter for the Interactive Management Group were \$11.8 million or 26.4% of revenue compared to \$12.3 million or 25.9% of revenue in the prior year's second quarter. Direct costs for the Asset Management Group were \$15.7 million or 35.1% of revenue compared to \$13.8 million or 36.6% of revenue in the prior year's second quarter. The direct costs margin percentage in the Asset Management Group reflects improved margins on services revenue, which mitigated weaker software and hardware margins in the quarter. Margins in the Interactive Management Group were slightly weaker in the current year's second quarter as a result of weaker hardware and services margins, which mitigated the increase in software license margins. Overall, the lower overall margins in the Asset Management Group compared to the Interactive Management Group reflect higher relative contributions from hardware revenue and lower margin professional and hosted services in the Asset Management Group product mix.

Revenue, net of direct costs

Revenue net of direct costs increased to \$61.7 million, or 69.2% of revenue, compared to \$59.1 million, or 69.4% of revenue, in the prior year's second quarter. For the fiscal year, revenue net of direct costs was \$120.6 million (68.8% of revenue) compared to \$117.5 million (69.0%) last year to date. The increase in revenue, net of direct costs for the fiscal year to date is primarily attributable to incremental hosted and maintenance revenue contributions from acquisitions and improved margins on software compared to the prior year.

Operating expenses

Operating expenses for the quarter were \$35.1 million, compared to \$34.4 million reported in the second quarter of last year. Operating expenses include incremental operating costs related to acquired operations over the past year as well as the positive impact of translating foreign currency denominated operating expenses to Canadian dollars in the quarter compared to the prior quarter estimated at \$0.9 million. On a year to date basis, operating expenses were \$68.2 million (38.9% of revenue) compared to \$68.4 million (40.1% of revenue) and reflect the impact of incremental operating costs related to acquisitions, net of operational cost efficiencies achieved in the existing operations.

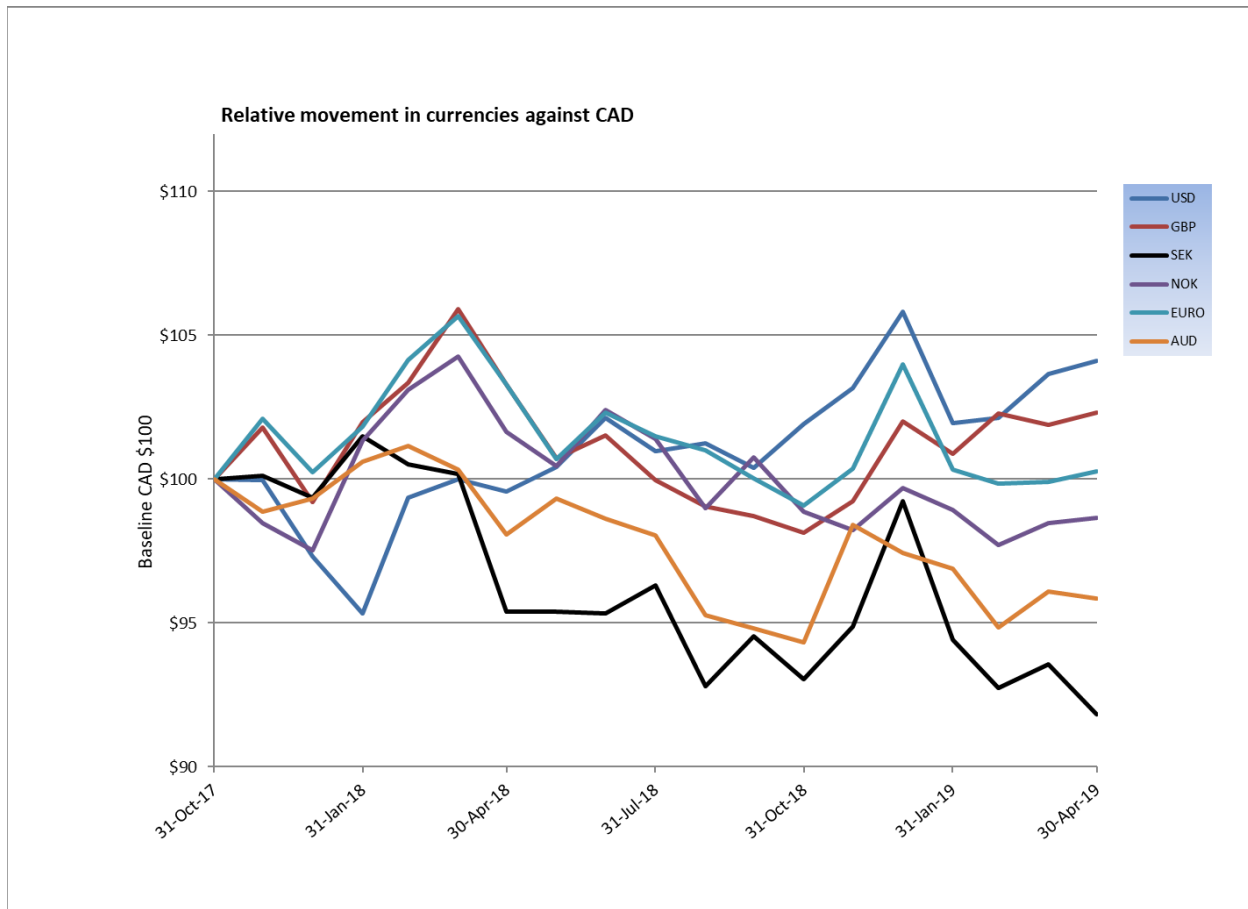
The Company incurred \$0.1 million in acquisition related restructuring charges in the second quarter related to ProOpti, compared to \$0.1 million in special charges related to acquisitions in the prior year's second quarter. Excluding special charges, operating expenses were 39.3% of revenue in the current quarter compared to 40.4% in prior year's second quarter, primarily attributable to the incremental costs of acquired operations, which were offset by cost synergies and reduced headcount in traditional operations.

The Company continues to invest in research and development ("R&D") and recorded expenses of \$13.1 million, or 14.7% of revenue, in the quarter compared to \$12.6 million, or 14.8%, in the prior year's second quarter. R&D expenses are net of government grants and investment tax credits.

Non-cash charges for amortization of acquired software and customer relationships related to acquisitions were \$6.9 million, down from the prior year's second quarter expense of \$7.4 million as a result of expiring amortization charges from previous acquisitions, which offset amortization from new acquisitions. On a year to date basis, amortization expense was \$14.0 million, a 3.6% reduction from fiscal 2018 year to date.

Foreign exchange

The Company continues to earn a significant portion of its revenue from sales denominated in currencies other than the Canadian dollar. Due to the global nature of the Company's operations, the Company transacts a significant portion of its business in foreign countries with its revenue and costs denominated in a number of currencies including the U.S. dollar, pound sterling, euro, Swedish, Norwegian and Danish krona, as well as currencies in the Asia Pacific region. This affects both operating segments as each has significant operations in the U.S. Nordics, U.K. and Europe. The chart below outlines the movement in the currencies against the Canadian dollar on a quarterly basis.



Exchange rate source: Bank of Canada Currency Rates

During the second quarter, the Canadian dollar weakened most against the U.S. dollar, but strengthened against most other major currencies impacting the Company's revenue and costs compared to the second quarter of last year. As the Company's reporting currency is the Canadian dollar, overall there was a negative impact to revenue reported in Canadian dollars and a positive impact to operating costs, which partially acts as a natural hedge. Overall, revenue was negatively impacted by an estimated \$0.9 million, while the impact on costs was positive, decreasing costs by an estimated \$0.9 million, as calculated by applying the change in the average exchange rates from Q2/18 to Q2/19 to the Company's foreign currency denominated revenue and operating expenses in the second quarter of fiscal 2019. On a year to date basis, foreign exchange positively impacted revenue by \$1.9 million while operating costs were negatively impacted by \$1.2 million compared to last year.

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

The Company recorded foreign exchange gains of \$0.7 million related to the revaluation of foreign currency denominated monetary assets and liabilities in the current year's second quarter, compared to gains of \$1.4 million in the prior year's second quarter. The gain recorded reflects the impact of the weaker Canadian dollar at quarter end compared to exchange rates to convert foreign currencies, particularly the U.S. dollar to Canadian dollars at April 30, 2019. For the fiscal year to date, Enghouse recorded gains of \$0.6 million compared to losses of \$1.1 million in the prior year. The Company reports foreign exchange gains and losses below the results from operating activities in its Condensed Consolidated Interim Statements of Operations and Comprehensive Income. Translation gains or losses recognized upon consolidation of the Company's foreign operation's financial statements into Canadian dollars are included in the Company's

accumulated other comprehensive income (loss) account on the Condensed Consolidated Interim Statements of Financial Position.

Finance and other income

During the quarter, the Company recognized finance income of \$0.5 million and \$0.4 million in other income compared to nominal finance income and \$0.7 million in other income in the second quarter of fiscal 2018. The increase in finance income reflects improved yields on increased cash balances in the quarter. Other income reflects both realized gains on the sale of equities as well as unrealized losses related to recording the Company's investment in equity positions at fair value, which was offset by other income booked on the revaluation of contingent consideration on acquisitions. For the fiscal year to date, the Company recorded \$1.0 million in finance income and \$0.5 million in other income compared to \$0.2 million and \$1.4 million in the prior year to date, respectively, as a result of improved yields on invested cash while the prior year's other income reflects gains on the sale of equities.

Income tax expense

During the quarter, the Company recorded a tax expense of \$4.8 million (22.5% effective tax rate) as compared to a tax expense of \$4.1 million (21.3% effective tax rate) in the prior year's second quarter with the increase being attributable to incremental non-recoverable withholding taxes. The Company paid \$5.3 million in tax installments in the quarter, compared to \$3.1 million in the prior year's second quarter. For the fiscal year to date, the Company booked a provision of \$8.9 million (22.0%) compared to \$12.9 million (36.9%) last year, which included the one-time repatriation tax charge of U.S. \$6.2 million booked in the first quarter of fiscal 2018. The Company paid \$9.7 million in tax installments year to date compared to \$6.1 million last year.

Net income

Net income was \$16.5 million, or \$0.30 per share on a diluted basis, in the quarter compared to \$15.3 million, or \$0.28 per share on a diluted basis, in the second quarter of fiscal 2018. The increase is attributable to revenue contributions from acquisitions as well as operating cost synergies. On a year to date basis, net income was \$31.5 million or \$0.57 per diluted share compared to \$22.1 million or \$0.41 per diluted share. As noted, the previous year's net income was negatively impacted by the provision for the one-time repatriation tax charge.

Liquidity and capital resources:

The Company closed the quarter with cash and short-term investments of \$205.5 million, compared to the October 31, 2018 balance of \$193.9 million due to continued strong collection efforts. This is net of payment of \$4.9 million for dividends and \$3.2 million for acquisitions concluded in the quarter (and \$25.6 million for the year to date), net of cash received. The Company also paid \$1.1 million related to acquisitions concluded in prior periods. The Company continues to have sufficient cash resources to fund both its current and future financial operating commitments as well as its dividend strategy. During the second quarter, the Company generated cash flow from operating activities of \$21.6 million compared to \$21.8 million in the second quarter of 2018. On a year to date basis, Enghouse generated cash flow from operating activities of \$45.8 million compared to \$44.9 million, an increase of 1.9%.

The Company had 54,648,024 Common Shares issued and outstanding as at June 6, 2019. During the second quarter, 10,000 stock options were exercised contributing \$0.1 million in cash compared to 164,400 stock options and \$1.4 million in cash to the Company in the prior year's second quarter. The Company granted 500,000 options in the second quarter of 2019 (Q2/2018 – 150,000). Enghouse did not repurchase any shares of its common stock in either year's second quarter under its Normal Course Issuer Bid, but renewed its bid for a further year commencing April 30, 2019 and expiring April 30, 2020, whereby it may repurchase up to a maximum of 3,936,892 common shares of the Company.

Off-Statement of Financial Position arrangements

The Company has not entered into off-statement of financial position financing arrangements. Except for operating leases and other low probability and/or immeasurable contingencies (not accrued in accordance with IFRS), all material commitments are reflected on the Company's Condensed Consolidated Interim Statements of Financial Position.

Transactions with related parties

The Company has not entered into any transactions with related parties during the period, 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 significant accounting policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The financial statements reflect the accounting policies disclosed in Note 3 of the Company's 2018 annual consolidated financial statements except as disclosed herein. They have been prepared on a going concern basis, using historical cost, except for investments in equity securities designated at fair value through profit or loss, certain assets and liabilities initially recognized in connection with business combinations, and derivative financial instruments, which are measured at fair value.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and outstanding as of June 6, 2019. Any subsequent changes to IFRS that are applied retroactively in the Company's annual consolidated financial statements for the year ending October 31, 2018 could result in changes to these unaudited condensed consolidated interim financial statements.

New standards and interpretations adopted

IFRS 9, *Financial instruments* ("IFRS 9")

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into three measurement categories at fair value, amortized cost or fair value through other comprehensive income ("FVOCI") for certain financial assets that are debt instruments. For financial liabilities, the standard retains most of the IAS 39 requirements.

Under IFRS 9, gains and losses on re-measurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument, which is not held-for-trading. IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income ("FVOCI"). The election is available on an individual share-by-share basis. Unlike IAS 39, amounts presented in OCI will not be reclassified to profit or loss at a later date.

Further changes to the classification and measurement rules introduced a new impairment model, which include a new expected credit loss ("ECL") model that involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. On initial recognition, entities will record a day-one loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. IFRS 9 requires a forward-looking ECL impairment model as opposed to an incurred credit loss model under IAS 39. As the Company's financial assets include significant trade receivables, the Company has opted to use the simplified approach for measuring the loss allowance at an amount equal to lifetime ECL recorded on day-one. No transition adjustment on adoption of IFRS 9 was booked for this by the Company.

The Company adopted IFRS 9 on November 1, 2018 on a modified retrospective basis in accordance with the transitional provisions. As such, comparative figures have not been restated. Upon adoption, all investments in equity instruments have been measured at fair value through profit or loss ("FVPL"). These investments are recorded at fair value and changes in the fair value are recognized in other income in the Condensed Consolidated Interim Statements of Operations and Comprehensive Income.

The Company recorded a transition adjustment on November 1, 2018 to reduce opening retained earnings and increase accumulated other comprehensive income by \$0.8 million on adoption of IFRS 9 to reflect the impact of recording short-term investments (equities) at FVPL.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 contains a single model for revenue recognition that applies to contracts with customers. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue should be recognized. The new standard also provides guidance on whether revenue should be recognized over time or at a point in time as well as requirements for more informative disclosures. The Company has adopted IFRS 15, effective November 1, 2018, using the cumulative effect method. Under the cumulative effect method, the Company has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at November 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18, *Revenue* (“IAS 18”).

The details of the primary changes on adoption of IFRS 15 are set out below:

- Term-based licenses – Under previous accounting policies, license revenue on certain term-based licenses was recognized ratably over the contract term. Under IFRS 15, the Company has deemed the licenses to be generally distinct from other performance obligations. Revenue allocated to the distinct license is recognized at the time the license is delivered to the customer, other than for those term-based licenses provided on a variable usage basis. Term license revenue provided on a fixed fee basis, subject to monthly or annual minimum fees, is recognized at the time that both the right to use the software has commenced and the software has been made available to the customer. Term license revenue provided on a variable usage basis, such as the number of transactions, subscribers or other variable measure, is recognized over time based on a customer’s utilization in a given period.
- Capitalization of costs to acquire contracts – Under previous accounting policies, the Company generally expensed incremental commission costs as they were earned by employees. Under IFRS 15, the Company capitalizes and amortizes commission costs that relate to contracts of more than one year on a systematic basis, consistent with the pattern of transfer of the goods or services over which the commission costs relate. For commissions allocated to term-based license arrangements and post-contract customer support, the amortization period is expected to be over the term of the contract. Capitalized costs to obtain a contract are included in other non-current assets on the Condensed Consolidated Interim Statements of Financial Position. The Company did not record any transition adjustment for capitalized costs to acquire contracts as they were not significant.

On adoption of IFRS 15, the Company recorded an adjustment to increase unbilled accounts receivable on November 1, 2018 by \$2.2 million with a corresponding adjustment to increase opening accumulated retained earnings by \$1.7 million (net of a credit to the deferred income tax liability of \$0.5 million). The transition adjustment related to term-based software license revenue that would have been recognized at a point in time under IFRS 15, which were previously recognized over time under IAS 18.

Had the Company presented the results for the three months ended April 30, 2019 under IAS 18, the software license revenue and net income would have decreased by \$1.0 million and \$0.8 million, respectively, while the deferred income tax liability would have decreased by \$0.2 million and unbilled receivables would have decreased by \$1.0 million. On a year to date basis, the software license revenue and net income would have decreased by \$1.7 million and \$1.3 million, respectively, while the deferred income tax liability would have decreased by \$1.0 million, unbilled receivables would have decreased by \$3.9 million and retained earnings decreased by \$1.6 million.

As part of its adoption of IFRS 15, the Company has reclassified certain amounts previously reported under IAS 18 as software license revenue to hosted and maintenance revenue. As a result, software license revenue decreased by \$3.8 million for the quarter ended April 30, 2018, and by \$7.5 million for the six months ended April 30, 2018 and the hosted and maintenance services revenue has increased by an equivalent amounts during the same periods. This re-classification had no impact on the prior period net income and retained earnings.

The adoption of IFRS 15 had no impact to cash from or used in operating, financing, or investing activities on the Company’s Condensed Consolidated Interim Statements of Cash Flows.

New Standards and interpretations issued but not yet applied**IFRS 16, Leases (“IFRS 16”)**

IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019. The standard replaces current guidance under IAS 17, *Leases* (“IAS 17”) and no longer distinguishes between a finance lease and an operating lease for lessees. Instead, for virtually all lease contracts the lessee recognizes a lease liability reflecting future lease payments and a “right-of-use” asset. Lessor accounting remains somewhat similar as under IAS 17. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on November 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

Risks and uncertainties

The primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations remain 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, 2018, contained in the Company’s 2018 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 in capacity as Chief Financial Officer (“CFO”) 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 CFO, 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, 2018, an evaluation of the effectiveness of the Company’s disclosure controls and procedures was carried out under the supervision of the CEO and CFO. Based on this evaluation, the CEO and the CFO 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 CFO 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 IFRS.

As at October 31, 2018, 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 CFO have concluded that, as at October 31, 2018, 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. The control framework used by the CEO and the CFO to design the Company’s internal control over financial reporting is the “Internal Control – Integrated Framework (2013)” published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

There were no changes to the Company’s internal control over financial reporting during the quarter ended April 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Additional information

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

Notice of no auditor review of interim financial statements

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three and six months ended April 30, 2019 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 Chartered Professional Accountants of Canada for a review of the interim financial statements by an entity's auditor.

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	April 30 2019	October 31 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 196,884	\$ 187,551
Short-term investments	8,635	6,386
Accounts receivable, net	72,518	62,085
Prepaid expenses and other assets	10,995	8,951
	289,032	264,973
Non-current assets:		
Property, plant and equipment, net	5,158	5,279
Intangible assets, net (Note 5)	67,048	59,895
Goodwill (Note 5)	170,092	155,419
Deferred income tax assets	9,021	9,634
	191,279	180,227
Total assets	\$ 540,351	\$ 495,200
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 42,784	\$ 44,271
Income taxes payable	7,388	4,904
Dividends payable	6,011	4,912
Provisions (Note 6)	60	268
Deferred revenue	75,098	64,020
Current portion of long-term loans	-	122
	131,341	118,497
Non-current liabilities:		
Non-current portion of income taxes payable	6,962	7,466
Deferred income tax liabilities	15,454	13,115
Deferred revenue	3,255	2,169
Net employee defined benefit obligation	2,409	2,354
Long-term loans	760	1,475
	28,840	24,579
Total liabilities	160,181	145,076
Shareholders' Equity		
Share capital (Note 7)	79,934	78,997
Contributed surplus	5,831	4,866
Retained earnings	281,888	260,506
Accumulated other comprehensive income	12,517	5,755
Total shareholders' equity	380,170	350,124
Total liabilities and shareholders' equity	\$ 540,351	\$ 495,200

Litigation and contingencies (Note 13)

Subsequent event (Note 15)

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

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

	Three months ended		Six months ended	
	2019	April 30 2018	2019	April 30 2018
Revenue				
Software licenses	\$ 21,519	\$ 20,915	\$ 40,247	\$ 43,012
Hosted and maintenance services	49,470	47,728	100,283	94,035
Professional services	15,145	14,472	28,646	28,849
Hardware	3,069	2,090	6,072	4,384
	89,203	85,205	175,248	170,280
Direct costs				
Software licenses	1,370	1,692	2,731	3,727
Services	24,181	23,161	47,726	46,345
Hardware	1,909	1,244	4,215	2,669
	27,460	26,097	54,672	52,741
Revenue, net of direct costs	61,743	59,108	120,576	117,539
Operating expenses				
Selling, general and administrative	21,440	21,119	41,896	42,548
Research and development	13,127	12,613	25,179	24,304
Depreciation of property, plant and equipment	499	659	1,029	1,329
Special charges (Note 6)	56	52	56	181
	35,122	34,443	68,160	68,362
Results from operating activities	26,621	24,665	52,416	49,177
Amortization of acquired software and customer relationships	(6,884)	(7,356)	(14,000)	(14,518)
Foreign exchange gains and (losses)	674	1,407	564	(1,124)
Finance income	507	66	1,005	188
Finance expenses	(24)	(24)	(55)	(84)
Other income	447	694	475	1,436
	21,341	19,452	40,405	35,075
Provision for income taxes (Note 9)	4,804	4,134	8,904	12,944
Net income for the period	\$ 16,537	\$ 15,318	\$ 31,501	\$ 22,131
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation gain from foreign operations	3,094	4,052	5,981	5,516
Unrealized loss on investments in equity securities designated at FVOCI	-	(393)	-	(69)
Deferred income tax recovery	-	52	-	9
	3,094	3,711	5,981	5,456
Comprehensive income	\$ 19,631	\$ 19,029	\$ 37,482	\$ 27,587
Earnings per share (Note 10)				
Basic	\$ 0.30	\$ 0.28	\$ 0.58	\$ 0.41
Diluted	\$ 0.30	\$ 0.28	\$ 0.57	\$ 0.41

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

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)
(Unaudited)

	Share capital # **	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Retained earnings \$	Total \$
As at November 1, 2018 as previously presented	54,580,024	78,997	4,866	5,755	260,506	350,124
IFRS 9 transition adjustment (Note 3)	-	-	-	781	(781)	-
IFRS 15 transition adjustment (Note 4)	-	-	-	-	1,590	1,590
Adjusted balance as at November 1, 2018	54,580,024	78,997	4,866	6,536	261,315	351,714
Net income for the period	-	-	-	-	31,501	31,501
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	5,981	-	5,981
Comprehensive income for the period	-	-	-	5,981	31,501	37,482
Employee share options:						
Value of services recognized	-	-	1,117	-	-	1,117
Proceeds on issuing shares	68,000	937	(152)	-	-	785
Dividends declared	-	-	-	-	(10,928)	(10,928)
As at April 30, 2019	54,648,024	79,934	5,831	12,517	281,888	380,170
As at November 1, 2017	53,986,424	71,422	4,715	8,487	221,775	306,399
Net income for the period	-	-	-	-	22,131	22,131
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	5,516	-	5,516
Unrealized loss on investments in equity securities designated at FVOCI*	-	-	-	(69)	-	(69)
Deferred income tax recovery	-	-	-	9	-	9
Comprehensive income for the period	-	-	-	5,456	22,131	27,587
Employee share options:						
Value of services recognized	-	-	935	-	-	935
Proceeds on issuing shares	234,800	2,587	(459)	-	-	2,128
Dividends declared	-	-	-	-	(9,203)	(9,203)
As at April 30, 2018	54,221,224	74,009	5,191	13,943	234,703	327,846

* Unrealized loss on investments in equity securities designated at FVOCI was originally referred to as available-for-sale investments in the 2018 consolidated financial statements.

** On January 25, 2019, the Company completed a share split whereby each issued and outstanding common share has been effectively doubled. All references to capital stock, options and per share data have been adjusted retrospectively to reflect the Company's two-for-one share split for the periods ended April 30, 2019 and 2018.

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

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2019	2018	2019	2018
Cash flows from operating activities				
Net income for the period	\$ 16,537	\$ 15,318	\$ 31,501	\$ 22,131
Adjustments for:				
Depreciation of property, plant and equipment	499	659	1,029	1,329
Amortization of acquired software and customer relationships	6,884	7,356	14,000	14,518
Stock-based compensation expense	709	536	1,117	935
Provision for income taxes	4,804	4,134	8,904	12,944
Finance expenses and other income	(423)	(670)	(420)	(1,352)
	29,010	27,333	56,131	50,505
Changes in non-cash operating working capital (Note 14)	(2,050)	(2,346)	(627)	567
Income taxes paid	(5,330)	(3,145)	(9,720)	(6,125)
Net cash flows from operating activities	21,630	21,842	45,784	44,947
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(572)	(331)	(781)	(931)
Acquisitions, net of cash acquired of \$143 (Q2/18 - \$167), 2019 - \$6,282 (2018 - \$1,235) (Note 11)	(3,170)	(6,684)	(25,566)	(9,675)
Purchase consideration for prior period acquisitions (Note 11)	-	(3,153)	(1,105)	(5,079)
Net sale (purchase) of short-term investments	4,255	(253)	(1,853)	732
Net cash flows from (used in) investing activities	513	(10,421)	(29,305)	(14,953)
Cash flows from financing activities				
Issuance of share capital	66	1,384	785	2,128
Repayment of loans	-	(33)	(957)	(401)
Payment of cash dividend	(4,917)	(4,324)	(9,829)	(8,643)
Net cash flows used in financing activities	(4,851)	(2,973)	(10,001)	(6,916)
Effect of currency translation adjustments on cash and cash equivalents	1,591	1,231	2,855	1,929
Net increase in cash and cash equivalents during the period	18,883	9,679	9,333	25,007
Cash and cash equivalents - beginning of period	178,001	135,936	187,551	120,608
Cash and cash equivalents - end of period	\$ 196,884	\$ 145,615	\$ 196,884	\$ 145,615

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

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

1. Description of the business and reporting entity

Enghouse Systems Limited (“Enghouse Systems”) and its wholly owned subsidiaries (together the “Company” or “Enghouse”) develop enterprise software solutions for a number 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 customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. The Asset Management Group provides products and services to telecom service providers as well as fleet management and public safety software solutions to transportation, government, first responders, distribution, security, utilities and oil and gas industries. Enghouse Systems 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, the Netherlands, Belgium, Brazil, Germany, Ireland, Australia, New Zealand, Israel, Lebanon, Romania, Italy, Spain, Colombia and Croatia.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* (“IAS 34”). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These unaudited condensed consolidated interim financial statements were approved by the Audit Committee of the Board of Directors for issue on June 6, 2019.

(b) Basis of preparation and measurement

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as issued by the International Accounting Standards Board (“IASB”). The financial statements reflect the accounting policies disclosed in Note 3 of the Company’s 2018 annual consolidated financial statements except as disclosed herein. They have been prepared on a going concern basis, using historical cost, except for investments in equity securities designated at fair value through profit or loss, certain assets and liabilities initially recognized in connection with business combinations, and derivative financial instruments, which are measured at fair value.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and outstanding as of June 6, 2019. Any subsequent changes to IFRS that are applied retroactively in the Company’s annual consolidated financial statements for the year ended October 31, 2018 could result in changes to these unaudited condensed consolidated interim financial statements.

(c) Functional and presentation currency

The Company’s subsidiaries generally operate in their local currency environment. Accordingly, items included in the financial statements of each legal entity consolidated within the Enghouse group are measured using the currency of the primary economic environment in which the legal entity operates (the “functional currency”). The unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is also Enghouse Systems’ functional currency.

(d) Use of estimates and judgments

The preparation of the unaudited condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended October 31, 2018.

Notes to Condensed Consolidated Interim Financial Statements**For the six months ended April 30, 2019 and 2018***(Unaudited, in thousands of Canadian dollars, except as indicated)***3. Significant accounting policies**

Except for the adoption of IFRS 15 and IFRS 9 at November 1, 2018, the accounting policies adopted are consistent with those of the previous financial year.

Revenue recognition

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company accounts for customer contracts when it secures written approval in the form of a signed contract, the parties are committed to the contract with the rights of the parties, including payment terms, specifically identified, the contract has commercial substance and the consideration is probable of collection. 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.

Arrangements with multi-performance obligations

The Company typically contracts with customers to deliver more than one of the goods and services noted below as part of a single arrangement. The Company exercises significant judgment to evaluate these arrangements to determine whether the goods or services are considered distinct performance obligations that should be accounted for separately from some or all of the other goods or services in the arrangement. A good or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contract. Goods and services that are not distinct are combined with other goods and services until they are distinct as a bundle and can be accounted for as a single performance obligation. Where a contract consists of more than one performance obligation, revenue is allocated to each based on their estimated relative standalone selling price ("SSP").

Standalone selling price

The SSP reflects the price Enghouse charges for a specific good or service if it was sold separately to similar customers in similar circumstances. This is typically determined using observable data and is based on a narrow range of prices or rates established from historical analysis. This range is subject to periodic review and assessment when material changes in facts and circumstances warrant it.

Allocation of transaction price

In bundled arrangements where there is more than one distinct performance obligation, the transaction price is allocated to each performance obligation based on its relative SSP. However, the SSP may not be directly observable in all bundled transactions. In bundled transactions with license and customer maintenance, the Company allocates the transaction price between license and maintenance using the residual approach as it has determined the SSP for certain goods and services in these arrangements is highly variable. The Company uses this residual approach only for its license arrangements.

Nature of goods and services

Revenue consists primarily of fees for licenses of the Company's software, subscriptions, hosted and maintenance services, professional services and hardware revenue.

License revenue

The Company sells on-premise software licenses on both a perpetual and specified-term basis. Perpetual licenses provide customers the right to use the software for an indefinite period of time in exchange for a one-time license fee, generally paid at contract inception. Term licenses provide the customer with the right to use software for a specified period in exchange for a fee, which may be paid at contract inception or paid in installments over the period of the contract. Revenue from the licensing of software on a perpetual basis is recognized at the time that both the right to use the software has commenced and the software has been made available to the customer for download at the commencement of the term. Term license revenue provided on a fixed fee basis, subject to monthly or annual minimum fees, is recognized at the time that both the right to use the software has commenced and the software has been made available to the customer. Term license revenue provided on a variable usage basis, such as the number of transactions,

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

subscribers or other variable measure, is recognized over time based on a customer's utilization in a given period. The Company also sells third-party software as an added service to customers. This revenue is generally recognized on delivery to the customer on the same terms and basis as the Company provides its own proprietary software to customers.

Hardware revenue

Hardware is sold to customers as an added service to complement the Company's software offering. This revenue is generally recognized on delivery to the customer when the Company has transferred control of the hardware to the buyer under the terms of an enforceable contract.

Hosted and maintenance services revenue

In the Company's hosted/SaaS arrangements, the end user generally does not take possession of the software and the software application resides on the Company's hardware or that of a third party with the customer obtaining the right to access the software. Hosted solutions and services are provided on a usage basis, which can vary depending on the number of users or subscribers, and is recognized based on a customer's utilization of the services over the term of the arrangement.

Maintenance revenue consists primarily of technical support and the provision of unspecified upgrades and updates made on a when-and-if-available basis. This support is related to the Company's perpetual and term-based on-premise license arrangements. Maintenance is not critical to the customer's ability to derive benefit from its right to use the Company's software and is considered a distinct performance obligation when sold together with licenses in a bundled transaction.

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 revenue is included on the Condensed Consolidated Interim Statements of Financial Position as a current liability to the extent the services are to be delivered in the next twelve months. Set-up fees on hosted services revenue are deferred and recognized on a straight-line basis over the estimated life of the customer relationship period.

Professional services revenue

Professional services revenue includes installation, implementation, configuration, consulting and training services provided as a bundle along with software licenses or on a standalone basis. Payment for professional services is either on a fixed-fee or time and materials basis. As the Company's professional services do not significantly alter the functionality of the license and its customers can benefit from its professional services on their own or together with other readily available resources, professional services are considered as distinct within the context of the contract. Professional services revenue is recognized as delivered, typically on an input-based measure of progress such as total labour hours incurred versus total expected labour hours.

Performance obligations

A summary of the Company's typical performance obligations and when the obligations are satisfied is as follows:

Performance obligation	When performance obligation is satisfied
Software license revenue Perpetual licenses Term licenses – fixed fee basis Term licenses – variable and usage basis	When software is made available for download (point in time) When software is made available for download (point in time) Based on customer utilization (over time)
Hosted and maintenance services revenue Hosted revenue Maintenance revenue	Ratable over course of the service term (over time) Ratable over course of the service term (over time)
Professional service revenue	As the services are delivered (over time)
Hardware revenue	As control of the hardware transferred (point in time)

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

New standards and interpretations adopted

IFRS 9, *Financial Instruments* (“IFRS 9”)

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the parts of IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”) that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into three measurement categories:

- Financial assets measured at fair value through profit or loss
- Financial assets measured at amortized cost
- Fair value through other comprehensive income for certain financial assets that are debt instruments

The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements.

Under IFRS 9, gains and losses on re-measurement of financial assets measured at fair value will be recognized in profit or loss, except those for an investment in an equity instrument, which is not held-for-trading. IFRS 9 allows, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (“FVOCI”). The election is available on an individual share-by-share basis. Unlike IAS 39, amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also includes a new general hedge accounting standard, which will align hedge accounting more closely with risk management. The Company does not have any designated hedges in place.

Further changes to the classification and measurement rules introduced a new impairment model, which includes a new expected credit loss (“ECL”) model that involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (i.e. trade receivables). On initial recognition, entities will record a day-one loss equal to the 12-month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. IFRS 9 requires a forward-looking ECL impairment model as opposed to an incurred credit loss model under IAS 39. As the Company’s financial assets include significant trade receivables, the Company has opted to use the simplified approach for measuring the loss allowance at an amount equal to lifetime ECL recorded on day one. No transition adjustment on adoption of IFRS 9 was booked for this by the Company.

A summary of the Company’s classification and measurement of financial assets under IAS 39 and IFRS 9 is as follows:

Financial assets	Under IAS 39	Under IFRS 9
Cash and cash equivalents	Fair value through profit or loss	Fair value through profit or loss
Short-term investments - equities	Available-for-sale	Fair value through profit or loss
Accounts receivable	Amortized cost	Amortized cost

The Company adopted IFRS 9 on November 1, 2018 on a modified retrospective basis in accordance with the transitional provisions of IFRS 9. As such, comparative figures have not been restated. The adoption of IFRS 9 had a nominal impact on the Company’s disclosures. Upon adoption, all investments in equity instruments have been measured at fair value through profit or loss (“FVPL”). These investments are recorded at fair value and changes in the fair value are recognized in other income in the Condensed Consolidated Interim Statements of Operations and Comprehensive Income.

The Company recorded a transition adjustment on November 1, 2018 to reduce opening retained earnings and increase accumulated other comprehensive income by \$0.8 million on adoption of IFRS 9 to reflect the impact of recording short-term investments (equities) at FVPL.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

The Company adopted IFRS 15, with an initial adoption date of November 1, 2018. The Company utilized the cumulative effect method to adopt the new standard. Accordingly, the results for reporting periods commencing on November 1, 2018 are presented under the new standard while the comparative information has not been restated and continues to be reported under the previous standard. See note 4 below for further details.

New Standards and interpretations issued but not yet applied

IFRS 16, Leases (“IFRS 16”)

IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019. The standard replaces current guidance under IAS 17, *Leases* (“IAS 17”) and no longer distinguishes between a finance lease and an operating lease for lessees. Instead, for virtually all lease contracts the lessee recognizes a lease liability reflecting future lease payments and a “right-of-use” asset. Lessor accounting remains somewhat similar as under IAS 17. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on November 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. Explanation of adoption of IFRS 15

IFRS 15 contains a single model for revenue recognition that applies to contracts with customers. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue should be recognized. The new standard also provides guidance on whether revenue should be recognized over time or at a point in time as well as requirements for more informative disclosures. The Company has adopted IFRS 15, effective November 1, 2018, using the cumulative effect method. Under the cumulative effect method, the Company has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at November 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18, *Revenue* (“IAS 18”)

The details of the primary changes on adoption of IFRS 15 are set out below:

- Term-based licenses – Under previous accounting policies, license revenue on certain term-based licenses was recognized ratably over the contract term. Under IFRS 15, the Company has deemed the licenses to be generally distinct from other performance obligations. Revenue allocated to the distinct license is recognized at the time the license is delivered to the customer, other than for those term-based licenses provided on a variable usage basis. Term license revenue provided on a fixed fee basis, subject to monthly or annual minimum fees, is recognized at the time that both the right to use the software has commenced and the software has been made available to the customer. Term license revenue provided on a variable usage basis, such as the number of transactions, subscribers or other variable measure, is recognized over time based on a customer’s utilization in a given period.
- Capitalization of costs to acquire contracts – Under previous accounting policies, the Company generally expensed incremental commission costs as they were earned by employees. Under IFRS 15, the Company capitalizes and amortizes commission costs that relate to contracts of more than one year on a systematic basis, consistent with the pattern of transfer of the goods or services over which the commission costs relate. For commissions allocated to term-based license arrangements and post-contract customer support, the amortization period is expected to be over the term of the contract. Capitalized costs to obtain a contract are included in other non-current assets on the Condensed Consolidated Interim Statements of Financial Position. The Company did not record any transition adjustment for capitalized costs to acquire contracts as they were not significant.

The Company recorded an adjustment to increase unbilled receivables on November 1, 2018 by \$2.2 million with a corresponding adjustment to increase opening accumulated retained earnings by \$1.6 million (net of a credit to the deferred income tax liability of \$0.6 million). The transition adjustment related

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

to term-based software license revenue that would have been recognized at a point in time under IFRS 15, which was previously recognized over time under IAS 18.

Had the Company presented the results for the three months ended April 30, 2019 under IAS 18, the software license revenue and net income would have decreased by \$1.0 million and \$0.8 million, respectively, while the deferred income tax liability would have decreased by \$0.2 million and unbilled receivables would have decreased by \$1.0 million. On a year to date basis, the software license revenue and net income would have decreased by \$1.7 million and \$1.3 million, respectively, while the deferred income tax liability would have decreased by \$1.0 million, unbilled receivables decreased by \$3.9 million and retained earnings decreased by \$1.6 million.

As part of its adoption of IFRS 15, the Company has reclassified certain amounts previously reported under IAS 18 as software license revenue to hosted and maintenance revenue. As a result, software license revenue has decreased by \$3.8 million for the quarter ended April 30, 2018 and by \$7.5 million for the six months ended April 30, 2018, and the hosted and maintenance services revenue has increased by an equivalent amounts during the same periods. This re-classification had no impact on the prior period net income and retained earnings.

The adoption of IFRS 15 had no impact to cash from or used in operating, financing, or investing activities on the Company's Condensed Consolidated Interim Statements of Cash Flows.

5. Intangible assets and goodwill

	Acquired software \$	Capitalized software \$	Customer relationships \$	Total intangibles \$	Goodwill \$
At November 1, 2018					
Cost	155,393	3,592	103,976	262,961	155,419
Accumulated amortization	(130,602)	(1,395)	(71,069)	(203,066)	-
Net book value	24,791	2,197	32,907	59,895	155,419
Period ended April 30, 2019					
Opening net book value	24,791	2,197	32,907	59,895	155,419
Acquisitions	14,511	-	5,745	20,256	11,694
Amortization	(7,059)	(358)	(6,583)	(14,000)	-
Exchange difference	384	7	506	897	2,979
Closing net book value	32,627	1,846	32,575	67,048	170,092
At April 30, 2019					
Cost	169,904	3,592	109,721	283,217	170,092
Accumulated amortization	(137,277)	(1,746)	(77,146)	(216,169)	-
Net book value	32,627	1,846	32,575	67,048	170,092

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

6. Provisions

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

	Total
At November 1, 2018	\$ 268
Additional provisions	111
Unused amounts reversed	(218)
Utilized during the period	(111)
Effect of movements in foreign exchange	10
At April 30, 2019	\$ 60

7. Share capital and other components of shareholders' equity

Capital stock

The authorized share capital of the Company consists of an unlimited number of common shares with no par value, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 54,648,024 common shares outstanding as at April 30, 2019. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2018 or April 30, 2019.

Common share repurchase plan

On April 26, 2019, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 3,936,892 common shares of the Company, expiring on April 30, 2020. The Company did not repurchase any common shares in either fiscal 2019 or fiscal 2018.

Accumulated other comprehensive income

Accumulated other comprehensive income comprises the following separate components of equity:

	Translation of foreign operations \$	Unrealized gains/losses \$	Total \$
At October 31, 2017	8,555	(68)	8,487
Currency translation differences	5,516	-	5,516
Unrealized losses on investments in equity securities designated at FVOCI, net of income tax recovery of \$9	-	(60)	(60)
At April 30, 2018	14,071	(128)	13,943
At October 31, 2018	6,536	(781)	5,755
Currency translation differences	5,981	-	5,981
Adjustment on transition to IFRS 9	-	781	781
At April 30, 2019	12,517	-	12,517

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

Dividends

During the three months ended April 30, 2019, the Company declared and paid dividends of \$0.11 and \$0.09, respectively, per common share (three months ended April 30, 2018 - \$0.09 and \$0.08 per common share, respectively).

Stock dividend

The Company declared a stock dividend on December 21, 2018, payable on the basis of one common share for each common share held as at January 22, 2019, which was paid on January 25, 2019. The dividend doubled the number of common shares outstanding and effectively achieved a two-for-one stock split. The Company ascribed no monetary value to the stock dividend. The number of shares outstanding and options exercised and outstanding, the option exercise prices, dividends per share and the basic and diluted earnings per share figures have been restated retroactively to reflect the stock dividend.

8. 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 4,015,300 (April 30, 2018 – 2,542,100) 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 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 April 30, 2019 and April 30, 2018, and changes during the three and six months ended respectively on those dates, is presented as follows:

Three months ended	April 30, 2019		April 30, 2018	
	Number of options	Weighted average exercise price in \$	Number of options	Weighted average exercise price in \$
Outstanding at beginning of period	1,382,900	25.66	2,010,100	21.07
Granted	500,000	38.35	150,000	32.29
Exercised	(10,000)	6.55	(164,400)	8.42
Forfeited	-	-	(28,000)	26.50
Outstanding at end of period	1,872,900	29.15	1,967,700	22.91
Options exercisable at end of period	693,900	22.00	879,700	15.13

Six months ended	April 30, 2019		April 30, 2018	
	Number of options	Weighted average exercise price in \$	Number of options	Weighted average exercise price in \$
Outstanding at beginning of period	1,440,900	25.13	1,840,500	19.52
Granted	500,000	38.35	390,000	30.82
Exercised	(68,000)	11.55	(234,800)	9.07
Forfeited	-	-	(28,000)	26.50
Outstanding at end of period	1,872,900	29.15	1,967,700	22.91
Options exercisable at end of period	693,900	22.00	879,700	15.13

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

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, *Share-based Payments*. 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. The Company recorded a non-cash charge of \$0.7 million in the second quarter (Q2/2018 - \$0.5 million) and \$1.1 million this fiscal year to date compared to \$0.9 million last fiscal year to date.

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, as adjusted for certain events that management deemed to be non-recurring and non-indicative of future events over a five-year period, which reflects the expected life of the options.

	Options granted FY 2019	Options granted FY 2018
Risk-free interest rate (%)	1.79%	1.77%-1.94%
Estimated volatility (%)	26%	27% – 28%
Dividend yield	\$0.44	\$0.32
Expected life (in years)	5.0	3.5
Weighted average fair value (in dollars)	\$8.23	\$6.20
Weighted average share price at grant date	\$38.35	\$30.82

There were 500,000 options granted in the first six months ended April 30, 2019 (FY 2018 - 390,000).

9. Income tax

Income tax expense is recognized based on management's best estimate of the estimated annual income tax rate expected for the full financial year applied to the pre-tax income for the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and the relative mix of income earned in differing jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined for the consolidated group.

On December 22, 2017, *The United States Tax Cuts and Jobs Act* ("U.S. Tax Reform") was enacted in the U.S. While this decreased the Company's tax rate going forward, there were significant one-time charges that adversely impacted the Company's tax provision booked in the first quarter of fiscal 2018. The significant changes included: (i) the revaluation of deferred tax assets and liabilities on the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018; and (ii) the deemed repatriation of earnings and profits of specified foreign corporations effective December 31, 2017. This resulted in an estimated one-time repatriation tax charge of U.S. \$6.2 million that was recorded in the first quarter of fiscal 2018. The repatriation tax is payable over eight years at a rate of 8% for each of the first five years and increasing thereafter on a graduated basis. The Company continues to assess the impact of U.S. Tax Reform and may make changes in estimates based on interpretations and assumptions as they become available.

For the quarter, the Company recorded a tax expense of \$4.8 million (or 22.5% effective tax rate) as compared to a tax expense of \$4.1 million (21.3%) in the prior year's second quarter.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

10. Earnings per share

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

	Three months ended April 30		Six months ended April 30	
	2019	2018	2019	2018
Net income attributable to owners of the parent	\$ 16,537	\$ 15,318	\$ 31,501	\$ 22,131
Weighted average number of common shares in issue	54,640	54,124	54,640	54,074
Basic earnings per share	\$ 0.30	\$ 0.28	\$ 0.58	\$ 0.41

Diluted: Diluted earnings per share is calculated by adjusting the weighted average number of common shares issued and outstanding to assumed conversions of all potential dilutive common shares. The Company only has stock options as a potential dilutive to 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 April 30		Six months ended April 30	
	2019	2018	2019	2018
Net income attributable to owners of the parent	\$ 16,537	\$ 15,318	\$ 31,501	\$ 22,131
Weighted average number of common shares in issue	54,640	54,124	54,640	54,074
Adjustments for:				
Stock options	355	604	355	520
Weighted average number of common shares for diluted earnings per share	54,995	54,728	54,995	54,594
Diluted earnings per share	\$ 0.30	\$ 0.28	\$ 0.57	\$ 0.41

11. Acquisitions

Acquisitions have been recorded under the acquisition method of accounting and results have been included in the Condensed Consolidated Interim Statements of Operations and Comprehensive Income 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.

2019 acquisitions

Asset Management Group

The Company acquired 100% of the issued and outstanding common shares of Telexis Solutions B.V. and Telexis B.V. on November 8, 2018. Headquartered near The Hague, Netherlands, Telexis Solutions is an innovative technology provider offering public transport agencies/operators end-to-end e-ticketing solutions. It includes automated fare collection, sales and services, value-added services, inspection and corresponding back office solutions. On November 9, 2018, Enghouse acquired 100% of the issued and

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

outstanding common shares of Capana Sweden AB. Headquartered in Gothenburg, Sweden, Capana provides an end-to-end, integrated software platform for wholesale billing and partner settlements. Its revenue management solutions are used by communication service providers and companies active within the Internet of Things industry.

The acquisitions were completed for an aggregate purchase price of approximately \$29.9 million, with \$0.6 million subject to hold-back and adjustment, and \$5.8 million held in escrow that is subject to adjustment. During fiscal 2019, the Company revalued contingent consideration, resulting in an increase of \$0.8 million booked to Other income in the Condensed Consolidated Interim Statements of Operations and Comprehensive Income. The purchase price allocations have not been finalized, subject to receipt of additional information.

Interactive Management Group

On February 14, 2019, Enghouse acquired 100% of the issued and outstanding common shares of ProOpti AB, headquartered in Stockholm, Sweden. ProOpti is a leading Nordic software provider in the Telecom Expense Management (“TEM”) and Technology Optimization Management (“TOM”) sectors. Its solutions include the complete management of telecom expenses, mobile UC charges for voice, data and services, and IT enterprise asset management, usage and contact optimization.

The acquisition was completed for an aggregate purchase price of \$3.3 million, with \$0.6 million held in escrow that is subject to adjustment. The purchase price allocation has not been finalized, subject to receipt of additional information.

2018 acquisitions

Asset Management Group

The Company completed three acquisitions in the first two quarters of the fiscal year, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of approximately \$11.6 million. During the first two quarters of fiscal 2019, \$0.5 million was paid to the sellers in respect of hold-backs, with \$1.0 million held in escrow that is subject to further adjustment. The purchase price allocation has been finalized.

The Company’s purchase price allocations are as follows:

	Asset Management Group Preliminary 2019	Interactive Management Group Preliminary 2019	Asset Management Group Final 2018
Cash and cash equivalents	\$ 6,139	\$ 143	\$ 1,235
Accounts receivable, net	2,924	1,042	2,182
Prepaid expenses and other assets	3,506	1,837	578
Property, plant and equipment	1	-	205
Deferred income tax assets	209	-	153
Acquired software	13,061	1,450	4,785
Customer relationships	4,795	950	3,765
Goodwill	11,036	658	4,506
Total assets acquired	\$ 41,671	6,080	\$ 17,409
Less: Current liabilities assumed	\$ 7,540	\$ 2,253	\$ 3,931
Less: Deferred income tax liabilities	4,236	514	1,888
Total liabilities assumed	\$ 11,776	\$ 2,767	\$ 5,819
Net assets acquired for cash consideration	\$ 29,895	\$ 3,313	\$ 11,590

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

12. Segment 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 and are inclusive of the current year acquisitions. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. The Asset Management Group provides a portfolio of products to telecom service providers as well as fleet management and public safety software solutions for the transportation sector, government, first responders, distribution, security, utilities and oil and gas industries. The Company evaluates segment performance based on revenue and profit or loss before income taxes.

	Interactive Management Group	Asset Management Group	Total
Three months ended April 30, 2019			
Revenue	\$ 44,530	\$ 44,673	\$ 89,203
Operating expenses excluding non-cash charges	(31,299)	(27,533)	(58,832)
Special charges	(56)	-	(56)
Depreciation of property, plant and equipment	(377)	(122)	(499)
Segment profit	\$ 12,798	\$ 17,018	\$ 29,816
Corporate expenses			(3,195)
Results from operating activities			\$ 26,621
Amortization of acquired software and customer relationships			(6,884)
Foreign exchange gain			674
Finance income			507
Finance expenses			(24)
Other income			447
Income before income taxes			\$ 21,341

	Interactive Management Group	Asset Management Group	Total
Three months ended April 30, 2018			
Revenue	\$ 47,554	\$ 37,651	\$ 85,205
Operating expenses excluding non-cash charges	(32,505)	(24,426)	(56,931)
Special charges	-	(52)	(52)
Depreciation of property, plant and equipment	(449)	(210)	(659)
Segment profit	\$ 14,600	\$ 12,963	\$ 27,563
Corporate expenses			(2,898)
Results from operating activities			\$ 24,665
Amortization of acquired software and customer relationships			(7,356)
Foreign exchange gain			1,407
Finance income			66
Finance expenses			(24)
Other income			694
Income before income taxes			\$ 19,452

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

	Interactive Management Group	Asset Management Group	Total
Six months ended April 30, 2019			
Revenue	\$ 87,994	\$ 87,254	\$ 175,248
Operating expenses excluding non-cash charges	(60,915)	(55,388)	(116,303)
Special charges	(56)	-	(56)
Depreciation of property, plant and equipment	(780)	(249)	(1,029)
Segment profit	\$ 26,243	\$ 31,617	\$ 57,860
Corporate expenses			(5,444)
Results from operating activities			\$ 52,416
Amortization of acquired software and customer relationships			(14,000)
Foreign exchange gain			564
Finance income			1,005
Finance expenses			(55)
Other income			475
Income before income taxes			\$ 40,405
Goodwill	\$ 96,815	\$ 73,277	\$ 170,092
Other assets	69,231	95,509	164,740
Cash and cash equivalents	-	-	196,884
Short-term investments	-	-	8,635
Total assets	\$ 166,046	\$ 168,786	\$ 540,351
Capital expenditures	\$ 619	\$ 162	\$ 781
	Interactive Management Group	Asset Management Group	Total
Six months ended April 30, 2018			
Revenue	\$ 95,949	\$ 74,331	\$ 170,280
Operating expenses excluding non-cash charges	(64,821)	(49,376)	(114,197)
Special charges	-	(181)	(181)
Depreciation of property, plant and equipment	(931)	(398)	(1,329)
Segment profit	\$ 30,197	\$ 24,376	\$ 54,573
Corporate expenses			(5,396)
Results from operating activities			\$ 49,177
Amortization of acquired software and customer relationships			(14,518)
Foreign exchange loss			(1,124)
Finance income			188
Finance expenses			(84)
Other income			1,436
Income before income taxes			\$ 35,075
Goodwill	\$ 94,963	\$ 62,722	\$ 157,685
Other assets	77,600	97,366	174,966
Cash and cash equivalents	-	-	145,615
Short-term investments	-	-	9,704
Total assets	\$ 172,563	\$ 160,088	\$ 487,970
Capital expenditures	\$ 655	\$ 276	\$ 931

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2019 and 2018

(Unaudited, in thousands of Canadian dollars, except as indicated)

13. Litigation and contingencies

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. 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. There are no material claims outstanding against the Company as at April 30, 2019.

14. Changes in non-cash operating working capital

	Three months ended April 30,		Six months ended April 30,	
	2019	2018	2019	2018
Decrease (increase) in accounts receivable, net	\$ 1,068	\$ (2,944)	\$ (2,413)	\$ (3,586)
Decrease (increase) in prepaid expenses and other assets	1,445	695	3,380	(576)
Increase (decrease) in accounts payable & accrued liabilities	394	(2,853)	(8,984)	(3,955)
Decrease in provisions	(79)	(585)	(208)	(1,161)
(Decrease) increase in income taxes payable	(951)	(1,237)	280	(1,406)
(Decrease) increase in deferred revenue	(3,927)	4,578	7,318	11,251
	\$ (2,050)	\$ (2,346)	\$ (627)	\$ 567

15. Subsequent events

On May 15, 2019, the Company acquired 100% of the issued and outstanding common shares of Vidyo, Inc. ("Vidyo"). Headquartered in Hackensack, New Jersey, Vidyo is a provider of enterprise-class video software solutions that support visual communications across diverse end-points, networks of varying bandwidth and geographically dispersed locations. Delivered in the cloud, on-premise or as a hybrid solution, Vidyo enables customers to more efficiently collaborate, interact and engage. The acquisition was completed for an aggregate purchase price of approximately \$40 million, with results to be included in the Interactive Management Group from the date of acquisition.

On May 24, 2019, the Company acquired 100% of the issued and outstanding common shares of Espial Group Inc. ("Espial"). Headquartered in Ottawa, Canada, Espial solutions are used by over 100 video service providers and device manufacturers across the U.S., Canada, Europe and Asia. Espial's solution portfolio includes client, server and cloud software products along with system integration services to help service providers launch next generation video offerings. Espial has partnered with leading companies like Netflix, Amazon and Google among others for its Elevate SaaS solution, which powers cable, IPTV and App-based IP video services for over 30 video service providers. The acquisition was completed for an aggregate purchase price of approximately \$57 million, with results to be included in the Asset Management Group from the date of acquisition.