THIRD QUARTER ENDED
JULY 31, 2020

Enghouse Systems
Software engineered for results

September 10, 2020

To our Shareholders,

Revenue for the third quarter was $131.3 million, a 29.7% increase compared to revenue of $101.3 million in the prior year with Enghouse continuing to experience increased demand for its remote-work and visual computing solutions as a result of the COVID-19 pandemic. Although the initial surge of customers requiring immediate solutions upon the initial outbreak of the pandemic was primarily served in the second quarter of 2020, demand for these solutions remains above historic averages.

Net income for the quarter was $26.0 million or $0.46 per diluted share, compared to $14.7 million or $0.27 per diluted share last year. Adjusted EBITDA was $45.6 million or $0.81 per diluted share, compared to $28.1 million or $0.51 per diluted share in the third quarter of 2019, an increase of 62.4%. These increases are attributable to continued revenue growth combined with proactive cost management as we continue to realize synergies on acquisitions.

Year-to-date revenue was $382.9 million, compared to revenue of $276.5 million in the prior year, an increase of 38.5%. Meanwhile, Adjusted year-to-date EBITDA grew to $130.2 million or $2.35 per diluted share compared to $81.6 million or $1.48 per diluted share last year, an increase of 59.6%.

Year-to-date cash flows from operating activities, excluding changes in working capital, were $130.5 million compared to $84.7 million in the prior year, an increase of 54.2%. As a result, Enghouse closed the quarter with $228.9 million in cash, cash equivalents and short-term investments, compared to $150.3 million at October 31, 2019. The increase in cash was achieved after making payments of $43.9 million for acquisitions and $19.5 million for dividends so far this year.

Our MD&A and financial statements provide further details on the impact and risks associated with COVID-19 and their applicability to Enghouse.

Today, the Board of Directors approved the Company's eligible quarterly dividend of $0.135 per common share, payable on November 30, 2020 to shareholders of record at the close of business on November 16, 2020.

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 10, 2020 *and all information contained herein is current as of that date unless otherwise indicated. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with Enghouse Systems Limited's ("Enghouse Systems") and its subsidiaries (together "Enghouse", "we" "us" "our" or "the Company") fiscal 2019 MD&A and audited consolidated financial statements and the notes thereto. This MD&A covers the unaudited condensed consolidated interim results of operations, financial condition and cash flows of Enghouse Systems and its subsidiaries, all wholly owned, for the third quarter ended July 31, 2020.*

Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, stated in thousands, except per share amounts and as otherwise indicated.

This document is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The unaudited Condensed Consolidated Interim Financial Statements and the MD&A have been reviewed by the Company's Audit Committee and approved by its Board of Directors.

Non-IFRS measures and forward-looking statements

The Company uses non-IFRS measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company uses Adjusted EBITDA as a measure of operating performance. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Adjusted EBITDA is calculated based on results from operating activities adjusted for depreciation of property, equipment and right-of-use assets, and special charges for acquisition related restructuring costs. Management uses Adjusted EBITDA to evaluate operating performance as it excludes amortization of acquired software and intangibles (which is an accounting allocation of the cost of software and intangible assets arising on acquisition), any impact of finance and tax related activities, asset depreciation, foreign exchange gains and losses, other income and restructuring costs primarily related to acquisitions.

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

For additional information with respect to certain of these risks or factors, reference should be made to the "Risks and Uncertainties" section of the MD&A and notes to the audited consolidated financial statements for the year ended October 31, 2019, as well as to the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, copies of which are filed electronically on SEDAR at www.sedar.com.

In addition to the risks and uncertainties discussed therein, the recent outbreak of the COVID-19 pandemic presents a significant source of economic uncertainty and risk to the Company. This is described in more detail in the "Risks and uncertainties" section of this MD&A.

Corporate overview

Enghouse is a Canadian publicly traded company (TSX:ENGH) that provides enterprise software solutions focusing on remote work, visual computing and communications for next generation software defined networks. The Company's two-pronged growth strategy focuses on internal growth and acquisitions, which, to date, have been funded through operating cash flows. The Company is well capitalized, has nominal long-term debt and is organized around two business segments: the Interactive Management Group ("IMG") and the Asset Management Group ("AMG").

IMG specializes in customer interaction software and services designed to facilitate remote work, enhance customer service, increase efficiency and manage customer communications across enterprise networks. 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. IMG's customers are varied and include insurance companies, telecoms and banks as well as technology, health care and hospitality companies.

AMG provides a portfolio of software and services solutions to a number of verticals such as cable operators, network telecommunication providers, media, transit, defense and public safety companies. Its products include Network infrastructure, Operations Support Systems ("OSS"), Business Support Systems ("BSS"), and revenue generation solutions such as video and Cloud TV solutions. AMG also provides fleet routing, dispatch, scheduling, transit e-ticketing and automated fare collection, communications and emergency control center solutions for the transportation, government, first responders, distribution and security sectors.

Enghouse continues to focus on building a consistently profitable enterprise software company with a diversified product suite and global market presence. The Company remains focused on having a strong balance sheet with large cash reserves and nominal long-term debt. Deploying capital on acquisitions and replacing it through strong operating cash flows is pivotal to our acquisition strategy and allows Enghouse to pursue further acquisitions without the need to obtain financing.

The Company emphasizes the importance of recurring revenue streams to increase shareholder value and the predictability of its operating results. While Enghouse continues to develop and enhance its existing product portfolio to grow organically, 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 us to provide a broader spectrum of products and services to our customer base more quickly than through organic means alone.

Third quarter overview

The COVID-19 pandemic continues to have a significant impact on our customers, employees, suppliers and other stakeholders. While the duration and effects remain unknown, we continue to react quickly to changing circumstances, with our team working remotely and some employees voluntarily returning to the office where it is safe to do so and where local governmental guidance supports a return to the office. Our team continues to remain safe, delivering high quality work and results. Critical to this success has been our previous investment in upgrading our financial systems combined with the internal deployment of Enghouse products such as Vidyo that support remote work, including working from home.

COVID-19 has had a number of financial impacts to Enghouse. Most notably:

- Increased sales of Vidyo and other solutions that support remote work;
- Sales have remained consistent despite some variability in timing of hardware revenue recognition, which has been subject to procurement delays resulting from COVID-19;
- While customers continue to renew existing contracts and sign new orders, some have deferred planned upgrades, expansions and roll-outs, especially those involving an on-site professional services element;
- Collections have remained strong;
- Cost savings continue to be realized as a result of decreased travel and other traditional marketing expenses either avoided or deferred as a result of COVID-19. This has been offset by increased demand generation initiatives;
- No non-acquisition restructuring plans were implemented this year. However, in light of the continued efficiency and productivity achieved through remote work we began to review our physical footprint

in light of current circumstances and continue to assess the situation, taking steps to reduce office space and implement other cost saving initiatives.

The Company experienced growth during the quarter from internal sources as well as contributions from the acquisitions of Vidyo and Espial (both acquired in mid Q3/2019) and Dialogic (acquired in Q1/2020). Internal growth includes the expansion of the acquired businesses, particularly Vidyo and Dialogic, relative to pre-acquisition sales volumes. Although the initial surge of customers requiring immediate solutions upon the initial outbreak of the pandemic was primarily served in the second quarter of 2020, demand for these solutions remains above historic averages.

Quarterly results of operations

The following table sets forth certain unaudited information for each of the eight most recent quarters. Our operating results may fluctuate quarterly, mainly as a result of the timing of certain large software license and hardware sales. Our quarterly results may also be influenced by COVID-19, foreign exchange, timing of new acquisitions, and changes in staffing and infrastructure. See “Risks and Uncertainties” for more details.

The following table provides details regarding operating results for the past eight quarters:

For the three months ended	Q3 2020 $	Q2 2020 $	Q1 2020 $	Q4 2019 $	Q3 2019 $	Q2 2019 $	Q1 2019 $	Q4 2018 $
Revenue	**131,324**	**140,900**	**110,656**	**109,331**	**101,274**	**89,203**	**86,045**	**85,822**
Direct costs	39,740	39,699	32,477	32,382	31,749	27,460	27,212	24,893
Revenue, net of direct costs	**91,584**	**101,201**	**78,179**	**76,949**	**69,525**	**61,743**	**58,833**	**60,929**
As a % of revenue	*69.7%*	71.8%	*70.7%*	*70.4%*	*68.7%*	*69.2%*	*68.4%*	*71.0%*
Operating expenses	49,351	55,046	45,760	43,731	42,038	35,066	33,038	33,528
Special charges	35	(121)	1,576	677	470	56	-	57
Results from operating activities	**42,198**	**46,276**	**30,843**	**32,541**	**27,017**	**26,621**	**25,795**	**27,344**
As a % of revenue	*32.1%*	*32.8%*	*27.9%*	*29.8%*	*26.7%*	*29.8%*	*30.0%*	*31.9%*
Amortization	(11,502)	(11,600)	(10,080)	(9,244)	(8,453)	(6,884)	(7,116)	(6,386)
Other	2,627	233	4	1,719	263	1,604	385	1,319
Income before income taxes	**33,323**	**34,909**	**20,767**	**25,016**	**18,827**	**21,341**	**19,064**	**22,277**
Provision for income taxes	7,330	7,820	4,631	329	4,166	4,804	4,100	2,725
Net Income for the period	**25,993**	**27,089**	**16,136**	**24,687**	**14,661**	**16,537**	**14,964**	**19,552**
Basic earnings per share	0.47	0.49	0.29	0.45	0.27	0.30	0.27	0.36
Diluted earnings per share	0.46	0.49	0.29	0.45	0.27	0.30	0.27	0.36
Operating cash flows	55,690	57,533	19,933	21,729	13,862	21,630	24,154	29,522
Operating cash flows excluding changes in working capital	45,294	50,033	35,183	33,854	28,531	29,010	27,121	24,034
Cash and short-term investments	228,938	168,089	116,329	150,269	141,334	205,519	190,537	193,937
Total assets	758,099	743,081	691,556	590,600	575,084	540,351	526,442	495,200
Adjusted EBITDA:								
Results from operating activities	42,198	46,276	30,843	32,541	27,017	26,621	25,795	27,344
Depreciation	801	758	887	804	570	499	530	542
Depreciation of right-of-use asset	2,534	2,368	2,023	-	-	-	-	-
Special charges	35	(121)	1,576	677	470	56	-	57
Adjusted EBITDA	**45,568**	**49,281**	**35,329**	**34,022**	**28,057**	**27,176**	**26,325**	**27,943**
Adjusted EBITDA margin	*34.7%*	*35.0%*	*31.9%*	*31.1%*	*27.7%*	*30.5%*	*30.6%*	*32.6%*
Adjusted EBITDA per diluted share	**0.81**	**0.89**	**0.64**	**0.62**	**0.51**	**0.49**	**0.48**	**0.51**

Results of operations

The following table provides details regarding operating results for the three and nine months ended July 31, 2020.

For the period ended July 31	Three months				Nine months			
	2020	2019	Variance		2020	2019	Variance	
	$	$	$	%	$	$	$	%
Revenue	**131,324**	**101,274**	**30,050**	***29.7***	**382,880**	**276,522**	**106,358**	***38.5***
Direct costs	39,740	31,749	7,991	*25.2*	111,916	86,421	25,495	*29.5*
Revenue, net of direct costs	**91,584**	**69,525**	**22,059**	***31.7***	**270,964**	**190,101**	**80,863**	***42.5***
As a % of revenue	*69.7%*	*68.7%*			*70.8%*	*68.7%*		
Operating expenses	49,351	42,038	7,313	*17.4*	150,157	110,142	40,015	*36.3*
Special charges	35	470	(435)	*(92.6)*	1,490	526	964	*183.3*
Results from operating activities	**42,198**	**27,017**	**15,181**	***56.2***	**119,317**	**79,433**	**39,884**	***50.2***
As a % of revenue	*32.1%*	*26.7%*			*31.2%*	*28.7%*		
Amortization of acquired software and customer relationships	(11,502)	(8,453)	(3,049)	*(36.1)*	(33,182)	(22,453)	(10,729)	*(47.8)*
Foreign exchange (losses) gains	(1,102)	(131)	(971)	*(741.2)*	(1,148)	433	(1,581)	*(365.1)*
Interest expense – lease obligations	(302)	-	(302)	-	(864)	-	(864)	-
Finance income	209	469	(260)	*(55.4)*	691	1,474	(783)	*(53.1)*
Finance expenses	(5)	(11)	6	*54.5*	(39)	(66)	27	*40.9*
Other income	3,827	(64)	3,891	*6079.7*	4,224	411	3,813	*927.7*
Income before income taxes	**33,323**	**18,827**	**14,496**	***77.0***	**88,999**	**59,232**	**29,767**	***50.3***
Provision for income taxes	7,330	4,166	3,164	*75.9*	19,781	13,070	6,711	*51.3*
Net Income for the period	**25,993**	**14,661**	**11,332**	**77.3**	**69,218**	**46,162**	**23,056**	***49.9***
Basic earnings per share	0.47	0.27	0.20	*74.1*	1.26	0.84	0.42	*50.0*
Diluted earnings per share	0.46	0.27	0.19	*70.4*	1.25	0.84	0.41	*48.8*
Operating cash flows	55,690	13,862	41,828	*301.7*	133,156	59,646	73,510	*123.2*
Operating cash flows excluding changes in working capital	45,294	28,531	16,763	*58.8*	130,510	84,662	45,848	*54.2*

Revenue

The following table provides details regarding revenue for the three and nine months ended July 31, 2020.

For the period ended July 31	Three months			Nine months		
	2020	2019	Variance	2020	2019	Variance
	$	$	$	$	$	$
Software licenses	29,438	22,081	7,357	106,629	62,328	44,301
Hosted and maintenance services	77,356	58,416	18,940	213,733	158,699	55,034
Professional services	16,059	15,281	778	47,329	43,927	3,402
Hardware	8,471	5,496	2,975	15,189	11,568	3,621
Revenue	**131,324**	**101,274**	**30,050**	**382,880**	**276,522**	**106,358**
Interactive Management Group	75,151	56,869	18,282	227,949	144,863	83,086
Asset Management Group	56,173	44,405	11,768	154,931	131,659	23,272
Revenue	**131,324**	**101,274**	**30,050**	**382,880**	**276,522**	**106,358**

Revenue for the three months ended July 31, 2020 was $131.3 million, an increase of $30.1 million or 29.7% from the same period in the prior year. The variance is explained by:

- An increase of $18.9 million in hosted and maintenance revenue, primarily attributable to hosted Vidyo sales as well as incremental maintenance on new license sales, net of churn on existing customers, and the addition of new product offerings. Hosted and maintenance services represent an important strategic source of revenue given its predictable and recurring nature and represented 58.9% of total revenues for the period (2019–57.7%). The percentage increase in contributions from hosted and maintenance revenue is attributable to a proportionate increase in recurring revenue including recurring revenue from deals signed in the preceding quarter as a result of increased COVID-19 related demand.

- An increase of $7.4 million in software revenue primarily from increased sales of Vidyo licenses and network infrastructure software from both existing and new product offerings.

- Increases in hardware revenue following sourcing delays in the second quarter and deferral of installation into the current quarter as a result of COVID-19. Hardware is sold to customers to complement our software offerings and is generally not a core product offering.
- A further increase of $1.4 million due to foreign exchange. This is calculated by applying the change in the average exchange rates between the third quarters of 2019 and 2020 to our foreign currency denominated revenue in the third quarter of 2020.

Revenue for the nine months ended July 31, 2020 was $382.9 million, an increase of $106.4 million or 38.5% from the same period in the prior year. The variance is primarily attributable to the same reasons discussed above in addition to a significant perpetual license order recognized by Dialogic during the second quarter of 2020.

Interactive Management Group
IMG revenue for the three months ended July 31, 2020 was $75.2 million, an increase of $18.3 million or 32.1% from same period in the prior year. The variance is explained by:

- An increase of $14.9 million in hosted and maintenance revenue, which includes maintenance on new license sales and incremental hosted revenue, particularly from Vidyo.
- An increase of $3.3 million in software license revenue primarily attributable to increased Vidyo license sales.

Revenue for the nine months ended July 31, 2020 was $227.9 million, an increase of $83.1 million or 57.4% from same period in the prior year. The increase is primarily the result of higher revenue from new product offerings and incremental contributions from Vidyo and Dialogic.

Asset Management Group
AMG revenue for the three months ended July 31, 2020 was $56.2 million, an increase of $11.8 million or 26.5% from same period in the prior year. The variance is explained by:

- An increase of $4.9 million in hosted and maintenance revenue primarily attributable to new product offerings from Dialogic and Espial, as well as incremental maintenance on new sales across a number of product lines.
- An increase of $4.0 million in license revenue attributable to new product offerings at Dialogic as well as increased sales to network telecommunication providers during the quarter.
- An increase of $2.9 million in hardware revenue largely attributable to the timing of deliveries for large contracts in the transportation business. Although variability is to be expected as a result of timing, hardware is an ancillary product offered at lower margins.

Revenue for the nine months ended July 31, 2020 was $154.9 million, an increase of $23.3 million or 17.7% from the same period in the prior year. The increase is primarily the result of the factors discussed above in addition to strong license revenue in Networks and Espial operations in the first quarter.

Direct costs

The following table provides details regarding direct costs for the three and nine months ended July 31, 2020.

For the period ended July 31	Three months			Nine months		
	2020 $	2019 $	Variance $	2020 $	2019 $	Variance $
Software licenses	2,058	1,327	731	8,445	4,058	4,387
Services	30,417	26,399	4,018	91,843	74,125	17,718
Hardware	7,265	4,023	3,242	11,628	8,238	3,390
Direct Costs	**39,740**	**31,749**	**7,991**	**111,916**	**86,421**	**25,495**
As a % of revenue						
Software licenses	*7.0%*	*6.0%*		*7.9%*	*6.5%*	
Services	*32.6%*	*35.8%*		*35.2%*	*36.6%*	
Hardware	*85.8%*	*73.2%*		*76.6%*	*71.2%*	
Total	*30.3%*	*31.3%*		*29.2%*	*31.3%*	
Interactive Management Group	18,152	14,838	3,314	54,240	37,877	16,363
Asset Management Group	21,588	16,911	4,677	57,676	48,544	9,132
Direct Costs	**39,740**	**31,749**	**7,991**	**111,916**	**86,421**	**25,495**
As a % of revenue						
Interactive Management Group	*24.2%*	*26.1%*		*23.8%*	*26.1%*	
Asset Management Group	*38.4%*	*38.1%*		*37.2%*	*36.9%*	

Direct costs for the three months ended July 31, 2020 were $39.7 million or 30.3% of revenue compared to $31.7 million or 31.3% of revenue in the same period in the prior year. Overall margins improved as a result of favourable product mix changes and improved margins on services offsetting lower hardware margins during the quarter. Hardware is sold at lower margins than traditionally achieved on other revenue streams.

Direct costs for the nine months ended July 31, 2020 were $111.9 million or 29.2% of revenue compared to $86.4 million or 31.3% of revenue in the same period in the prior year for the same reasons discussed for the quarter in addition to a significant perpetual license order at Dialogic in the second quarter of 2020.

Interactive Management Group

IMG direct costs for the three months ended July 31, 2020 were $18.2 million or 24.2% of segment revenue compared to $14.8 million or 26.1% of revenue in the same period in the prior year. The higher margins are primarily a result of higher margins on both services and hardware.

IMG direct costs for the nine months ended July 31, 2020 were $54.2 million or 23.8% of segment revenue compared to $37.9 million or 26.1% of revenue in the same period in the prior year as a result a shift in product mix towards higher-margin license sales in addition to higher margins on hardware and services.

Asset Management Group

AMG direct costs were $21.6 million or 38.4% of segment revenue for the three months ended July 31, 2020 compared to $16.9 million or 38.1% of revenue in the same period in the prior year as margins for AMG remained relatively stable overall with lower hardware margins partially offset by improved margins on services.

AMG direct costs for the nine months ended July 31, 2020 were $57.7 million or 37.2% of segment revenue for the same period compared to $48.5 million or 36.9% of revenue in the same period in the prior year attributable to the same reasons discussed above.

Revenue, net of direct costs

Revenue, net of direct costs for the three months ended July 31, 2020 increased by $22.1 million to $91.6 million or 69.7% of revenue compared to $69.5 million or 68.7% in the same period in the prior year. The increase in revenue, net of direct costs is attributable to higher margins on services combined with a shift in product mix towards higher margin license sales.

Revenue, net of direct costs for the nine months ended July 31, 2020 increased by $80.9 million to $271.0 million or 70.8% of revenue compared to $190.1 million or 68.7% in the same period in the prior year. The increase is a result of the aforementioned higher margins on increased maintenance services as well as a shift in product mix towards higher margin software.

Operating expenses

The following table provides details regarding operating expenses for the three and nine months ended July 31, 2020.

For the period ended July 31	Three months			Nine months		
	2020	2019	Variance	2020	2019	Variance
	$	$	$	$	$	$
Selling, general and administrative	25,812	24,890	922	80,106	66,786	13,320
Research and development	20,204	16,578	3,626	60,680	41,757	18,923
Depreciation	801	570	231	2,446	1,599	847
Depreciation of right-of-use asset	2,534	-	2,534	6,925	-	6,925
Special charges	35	470	(435)	1,490	526	964
Operating expenses	**49,386**	**42,508**	**6,878**	**151,647**	**110,668**	**40,979**
As a % of revenue						
Selling, general and administrative	*19.7%*	*24.6%*		*20.9%*	*24.2%*	
Research and development	*15.4%*	*16.4%*		*15.8%*	*15.1%*	
Depreciation	*0.6%*	*0.6%*		*0.6%*	*0.6%*	
Depreciation of right-of-use asset	*1.9%*	*0.0%*		*1.8%*	*0.0%*	
Special charges	*0.0%*	*0.5%*		*0.4%*	*0.2%*	
Operating expenses	*37.6%*	*42.0%*		*39.6%*	*40.0%*	

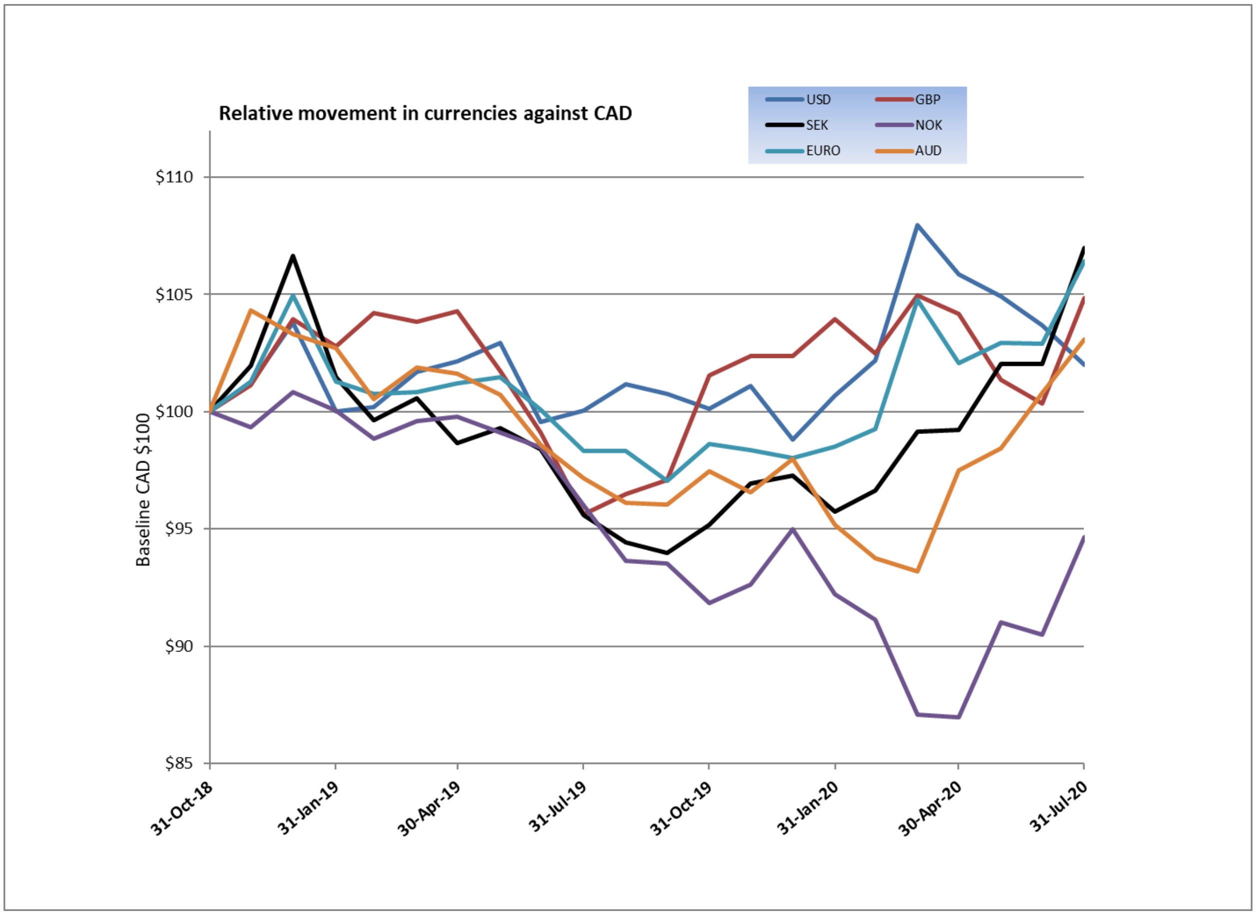
Operating expenses for the three months ended July 31, 2020 totaled $49.4 million, an increase of $6.9 million or 16.2% despite revenue growth of 29.7% and additional costs from acquisitions compared to the same period in prior year. The variance, which overall is largely attributable to increased scale from recent acquisitions, is further explained by:

- An increase of $3.6 million in research and development expense. Research and development expense is equivalent to 15.4% of revenue compared to 16.4% in the same period in the prior year with incremental investment in Microsoft Teams certification, new BI reporting tools, Espial's IPTV solution and Vidyo-enabling existing contact center product offerings.
- An increase of $0.9 million in selling, general and administrative expense. Despite revenue growth and additional scale from acquisitions, costs remained relatively stable as a result of successful cost containment initiatives combined with reduced travel expenses due to COVID-19 as well as administrative cost synergies and operating cost efficiencies attributable to increased scale. Expenses also include vacation accruals that increased significantly since the start of the pandemic but have remained relatively stable over the three months ended July 31, 2020. Selling, general and administrative expense is inclusive of a reduction in occupancy expense as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis as explained subsequently.
- The addition of $2.5 million in depreciation of right-of-use assets as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis while comparative balances were not revised. Prior to the adoption of IFRS 16, lease related costs, which are now expensed under both interest and depreciation, were classified as occupancy costs as part of selling, general and administrative expense.

Operating expenses for the nine months ended July 31, 2020 totaled $151.6 million, an increase of $41.0 million or 37.0% from the same period in the prior year. The variance is attributable to the factors discussed above as well as restructuring costs related to acquisitions. The benefit of cost containment and restructuring initiatives began to be realized primarily in the current quarter when the majority of the initiatives were complete.

Foreign exchange

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



Exchange rate source: Bank of Canada Currency Rates

During the three months ended July 31, 2020, the Canadian dollar weakened against most major currencies other than the Norwegian Krone compared to the same period in the prior year. As result, in the third quarter, there was a positive impact to revenue of $1.4 million reported in Canadian dollars and operating costs were higher by $1.1 million compared to the same period in the prior year.

For the three months ended July 31, 2020, we recognized unrealized foreign exchange losses of $1.1 million related to foreign currency denominated monetary assets and liabilities in the current period compared to losses of $0.1 million in the same period in the prior year. The loss was a result of movements in the Canadian dollar against international currencies on Canadian dollar denominated monetary assets and liabilities on functional currency books denominated in foreign currencies.

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

For the nine months ended July 31, 2020, we recognized $1.1 million of unrealized foreign exchange losses related to foreign currency denominated monetary assets and liabilities in the current period compared to gains of $0.4 million in the same period in the prior year.

Amortization of software and customer relationships

Amortization expense for acquired software and customer relationships for the three and nine months ended July 31, 2020 increased by $3.0 million to $11.5 million and by $10.7 million to $33.2 million respectively, compared to the same periods in the prior year. Both variances are attributable to incremental charges from the current year's acquisition as well as amortization on recent acquisitions, which added $9.2 million for the nine months ended July 31, 2020.

Other income

Other income for the three months ended July 31, 2020 increased by $3.9 million during the quarter as a result of net unrealized gains on investments in equity positions carried at fair value. For the nine months ended July 31, 2020, Other income increased by $3.8 million compared to the same period in the prior year. The increase is attributable to the aforementioned investment gains in addition to a gain of U.S. $1.2 million booked on the refund of contingent consideration paid in the second quarter as part of the Dialogic acquisition.

Income tax expense

Income tax expense for the three months ended July 31, 2020 increased by $3.2 million to $7.3 million, compared to the same period in the prior year. For the three and nine months ended July 31, 2020, our effective tax rate was 22.0% and 22.2% compared to 22.1% and 22.1%, respectively, for the same periods in the prior year.

Net income

Net income for the three and nine months ended July 31, 2020 increased by $11.3 million and $23.1 million to $26.0 million and $69.2 million, respectively, compared to the same periods in the prior year. The increased profitability reflects both higher hosted and maintenance as well as license revenue combined with operating cost synergies from integrating acquisitions.

For the three and nine months ended July 31, 2020, diluted earnings per share was $0.46 and $1.25, respectively, compared to $0.27 and $0.84 in the same periods in the prior year.

Cash flows from operating activities

For three months and nine months ended July 31, 2020, cash flows from operating activities were $55.7 million and $133.2 million, respectively, compared to $13.9 million and $59.6 million in the same periods in the prior year. The increase in operating cash flow reflects:

- An increase in net income as a result of higher revenue combined with improved margins and operating cost synergies.
- An increase in working capital as a result of strong collections during the three and nine months ended July 31, 2020 as well as an increase in deferred revenue for the nine months ended July 31, 2020.
- A further increase of $2.8 million and $7.8 million for the three and nine months as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis while comparative balances were not revised. Prior to the adoption of IFRS 16, lease related outflows, now classified under financing activities, were previously classified as operating cash outflows.

Operating cash flows excluding changes in non-cash working capital items for the three months and nine months, respectively, ended July 31, 2020 increased by 58.8% and by 54.2% respectively to $45.3 million and $130.5 million compared to the same periods in the prior year primarily as a result of improved operating results.

Adjusted EBITDA

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

For the period ended July 31	Three months 2020 $	Three months 2019 $	Three months Variance $	Nine months 2020 $	Nine months 2019 $	Nine months Variance $
Total revenue	131,324	101,274	30,050	382,880	276,522	106,358
Results from operating activities	42,198	27,017	15,181	119,317	79,433	39,884
Depreciation	801	570	231	2,446	1,599	847
Depreciation of right-of-use asset	2,534	-	2,534	6,925	-	6,925
Special charges	35	470	(435)	1,490	526	964
Adjusted EBITDA	**45,568**	**28,057**	**17,511**	**130,178**	**81,558**	**48,620**
Adjusted EBITDA margin	*34.7%*	*27.7%*		*34.0%*	*29.5%*	
Adjusted EBITDA per diluted share	**0.81**	**0.51**	**0.30**	**2.35**	**1.48**	**0.87**

Adjusted EBITDA for the three and nine months ended July 31, 2020 increased by $17.5 million and $48.6 million respectively, compared to the same periods in the prior year. The increase in adjusted EBITDA reflects:

- Higher revenue, net of direct costs as a result of both increased license as well as hosted and maintenance revenue, combined with improved margins.
- An increase as a result of adopting IFRS 16 whereby certain costs associated with occupancy are now classified as depreciation and interest on right-of-use assets. Comparative periods have not been restated.

Special charges, primarily reflecting acquisition related restructuring charges, have been excluded from adjusted EBITDA along with depreciation of property and equipment as well as right-of-use assets.

Liquidity and cash reserves

We closed the period with cash and short-term investments of $228.9 million, compared to the October 31, 2019 balance of $150.3 million. This reflects strong cash collections related to annual maintenance billings and incremental license sales, which offset cash spent of $46.6 million on the acquisition of Dialogic on December 31, 2019. This is also net of payment of $19.5 million for dividends, which increased 23.1% from $15.8 million in the same period in the prior year. Collections of receivables remained strong despite COVID-19.

For the nine months ended July 31, 2020, cash increased by a total of $74.7 million compared to a decrease of $54.1 million over the same period in the prior year. The increase is the result of operating cash flows of $133.2 million that funded the $47.4 million of cash used in investing activities, primarily acquisitions. In comparison, in the same period last year Enghouse generated operating cash flows of $59.6 million and spent $97.8 million, primarily on acquisitions as part of investing activities. The ability to generate strong operating cash flows is pivotal to our acquisition strategy, which enables us to pursue further acquisitions without the need to obtain financing.

For the nine months ended July 31, 2020 working capital was $121.6 million compared to $85.4 million at the end of fiscal 2019. The increase in working capital is predominately a result of continued increases in operating cash flow combined with delays in deploying capital on acquisitions as a result of COVID-19 related travel restrictions that hamper due-diligence efforts. Consequently, cash and short-term investments increased by $78.7 million compared to October 31, 2019. These factors ultimately led to a $36.2 million increase in working capital despite higher payables and deferred revenue (primarily from acquisitions) as well as the addition of $8.4 million in current lease obligations recorded under the introduction of IFRS 16. Management is confident that the Company has the funds necessary to meet its existing and future financial operating commitments and dividend strategy. Future acquisition growth may be funded through a combination of cash, debt and equity consideration, which could cause dilution to existing shareholders.

Capital stock

The Company had 55,284,924 Common Shares issued and outstanding as at September 10, 2020. During the quarter, 268,000 stock options were exercised contributing $7.8 million in cash compared to 45,500 stock options and $0.6 million in cash to the Company in the same period in the prior year. The Company granted 310,000 options in the first three quarters of 2020 compared to 500,000 options, all granted in the second quarter of the prior year.

Enghouse Systems renewed its Normal Course Issuer Bid for a further year commencing April 30, 2020 and expiring April 29, 2021, whereby it may repurchase up to a maximum of 4,188,532 common shares of the Company. The Company did not repurchase any shares of its common stock in the current or prior quarterly periods under its Normal Course Issuer Bid.

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 in the comparative period.

Off-Statement of financial position arrangements

We have not entered into off-statement of financial position financing arrangements. Except for operating leases and other low probability and/or immeasurable contingencies (not accrued in accordance with IFRS), all commitments are reflected on our unaudited Condensed Consolidated Interim Statements of Financial Position.

Transactions with related parties

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

Basis of preparation and significant accounting policies

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

Our significant accounting policies are described in Note 3 of the audited consolidated financial statements as at October 31, 2019, which is available on SEDAR (*www.sedar.com*). The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and outstanding as of September 10, 2020, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

New standards and interpretations adopted

IFRS 16, *Leases* ("IFRS 16")

IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019. The standard replaced previous guidance under IAS 17*, Leases* ("IAS 17"), and no longer distinguishes between a finance lease and an operating lease for lessees. Instead, for virtually all lease contracts the lessee recognizes lease obligations reflecting future lease payments and a "right-of-use" asset. Lessor accounting remains somewhat similar as under IAS 17. The Company has applied IFRS 16 for the period commencing November 1, 2019.

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

On adoption of IFRS 16, the Company recognized lease obligations in relation to leases that had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of November 1, 2019.

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

Risks and uncertainties

With the exception of COVID-19 discussed below, the primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations remain substantially unchanged from those discussed in the Company's latest Annual Information Form and its Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2019, contained in the Company's 2019 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

COVID-19

The COVID-19 pandemic continues to present a significant source of economic uncertainty to the Company. The duration and impact of the pandemic on the Company is currently unknown and it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. The Company issued a directive that all employees are to work from home until further notice with some employees voluntarily returning to the office under limited circumstances where it is safe to do so and local governmental guidance supports a return to the office. The Company continues to closely monitor the situation as it evolves and may take further actions in response to directives of government and public health authorities or that are in the best interests of its employees, customers, suppliers or other stakeholders.

Additional changes by customers, suppliers and regulators in response to COVID-19 could materially impact the Company's financial results and may include impacts on: timing and collectability of receivables, supply chains and distribution channels, restrictions on cross-border commerce and travel, greater currency volatility, and increased risks to IT systems, networks and digital services. These uncertain economic conditions may adversely impact operations and the financial performance of the Company and its customers, negatively impacting demand for the Company's products and services or the equity markets, which could adversely affect the Company's financial performance. While we have seen increased revenue in some product and service offerings attributable to the pandemic, we cannot make any assurances that we will continue to experience increased demand for our products or services throughout the duration of the pandemic or thereafter.

Controls and procedures

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Vice President Finance in capacity as Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

Disclosure controls and procedures

Disclosure controls and procedures have been designed under the supervision of the CEO and CFO, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by us is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2019, an evaluation of the effectiveness of our disclosure controls and procedures was carried out under the supervision of the CEO and CFO. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered our disclosure policy, a sub-certification process and the functioning of our Disclosure Committee.

Internal controls over financial reporting

The Company's CEO and CFO are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS.

As at October 31, 2019, an evaluation was carried out of the effectiveness of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation, the Company's CEO and CFO have concluded that, as at October 31, 2019, the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and the requirements of NI 52-109. The control framework used by the CEO and the CFO to design the Company's internal control over financial reporting is the "Internal Control – Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

There were no changes to the Company's internal control over financial reporting during the quarter ended July 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional information

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

Notice of no auditor review of interim financial statements

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three and nine months ended July 31, 2020 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of the interim financial statements by an entity's auditor.

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)
(unaudited)

	Notes	As at July 31, 2020	As at October 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents		$ 219,423	$ 144,764
Short-term investments		9,515	5,505
Accounts receivable		98,360	84,982
Prepaid expenses and other assets		12,346	11,147
		339,644	**246,398**
Non-current assets:			
Property and equipment		6,554	6,280
Right-of-use assets	4	38,457	-
Intangible assets	5	135,831	121,885
Goodwill	5	221,540	203,298
Deferred income tax assets		16,073	12,739
		418,455	**344,202**
		$ 758,099	**$ 590,600**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 74,288	$ 62,813
Income taxes payable		15,459	6,953
Dividends payable		7,463	6,021
Provisions	6	6,139	6,536
Deferred revenue		106,033	78,405
Lease obligations	4	8,370	-
Current portion of long-term loans		269	249
		218,021	**160,977**
Non-current liabilities:			
Non-current portion of income taxes payable		3,854	4,434
Deferred income tax liabilities		15,868	16,197
Deferred revenue		6,304	3,665
Net employee defined benefit obligation		2,896	2,380
Lease obligations	4	28,969	-
Long-term loans		875	874
		58,766	**27,550**
		276,787	**188,527**
Shareholders' equity			
Share capital		98,527	81,576
Contributed surplus		5,366	6,677
Retained earnings		357,478	309,198
Accumulated other comprehensive income	7	19,941	4,622
		481,312	**402,073**
		$ 758,099	**$ 590,600**

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

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

Periods ended July 31	Notes	Three months 2020	Three months 2019	Nine months 2020	Nine months 2019
Revenue					
Software licenses		$ 29,438	$ 22,081	$ 106,629	$ 62,328
Hosted and maintenance services		77,356	58,416	213,733	158,699
Professional services		16,059	15,281	47,329	43,927
Hardware		8,471	5,496	15,189	11,568
		131,324	**101,274**	**382,880**	**276,522**
Direct costs					
Software licenses		2,058	1,327	8,445	4,058
Services		30,417	26,399	91,843	74,125
Hardware		7,265	4,023	11,628	8,238
		39,740	31,749	111,916	86,421
Revenue, net of direct costs		**91,584**	**69,525**	**270,964**	**190,101**
Operating expenses					
Selling, general and administrative		25,812	24,890	80,106	66,786
Research and development		20,204	16,578	60,680	41,757
Depreciation		801	570	2,446	1,599
Depreciation of right-of-use assets	4	2,534	-	6,925	-
Special charges		35	470	1,490	526
		49,386	**42,508**	**151,647**	**110,668**
Results from operating activities		**42,198**	**27,017**	**119,317**	**79,433**
Amortization of acquired software and customer relationships	5	(11,502)	(8,453)	(33,182)	(22,453)
Foreign exchange (losses) gains		(1,102)	(131)	(1,148)	433
Interest expense – lease obligations	4	(302)	-	(864)	-
Finance income		209	469	691	1,474
Finance expenses		(5)	(11)	(39)	(66)
Other income (expense)		3,827	(64)	4,224	411
Income before income taxes		**33,323**	**18,827**	**88,999**	**59,232**
Provision for income taxes	9	7,330	4,166	19,781	13,070
Net income for the period		**$ 25,993**	**$ 14,661**	**$ 69,218**	**$ 46,162**
Items that may be subsequently reclassified to income:					
Cumulative translation adjustment		2,868	(9,947)	15,319	(3,966)
Other comprehensive income (loss)		**2,868**	**(9,947)**	**15,319**	**(3,966)**
Comprehensive income		**$ 28,861**	**$ 4,714**	**$ 84,537**	**$ 42,196**
Earnings per share					
Basic	10	$ 0.47	$ 0.27	$ 1.26	$ 0.84
Diluted	10	$ 0.46	$ 0.27	$ 1.25	$ 0.84

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

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)
(unaudited)

	Share capital* #	Share capital $	Contributed surplus $	Accumulated other comprehensive income $	Retained earnings $	Total $
As at November 1, 2019	**54,737,424**	**81,576**	**6,677**	**4,622**	**309,198**	**402,073**
Net income for the period	-	-	-	-	69,218	69,218
Cumulative translation adjustment	-	-	-	15,319	-	15,319
Comprehensive income	**-**	**-**	**-**	**15,319**	**69,218**	**84,537**
Employee share options:						
Value of services recognized	-	-	2,279	-	-	2,279
Proceeds on issuing shares	547,500	16,951	(3,590)	-	-	13,361
Dividends declared	-	-	-	-	(20,938)	(20,938)
As at July 31, 2020	**55,284,924**	**98,527**	**5,366**	**19,941**	**357,478**	**481,312**
As at November 1, 2018, as previously presented	**54,580,024**	**78,997**	**4,866**	**5,755**	**260,506**	**350,124**
IFRS 9 transitional adjustment	-	-	-	781	(781)	-
IFRS 15 transitional adjustment	-	-	-	-	1,590	1,590
Adjusted balance as at November 1, 2018	**54,580,024**	**78,997**	**4,866**	**6,536**	**261,315**	**351,714**
Net income for the period	-	-	-	-	46,162	46,162
Cumulative translation adjustment	-	-	-	(3,966)	-	(3,966)
Comprehensive income	**-**	**-**	**-**	**(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**

** 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 2019 comparative period.*

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

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)
(unaudited)

		Three months		Nine months	
Periods ended July 31	Notes	**2020**	**2019**	**2020**	**2019**
OPERATING ACTIVITIES					
Net income for the period		$ 25,993	$ 14,661	$ 69,218	$ 46,162
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation		801	570	2,446	1,599
Depreciation of right-of-use assets	4	2,534	-	6,925	-
Interest expense – lease obligations	4	302	-	864	-
Amortization of acquired software and customer relationships	5	11,502	8,453	33,182	22,453
Stock-based compensation expense	8	654	606	2,279	1,723
Provision for income taxes		7,330	4,166	19,781	13,070
Finance expenses and other (income) expenses		(3,822)	75	(4,185)	(345)
		45,294	**28,531**	**130,510**	**84,662**
Changes in non-cash operating working capital	14	17,614	(10,174)	18,150	(10,801)
Income taxes paid		(7,218)	(4,495)	(15,504)	(14,215)
Net cash provided by operating activities		**55,690**	**13,862**	**133,156**	**59,646**
INVESTING ACTIVITIES					
Purchase of property and equipment		(458)	(559)	(1,902)	(1,340)
Acquisitions, net of cash acquired*	11	1,103	(68,667)	(46,561)	(94,233)
Purchase consideration for prior-year acquisitions	11	3,201	-	2,655	(1,105)
Purchase of short-term investments		233	743	(1,569)	(1,110)
Net cash provided by (used in) investing activities		**4,079**	**(68,483)**	**(47,377)**	**(97,788)**
FINANCING ACTIVITIES					
Interest paid on lease obligations	4	(302)	-	(864)	-
Issuance of share capital		7,789	563	13,361	1,348
Repayment of loans		-	-	(62)	(957)
Repayment of lease obligations	4	(2,181)	-	(6,071)	-
Dividends paid		(7,427)	(6,011)	(19,496)	(15,840)
Net cash used in financing activities		**(2,121)**	**(5,448)**	**(13,132)**	**(15,449)**
Effect of currency translation adjustments on cash and cash equivalents		(555)	(3,393)	2,012	(538)
Increase (decrease) in cash and cash equivalents		**57,093**	**(63,462)**	**74,659**	**(54,129)**
Cash and cash equivalents - beginning of period		162,330	196,884	144,764	187,551
Cash and cash equivalents - end of period		**$ 219,423**	**$ 133,422**	**$ 219,423**	**$ 133,422**

** Acquisitions are net of cash acquired of nil and $6,906 for the three and nine months ended July 31, 2020, respectively, and $27,683 and $33,965 for the three and nine months ended July 31, 2019, respectively.*

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

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended July 31, 2020 and 2019

(in thousands of Canadian dollars, except as indicated)

1. Description of the business and reporting entity

Enghouse is a Canadian publicly traded company (TSX:ENGH), which provides enterprise software solutions focusing on remote work, visual computing and communications for next-generation software-defined networks. The Company's two-pronged growth strategy focuses on internal growth and acquisitions. The Company is well capitalized, has nominal long-term debt and is organized around two business segments: the Interactive Management Group ("IMG") and the Asset Management Group ("AMG").

IMG specializes in customer interaction software and services designed to facilitate remote work, enhance customer service, increase efficiency and manage customer communications across enterprise networks. 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. IMG's customers are varied and include insurance companies, telecoms and banks as well as technology, health care and hospitality companies.

AMG provides a portfolio of software and services solutions to a number of verticals such as cable operators, network telecommunication providers, media, transit, defense and public safety companies. Its products include Network infrastructure, Operations Support Systems ("OSS"), Business Support Systems ("BSS"), and revenue generation solutions such as video and cloud TV solutions. AMG also provides fleet routing, dispatch, scheduling, transit e-ticketing and automated fare collection, communications and emergency control center solutions for the transportation, government, first responders, distribution and security sectors.

Enghouse Systems is incorporated and domiciled in Canada. The address of its registered office is 80 Tiverton Court, Suite 800, Markham, Ontario, L3R 0G4. The Company has offices around the world including the United States, the United Kingdom, Sweden, Norway, Denmark, the Netherlands, France, Belgium, Brazil, Germany, Ireland, Australia, New Zealand, Israel, Lebanon, Romania, Italy, Spain, Japan, Colombia, Croatia, Russia, and China.

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

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended October 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These unaudited condensed consolidated interim financial statements were approved by the Audit Committee of the Board of Directors for issue on September 10, 2020.

(b) Basis of preparation and measurement

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed consolidated interim financial statements reflect the accounting policies disclosed in Note 3 of the Company's 2019 audited 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 10, 2020. Any subsequent changes to IFRS that are applied retroactively in the Company's audited annual consolidated financial statements for the year ended October 31, 2019 could result in changes to these unaudited condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended July 31, 2020 and 2019

(in thousands of Canadian dollars, except as indicated)

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

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

COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Heath Organization, requiring an update of the judgments, estimates and assumptions disclosed in the 2019 Annual Financial Statements. The outbreak and efforts to contain the virus may have a significant impact on the Company's business and customers. A prolonged economic slowdown could result in purchase order delays or the inability to collect receivables and it is possible that in the future there will be negative impacts on the Company's operations that could have a material adverse effect on its financial results.

Although the Company has adjusted some of its operating procedures in response to COVID-19, operations have not experienced any significant negative impact to date. The extent to which the pandemic impacts future operations and financial results, and the duration of any such impact, depends on future developments, which are highly uncertain and unknown at this time.

3. Significant accounting policies

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

New standards and interpretations adopted

IFRS 16, *Leases* ("IFRS 16")

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

4. Explanation of adoption of IFRS 16

IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019. The standard replaced previous guidance under IAS 17 and no longer distinguishes between a finance lease and an operating lease for lessees. Instead, for virtually all lease contracts the lessee recognizes lease obligations reflecting future lease payments and a right-of-use asset. Lessor accounting remains somewhat similar as under IAS 17. The Company has applied IFRS 16 for the period commencing November 1, 2019.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Intangible assets and goodwill

	Acquired software $	Capitalized software $	Customer relationships $	Total intangibles $	Goodwill $
At November 1, 2019					
Cost	213,490	3,592	140,659	357,741	203,298
Accumulated amortization	(147,673)	(2,109)	(86,074)	(235,856)	-
Net book value	**65,817**	**1,483**	**54,585**	**121,885**	**203,298**
Period ended July 31, 2020					
Opening net book value	**65,817**	**1,483**	**54,585**	**121,885**	**203,298**
Acquisitions	28,976	-	13,209	42,185	12,243
Amortization	(18,556)	(538)	(14,088)	(33,182)	-
Purchase price adjustments*	-	-	-	-	(2,514)
Exchange difference	2,688	3	2,252	4,943	8,513
Closing net book value	**78,925**	**948**	**55,958**	**135,831**	**221,540**
At July 31, 2020					
Cost	242,466	3,592	153,868	399,926	221,540
Accumulated amortization	(163,541)	(2,644)	(97,910)	(264,095)	-
Net book value	**78,925**	**948**	**55,958**	**135,831**	**221,540**

** During the period, the Company recorded adjustments to goodwill representing the finalization of certain purchase price allocations. These adjustments had no impact on the unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Income or the Condensed Consolidated Interim Statements of Cash Flows during the three and nine months ended July 31, 2020.*

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

	Total
At November 1, 2019	**$ 6,536**
Additional provisions expensed	1,925
Pre-existing provisions assumed from acquisitions	2,396
Reversed	(195)
Utilized during the period	(4,685)
Effect of movements in foreign exchange	162
At July 31, 2020	**$ 6,139**

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

7. Share capital and other components of shareholders' equity

Share capital
The authorized share capital of the Company consists of an unlimited number of common shares with no par value, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 55,284,924 common shares outstanding as at July 31, 2020. There were no Class A and no Class B preference shares issued and outstanding as at either July 31, 2020 or October 31, 2019.

Common share repurchase plan
On April 24, 2020, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 4,188,532 common shares of the Company, expiring on April 29, 2021. The Company did not repurchase any common shares in the first three quarters of either fiscal 2020 or 2019.

Dividends
During the three months ended July 31, 2020, the Company declared dividends of $0.135 per common share compared to $0.11 per common share in the prior period and paid dividends of $0.135 compared to $0.11 during the same period during the prior year.

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 in fiscal 2019 have been restated retroactively to reflect the stock dividend.

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

	Translation of foreign operations $	Unrealized gains/losses $	Total $
At October 31, 2018	6,536	(781)	5,755
Adjustment on transition to IFRS 9	-	781	781
At November 1, 2018	**6,536**	**-**	**6,536**
Cumulative translation adjustment	(1,795)	-	(1,795)
Deferred income tax expense	-	(119)	(119)
At October 31, 2019	**4,741**	**(119)**	**4,622**
At November 1, 2019	4,741	(119)	4,622
Cumulative translation adjustment	15,319	-	15,319
At July 31, 2020	**20,060**	**(119)**	**19,941**

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 3,378,400 (July 31, 2019–3,969,800) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four or five years and expire seven years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

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

A summary of the status of the Company's Plan as at July 31, 2020 and July 31, 2019, and changes during the period ended on those dates, is presented as follows:

Three months ended July 31	Number of options		Weighted average exercise price	
	2020	2019	2020	2019
Outstanding at beginning of period	1,775,000	1,872,900	$ 34.29	$ 29.15
Granted	-	-	-	-
Exercised	(268,000)	(45,500)	29.07	12.38
Outstanding at end of period	**1,507,000**	**1,827,400**	**$ 35.22**	**$ 29.57**
Exercisable at end of period	**306,000**	**638,400**	**$ 27.01**	**$ 22.46**

Nine months ended July 31	Number of options		Weighted average exercise price	
	2020	2019	2020	2019
Outstanding at beginning of period	1,744,500	1,440,900	$ 29.89	$ 25.13
Granted	310,000	500,000	46.10	38.35
Exercised	(547,500)	(113,500)	24.40	11.88
Outstanding at end of period	**1,507,000**	**1,827,400**	**$ 35.22**	**$ 29.57**
Exercisable at end of period	**306,000**	**638,400**	**$ 27.01**	**$ 22.46**

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2, *Share Based Payments*. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The Company recorded a non-cash charge of $0.7 million and $2.3 million for the three and nine months ended July 31, 2020, respectively. compared to $0.6 million and $1.7 million in the same periods in the prior year.

For options granted in the period, the fair value of each stock option on the date of the grant was estimated using the Black-Scholes option pricing model as set out below. Estimated volatility is calculated on a daily basis using historical closing prices, as adjusted for certain events that management deemed to be non-recurring and non-indicative of future events over a period, noted below, which reflects the expected life of the options.

Options Granted	**2020**	**2019**
Risk-free interest rate	1.22%–1.54%	1.79%
Estimated volatility	26%	26%
Dividend yield	$0.44–$0.54	$0.44
Expected life (in years)	5.0–6.3	5.0
Weighted average fair value	$10.66	$8.23
Weighted average share price at grant date	$46.10	$38.35

9. Income taxes

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

For the three months ended July 31, 2020, the Company recorded a tax expense of $7.3 million (22.0% effective tax rate) as compared with a tax expense of $4.2 million (22.1%) in the prior year's third quarter.

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended July 31, 2020 and 2019

(in thousands of Canadian dollars, except as indicated)

10. Earnings per share

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

Periods ended July 31	Three months		Nine months	
	2020	2019	2020	2019
Net income for the period	$ 25,993	$ 14,661	$ 69,218	$ 46,162
Weighted average number of common shares outstanding	55,238	54,679	54,975	54,630
Basic earnings per share	**$ 0.47**	**$ 0.27**	**$ 1.26**	**$ 0.84**

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive common shares. The Company only has stock options as a potential dilutive to common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period) based on the monetary value of the subscription rights attached to the stock options. The number of shares calculated above is compared to the number of shares that would have been issued assuming the exercise of the stock options.

Periods ended July 31	Three months		Nine months	
	2020	2019	2020	2019
Net income for the period	$ 25,993	$ 14,661	$ 69,218	$ 46,162
Weighted average number of common shares outstanding	55,238	54,679	54,975	54,630
Adjustment for stock options	713	319	521	324
Weighted average number of common shares outstanding for diluted EPS	55,951	54,998	55,496	54,954
Diluted earnings per share	**$ 0.46**	**$ 0.27**	**$ 1.25**	**$ 0.84**

11. Acquisitions

Acquisitions have been recorded under the acquisition method of accounting and results have been included in the unaudited condensed consolidated interim financial statements from their respective acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill.

2020 acquisitions

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

The acquisition was completed for an aggregate purchase price of $53.5 million, with U.S. $3.2 million remaining in escrow that is subject to adjustment. Results for Dialogic are included in both IMG and AMG from the date of acquisition. In April 2020 the Company received U.S. $2.4 million related to consideration originally paid to the sellers that was contingent on achieving certain targets in respect of maintenance renewals. This contingent refund was recorded at its fair value as at the acquisition date based on known information, as well as historical trends, for contract renewals. The U.S. $2.4 million received has been used to settle the contingent refund asset. The difference between the fair value as at the acquisition date and the amount received of U.S. $2.4 million has been recognized through other income as a post-acquisition change in management's estimate of the fair value of the contingent refund asset.

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

2019 acquisitions

Asset Management Group
The Company completed three acquisitions in fiscal 2019, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of $86.3 million, with $2.3 million held in escrow that is subject to adjustment. During the first three quarters of fiscal 2020, $0.5 million was paid to the sellers in respect of hold-backs.

Interactive Management Group
The Company completed three acquisitions in fiscal 2019, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of $55.3 million, with $2.6 million subject to hold-back and adjustment, which is not held in escrow. During the first three quarters of fiscal 2020 $0.6 million, previously held in escrow, was received by the Company.

Purchase price allocations

	Dialogic Preliminary 2020	AMG Final 2019	IMG Preliminary 2019
Cash and cash equivalents	$ 6,906	$ 31,951	$ 4,757
Short-term investments	-	-	219
Accounts receivable	17,752	7,689	13,166
Prepaid expenses and other assets	3,316	4,720	3,846
Property and equipment	610	1,295	302
Deferred income tax assets	-	2,509	5,680
Acquired software	28,976	26,362	31,735
Customer relationships	13,209	12,296	24,387
Right-of-use assets	7,781	-	-
Goodwill	12,243	21,493	25,458
Total assets acquired	**$ 90,793**	**$ 108,315**	**$ 109,550**
Current liabilities assumed	$ 31,227	$ 15,437	$ 44,381
Non-current lease obligations	6,097	-	-
Deferred income tax liabilities	2	6,591	9,840
Total liabilities assumed	**$ 37,326**	**$ 22,028**	**$ 54,221**
Net assets acquired for consideration	**$ 53,467**	**$ 86,287**	**$ 55,329**

12. Segment information

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

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

Notes to Condensed Consolidated Interim Financial Statements

For the nine months ended July 31, 2020 and 2019

(in thousands of Canadian dollars, except as indicated)

Three months ended July 31, 2020	IMG	AMG	Total
Revenue	$ 75,151	$ 56,173	$ 131,324
Direct costs	(18,152)	(21,588)	(39,740)
Revenue, net of direct costs	**56,999**	**34,585**	**91,584**
Operating expenses excluding special charges	(22,871)	(12,735)	(35,606)
Depreciation of property and equipment	(646)	(155)	(801)
Depreciation of right-of-use assets	(1,447)	(1,087)	(2,534)
Segment profit	**$ 32,035**	**$ 20,608**	**$ 52,643**
Special charges			(35)
Corporate and shared service expenses			(10,410)
Results from operating activities			**$ 42,198**

Three months ended July 31, 2019	IMG	AMG	Total
Revenue	$ 56,869	$ 44,405	$ 101,274
Direct costs	(14,838)	(16,911)	(31,749)
Revenue, net of direct costs	**42,031**	**27,494**	**69,525**
Operating expenses excluding special charges	(20,163)	(12,506)	(32,669)
Depreciation of property and equipment	(404)	(166)	(570)
Segment profit	**$ 21,464**	**$ 14,822**	**$ 36,286**
Special charges			(470)
Corporate and shared service expenses			(8,799)
Results from operating activities			**$ 27,017**

Nine months ended July 31, 2020	IMG	AMG	Total
Revenue	$ 227,949	$ 154,931	$ 382,880
Direct costs	(54,240)	(57,676)	(111,916)
Revenue, net of direct costs	**173,709**	**97,255**	**270,964**
Operating expenses excluding special charges	(69,722)	(40,815)	(110,537)
Depreciation of property and equipment	(1,619)	(827)	(2,446)
Depreciation of right-of-use assets	(3,891)	(3,034)	(6,925)
Segment profit	**$ 98,477**	**$ 52,579**	**$ 151,056**
Special charges			(1,490)
Corporate and shared service expenses			(30,249)
Results from operating activities			**$ 119,317**

Nine months ended July 31, 2019	IMG	AMG	Total
Revenue	$ 144,863	$ 131,659	$ 276,522
Direct costs	(37,877)	(48,544)	(86,421)
Revenue, net of direct costs	**106,986**	**83,115**	**190,101**
Operating expenses excluding special charges	(51,642)	(34,363)	(86,005)
Depreciation of property and equipment	(1,184)	(415)	(1,599)
Segment profit	**$ 54,160**	**$ 48,337**	**$ 102,497**
Special charges			(526)
Corporate and shared service expenses			(22,538)
Results from operating activities			**$ 79,433**

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

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

invalidity. Even though the Company attempts to resolve these matters without litigation, it is always possible that the owner of a patent or copyrighted work will sue the Company.

In response to correspondence from and, in a few instances, litigation instigated by, third-party patent holders, a few of the Company's customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. With respect to this litigation, and any other litigation the Company becomes involved with, under a contractual indemnity or any other legal theory, the Company has and will continue to consider all its options for resolution and vigorously assert all appropriate defenses. There are no material claims outstanding against the Company at July 31, 2020.

14. Changes in non-cash operating working capital

For the periods ended July 31	Three months 2020	Three months 2019	Nine months 2020	Nine months 2019
Decrease (increase) in accounts receivable	$ 27,261	$ (560)	$ 10,703	$ (2,973)
Decrease in prepaid expenses and other assets	4,435	1,794	935	5,174
Increase (decrease) in accounts payable and accrued liabilities	715	(3,104)	(6,016)	(12,088)
Decrease in provisions	(599)	(2,529)	(473)	(2,737)
Decrease in income taxes payable	(859)	(1,488)	(383)	(1,208)
(Decrease) increase in deferred revenue	(13,339)	(4,287)	13,384	3,031
	$ 17,614	**$ (10,174)**	**$ 18,150**	**$ (10,801)**