Third quarter Ended
July 31, 2019

Enghouse Systems

Software engineered for results

September 12, 2019

To our Shareholders,

Third quarter revenue was $101.3 million, a 16.8% increase compared to revenue of $86.7 million in the third quarter of the prior year. The revenue increase primarily reflects contributions from acquisitions. Results from operating activities were $27.0 million compared to $26.7 million in the prior year's third quarter, which reflects the impact of changes in product mix on gross margins and, as expected, lower operating margin contributions from acquisitions in their initial period after acquisition. Net income for the quarter was $14.7 million or $0.27 per diluted share with increased amortization and a foreign exchange loss.

Adjusted EBITDA for the third quarter was $28.1 million or $0.51 per diluted share, compared to $27.4 million or $0.50 per diluted share last year, with the increase being attributable to incremental revenue contributions from acquisitions.

On a year-to-date basis, revenue was $276.5 million, compared to revenue of $257.0 million in the prior year. Results from operating activities were $79.4 million compared to $75.9 million in the prior year-to-date, an increase of 4.7%. On a year-to-date basis Adjusted EBITDA was $81.6 million or $1.48 per diluted share compared to $78.1 million or $1.43 per diluted share last year.

Operating expenses before special charges related to restructuring of acquired operations were $42.0 million compared to $34.1 million in the prior year's third quarter and reflect incremental operating costs related to recent acquisitions. Non-cash amortization charges on acquired software and customer relationships from acquired operations were $8.5 million for the quarter compared to $7.2 million in the prior year's third quarter.

The Company generated cash flows from operating activities of $13.9 million compared to $29.3 million in the third quarter of fiscal 2018. On a year to date basis, cash flows from operating activities was $59.6 million. This relates to unfavorable working capital adjustments from new acquisitions which, when acquired, had severance obligations and significant payable balances that have since been settled. Enghouse closed the quarter with $141.3 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 $15.8 million for cash dividends and $94.2 million (net of cash acquired) for acquisitions concluded in the current fiscal year and $1.1 million for acquisitions closed in prior years.

During the quarter, Enghouse completed the acquisitions of Vidyo Inc. and Espial Group Inc. for an aggregate purchase price of $68.7 million, net of cash acquired. These acquisitions reported revenue consistent with expectations and were accretive to earnings in the quarter.

Today, the Board of Directors approved the Company's eligible quarterly dividend of $0.11 per common share, payable on November 29, 2019 to shareholders of record at the close of business on November 15, 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 September 12, 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 third quarter ended July 31, 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, 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.

The Asset Management Group provides a portfolio of products primarily to telecom service providers. Its products include Operations Support Systems (OSS), Business Support Systems (BSS), Mobile Value Added Services (VAS) solutions, video and IPTV services as well as data conversion services. The Asset Management Group 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.

Third quarter overview

During the third quarter the Company completed two acquisitions. On May 14, 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. 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.

The acquisitions were completed for an aggregate purchase price of $68.7 million, net of cash acquired, with no amounts held in escrow subject to adjustment. Results for Vidyo are included in the Interactive Management Group from the date of acquisition while results for Espial are included in the Asset 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 July 31, 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.

For the three months ending	Total revenue	Net income	Earnings per share – basic	Earnings per share – diluted	Cash and short-term investments	Total assets
	$	$	$	$	$	$
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^	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

* 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 July 31		Period-over-period change		Nine months ended July 31		Period-over-period change	
	2019	2018	$	%	2019	2018	$	%
Interactive Management Group	$ 56,869	$ 47,549	9,320	19.6	$144,863	$143,498	1,365	1.0
Asset Management Group	44,405	39,194	5,211	13.3	131,659	113,525	18,134	16.0
Total revenue	**101,274**	**86,743**	**14,531**	**16.8**	**276,522**	**257,023**	**19,499**	**7.6**
Direct costs	31,749	25,788	5,961	23.1	86,421	78,529	7,892	10.0
Revenue, net of direct costs	**69,525**	**60,955**	**8,570**	**14.1**	**190,101**	**178,494**	**11,607**	**6.5**
As a % of revenue	*68.7%*	*70.3%*			*68.7%*	*69.4%*		
Operating expenses	42,038	34,079	7,959	23.4	110,142	102,260	7,882	7.7
Special charges	470	152	318	209.2	526	333	193	58.0
Results from operating activities	**27,017**	**26,724**	**293**	**1.1**	**79,433**	**75,901**	**3,532**	**4.7**
As a % of revenue	*26.7%*	*30.8%*			*28.7%*	*29.5%*		
Amortization of acquired software and customer relationships	(8,453)	(7,245)	(1,208)	16.7	(22,453)	(21,763)	(690)	3.2
Foreign exchange (losses) gains	(131)	659	(790)	(119.9)	433	(465)	898	193.1
Finance income	469	90	379	421.1	1,474	278	1,196	430.2
Finance expenses	(11)	(50)	39	78.0	(66)	(134)	68	50.7
Other (expenses) income	(64)	504	(568)	(112.7)	411	1,940	(1,529)	(78.8)
Income before income taxes	**18,827**	**20,682**	**(1,855)**	**(9.0)**	**59,232**	**55,757**	**3,475**	**6.2**
Provision for income taxes	4,166	4,620	(454)	(9.8)	13,070	17,564	(4,494)	(25.6)
Net Income	**$ 14,661**	**$ 16,062**	**(1,401)**	**(8.7)**	**$ 46,162**	**$ 38,193**	**7,969**	**20.9**
Earnings per share – basic	$ 0.27	$ 0.30	(0.03)	(10.0)	$ 0.84	$ 0.71	0.13	18.3
Earnings per share – diluted	$ 0.27	$ 0.29	(0.02)	(6.9)	$ 0.84	$ 0.70	0.14	20.0
Cash flow from operating activities	**$ 13,862**	**$ 29,274**	**(15,412)**	**(52.6)**	**$ 59,646**	**$ 74,221**	**(14,575)**	**(19.6)**
Cash flow from operating activities excluding changes in working capital	**$ 28,531**	**$ 28,249**	**282**	**1.0**	**$ 84,662**	**$ 78,754**	**5,908**	**7.5**

Adjusted EBITDA:

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

	Three months ended		Nine months ended	
	July 31, 2019	July 31, 2018	July 31, 2019	July 31, 2018
Total Revenue	**$ 101,274**	**$ 86,743**	**$ 276,522**	**$ 257,023**
Results from operating activities	**27,017**	**26,724**	**79,433**	**75,901**
Depreciation of property, plant and equipment	570	540	1,599	1,869
Special charges	470	152	526	333
Adjusted EBITDA	**$ 28,057**	**$ 27,416**	**$ 81,558**	**$ 78,103**
Adjusted EBITDA margin	**27.7%**	**31.6%**	**29.5%**	**30.4%**
Adjusted EBITDA per diluted share	**$ 0.51**	**$ 0.50**	**$ 1.48**	**$ 1.43**

Revenue

Total revenue for the quarter was $101.3 million compared to $86.7 million in the prior year's third quarter, a 16.8% increase over the prior year. The increase primarily reflects contributions from acquisitions. Revenue includes hosted and maintenance services revenue of $58.4 million compared to $48.6 million in the third quarter last year, an increase of 20.2%. The increase is attributable to incremental contributions from acquisitions and hosted revenue, which increased by 48.4% or $4.5 million to $13.8 million in the quarter. Results also include maintenance revenue of $44.6 million compared to $39.3 million in the prior year's third quarter and reflects incremental maintenance revenue from license sales in the past fiscal year as well as incremental contributions from acquired operations. License revenue was $22.1 million in the quarter compared to $22.4 million in the prior year's third quarter, reflecting a shift from license revenue to hosted revenue products. The change in foreign exchange rates had a negative impact on revenue in the current quarter compared to the prior year, reducing revenue by $1.5 million.

The Asset Management Group contributed revenue of $44.4 million in the quarter, compared to $39.2 million reported in the third quarter of fiscal 2018.The Interactive Management Group contributed $56.9 million to revenue in the quarter, compared to $47.5 million reported in the third quarter of fiscal 2018. The increase in the Asset Management Group is attributable to incremental revenue contributions from acquisitions. The increase in the Interactive Management group is primarily related to additional revenue from the acquisition of Vidyo during the quarter. For the fiscal year to date, Asset Management revenue grew 16.0% to $131.7 million from $113.5 million last year while Interactive Management Group revenue grew to $144.9 million compared to $143.5 million both as a result of incremental contributions from acquisitions.

For the year to date, revenue was $276.5 million compared to $257.0 million last year with the biggest source of improvement being related to hosted and maintenance revenue, which increased by $16.1 million to $158.7 million. Overall, the Company's revenue was negatively impacted by approximately $1.6 million compared to revenue from the same period in prior year as a result of foreign exchange.

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 this increased license revenue by $4.2 million.

Direct costs

Direct costs for the quarter were $31.7 million or 31.3% of revenue compared to $25.8 million or 29.7% of revenue in the prior year's third quarter. This reflects higher hardware costs on proportionately larger contributions from hardware revenue in the product mix. These increases were partially offset by lower direct costs from software licenses that also achieved a higher margin during 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 $86.4 million or 31.3% of revenue in fiscal 2019 compared to $78.5 million or 30.6% in fiscal 2018.

On a segment basis, direct costs in the quarter for the Asset Management Group were $16.9 million or 38.1% of revenue compared to $13.6 million or 34.7% of revenue in the prior year's third quarter. Direct costs for the Interactive Management Group were $14.8 million or 26.1% of revenue compared to $12.2 million or 25.6% of revenue in the prior year's third quarter. The direct costs margin percentage in the Asset Management Group reflects weaker hardware margins in the quarter mitigated by improved margins on software and services. Margins in the Interactive Management Group were lower in the quarter. Overall, the lower overall margins in the Asset Management Group compared to the Interactive Management Group reflect higher relative contributions from lower margin hardware, professional services and hosted services revenue in the Asset Management Group product mix.

Revenue, net of direct costs

Revenue net of direct costs increased to $69.5 million, or 68.7% of revenue, compared to $61.0 million, or 70.3% of revenue, in the prior year's third quarter. For the fiscal year, revenue net of direct costs was $190.1 million (68.7% of revenue) compared to $178.5 million (69.4%) last year to date. The increase in revenue, net of direct costs for the fiscal year to date, compared to the prior year, is primarily attributable to incremental hosted and maintenance revenue as well as increased hardware revenue contributions, primarily from acquisitions.

Operating expenses

Operating expenses for the quarter were $42.5 million, compared to $34.2 million reported in the third quarter of last year. Operating expenses include incremental operating costs related to acquired operations over the past year and include integration costs related to the Vidyo and Espial acquisitions closed in May 2019. Operating expenses are net of the positive impact of translating foreign currency denominated operating expenses to Canadian dollars in the quarter compared to the prior quarter estimated at $1.0 million. On a year to date basis, operating expenses were $110.7 million (40.0% of revenue) compared to $102.6 million (39.9% of revenue) and include the impact of incremental operating costs related to acquisitions, net of operational cost efficiencies achieved in organic operations.

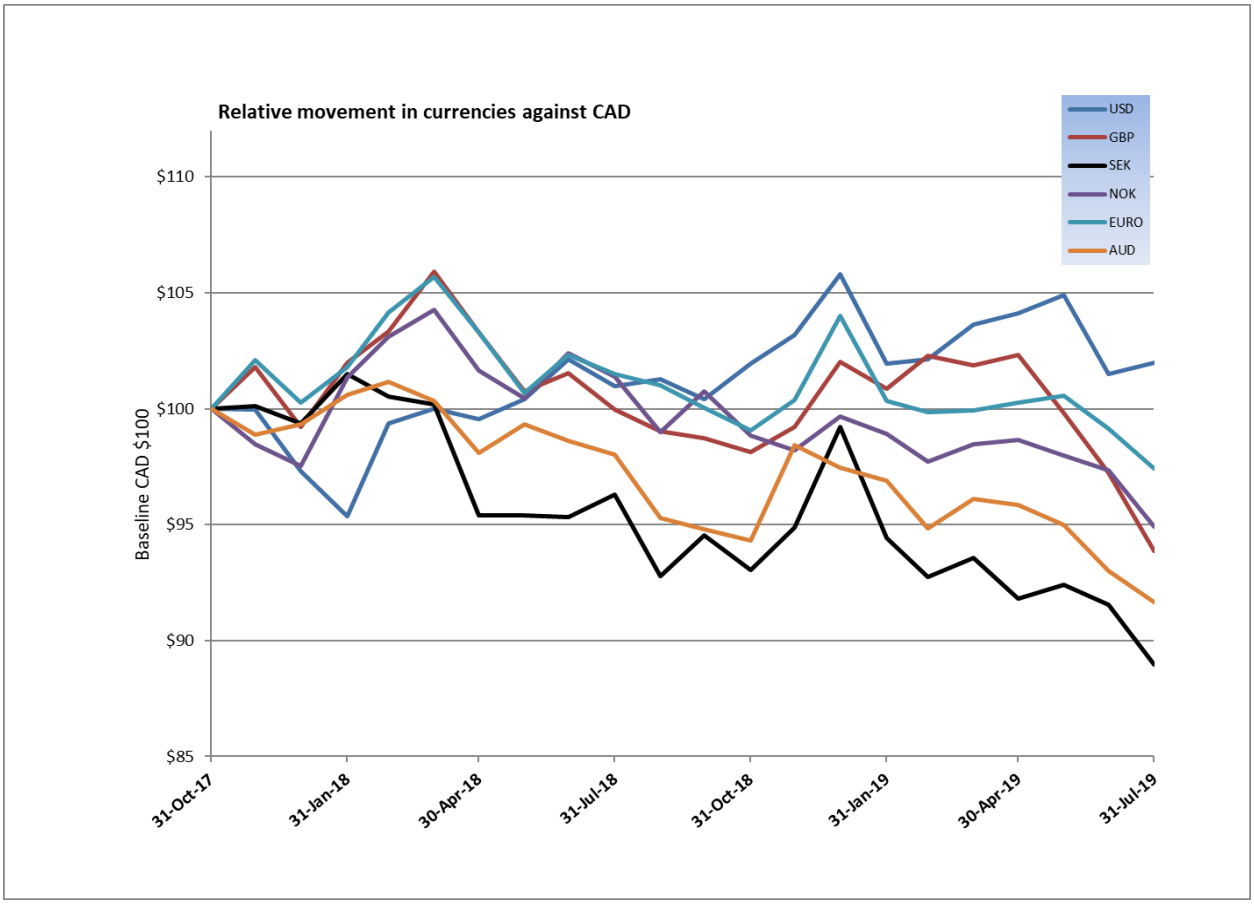
The Company incurred $0.5 million in acquisition related restructuring charges in the third quarter related to Vidyo and Espial, compared to $0.2 million in special charges related to acquisitions in the prior year's third quarter. The incumbent management at both Vidyo and Espial had implemented restructuring initiatives prior to acquisition that were not included in operating results.

The Company continues to invest in research and development ("R&D") and recorded expenses of $16.6 million, or 16.4% of revenue, in the quarter compared to $11.7 million, or 13.4%, in the prior year's third quarter. The increase in R&D costs relate to incremental R&D costs incurred by acquisitions in the 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 $8.5 million, an increase from the prior year's third quarter expense of $7.2 million as a result of additional amortization charges from new acquisitions.

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 third quarter, the Canadian dollar weakened most against the U.S. dollar, but strengthened against all other major currencies impacting the Company's revenue and costs compared to the third 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 $1.5 million, while the impact on costs was positive, decreasing costs by an estimated $1.0 million, as calculated by applying the change in the average exchange rates from Q3/18 to Q3/19 to the Company's foreign currency denominated revenue and operating expenses in the third quarter of fiscal 2019. On a year to date basis, foreign exchange negatively impacted revenue by $1.6 million while operating costs were positively 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 a foreign exchange loss of $0.1 million in the current year's third quarter, compared to a gain of $0.7 million in the prior year's third quarter. The loss recorded reflects the impact of the stronger Canadian dollar at quarter end compared to exchange rates used to convert foreign currencies at April 30, 2019. For the fiscal year to date, Enghouse recorded gains of $0.4 million compared to losses of $0.5 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 $0.1 million in other expenses compared to $0.1 million in finance income and $0.5 million in other income in the third quarter of fiscal 2018. The increase in finance income reflects higher interest yields from an improved cash management process. Other expenses reflect nominal unrealized losses on investments during the quarter compared to income from the sale of equity positions during the same period in the prior year. For the fiscal year to date, the Company recorded $1.5 million in finance income and $0.4 million in other income compared to $0.3 million and $1.9 million respectively in the prior year to date. This reflects improved yields on invested cash while the prior year's other income included gains on the sale of equities as well as the final gain booked on settlement of the contingent consideration payable as part of the Presence acquisition.

Income tax expense

During the quarter, the Company recorded a tax expense of $4.2 million (22.1% effective tax rate) as compared to a tax expense of $4.6 million (22.3% effective tax rate) in the prior year's third quarter. The Company paid $4.5 million in tax installments in the quarter, compared to $5.0 million in the prior year's third quarter. For the fiscal year to date, the Company booked a provision of $13.1 million (22.1%) compared to $17.6 million (31.5%) 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 $14.2 million in tax installments year to date compared to $11.1 million last year.

Net income

Net income was $14.7 million, or $0.27 per share on a diluted basis, in the quarter compared to $16.1 million, or $0.29 per share on a diluted basis, in the third quarter of fiscal 2018. The decrease is attributable to lower hardware margins and contributions from acquisitions at lower operating margins than organic operations. On a year to date basis, net income was $46.2 million or $0.84 per diluted share compared to $38.2 million or $0.70 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 $141.3 million, compared to the October 31, 2018 balance of $193.9 million as a result of cash paid for acquisitions, partially offset by continued strong collection efforts. This is net of payment of $6.0 million for dividends and $68.7 million for acquisitions concluded in the quarter ($94.2 million for the year to date), net of cash received. The Company also paid $1.1 million during the year 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 third quarter, the Company generated cash flow from operating activities of $13.9 million compared to $29.3 million in the third quarter of 2018. On a year to date basis, Enghouse generated cash flow from operating activities of $59.6 million compared to $74.2 million, a decrease of 19.6%. The decrease in cash flow from operating activities is primarily the result of unfavorable working capital adjustments from new acquisitions which, when acquired, had severance obligations and significant payable balances which have since been funded.

The Company had 54,693,524 Common Shares issued and outstanding as at September 12, 2019. During the third quarter, 45,500 stock options were exercised contributing $0.6 million in cash compared to 105,100 stock options and $2.7 million in cash to the Company in the prior year's third quarter. The Company did not grant any options in either year's third quarter. Enghouse did not repurchase any shares of its common stock in either year's third quarter under its Normal Course Issuer Bid, but renewed its 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.

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 September 12, 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 $1.6 million (net of a credit to the deferred income tax liability of $0.6 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 July 31, 2019 under IAS 18, the software license revenue and net income would have decreased by $2.5 million and $2.0 million, respectively, while the deferred income tax liability would have decreased by $0.5 million and unbilled receivables would have decreased by $2.5 million. On a year to date basis, the software license revenue and net income would have decreased by $4.2 million and $3.3 million, respectively, while the deferred income tax liability would have decreased by $1.5 million, unbilled receivables would have decreased by $6.4 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 July 31, 2018, and by $11.3 million for the nine

months ended July 31, 2018 and the hosted and maintenance services revenue has increased by an equivalent amount 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 Company will apply 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"). The Company is in the process of reviewing contracts from all business segments to assess if they fall within the scope of IFRS 16, in whole or in part and to quantify lease and non-lease components.

Based on the review completed to date, it is expected that there will be a material increase to both assets and liabilities upon adoption of the new standard. The Company will recognize a lease liability and right-of-use asset at the date of adoption. The lease liability will be measured at the present value of the future lease payments at the date of adoption. A valuation approach to discount the population of leases is being developed and the Company is in the process of assessing the methodology and the deemed commencement date for the calculation of the right-of-use assets.

In general, 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. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the liability. As a result of these changes, there will be an increase in interest expense and depreciation, as well as a reduction in selling, general and administrative on the Condensed Consolidated Statement of Operations and Comprehensive Income due to the decrease in rent expense. Additionally an increase in cash flow from operating activities is also expected as the lease payments will be recorded as financing outflows in the Condensed Consolidated Statement of Cash Flows. The Company is currently in the process of upgrading its existing systems, processes and internal controls to account for IFRS 16.

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 July 31, 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 nine months ended July 31, 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)

	July 31 2019	October 31 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 133,422	$ 187,551
Short-term investments	7,912	6,386
Accounts receivable, net	81,048	62,085
Prepaid expenses and other assets	11,224	8,951
	233,606	**264,973**
Non-current assets:		
Property, plant and equipment, net	6,225	5,279
Intangible assets, net (Note 5)	122,489	59,895
Goodwill (Note 5)	203,562	155,419
Deferred income tax assets	9,202	9,634
Total assets	**$ 575,084**	**$ 495,200**
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 53,588	$ 44,271
Income taxes payable	9,740	4,904
Dividends payable	6,016	4,912
Provisions (Note 6)	6,617	268
Deferred revenue	87,693	64,020
Current portion of long-term loans	-	122
	163,654	**118,497**
Non-current liabilities:		
Non-current portion of income taxes payable	5,079	7,466
Deferred income tax liabilities	20,952	13,115
Deferred revenue	2,270	2,169
Net employee defined benefit obligation	2,354	2,354
Long-term loans	738	1,475
Total liabilities	**195,047**	**145,076**
Shareholders' Equity		
Share capital (Note 7)	80,645	78,997
Contributed surplus	6,289	4,866
Retained earnings	290,533	260,506
Accumulated other comprehensive income	2,570	5,755
Total shareholders' equity	**380,037**	**350,124**
Total liabilities and shareholders' equity	**$ 575,084**	**$ 495,200**

Litigation and contingencies (Note 13)

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 July 31		Nine months ended July 31	
	2019	**2018**	**2019**	**2018**
Revenue				
Software licenses	$ 22,081	$ 22,410	$ 62,328	$ 65,422
Hosted and maintenance services	58,416	48,586	158,699	142,621
Professional services	15,281	14,123	43,927	42,972
Hardware	5,496	1,624	11,568	6,008
	101,274	**86,743**	**276,522**	**257,023**
Direct costs				
Software licenses	1,327	1,740	4,058	5,467
Services	26,399	22,990	74,125	69,335
Hardware	4,023	1,058	8,238	3,727
	31,749	**25,788**	**86,421**	**78,529**
Revenue, net of direct costs	**69,525**	**60,955**	**190,101**	**178,494**
Operating expenses				
Selling, general and administrative	24,890	21,884	66,786	64,432
Research and development	16,578	11,655	41,757	35,959
Depreciation of property, plant and equipment	570	540	1,599	1,869
Special charges (Note 6)	470	152	526	333
	42,508	**34,231**	**110,668**	**102,593**
Results from operating activities	**27,017**	**26,724**	**79,433**	**75,901**
Amortization of acquired software and customer relationships	(8,453)	(7,245)	(22,453)	(21,763)
Foreign exchange (losses) and gains	(131)	659	433	(465)
Finance income	469	90	1,474	278
Finance expenses	(11)	(50)	(66)	(134)
Other (expenses) income	(64)	504	411	1,940
Income before income taxes	**18,827**	**20,682**	**59,232**	**55,757**
Provision for income taxes (Note 9)	4,166	4,620	13,070	17,564
Net income for the period	**$ 14,661**	**$ 16,062**	**$ 46,162**	**$ 38,193**
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation (loss) gain from foreign operations	(9,947)	(3,929)	(3,966)	1,331
Unrealized gain on investments in equity securities designated at FVOCI	-	625	-	851
Deferred income tax expense	-	(83)	-	(113)
Other comprehensive (loss) income	**(9,947)**	**(3,387)**	**(3,966)**	**2,069**
Comprehensive income	**$ 4,714**	**$ 12,675**	**$ 42,196**	**$ 40,262**
Earnings per share (Note 10)				
Basic	$ 0.27	$ 0.30	$ 0.84	$ 0.71
Diluted	$ 0.27	$ 0.29	$ 0.84	$ 0.70

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 (loss) 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	**-**	**-**	**-**	-	46,162	46,162
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	(3,966)	-	(3,966)
Comprehensive income for the period	**-**	**-**	**-**	**(3,966)**	**46,162**	**42,196**
Employee share options:						
Value of services recognized	-	-	1,723	-	-	1,723
Proceeds on issuing shares	113,500	1,648	(300)	-	-	1,348
Dividends declared	-	-	-	-	(16,944)	(16,944)
As at July 31, 2019	**54,693,524**	**80,645**	**6,289**	**2,570**	**290,533**	**380,037**
As at November 1, 2017	**53,986,424**	**71,422**	**4,715**	**8,487**	**221,775**	**306,399**
Net income for the period	**-**	**-**	**-**	-	38,193	38,193
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	1,331	-	1,331
Unrealized gain on investments in equity securities designated at FVOCI*	-	-	-	851	-	851
Deferred income tax expense	-	-	-	(113)	-	(113)
Comprehensive income for the period	**-**	**-**	**-**	**2,069**	**38,193**	**40,262**
Employee share options:						
Value of services recognized	-	-	1,171	-	-	1,171
Proceeds on issuing shares	445,000	5,890	(1,063)	-	-	4,827
Dividends declared	-	-	-	-	(14,102)	(14,102)
As at July 31, 2018	**54,431,424**	**77,312**	**4,823**	**10,556**	**245,866**	**338,557**

** 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 July 31, 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 July 31		Nine months ended July 31	
	2019	**2018**	**2019**	**2018**
Cash flows from operating activities				
Net income for the period	$ 14,661	$ 16,062	$ 46,162	$ 38,193
Adjustments for:				
Depreciation of property, plant and equipment	570	540	1,599	1,869
Amortization of acquired software and customer relationships	8,453	7,245	22,453	21,763
Stock-based compensation expense	606	236	1,723	1,171
Provision for income taxes	4,166	4,620	13,070	17,564
Finance expenses and other expenses (income)	75	(454)	(345)	(1,806)
	28,531	**28,249**	**84,662**	**78,754**
Changes in non-cash operating working capital (Note 14)	(10,174)	6,041	(10,801)	6,608
Income taxes paid	(4,495)	(5,016)	(14,215)	(11,141)
Net cash flows from operating activities	**13,862**	**29,274**	**59,646**	**74,221**
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(559)	(607)	(1,340)	(1,538)
Acquisitions, net of cash acquired of $27,683 (Q3/18 - $Nil), YTD 2019 - $33,965 (2018 - $1,235) (Note 11)	(68,667)	-	(94,233)	(9,675)
Purchase consideration for prior period acquisitions (Note 11)	-	(1,866)	(1,105)	(6,945)
Net sale (purchase) of short-term investments	743	1,754	(1,110)	2,486
Net cash flows used in investing activities	**(68,483)**	**(719)**	**(97,788)**	**(15,672)**
Cash flows from financing activities				
Issuance of share capital	563	2,699	1,348	4,827
Repayment of loans	-	(334)	(957)	(735)
Payment of cash dividend	(6,011)	(4,880)	(15,840)	(13,523)
Net cash flows used in financing activities	**(5,448)**	**(2,515)**	**(15,449)**	**(9,431)**
Effect of currency translation adjustments on cash and cash equivalents	(3,393)	(1,890)	(538)	39
Net (decrease) increase in cash and cash equivalents during the period	**(63,462)**	**24,150**	**(54,129)**	**49,157**
Cash and cash equivalents - beginning of period	196,884	145,615	187,551	120,608
Cash and cash equivalents - end of period	**$ 133,422**	**$ 169,765**	**$ 133,422**	**$ 169,765**

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

Notes to Condensed Consolidated Interim Financial Statements
For the nine months ended July 31, 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. 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.

The Asset Management Group provides a portfolio of products primarily to telecom service providers. Its products include Operations Support Systems (OSS), Business Support Systems (BSS), Mobile Value Added Services (VAS) solutions, video and IPTV services as well as data conversion services. The Asset Management Group 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, Belgium, Brazil, Germany, Ireland, Australia, New Zealand, Israel, Lebanon, Romania, Italy, Spain, Japan, Portugal, 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 September 12, 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 September 12, 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.

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.

Notes to Condensed Consolidated Interim Financial Statements
For the nine months ended July 31, 2019 and 2018
(Unaudited, in thousands of Canadian dollars, except as indicated)

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, 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	When software is made available for download (point in time)
Term licenses – fixed fee basis	When software is made available for download (point in time)
Term licenses – variable and usage basis	Based on customer utilization (over time)
Hosted and maintenance services revenue	
Hosted revenue	Ratable over course of the service term (over time)
Maintenance revenue	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)

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.

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 Company will apply 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"). The Company is in the process of reviewing contracts from all business segments to assess if they fall within the scope of IFRS 16, in whole or in part and to quantify lease and non-lease components.

Based on the review completed to date, it is expected that there will be a material increase to both assets and liabilities upon adoption of the new standard. The Company will recognize a lease liability and right-of-use asset at the date of adoption. The lease liability will be measured at the present value of the future lease payments at the date of adoption. A valuation approach to discount the population of leases is being developed and the Company is in the process of assessing the methodology and the deemed commencement date for the calculation of the right-of-use assets.

In general, 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. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the liability. As a result of these changes, there will be an increase in interest expense and depreciation, as well as a reduction in selling, general and administrative on the Condensed Consolidated Statement of Operations and Comprehensive Income due to the decrease in rent expense. Additionally an increase in cash flow from operating activities is also expected as the lease

payments will be recorded as financing outflows in the Condensed Consolidated Statement of Cash Flows. The Company is currently in the process of upgrading its existing systems, processes and internal controls to account for IFRS 16.

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.

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 $1.6 million (net of a credit to the deferred income tax liability of $0.6 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 July 31, 2019 under IAS 18, the software license revenue and net income would have decreased by $2.5 million and $2.0 million, respectively, while the deferred income tax liability would have decreased by $0.5 million and unbilled receivables would have decreased by $2.5 million. On a year to date basis, the software license revenue and net income would have decreased by $4.2 million and $3.3 million, respectively, while the deferred income tax liability would have decreased by $1.5 million, unbilled receivables would have decreased by $6.4 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 July 31, 2018, and by $11.3 million for the nine

months ended July 31, 2018 and the hosted and maintenance services revenue has increased by an equivalent amount 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 July 31, 2019					
Opening net book value	**24,791**	**2,197**	**32,907**	**59,895**	**155,419**
Acquisitions	53,909	-	32,494	86,403	51,587
Amortization	(11,562)	(537)	(10,354)	(22,453)	-
Exchange difference	(549)	1	(808)	(1,356)	(3,444)
Closing net book value	**66,589**	**1,661**	**54,239**	**122,489**	**203,562**
At July 31, 2019					
Cost	209,302	3,592	136,470	349,364	203,562
Accumulated amortization	(142,713)	(1,931)	(82,231)	(226,875)	-
Net book value	**66,589**	**1,661**	**54,239**	**122,489**	**203,562**

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	9,678
Unused amounts reversed	(302)
Utilized during the period	(2,996)
Effect of movements in foreign exchange	(31)
At July 31, 2019	**$ 6,617**

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 54,693,524 common shares outstanding as at July 31, 2019. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2018 or July 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 either fiscal 2019 or fiscal 2018.

Notes to Condensed Consolidated Interim Financial Statements
For the nine months ended July 31, 2019 and 2018
(Unaudited, in thousands of Canadian dollars, except as indicated)

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

	Translation of foreign operations $	Unrealized gains/losses $	Total $
At November 1, 2017	**8,555**	**(68)**	**8,487**
Currency translation differences	1,331	-	1,331
Unrealized gains on investments in equity securities designated at FVOCI, net of income tax expense of $113	-	738	738
At July 31, 2018	**9,886**	**670**	**10,556**
At November 1, 2018	**6,536**	**(781)**	**5,755**
Currency translation differences	(3,966)	-	(3,966)
Adjustment on transition to IFRS 9	-	781	781
At July 31, 2019	**2,570**	**-**	**2,570**

Dividends
During the three months ended July 31, 2019, the Company declared and paid dividends of $0.11 and $0.11, respectively, per common share (three months ended July 31, 2018 $0.09 and $0.09 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 3,969,800 (July 31, 2018 – 2,331,900) 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.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended July 31, 2019 and 2018

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

A summary of the status of the Company's Plan as at July 31, 2019 and July 31, 2018, and changes during the three and nine months ended respectively on those dates, is presented as follows:

	Three months ended July 31, 2019		Three months ended July 31, 2018	
	Number of options	Weighted average exercise price in $	Number of options	Weighted average exercise price in $
Outstanding at beginning of period	1,872,900	29.15	1,967,700	22.91
Exercised	(45,500)	12.38	(210,200)	12.84
Forfeited	-	-	(141,000)	28.34
Outstanding at end of period	**1,827,400**	**29.57**	**1,616,500**	**23.74**
Options exercisable at end of period	**638,400**	**22.46**	**666,500**	**15.90**

	Nine months ended July 31, 2019		Nine months ended July 31, 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	(113,500)	11.88	(445,000)	10.85
Forfeited	-	-	(169,000)	28.04
Outstanding at end of period	**1,827,400**	**29.57**	**1,616,500**	**23.74**
Options exercisable at end of period	**638,400**	**22.46**	**666,500**	**15.90**

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 $0.6 million in the third quarter (Q3/2018 - $0.2 million) and $1.7 million this fiscal year to date compared to $1.2 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 nine months ended July 31, 2019 (FY 2018 - 390,000).

Notes to Condensed Consolidated Interim Financial Statements
For the nine months ended July 31, 2019 and 2018
(Unaudited, in thousands of Canadian dollars, except as indicated)

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 $4.2 million (or 22.1% effective tax rate) as compared to a tax expense of $4.6 million (22.3%) in the prior year's third quarter.

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 July 31		Nine months ended July 31	
	2019	**2018**	**2019**	**2018**
Net income attributable to owners of the parent	$ 14,661	$ 16,062	$ 46,162	$ 38,193
Weighted average number of common shares in issue	54,679	54,380	54,630	54,152
Basic earnings per share	**$ 0.27**	**$ 0.30**	**$ 0.84**	**$ 0.71**

Notes to Condensed Consolidated Interim Financial Statements
For the nine months ended July 31, 2019 and 2018
(Unaudited, in thousands of Canadian dollars, except as indicated)

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 July 31		Nine months ended July 31	
	2019	**2018**	**2019**	**2018**
Net income attributable to owners of the parent	$ 14,661	$ 16,062	$ 46,162	$ 38,193
Weighted average number of common shares in issue	54,679	54,380	54,630	54,152
Adjustments for:				
Stock options	319	564	324	448
Weighted average number of common shares for diluted earnings per share	54,998	54,944	54,954	54,600
Diluted earnings per share	**$ 0.27**	**$ 0.29**	**$ 0.84**	**$ 0.70**

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 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.

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.

The acquisitions were completed for an aggregate purchase price of $86.4 million, with $0.6 million subject to hold-back and adjustment, and $5.2 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.

On May 14, 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.

The acquisitions were completed for an aggregate purchase price of $43.1 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 fiscal year, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of $11.6 million. During the first three quarters of fiscal 2019, $0.5 million was paid to the sellers in respect of hold-backs. 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	$ 31,951	$ 2,014	$ 1,235
Accounts receivable, net	7,638	7,472	2,182
Prepaid expenses and other assets	4,613	3,139	578
Property, plant and equipment	1,295	18	205
Deferred income tax assets	209	677	153
Acquired software	26,362	27,547	4,785
Customer relationships	12,295	20,199	3,765
Goodwill	25,781	25,806	4,506
Total assets acquired	**$ 110,144**	**$ 86,872**	**$ 17,409**
Less: Current liabilities assumed	$ 17,133	$ 36,713	$ 3,931
Less: Deferred income tax liabilities	6,564	7,048	1,888
Total liabilities assumed	**$ 23,697**	**$ 43,761**	**$ 5,819**
Net assets acquired for cash consideration	**$ 86,447**	**$ 43,111**	**$ 11,590**

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

Notes to Condensed Consolidated Interim Financial Statements
For the nine months ended July 31, 2019 and 2018
(Unaudited, in thousands of Canadian dollars, except as indicated)

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 transportation, government, first responders, distribution, and security sectors. 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 July 31, 2019			
Revenue	$ 56,869	$ 44,405	$ 101,274
Operating expenses excluding non-cash charges	(37,738)	(32,513)	(70,251)
Special charges	(311)	(159)	(470)
Depreciation of property, plant and equipment	(404)	(166)	(570)
Segment profit	**$ 18,416**	**$ 11,567**	**$ 29,983**
Corporate expenses			(2,966)
Results from operating activities			**$ 27,017**
Amortization of acquired software and customer relationships			(8,453)
Foreign exchange loss			(131)
Finance income			469
Finance expenses			(11)
Other expenses			(64)
Income before income taxes			**$ 18,827**

	Interactive Management Group	Asset Management Group	Total
Three months ended July 31, 2018			
Revenue	$ 47,549	$ 39,194	$ 86,743
Operating expenses excluding non-cash charges	(31,417)	(24,948)	(56,365)
Special charges	-	(152)	(152)
Depreciation of property, plant and equipment	(408)	(132)	(540)
Segment profit	**$ 15,724**	**$ 13,962**	**$ 29,686**
Corporate expenses			(2,962)
Results from operating activities			**$ 26,724**
Amortization of acquired software and customer relationships			(7,245)
Foreign exchange gain			659
Finance income			90
Finance expenses			(50)
Other income			504
Income before income taxes			**$ 20,682**

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended July 31, 2019 and 2018

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

	Interactive Management Group	Asset Management Group	Total
Nine months ended July 31, 2019			
Revenue	$ 144,863	$ 131,659	$ 276,522
Operating expenses excluding non-cash charges	(98,653)	(87,901)	(186,554)
Special charges	(367)	(159)	(526)
Depreciation of property, plant and equipment	(1,184)	(415)	(1,599)
Segment profit	**$ 44,659**	**$ 43,184**	**$ 87,843**
Corporate expenses			(8,410)
Results from operating activities			**$ 79,433**
Amortization of acquired software and customer relationships			(22,453)
Foreign exchange gain			433
Finance income			1,474
Finance expenses			(66)
Other income			411
Income before income taxes			**$ 59,232**
Goodwill	$ 118,289	$ 85,273	203,562
Other assets	$ 118,410	$ 111,778	230,188
Cash and cash equivalents			133,422
Short-term investments			7,912
Total assets	**$ 236,699**	**$ 197,051**	**$ 575,084**
Capital expenditures	**$ 1,022**	**$ 318**	**$ 1,340**

	Interactive Management Group	Asset Management Group	Total
Nine months ended July 31, 2018			
Revenue	$ 143,498	$ 113,525	$ 257,023
Operating expenses excluding non-cash charges	(96,238)	(74,325)	(170,563)
Special charges	-	(333)	(333)
Depreciation of property, plant and equipment	(1,339)	(530)	(1,869)
Segment profit	**$ 45,921**	**$ 38,337**	**$ 84,258**
Corporate expenses			(8,357)
Results from operating activities			**$ 75,901**
Amortization of acquired software and customer relationships			(21,763)
Foreign exchange loss			(465)
Finance income			278
Finance expenses			(134)
Other income			1,940
Income before income taxes			**$ 55,757**
Goodwill	$ 94,790	$ 62,364	$ 157,154
Other assets	71,196	84,480	155,676
Cash and cash equivalents			169,765
Short-term investments			8,674
Total assets	**$ 165,986**	**$ 146,844**	**$ 491,269**
Capital expenditures	**$ 1,070**	**$ 468**	**$ 1,538**

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 July 31, 2019.

14. Changes in non-cash operating working capital

	Three months ended July 31		Nine months ended July 31	
	2019	**2018**	**2019**	**2018**
(Increase) decrease in accounts receivable, net	$ (560)	$ 10,645	$ (2,973)	$ 7,059
Decrease (increase) in prepaid expenses and other assets	1,794	271	5,174	(305)
Decrease in accounts payable & accrued liabilities	(3,104)	(206)	(12,088)	(4,162)
Decrease in provisions	(2,529)	(90)	(2,737)	(1,251)
Decrease in income taxes payable	(1,488)	(805)	(1,208)	(2,210)
(Decrease) increase in deferred revenue	(4,287)	(3,774)	3,031	7,477
	$ (10,174)	**$ 6,041**	**$ (10,801)**	**$ 6,608**