FIRST QUARTER ENDED
JANUARY 31, 2020

Enghouse Systems

Software engineered for results

March 5, 2020

To our Shareholders,

Revenue for the first quarter was $110.7 million, a 28.6% increase compared to revenue of $86.0 million in the first quarter of the prior year primarily as a result of incremental contributions from acquisitions. Results from operating activities were $30.8 million compared to $25.8 million in the prior year's first quarter and reflect the impact of changes in product mix on gross margins. Operating expenses of $47.3 million reflect incremental operating costs related to newly acquired operations and increased non-cash amortization charges.

Net income for the quarter was $16.1 million or $0.29 per diluted share and includes $1.6 million in special charges and approximately $3.0 million in incremental amortization charges related to acquisitions.

Adjusted EBITDA for the first quarter was $35.3 million or $0.64 per diluted share, compared to $26.3 million or $0.48 per diluted share last year, with the increase being attributable to incremental revenue contributions from acquisitions as well as the impact of depreciation of right-of-use assets, as now required under the new lease accounting standard (IFRS 16).

Cash flows from operating activities excluding changes in working capital were $35.2 million compared to $27.1 million last quarter, an increase of 29.7%. As a result, Enghouse closed the quarter with $116.3 million in cash, cash equivalents and short-term investments, compared to $150.3 million at October 31, 2019. The cash balance was achieved after payments of $6.0 million for cash dividends and $48.9 million (net of cash acquired) for acquisitions concluded in the current quarter and $0.5 million for acquisitions closed in prior years.

On December 31, 2019, Enghouse completed the acquisition of Dialogic and commenced integration into its Asset Management and Interactive segments. Dialogic reported revenue consistent with expectations, which is typically lower in January, and was not accretive to earnings in their first month following acquisition. Restructuring initiatives have been implemented that should improve operating performance in the coming quarters.

Today, the Board of Directors approved a 22.7% increase to the Company's eligible quarterly dividend from $0.11 per common share to $0.135 per common share, payable on May 29, 2020 to shareholders of record at the close of business on May 15, 2020. Enghouse has now increased its dividend in each of the past twelve years, by over 10% each year.

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 March 5, 2020 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 "Enghouse", "we" "us" "our" or "the Company") fiscal 2020 audited consolidated financial statements and the notes thereto. This MD&A covers the unaudited condensed consolidated interim results of operations, financial condition and cash flows of Enghouse Systems and its subsidiaries, all wholly owned, for the first quarter ended January 31, 2020.

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 unaudited 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 and forward-looking statements

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, equipment and right-of-use assets, and special charges for acquisition related restructuring costs. Management uses Adjusted EBITDA to evaluate operating performance as it excludes amortization of acquired 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, other income and restructuring costs primarily related to acquisitions.

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 Systems' Annual Information Form, which could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed herein. Readers are cautioned not to place undue reliance on this forward-looking information, and the Company shall have no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which are filed electronically on SEDAR at www.sedar.com.

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 unaudited consolidated financial statements for the year ended October 31, 2019, 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.

In addition to the risks and uncertainties discussed therein, the more recent outbreak of COVID-19 ("the coronavirus") also presents a source of economic uncertainty to the Company. Management will continue to monitor the situation closely as it develops. The Company has limited direct exposure to jurisdictions currently most significantly impacted such as China, South Korea, Iran, Italy and Japan.

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 ("IMG") and the Asset Management Group ("AMG").

IMG 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, video collaboration, 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 and banks as well as technology, health care and hospitality companies.

AMG provides a portfolio of software and services solutions primarily to the telecommunications, media, utilities and defense sectors. Its products include Network infrastructure, Operations Support Systems (OSS), Business Support Systems (BSS), and revenue generation solutions such as Video and Cloud TV solutions. AMG also provides fleet routing, dispatch, scheduling, transit e-ticketing and automated fare collection, 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.

First quarter overview

On December 31, 2019 the Company acquired 100% of the issued and outstanding common shares of Dialogic Group Inc. ("Dialogic"). Headquartered in Parsippany, New Jersey, Dialogic is an industry leader in media processing software, with a highly scalable solution that supports real-time video conferencing and collaboration applications across all devices. Dialogic's infrastructure products offer a best-in-class session border controller and several software-based network solutions to communication service providers. This combination enables the transformation from legacy TDM (time division multiplexing) to next-generation network platforms.

The acquisition of Dialogic further expands our global revenues while also extending our international footprint to Russia. The new regional offices provide localized support, sales and expertise for newly acquired solutions and our existing suite of products. Dialogic is a complementary addition to our existing portfolio of products that will be integrated with existing operations.

The acquisition of Dialogic was completed for a purchase price of $48.9 million, net of cash acquired, with U.S. $7.9 million held in escrow that is subject to adjustment. Results for Dialogic are included in both IMG and AMG from the date of acquisition.

During the prior fiscal year, Enghouse completed six acquisitions. The fiscal 2019 acquisitions have now been fully integrated into the Company's operations.

Quarterly results of operations

The following table sets forth certain unaudited information for each of the eight most recent quarters. Our operating results may fluctuate quarterly, mainly as a result of the timing of certain large software license and hardware sales. Our quarterly results may also be influenced by foreign exchange, timing of new acquisitions, and changes in staffing and infrastructure. See “Risks and Uncertainties” for more details.

For the three months ending	Total revenue $	Net income $	Basic EPS $	Diluted EPS $	Cash and short-term investments $	Total assets $
January 31, 2020	**110,656**	**16,136**	**0.29**	**0.29**	**116,329**	**691,556**
October 31, 2019	109,331	24,687[1]	0.45	0.45	150,269	590,600
July 31, 2019	101,274	14,661	0.27	0.27	141,334	575,084
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[1]	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

1. Includes credit adjustment to tax provision of $3.0 million in fiscal 2019 and $2.4 million in fiscal 2018 on the recognition of deferred tax assets related to non-capital losses.

Results of operations

The following table provides details regarding operating results for the quarter:

For the period ended January 31	Three months			
	2020 $	2019 $	Variance $	%
Revenue	**110,656**	**86,045**	**24,611**	***28.6***
Direct costs	32,477	27,212	5,265	*19.3*
Revenue, net of direct costs	**78,179**	**58,833**	**19,346**	***32.9***
As a % of revenue	*70.7%*	*68.4%*		
Operating expenses	45,760	33,038	12,722	*38.5*
Special charges	1,576	-	1,576	-
Results from operating activities	**30,843**	**25,795**	**5,048**	***19.6***
As a % of revenue	*27.9%*	*30.0%*		
Amortization of acquired software and customer relationships	(10,080)	(7,116)	(2,964)	*(41.7)*
Foreign exchange gains (losses)	347	(110)	457	*415.5*
Interest expense – lease obligations	(262)	-	(262)	-
Finance income	351	498	(147)	*(29.5)*
Finance expenses	(18)	(31)	13	*41.9*
Other (expense) income	(414)	28	(442)	*(1578.6)*
Income before income taxes	**20,767**	**19,064**	**1,703**	***8.9***
Provision for income taxes	4,631	4,100	531	*13.0*
Net Income	**16,136**	**14,964**	**1,172**	***7.8***
Basic earnings per share	0.29	0.27	0.02	*7.4*
Diluted earnings per share	0.29	0.27	0.02	*7.4*
Operating cash flows	19,933	24,154	(4,221)	*(17.5)*
Operating cash flows excluding changes in working capital	35,183	27,121	8,062	*29.7*

Revenue

The following table provides details regarding revenue for the quarter:

For the period ended January 31	Three months		
	2020	2019	Variance
	$	$	$
Software licenses	28,400	18,728	9,672
Hosted and maintenance services	64,353	50,813	13,540
Professional services	15,183	13,501	1,682
Hardware	2,720	3,003	(283)
Revenue	**110,656**	**86,045**	**24,611**
Interactive Management Group	62,873	43,464	19,409
Asset Management Group	47,783	42,581	5,202
Revenue	**110,656**	**86,045**	**24,611**

Revenue for the three months ended January 31, 2020 was $110.7 million, an increase of $24.6 million or 28.6% from the same period in the prior year. The variance is explained by:

- An increase of $13.5 million in hosted and maintenance revenue, attributable to new acquisitions and incremental maintenance on new license sales, net of churn on existing customers. Hosted and maintenance services represent an important strategic source of revenue given its predictable and recurring nature and represented 58.2% of total revenues for the period (2019–59.1%).
- An increase of $9.7 million in software license revenue predominately from acquisitions and increased license sales in the Networks and Vidyo operations.
- A decrease of $2.0 million due to foreign exchange as the Canadian dollar strengthened against all major foreign currencies other than the pound sterling, as calculated by applying the change in the average exchange rates in the first quarters of 2019 and 2020 to our foreign currency denominated revenue in the first quarter of 2020.
- An offsetting decrease of $0.3 million in hardware revenue attributable to timing of transportation hardware deals due to large lead times. Hardware is sold to customers to complement our software offerings and is generally not a core product offering.

Interactive Management Group

IMG revenue for the three months ended January 31, 2020 was $62.9 million, an increase of $19.4 million or 44.7% from same period in the prior year. The variance is explained by:

- An increase of $12.4 million in hosted and maintenance revenue primarily attributable to acquisitions as well as incremental maintenance on new sales.
- An increase of $6.2 million in software license revenue attributable to organic growth and acquisitions.
- An increase of $0.8 million in hardware revenue primarily attributable to Vidyo, which was acquired on May 14, 2019.

Asset Management Group

AMG revenue for the three months ended January 31, 2020 was $47.8 million, an increase of $5.2 million or 12.2% from same period in the prior year. The variance is explained by:

- An increase of $3.4 million in software license revenue in Networks and Espial operations.
- An increase of $2.8 million in hosted and maintenance revenue primarily attributable to new acquisitions as well as incremental maintenance on new sales.
- An offsetting decrease of $1.0 million in hardware revenue largely attributable to timing of deliveries for large contracts in the transportation business. Although variability is to be expected as a result of timing, hardware is an ancillary product offered at a lower margin.

Direct costs

The following table provides details regarding direct costs for the quarter:

For the period ended January 31	Three months 2020 $	2019 $	Variance $
Software licenses	2,450	1,361	1,089
Services	28,346	23,545	4,801
Hardware	1,681	2,306	(625)
Direct Costs	**32,477**	**27,212**	**5,265**
As a % of revenue			
Software licenses	*8.6%*	*7.3%*	
Services	*35.6%*	*36.6%*	
Hardware	*61.8%*	*76.8%*	
Total	*29.3%*	*31.6%*	
Interactive Management Group	15,214	11,275	3,939
Asset Management Group	17,263	15,937	1,326
Direct Costs	**32,477**	**27,212**	**5,265**
As a % of revenue			
Interactive Management Group	*24.2%*	*25.9%*	
Asset Management Group	*36.1%*	*37.4%*	

Direct costs for the three months ended January 31, 2020 were $32.5 million or 29.3% of revenue compared to $27.2 million or 31.6% of revenue in the prior fiscal year. Overall margins improved as a result of favourable product mix changes reflecting increased sales of licenses and services and fewer hardware sales. Hardware is sold at lower margins than traditionally achieved on other revenue streams.

Interactive Management Group

IMG direct costs for the three months ended January 31, 2020 were $15.2 million or 24.2% of segment revenue compared to $11.3 million or 25.9% of revenue in the same period in prior year. The higher margins are ultimately a result of the same factors discussed above.

Asset Management Group

AMG direct costs were $17.3 million or 36.1% of segment revenue for the three months ended January 31, 2020 compared to $15.9 million or 37.4% of revenue in the same period in the prior year. The higher overall margins are a result of the same factors discussed above.

Revenue, net of direct costs

Revenue, net of direct costs for the three months ended January 31, 2020 increased by $19.3 million to $78.2 million or 70.7% of revenue compared to $58.8 million or 68.4% in the same period in the prior year. The increase in revenue, net of direct costs is attributable to incremental license and services revenue along with a slight decline in lower-margin hardware sales as a result of timing.

Operating expenses

The following table provides details regarding operating expenses for the quarter:

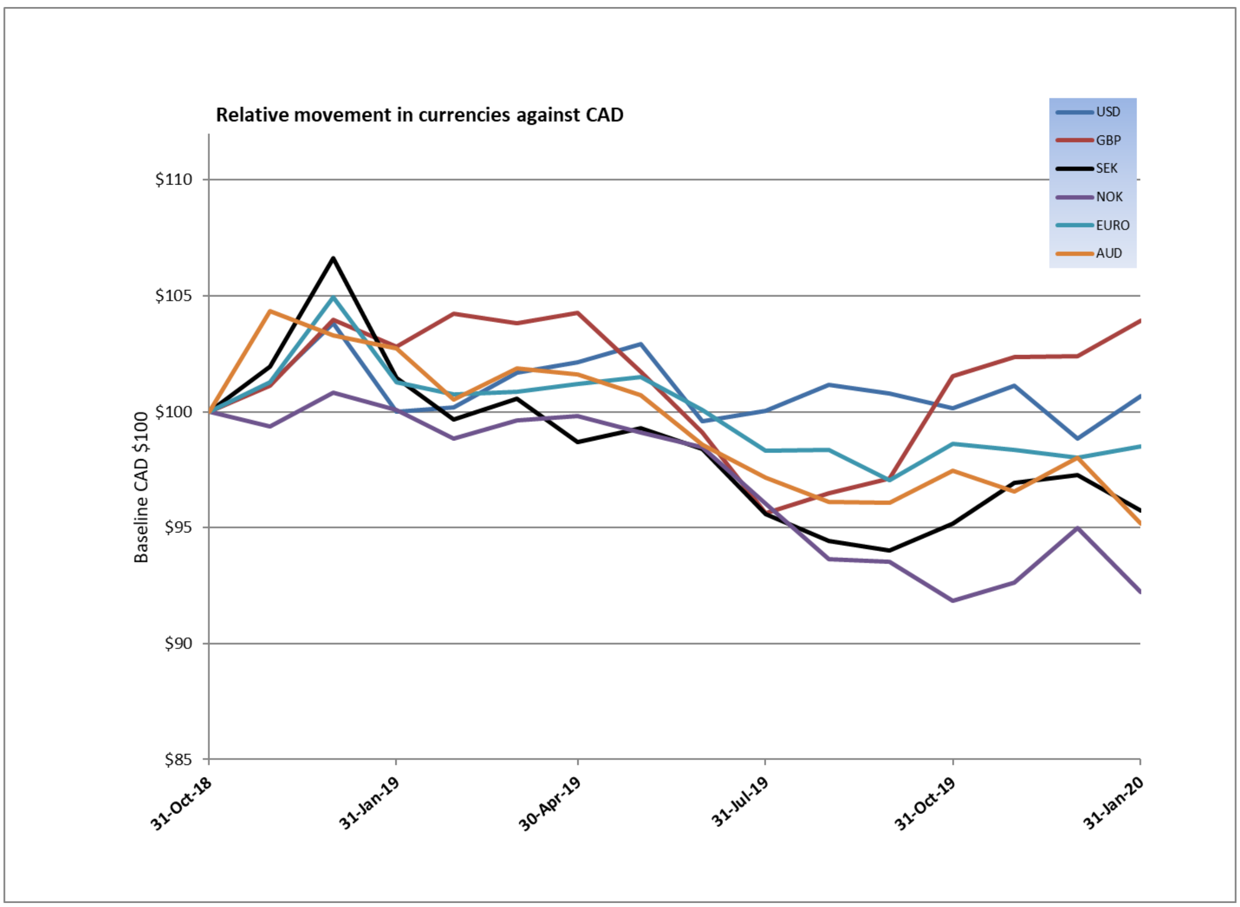
For the period ended January 31	Three months 2020 $	2019 $	Variance $
Selling, general and administrative	24,682	20,456	4,226
Research and development	18,168	12,052	6,116
Depreciation	887	530	357
Depreciation – right-of-use asset	2,023	-	2,023
Special charges	1,576	-	1,576
Operating expenses	**47,336**	**33,038**	**14,298**
As a % of revenue			
Selling, general and administrative	*22.3%*	*23.8%*	
Research and development	*16.4%*	*14.0%*	
Depreciation	*0.8%*	*0.6%*	
Depreciation – right-of-use asset	*1.8%*	*0.0%*	
Special charges	*1.4%*	*0.0%*	
Operating expenses	*42.8%*	*38.4%*	

Operating expenses for the three months ended January 31, 2020 totaled $47.3 million, an increase of $14.3 million or 43.3% from the same period in the prior year. The variance is explained by:

- An increase of $6.1 million in research and development expense from new acquisitions. Research and development expense is equivalent to 16.4% of revenue compared to 14.0% in the same period in prior year. The higher rate of spending is largely a result of new development initiatives for Vidyo and Dialogic products and enhancements to Espial's IPTV solution. Research and development expenses are net of government grants and investment tax credits.
- An increase of $4.2 million in selling, general and administrative expense as a result of incremental costs from the acquisitions of Eptica and Dialogic at which cost containment initiatives are still in progress. This increase is inclusive of a reduction in occupancy expense as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis as explained subsequently. The increase in selling, general and administrative was further mitigated by administrative cost synergies and operating cost efficiencies that further reduced costs.
- An increase of $2.0 million in depreciation of right-of-use assets as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis while comparative balances were not revised. Prior to the adoption of IFRS 16, lease related costs, which are now expensed under both interest and depreciation, were classified as occupancy costs as part of selling, general and administrative expense.

Foreign exchange

The majority of our revenue is from sales denominated in foreign currencies. We do not hedge foreign currency exposure as most of our major international operations fund operating expenses with local operating cash flow surpluses that provide a natural hedge. While foreign exchange might have a significant impact on both revenue and expenses, the net impact to results from operating activities is lessened. This will also affect the relative cost of foreign currency denominated acquisitions stated in Canadian dollars.



During the three months ended January 31, 2020, the Canadian dollar strengthened against all major currencies other than the pound sterling, compared to the same period in prior year. As result, in the first quarter, there was a negative impact to revenue of $2.0 million reported in Canadian dollars and a positive impact to operating costs of $1.5 million.

For the three months ended January 31, 2020, we recognized foreign exchange gains of $0.3 million related to foreign currency denominated monetary assets and liabilities in the current period compared to losses of $0.1 million in the same period in the prior year. The gain was a result of the strengthening of the Canadian dollar against most major international currencies, other than the euro, Danish krone and Australian dollar, on Canadian dollar denominated monetary assets and liabilities on functional currency books denominated in foreign currencies.

Translation gains or losses incurred upon consolidation of our foreign operations' statements of financial position into Canadian dollars are included in our Accumulated other comprehensive income (loss) account on the Condensed Consolidated Interim Statements of Financial Position.

Amortization of software and customer relationships
Amortization expense for acquired software and customer relationships for the three months ended January 31, 2020 increased by $3.0 million to $10.1 million, compared to the same period in the prior year. The variance is attributable to incremental charges from the current year's acquisitions as well as amortization on fiscal 2019 acquisitions, which added $3.5 million incrementally in the quarter.

Finance income
Finance income for the three months ended January 31, 2020 decreased by $0.1 million, compared to the same period in the prior year. The decrease is attributable to lower average net invested cash balances compared to the same period in the prior year.

Other (expense) income
Other (expense) income for the three months ended January 31, 2020 decreased by $0.4 million, compared to the same period in the prior year. The decrease is attributable to unrealized losses on our investments in equity positions carried at fair value.

Income tax expense
Income tax expense for the three months ended January 31, 2020 increased by $0.5 million to $4.6 million, compared to the same period in prior year. For the three months ended January 31, 2020, our effective tax rate was 22.3% compared to 21.5% for the same period in the prior year.

Net income
Net income for the three months ended January 31, 2020 increased by $1.2 million to $16.1 million, or $0.29 per diluted share compared to $15.0 million or $0.27 per diluted share the same period in the prior year. The increase in profitability reflects improved revenue, operating cost synergies and contributions from acquisitions.

Cash flows from operating activities
For three months ended January 31, 2020, cash flows from operating activities were $19.9 million compared to $24.2 million in the same period in the prior year. The decrease in operating cash flow reflects:

- An increase in accounts receivable as a result of the timing of a large transaction occurring near the end of the quarter.
- The addition of negative working capital from recent acquisitions as of the date of acquisition. These acquisitions had significant payables as well as severance and restructuring liabilities settled in the quarter.
- These decreases were partially offset as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis while comparative balances were not revised. Prior to the adoption of IFRS 16, lease related outflows, now classified under financing activities were previously classified as operating cash outflows.

Operating cash flows excluding changes in non-cash working capital items for the three months ended January 31, 2020 increased by 29.7% to $35.2 million compared to the same period in prior year primarily as a result of the factors discussed above including improved operating results.

Adjusted EBITDA

The table below reconciles Adjusted EBITDA to the most directly comparable IFRS measure, Results from operating activities for the three months ended January 31, 2020.

For the period ended January 31	Three months		
	2020 $	2019 $	Variance $
Total revenue	110,656	86,045	24,611
Results from operating activities	30,843	25,795	5,048
Depreciation	887	530	357
Depreciation – right-of-use asset	2,023	-	2,023
Special charges	1,576	-	1,576
Adjusted EBITDA	**35,329**	**26,325**	**9,004**
Adjusted EBITDA margin	*31.9%*	*30.6%*	
Adjusted EBITDA per diluted share	**0.64**	**0.48**	**0.16**

Adjusted EBITDA for the three months ended January 31, 2020 increased by $9.0 million compared to the same period in the prior year. The increase in adjusted EBITDA reflects:

- Higher revenue net of direct costs as a result of additional contributions from acquisitions, combined with improved margins in both IMG and AMG.
- An increase as a result of IFRS 16 whereby certain costs associated with occupancy are now classified as depreciation and interest on right-of-use assets. Comparative periods have not been restated.
- These increases were partially offset by higher general and administrative expenses as a result of acquisitions and increased investment in research and development initiatives.

Special charges of $1.6 million primarily reflecting acquisition related restructuring charges, have been excluded from adjusted EBITDA along with depreciation of both property and equipment as well as right-of-use assets. During the same period in the prior year, no acquisition related restructuring charges were incurred.

Liquidity and capital resources

We closed the quarter with cash and short-term investments of $116.3 million, compared to the October 31, 2019 balance of $150.3 million as a result of cash spent of $48.9 million on the acquisition of Dialogic, which was partially offset by continued strong collection efforts and increased revenues. This is also net of payments of $6.0 million for dividends, which increased 22.5% from $4.9 million in the same period in the prior year.

For the quarter ended January 31, 2020, cash decreased by a total of $33.3 million compared to a decrease of $9.6 million in the same period in the prior year. The decrease is the result of $49.9 million of cash spent on investing activities, primarily on acquisitions, compared to $29.8 million in the prior year. Additionally, cash spent on financing activities was $4.2 million compared to $5.2 million in the same period in the prior year primarily related to increased dividend payments and repayments of lease obligations (previously presented as part of operating activities prior to adopting IFRS 16), which was partially offset by the issuance of share capital from the exercise of stock options. The balance is primarily attributable to cash generated from operating activities.

In the acquisition of Eptica during the fourth quarter of 2019 we assumed a nominal amount of debt. Although we do not typically hold debt, we plan to hold the Eptica debt to maturity, making our scheduled quarterly repayments until March 31, 2024 as it is non-interest bearing.

For the quarter ended January 31, 2020 working capital was $49.8 million at January 31, 2020 compared to $85.4 million at the end of fiscal 2019, with the decrease being attributable to incremental payables, deferred revenue and accounts receivable primarily from acquisitions along with reduced cash balances after spending $48.9 million on Dialogic. Management is confident that the Company has the funds necessary to meet its existing and future financial operating commitments and dividend strategy. Future acquisition growth may be funded through a combination of cash, debt and equity consideration, which could cause dilution to existing shareholders.

The Company had 54,976,924 Common Shares issued and outstanding as at March 5, 2020. During the quarter, 239,500 stock options were exercised contributing $4.8 million in cash compared to 58,000 stock options and $0.7 million in cash to the Company in the same period in prior year. The Company granted 300,000 options in the first quarter of 2020 but did not issue any in the same period of the prior year. Additionally, 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 period ended January 31, 2019.

Enghouse Systems renewed its Normal Course Issuer Bid in the second quarter of 2019 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. The Company did not repurchase any shares of its common stock in the current or prior quarterly periods under its Normal Course Issuer Bid.

Off-Statement of financial position arrangements

We have 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 commitments are reflected on our unaudited Condensed Consolidated Interim Statements of Financial Position.

Transactions with related parties

We have not entered into any transactions with related parties during the period, other than transactions between wholly owned subsidiaries and us in the normal course of business, which are eliminated on consolidation.

Basis of preparation and significant accounting policies

The unaudited condensed consolidated interim financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Our significant accounting policies are described in Note 3 of the audited consolidated financial statements as at October 31, 2019, which is available on SEDAR (*www.sedar.com*). The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and outstanding as of March 5, 2020, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

New standards and interpretations adopted

IFRS 16, Leases ("IFRS 16")

IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019. The standard replaced previous 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 lease obligations reflecting future lease payments and a "right-of-use" asset. Lessor accounting remains somewhat similar as under IAS 17. The Company has applied IFRS 16 for the period commencing November 1, 2019.

The Company applied IFRS 16 using the modified retrospective approach and as a result the comparative information was not restated and will continue to be reported under IAS 17 and IFRIC 4, *Determining Whether an Arrangement Contains a Lease* ("IFRIC 4").

On adoption of IFRS 16, the Company recognized lease obligations in relation to leases that had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of November 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease obligations on November 1, 2019 was 3.0%. Prior to adoption of IFRS 16 the Company did not have any leases classified as finance leases.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than twelve months as at November 1, 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The associated right-of-use assets for leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease obligations, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the Consolidated Statements of Financial Position as at October 31, 2019.

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of adoption of IFRS 16.

A reconciliation of operating lease commitments disclosed as at October 31, 2019 to the lease obligations recognized as at November 1, 2019 is provided below:

Operating lease commitments disclosed as at October 31, 2019	$	27,822
Short-term leases not recognized as a liability		(927)
Onerous leases not recognized as a liability		(987)
Adjustments as a result of different treatment of extension options		12,058
Impact of present value		(3,302)
Lease obligations recognized as at November 1, 2019	**$**	**34,664**
Comprised of:		
Current lease obligations	$	7,180
Non-current lease obligations		27,484
Lease obligations recognized as at November 1, 2019	**$**	**34,664**

The change in accounting policy affected the following items in the unaudited Condensed Consolidated Interim Statement of Financial Position as at November 1, 2019:

Right-of-use assets—increased by	$	35,820
Prepaid expenses—decreased by	$	1,959
Accrued liabilities—decreased by	$	803
Current lease obligations—increased by	$	7,180
Non-current lease obligations—increased by	$	27,484

The adoption of IFRS 16 has no impact on revenue but resulted in a material increase to both assets and liabilities upon adoption of the new standard. The Company recognized lease obligations and right-of-use asset at the date of adoption. The lease obligations were measured at the present value of the future lease payments at the date of adoption. The right-of-use asset will be depreciated using the straight-line method from the date of adoption to the end of the lease term adjusted for expected renewals as required by the standard. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the lease obligation.

As a result of these changes, there is an increase in interest expense and depreciation, as well as a reduction in selling, general and administrative expense on the unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Income due to the decrease in rent expense. The overall impact to net income is not significant. Additionally, an increase in cash flow from operating activities results from the lease payments being recorded as financing outflows instead of operating outflows in the unaudited Condensed Consolidated Interim Statements of Cash Flows.

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, 2019, contained in the Company's 2019 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

In addition to the risks and uncertainties discussed therein, the more recent outbreak of COVID-19 ("the coronavirus") also presents a source of economic uncertainty to the Company. Management will continue to monitor the situation closely as it develops. The Company has limited direct exposure to jurisdictions currently most significantly impacted such as China, South Korea, Iran, Italy and Japan.

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 us 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, 2019, an evaluation of the effectiveness of our 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 our disclosure policy, a sub-certification process and the functioning of our 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, 2019, 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, 2019, 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 January 31, 2020 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 our 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 months ended *January 31, 2020* 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)

	Notes	As at January 31, 2020	As at October 31, 2019
Assets			
Current assets:			
Cash and cash equivalents		$ 111,451	$ 144,764
Short-term investments		4,878	5,505
Accounts receivable		117,007	84,982
Prepaid expenses and other assets		15,197	11,147
		248,533	**246,398**
Non-current assets:			
Property and equipment		6,552	6,280
Right-of-use assets	4	40,713	-
Intangible assets	5	154,896	121,885
Goodwill	5	218,016	203,298
Deferred income tax assets		22,846	12,739
Total assets		**$ 691,556**	**$ 590,600**
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 65,003	$ 62,813
Income taxes payable		8,863	6,953
Dividends payable		6,047	6,021
Provisions	6	7,537	6,536
Deferred revenue		103,078	78,405
Lease obligations	4	7,993	-
Current portion of long-term loans		249	249
		198,770	**160,977**
Non-current liabilities:			
Non-current portion of income taxes payable		3,805	4,434
Deferred income tax liabilities		26,089	16,197
Deferred revenue		8,447	3,665
Net employee defined benefit obligation		2,654	2,380
Lease obligations	4	30,983	-
Long-term loans		810	874
Total liabilities		**271,558**	**188,527**
Shareholders' Equity			
Share capital		87,242	81,576
Contributed surplus		6,527	6,677
Retained earnings		319,287	309,198
Accumulated other comprehensive income	7	6,942	4,622
Total shareholders' equity		**419,998**	**402,073**
Total liabilities and shareholders' equity		**$ 691,556**	**$ 590,600**

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

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

	Notes	Three months ended January 31 2020	2019
Revenue			
Software licenses		$ 28,400	$ 18,728
Hosted and maintenance services		64,353	50,813
Professional services		15,183	13,501
Hardware		2,720	3,003
		110,656	**86,045**
Direct costs			
Software licenses		2,450	1,361
Services		28,346	23,545
Hardware		1,681	2,306
		32,477	27,212
Revenue, net of direct costs		**78,179**	**58,833**
Operating expenses			
Selling, general and administrative		24,682	20,456
Research and development		18,168	12,052
Depreciation		887	530
Depreciation – right-of-use assets	4	2,023	-
Special charges		1,576	-
		47,336	**33,038**
Results from operating activities		**30,843**	**25,795**
Amortization of acquired software and customer relationships	5	(10,080)	(7,116)
Foreign exchange gains (losses)		347	(110)
Interest expense – lease obligations	4	(262)	-
Finance income		351	498
Finance expenses		(18)	(31)
Other (expense) income		(414)	28
Income before income taxes		**20,767**	**19,064**
Provision for income taxes	9	4,631	4,100
Net income for the period		**$ 16,136**	**$ 14,964**
Items that are or may be reclassified subsequently to net income:			
Cumulative translation adjustment		2,320	2,887
Other comprehensive income		**2,320**	**2,887**
Comprehensive income		**$ 18,456**	**$ 17,851**
Earnings per share			
Basic	10	$ 0.29	$ 0.27
Diluted	10	$ 0.29	$ 0.27

The accompanying notes form an integral part of these unaudited 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, 2019	**54,737,424**	**81,576**	**6,677**	**4,622**	**309,198**	**402,073**
Net income	-	-	-	-	16,136	16,136
Cumulative translation adjustment	-	-	-	2,320	-	2,320
Comprehensive income	**-**	**-**	**-**	**2,320**	**16,136**	**18,456**
Employee share options:						
Value of services recognized	-	-	732	-	-	732
Proceeds on issuing shares	239,500	5,666	(882)	-	-	4,784
Dividends declared	-	-	-	-	(6,047)	(6,047)
As at January 31, 2020	**54,976,924**	**87,242**	**6,527**	**6,942**	**319,287**	**419,998**
As at November 1, 2018, as previously presented	**54,580,024**	**78,997**	**4,866**	**5,755**	**260,506**	**350,124**
IFRS 9 Transitional adjustment	-	-	-	781	(781)	-
IFRS 15 Transitional adjustment	-	-	-	-	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	-	-	-	-	14,964	14,964
Cumulative translation adjustment	-	-	-	2,887	-	2,887
Comprehensive income	**-**	**-**	**-**	**2,887**	**14,964**	17,851
Employee share options:						
Value of services recognized	-	-	408	-	-	408
Proceeds on issuing shares	58,000	855	(136)	-	-	719
Dividends declared	-	-	-	-	(4,917)	(4,917)
As at January 31, 2019	**54,638,024**	**79,852**	**5,138**	**9,423**	**271,362**	365,775

** 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 period ended January 31, 2019.*

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

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)
(Unaudited)

	Notes	Three months ended January 31 2020	2019
Cash flows from operating activities			
Net income		$ 16,136	$ 14,964
Adjustments for:			
Depreciation		887	530
Depreciation of right-of-use assets	4	2,023	-
Interest expense on lease obligations	4	262	-
Amortization of acquired software and customer relationships	5	10,080	7,116
Stock-based compensation expense	8	732	408
Provision for income taxes		4,631	4,100
Finance and other expenses (income)		432	3
		35,183	**27,121**
Changes in non-cash operating working capital	13	(10,300)	1,423
Income taxes paid		(4,950)	(4,390)
Net cash flows from operating activities		**19,933**	**24,154**
Cash flows from investing activities			
Purchase of property and equipment		(439)	(209)
Acquisitions, net of cash acquired of $6,905 (2019 - $6,139)	11	(48,899)	(22,396)
Purchase consideration for prior year acquisitions	11	(546)	(1,105)
Purchase of short-term investments		(7)	(6,108)
Net cash flows used in investing activities		**(49,891)**	**(29,818)**
Cash flows from financing activities			
Interest paid on lease obligations	4	(262)	-
Issuance of share capital		4,784	719
Repayment of loans		(62)	(957)
Repayment of lease obligations	4	(2,604)	-
Dividends paid		(6,021)	(4,912)
Net cash flows used in financing activities		**(4,165)**	**(5,150)**
Effect of currency translation adjustments on cash and cash equivalents		810	1,264
Net decrease in cash and cash equivalents during the period		**(33,313)**	**(9,550)**
Cash and cash equivalents - beginning of period		144,764	187,551
Cash and cash equivalents - end of period		**$ 111,451**	**$ 178,001**

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

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended January 31, 2020 and 2019

(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 ("IMG") and the Asset Management Group ("AMG").

IMG 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, video collaboration, 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 and banks as well as technology, health care and hospitality companies.

AMG provides a portfolio of software and services solutions primarily to the telecommunications, media, utilities and defense sectors. Its products include Network infrastructure, Operations Support Systems (OSS), Business Support Systems (BSS), and revenue generation solutions such as Video and Cloud TV solutions. AMG also provides fleet routing, dispatch, scheduling, transit e-ticketing and automated fare collection, communications and emergency control center solutions for the transportation, government, first responders, distribution and security sectors.

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, France, Belgium, Brazil, Germany, Ireland, Australia, New Zealand, Israel, Lebanon, Romania, Italy, Spain, Japan, Colombia, Croatia, Russia, and China.

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

(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 audited consolidated financial statements for the year ended October 31, 2019, 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 March 5, 2020.

(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 unaudited condensed interim consolidated financial statements reflect the accounting policies disclosed in Note 3 of the Company's 2019 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 March 5, 2020. Any subsequent changes to IFRS that are applied retroactively in the Company's annual consolidated financial statements for the year ended October 31, 2019 could result in changes to these unaudited condensed consolidated interim financial statements.

Certain segment information previously presented has been changed to conform to the presentation adopted for the current period. This change was made to conform to how management and the chief operating decision maker views the business with increasing regionalization of shared service centers. This change had no impact on segment revenue or direct costs and has been applied retrospectively.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended January 31, 2020 and 2019
(in thousands of Canadian dollars, except as indicated)

(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 annual consolidated financial statements for the year ended October 31, 2019.

3. Significant accounting policies

Except for the adoption of IFRS 16, Leases, at November 1, 2019, the accounting policies adopted are consistent with those of the previous financial year.

<u>New standards and interpretations adopted</u>

IFRS 16, Leases ("IFRS 16")

The Company adopted IFRS 16, with an initial adoption date of November 1, 2019. The Company applied IFRS 16 using the modified retrospective approach and, as a result, the comparative information will not be restated and will continue to be reported under IAS 17 and IFRIC 4, *Determining Whether an Arrangement Contains a Lease* ("IFRIC 4"). See note 4 below for further details.

4. Explanation of adoption of IFRS 16

IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019. The standard replaced previous 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 lease obligations reflecting future lease payments and a "right-of-use" asset. Lessor accounting remains somewhat similar as under IAS 17. The Company has applied IFRS 16 for the period commencing November 1, 2019.

The Company applied IFRS 16 using the modified retrospective approach and as a result the comparative information was not restated and will continue to be reported under IAS 17 and IFRIC 4.

On adoption of IFRS 16, the Company recognized lease obligations in relation to leases that had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of November 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease obligations on November 1, 2019 was 3.0%. Prior to adoption of IFRS 16 the Company did not have any leases classified as finance leases.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended January 31, 2020 and 2019
(in thousands of Canadian dollars, except as indicated)

- accounting for operating leases with a remaining lease term of less than twelve months as at November 1, 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The associated right-of-use assets for leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease obligations, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the Consolidated Statement of Financial Position as at October 31, 2019.

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of adoption of IFRS 16.

A reconciliation of operating lease commitments disclosed as at October 31, 2019 to the lease obligation recognized as at November 1, 2019 is provided below:

Operating lease commitments disclosed as at October 31, 2019	$	27,822
Short-term leases not recognized as a liability		(927)
Onerous leases not recognized as a liability		(987)
Adjustments as a result of different treatment of extension options		12,058
Impact of present value		(3,302)
Lease obligations recognized as at November 1, 2019	**$**	**34,664**
Comprised of:		
Current lease obligations	$	7,180
Non-current lease obligations		27,484
Lease obligations recognized as at November 1, 2019	**$**	**34,664**

The change in accounting policy affected the following items in the unaudited Condensed Consolidated Interim Statement of Financial Position as at November 1, 2019:

Right-of-use assets—increased by	$	35,820
Prepaid expenses—decreased by	$	1,959
Accrued liabilities—decreased by	$	803
Current lease obligations—increased by	$	7,180
Non-current lease obligations—increased by	$	27,484

The adoption of IFRS 16 has no impact on revenue but resulted in a material increase to both assets and liabilities upon adoption of the new standard. The Company recognized lease obligations and right-of-use asset at the date of adoption. The lease obligations were measured at the present value of the future lease payments at the date of adoption. The right-of-use asset will be depreciated using the straight-line method from the date of adoption to the end of the lease term adjusted for expected renewals as required by the standard. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the lease obligation.

As a result of these changes, there is an increase in interest expense and depreciation, as well as a reduction in selling, general and administrative expense on the unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Income due to the decrease in rent expense. The overall impact to net income is not significant. Additionally, an increase in cash flow from operating activities results from the lease payments being recorded as financing outflows instead of operating outflows in the unaudited Condensed Consolidated Interim Statements of Cash Flows.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended January 31, 2020 and 2019

(in thousands of Canadian dollars, except as indicated)

5. Intangible assets and goodwill

	Acquired software $	Capitalized software $	Customer relationships $	Total intangibles $	Goodwill $
At November 1, 2019					
Cost	213,490	3,592	140,659	357,741	203,298
Accumulated amortization	(147,673)	(2,109)	(86,074)	(235,856)	-
Net book value	**65,817**	**1,483**	**54,585**	**121,885**	**203,298**
Period ended January 31, 2020					
Opening net book value	**65,817**	**1,483**	**54,585**	**121,885**	**203,298**
Acquisitions	28,989	-	13,092	42,081	15,048
Amortization	(5,570)	(179)	(4,331)	(10,080)	-
Purchase price adjustments*	-	-	-	-	(1,815)
Exchange difference	592	1	417	1,010	1,485
Closing net book value	**89,828**	**1,305**	**63,763**	**154,896**	**218,016**
At January 31, 2020					
Cost	242,479	3,592	153,751	399,822	218,016
Accumulated amortization	(152,651)	(2,287)	(89,988)	(244,926)	-
Net book value	**89,828**	**1,305**	**63,763**	**154,896**	**218,016**

** During the period, the Company recorded $1.8 million of adjustments to goodwill representing the finalization of certain purchase price allocations. These adjustments had no impact on the statements of income and the statements of cash flow during the three months ended January 31, 2020.*

6. Provisions

Provisions include accruals 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, 2019	**$ 6,536**
Additional provisions expensed	1,590
Pre-existing provisions assumed from acquisitions	1,337
Reversed	(14)
Utilized during the period	(1,921)
Effect of movements in foreign exchange	9
At January 31, 2020	**$ 7,537**

7. Share capital and other components of shareholders' equity

Share capital

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 54,976,924 common shares outstanding as at January 31, 2020. There were no Class A and no Class B preference shares issued and outstanding as at either January 31, 2020 or October 31, 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 the first quarter of either fiscal 2020 or 2019.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended January 31, 2020 and 2019

(in thousands of Canadian dollars, except as indicated)

Dividends

During the three months ended January 31, 2020 the Company declared and paid dividends of $0.11 per common share compared to $0.09 per common share for the three months ended January 31, 2019.

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.

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, 2018	6,536	(781)	5,755
Adjustment on transition to IFRS 9	-	781	781
At November 1, 2018	**6,536**	**-**	**6,536**
Cumulative translation adjustment	(1,795)	-	(1,795)
Deferred income tax expense	-	(119)	(119)
At October 31, 2019	**4,741**	**(119)**	**4,622**
At November 1, 2019	4,741	(119)	4,622
Cumulative translation adjustment	2,320	-	2,320
At January 31, 2020	**7,061**	**(119)**	**6,942**

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 3,686,400 (January 31, 2019 - 2,125,300) 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 or five 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 January 31, 2020 and January 31, 2019, and changes during the period ended on those dates, is presented as follows:

	January 31, 2020		January 31, 2019	
	Number of options	Weighted average exercise price in $	Number of options	Weighted average exercise price in $
Outstanding at beginning of period	1,744,500	29.89	1,440,900	25.13
Granted	300,000	45.98	-	-
Exercised	(239,500)	19.97	(58,000)	12.41
Outstanding at end of period	**1,805,000**	**33.88**	**1,382,900**	**25.66**
Exercisable at end of period	**418,000**	**25.35**	**531,900**	**19.61**

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended January 31, 2020 and 2019
(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. During the first fiscal quarter of 2020, the Company recorded a non-cash charge of $732 (Q1/2019 - $408).

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 period, noted below, which reflects the expected life of the options.

	Options Granted Q1/2020	**Options Granted Q1/2019**
Risk-free interest rate	1.54%	Nil
Estimated volatility	26%	Nil
Dividend yield	$0.44	Nil
Expected life (in years)	5.0	Nil
Weighted average fair value	$10.62	Nil
Weighted average share price at grant date	$45.98	Nil

9. Income taxes

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.

For the three months ended January 31, 2020, the Company recorded a tax expense of $4.6 million (22.3% effective tax rate) as compared to a tax expense of $4.1 million (21.5%) in the prior year's first quarter.

10. Earnings per share

Basic earnings per share is calculated by dividing Net income by the weighted average number of common shares outstanding during the period.

	Three months ended January 31	
	2020	**2019**
Net income	$ 16,136	$ 14,964
Weighted average number of common shares outstanding	54,794	54,597
Basic earnings per share	**$ 0.29**	**$ 0.27**

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion 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.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended January 31, 2020 and 2019
(in thousands of Canadian dollars, except as indicated)

	Three months ended January 31	
	2020	**2019**
Net income	$ 16,136	$ 14,964
Weighted average number of common shares outstanding	54,794	54,597
Adjustment for stock options	464	364
Weighted average number of common shares outstanding for diluted EPS	55,258	54,961
Diluted earnings per share	**$ 0.29**	**$ 0.27**

11. Acquisitions

Acquisitions have been recorded under the acquisition method of accounting and results have been included in the unaudited condensed consolidated interim financial statements 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.

2020 acquisition

Dialogic
On December 31, 2019, Enghouse acquired 100% of the issued and outstanding common shares of Dialogic Group Inc. ("Dialogic"). Headquartered in Parsippany, New Jersey, Dialogic partners with leading mobile operators, system integrators and technology developers to deploy its solutions via its worldwide network of offices. Dialogic is an industry leader in media processing software, with a highly scalable solution that supports real-time video conferencing and collaboration applications across all devices. Dialogic's infrastructure products offer a best-in-class Session Border Controller and several software-based network solutions to communication service providers.

The acquisition was completed for an aggregate purchase price of $55.8 million, with U.S. $7.9 million held in escrow that is subject to adjustment. Results for Dialogic are included in both IMG and AMG from the date of acquisition.

2019 acquisitions

Asset Management Group
The Company completed three acquisitions in fiscal 2019, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of $86.3 million, with $2.2 million held in escrow that is subject to adjustment. During the first quarter of fiscal 2020, $0.5 million was paid to the sellers in respect of hold-backs.

Interactive Management Group
The Company completed three acquisitions in fiscal 2019, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of $56.1 million, with $3.2 million subject to hold-back and adjustment, and $0.6 million held in escrow that is subject to adjustment.

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Purchase price allocations

	Dialogic Preliminary 2020	AMG Final 2019	IMG Preliminary 2019
Cash and cash equivalents	$ 6,905	$ 31,951	$ 4,757
Short-term investments	-	-	219
Accounts receivable	16,384	7,689	13,166
Prepaid expenses and other assets	5,429	4,720	3,846
Property and equipment	553	1,295	302
Deferred income tax assets	11,035	2,509	5,680
Acquired software	28,989	26,362	31,735
Customer relationships	13,092	12,296	24,387
Goodwill	15,048	21,493	26,289
Total assets acquired	**$ 97,435**	**$ 108,315**	**$ 110,381**
Current liabilities assumed	$ 30,251	$ 15,437	$ 44,398
Deferred income tax liabilities	11,380	6,591	9,840
Total liabilities assumed	**$ 41,631**	**$ 22,028**	**$ 54,238**
Net assets acquired for consideration	**$ 55,804**	**$ 86,287**	**$ 56,143**

12. Segment information

The Company has two operating segments, IMG and AMG, and evaluates segment performance based on revenue and results from operations. A description of the Company's segments is provided in Note 1. The accounting policies followed by these segments are the same as those described in the summary of significant accounting policies.

Certain segment information previously presented has been changed to conform to the presentation adopted for the current period. This change was made to conform to how management and the chief operating decision maker views the business with increasing regionalization of shared service centers. This change had no impact on segment revenue or direct costs and has been applied retrospectively.

Three months ended January 31, 2020	**IMG**	**AMG**	**Total**
Revenue	$ 62,873	$ 47,783	$ 110,656
Direct costs	(15,214)	(17,263)	(32,477)
Revenue net of direct costs	**47,659**	**30,520**	**78,179**
Operating expenses excluding special charges	(21,219)	(12,668)	(33,887)
Depreciation of property and equipment	(455)	(432)	(887)
Depreciation of right-of-use assets	(1,058)	(965)	(2,023)
Segment profit	**$ 24,927**	**$ 16,455**	**$ 41,382**
Special charges			(1,576)
Corporate and shared service expenses			(8,963)
Results from operating activities			**$ 30,843**

Three months ended January 31, 2019	**IMG**	**AMG**	**Total**
Revenue	$ 43,464	$ 42,581	$ 86,045
Direct costs	(11,275)	(15,937)	(27,212)
Revenue net of direct costs	**32,189**	**26,644**	**58,833**
Operating expenses excluding special charges	(15,062)	(10,829)	(25,891)
Depreciation of property and equipment	(403)	(127)	(530)
Segment profit	**$ 16,724**	**$ 15,688**	**$ 32,412**
Special charges			-
Corporate and shared service expenses			(6,617)
Results from operating activities			**$ 25,795**

Notes to Condensed Consolidated Interim Financial Statements
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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 at January 31, 2020.

14. Changes in non-cash operating working capital

	Three months ended January 31	
	2020	**2019**
	$	**$**
Increase in accounts receivable	(14,798)	(3,481)
(Increase) decrease in prepaid expenses and other assets	(442)	1,935
Decrease in accounts payable and accrued liabilities	(14,207)	(9,377)
Increase (decrease) in provisions	898	(130)
Increase in income taxes payable	1,030	1,231
Increase in deferred revenue	17,219	11,245
	(10,300)	**1,423**