

Annual Report  
**2018**

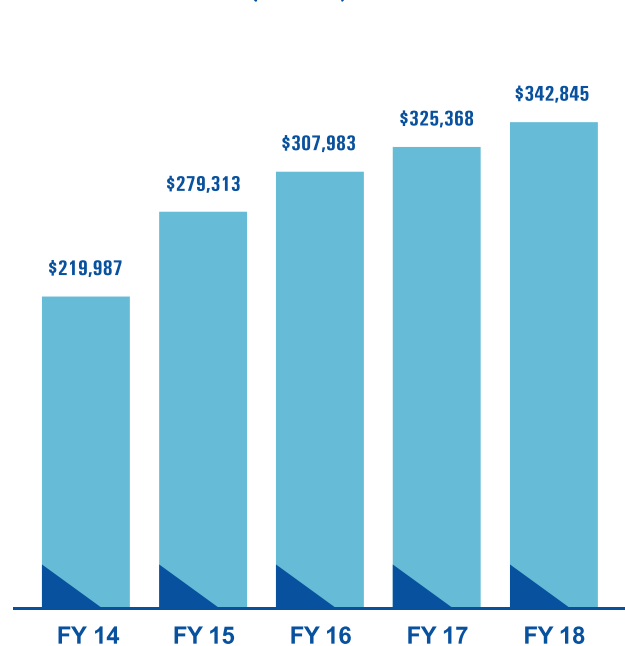


**Enghouse Systems**

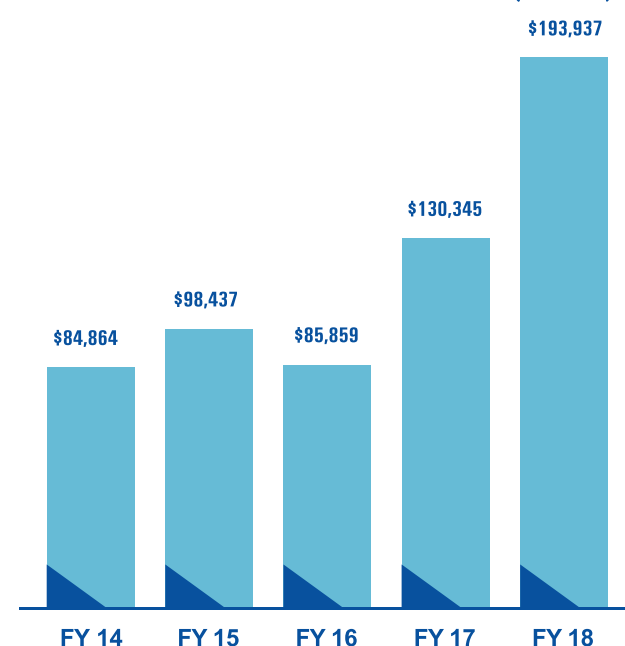
Software engineered for results

“As always, we remain committed to running a sound, principled business, scaling operating costs to the prevailing revenue to consistently generate cash from operating activities to fund our acquisition strategy.”

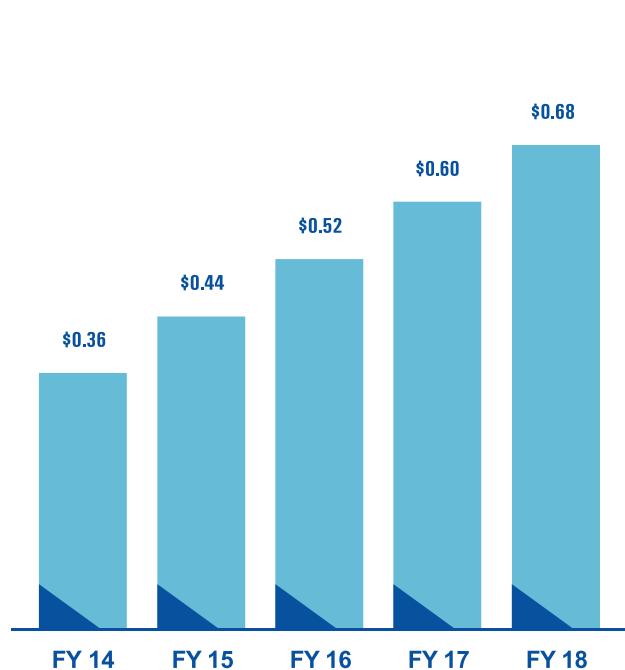
TOTAL REVENUE (in \$000)



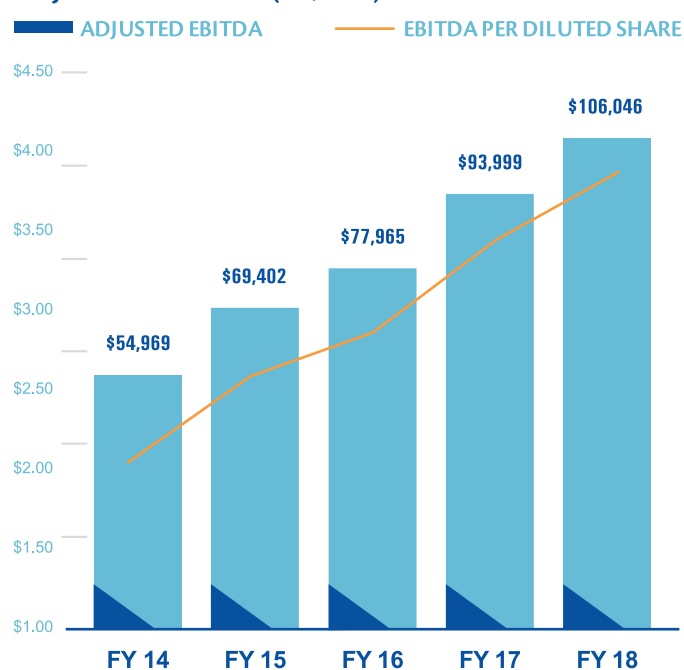
CASH & SHORT-TERM INVESTMENTS (in \$000)



DIVIDEND PER SHARE



ADJUSTED EBITDA (in \$000s)



## Chairman's Message

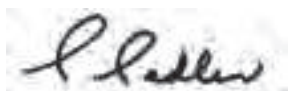
Fiscal 2018 saw Enghouse realize the benefits of the Company's investment in the global revamp and upgrade of its internal financial and reporting systems to enhance visibility into operating results. The improved transparency and shortening of internal reporting cycles sharpened management's focus on operating metrics, collections and the conversion of revenue to cash. This will also speed up the on-boarding and integration of acquisitions enabling more timely execution of activities to meet the deal drivers. As a result, the Company improved its operating cash flow by 18% to \$98.3 million, and its cash balances by 49% to almost \$194 million. Similarly, the Company reported record revenue of \$342.8 million, while results from operating activities have improved by 14% to \$103.2 million.

Concurrently, the Company continues to invest in its operations to grow the business both organically and by acquisition. In January 2018, we appointed a President to focus on improving the Company's go to market strategy and operations. New initiatives are underway to improve demand generation, channel and direct sales execution as well as the Company's SaaS strategy. Enghouse continues to invest in its products, directing its R&D efforts towards the development of Artificial Intelligence capabilities and ensuring its products can be deployed both on-premise and in the cloud to address competition in the growing SaaS market.

On the acquisition side, while fiscal 2018 was disappointing in terms of capital deployed, the Company is off to a good start in the new year, completing two acquisitions in its Asset Management Group shortly after year end, spending approximately \$29 million. Additional resources were added to the acquisition team and Enghouse remains committed to its disciplined acquisition payback criteria whilst exploring a growing number of opportunities. Management is of the view that the equity market and geopolitical conditions create more buying opportunities as sellers' expectations, market volatility and rising interest rates may all combine to favorably tilt the acquisition landscape. The Company remains patient, with a robust pipeline, including revisiting acquisition targets that were previously over-priced as new market realities unfold. We believe we are well-positioned given our strong cash resources and experienced, growing acquisition team.

The slower acquisition pace, which typically weighs down operating margins during on-boarding, and enhanced operating efficiencies contributed to improved operating margins in the fiscal year. As a result, the Company improved its adjusted EBITDA over last year by 12.8% to \$106 million or 30.9% of revenue.

The Company remains committed to applying its value for money approach to every aspect of its business while maintaining its focus on sustainable cash generation to ensure sufficient operating cash flow to execute its acquisition strategy. We believe that this approach will continue to enhance shareholder value over time and appreciate the trust and faith our shareholders have placed in management. We would like to take this opportunity to thank our shareholders, customers and employees alike for their continued support.



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 December 13, 2018 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 results of operations, financial condition and cash flows of Enghouse Systems and its subsidiaries, all wholly owned, for the year ended October 31, 2018. 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 consolidated 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, 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 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](http://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 designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. Core technologies include contact center, attendant console, interactive voice response, dialers, agent performance optimization and analytics that support any telephony environment, and may be deployed on-premise or in the cloud. Its customers are varied and include insurance companies, banks and utilities as well as technology, health care and hospitality companies. The Asset Management Group provides a portfolio of products to telecom service providers, utilities and the oil and gas industry. Its products include Operations Support Systems (OSS), Business Support Systems (BSS), Mobile Value-Added Services (VAS) solutions as well as data conversion services. The Asset Management Group also provides fleet routing, dispatch, scheduling, communications and emergency control center solutions for the transportation, government, first responders, distribution and security sectors.

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

Enghouse completed three acquisitions in fiscal 2018. On November 28, 2017, the Company acquired XConnect GmbH based out of Duren, Germany. XConnect provides carrier change process and number portability services to telecommunication providers in Germany. On December 19, 2017 the Company acquired Denmark-based Simatech A/S, which provides products and solutions for the law enforcement, fire and rescue, control room and utilities sectors. Finally, on April 5, 2018, Enghouse acquired Mobilethink A/S, headquartered in Aarhus, Denmark. Mobilethink is a software business specializing in device management solutions with leading brands in the mobile B2B sector. The acquisitions were share purchases for an aggregate purchase price of approximately \$11.6 million, with the Company acquiring 100% of the issued and outstanding shares of each acquiree. Results are reflected in the results of the Asset Management Division following each acquisition.

Shortly after year end, Enghouse completed two further acquisitions, acquiring 100% of the issued and outstanding shares of Telexis Solutions B.V. and Telexis B.V. on November 8, 2018, and Capana Sweden AB on November 9, 2018. Telexis offers public transport agencies and operators with end-to-end e-ticketing solutions, while Capana offers an integrated software platform for wholesale billing and partner settlements to communications service providers. The acquisitions deployed approximately \$29.0 million of the Company's cash, and are subject to hold-back and adjustment, with results to be reflected in the Asset Management Group in fiscal 2019.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 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 October 31, 2018). 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 \$
January 31, 2018	85,075	6,813*	0.25	0.25	144,967	471,684
April 30, 2018	85,205	15,318	0.57	0.56	155,319	487,970
July 31, 2018	86,743	16,062	0.59	0.58	178,439	491,269
October 31, 2018	85,822	19,552	0.71	0.71	193,937	495,200
<b>Year ended Oct. 31, 2018</b>	<b>342,845</b>	<b>57,745*</b>	<b>2.13</b>	<b>2.11</b>	<b>193,937</b>	<b>495,200</b>
January 31, 2017	78,840	11,733	0.44	0.43	88,253	416,829
April 30, 2017	79,543	9,027	0.34	0.33	87,571	454,090
July 31, 2017	82,756	11,182	0.41	0.41	103,800	441,125
October 31, 2017	84,229	18,900^	0.70	0.69	130,345	461,837
<b>Year ended Oct. 31, 2017</b>	<b>325,368</b>	<b>50,842^</b>	<b>1.89</b>	<b>1.87</b>	<b>130,345</b>	<b>461,837</b>
<b>Year ended Oct. 31, 2016</b>	<b>307,983</b>	<b>47,276</b>	<b>1.76</b>	<b>1.74</b>	<b>85,859</b>	<b>419,195</b>

\* Includes one-time adjustments 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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Annual results of operations

(in thousands of Canadian Dollars except per share amounts)

	2018	2017	Year over year change	
			\$	%
Interactive Management Group	\$ 189,286	\$ 190,668	(1,382)	(0.7)
Asset Management Group	153,559	134,700	18,859	14.0
<b>Total revenue</b>	<b>342,845</b>	<b>325,368</b>	<b>17,477</b>	<b>5.4</b>
Direct costs	103,422	100,347	3,075	3.1
Revenue, net of direct costs	239,423	225,021	14,402	6.4
	69.8%	69.2%		
Operating expenses	135,788	133,459	2,329	1.7
Special charges	390	984	(594)	(60.4)
<b>Results from operating activities</b>	<b>103,245</b>	<b>90,578</b>	<b>12,667</b>	<b>14.0</b>
	30.1%	27.8%		
Amortization of acquired software and customer relationships	(28,149)	(29,405)	1,256	4.3
Foreign exchange gains (losses)	599	(3,205)	3,804	118.7
Finance income	476	252	224	88.9
Finance expense	(213)	(185)	(28)	(15.1)
Other income	2,076	3,186	(1,110)	(34.8)
<b>Income before income taxes</b>	<b>78,034</b>	<b>61,221</b>	<b>16,813</b>	<b>27.5</b>
Provision for income taxes	20,289	10,379	9,910	95.5
<b>Net income</b>	<b>\$ 57,745</b>	<b>\$ 50,842</b>	<b>6,903</b>	<b>13.6</b>
Earnings per share – basic	\$ 2.13	\$ 1.89	0.24	12.7
Earnings per share – diluted	\$ 2.11	\$ 1.87	0.24	12.8
Cash flows from operating activities	\$ 98,255	\$ 83,242	15,013	18.0
Cash flows from operating activities excluding changes in working capital	\$ 108,276	\$ 91,210	17,066	18.7

## General

Enghouse revenue for the year ended October 31, 2018 was \$342.8 million compared to \$325.4 million in the prior year ended October 31, 2017. Results from operating activities were \$103.2 million compared to \$90.6 million last year, an increase of 14.0%, while net income was \$57.7 million compared to net income of \$50.8 million in the prior year. The increase in revenue in the fiscal year is largely attributable to contributions from acquired operations and reflects the positive impact of foreign exchange year over year estimated at \$4.0 million, primarily related to the strengthening of the Pound Sterling and Euro in fiscal 2018.

The Company remains committed to acquisitions and completed three acquisitions during the fiscal year. Enghouse expanded the revenue base of the Asset Management Group with the acquisitions of XConnect GmbH, Simatech A/S and Mobilethink A/S. These acquisitions broaden the portfolio of

product offerings in the Asset management group and extend the Company's reach in the German and Danish markets. Enghouse continues to believe its acquisition growth strategy will further diversify its product suite, adding breadth to its product portfolio and allow the Company to expand its geographic reach into new markets to cross-sell its solutions. The Company continues to believe it has a broad product offering and an equally diverse geographic profile that includes significant operations around the world outside of North America and the UK, in Europe, Scandinavia, Latin America and the Asia-Pacific regions.

### Revenue

Revenue for the year increased by 5.4% to \$342.8 million from \$325.4 million reported in the prior year and is comprised of software licenses, hosted and maintenance services, professional services and hardware revenue.

On a consolidated basis, software license revenue increased to \$100.4 million for the year compared to \$97.2 million reported in the prior fiscal year as a result of contributions from acquisitions and increased term-based license sales.

Overall, \$234.6 million or 68.4% of all revenue was derived from services, compared to \$221.8 million (68.2%) in fiscal 2017. The services revenue includes revenue from consulting, training, maintenance and hosted services.

Maintenance revenue continues to be a critical element of the Company's revenue stream and contributed \$147.9 million or 43.1% of total revenue in the fiscal year, compared to \$141.5 million or 43.5% in fiscal 2017. The increase in maintenance revenue over the prior year is attributable to a combination of incremental maintenance on new license sales, price increases and the positive impact of acquisitions. This was enhanced by the positive impact of foreign exchange compared to fiscal 2017. Combined with the hosted services revenue stream, this represents an important strategic source of revenue to the Company, given its generally predictable and recurring nature.

Hardware revenue was \$7.8 million in the year, compared to \$6.4 million in the prior year, with the increase being attributable to increased hardware revenue contributions from Tollgrade in its first full year since acquisition in April 2017. Hardware is sold to customers as an added service to complement the Company's software offering and is generally not a core product offering other than in the Locus and Tollgrade businesses.

Revenue for the Interactive Management Group was \$189.3 million in the fiscal year, down marginally from the \$190.7 million included in the prior fiscal year. Revenue includes hosted and maintenance service revenue, which increased marginally to \$104.6 million from \$103.9 million in fiscal 2017. Software license revenue in the group was \$58.9 million compared to \$62.4 million in the prior fiscal year. License revenue continues to be challenged by an increasing proportion of licenses sold on either a term or subscription basis rather than through traditional on-premise perpetual sales. Hardware revenue added \$0.8 million in the year, down from \$1.3 million reported in fiscal 2017 and reflects hardware sold on an opportunistic basis.

Asset Management Group revenue increased 14.0% to \$153.6 million from \$134.7 million in the prior year thanks to incremental revenue contributions from the Group's CDRator, Locus and Transit operations, contributions from new acquisitions as well as the full year's contributions from Tollgrade. License revenue for the group was \$41.5 million, up from \$34.9 million in the prior fiscal year, while hosted and maintenance revenue for the group increased 16.7% to \$72.1 million from \$61.8 million last year. The increase reflects incremental contributions from organic growth as well as contributions from acquisitions and the full year's contribution from Tollgrade.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue for the Company was positively impacted by an estimated \$4.0 million due to foreign exchange in the fiscal year as the Canadian Dollar weakened compared to a number of foreign currencies in which it transacts. In particular, the dollar weakened against both the Euro and Pound Sterling while moderately strengthening against the U.S. Dollar and Swedish Kronor, which had a positive impact on revenue compared to the prior year.

### Direct costs

Direct costs were \$103.4 million or 30.2% of revenue compared to \$100.3 million or 30.8% of revenue in the prior fiscal year. The relative reduction in direct costs reflects improved margins on all product lines, but particularly on services. Direct costs for the Interactive Management Group were \$49.1 million or 25.9% of revenue compared to \$50.3 million or 26.4% of revenue in the prior fiscal year. The improvement in margins in the Interactive Management Group was attributable to better margins on incremental services revenue, as margins have improved from 63.8% to 65.6% on lower headcount related costs.

Direct costs for the Asset Management Group were \$54.3 million or 35.4% of revenue compared to \$50.0 million or 37.1% of revenue in the prior fiscal year. The Asset Management Group earns a larger share of its revenue from hardware sales after the acquisition of Tollgrade in fiscal 2017 and has relatively higher service costs related to more complex service engagements, resulting in overall lower margins compared to the Interactive Management Group. However, margins were higher than last year on services at 55.0% (2017 54.0%) and reflect improved margins on incremental support revenues from acquisitions. Margins were also higher on hardware at 39.8% (2017 38.4%) due to increased sales of higher margin proprietary hardware relating to the Tollgrade business. Software license margins also improved over last year due to better margins on third party software. Direct costs for services include costs for both hosted and maintenance services and professional services.

### Revenue, net of direct costs

Revenue, net of direct costs increased by \$14.4 million to \$239.4 million or 69.8% of revenue compared to \$225.0 million or 69.2% in the prior fiscal year. The increase in revenue, net of direct costs, is primarily attributable to incremental software license sales and hosted and maintenance services and improved margins.

### Operating expenses

The Company's operating expenses were \$136.2 million in the fiscal year compared to \$134.4 million in the prior fiscal year, a nominal increase, as headcount savings offset incremental operating costs related to acquisitions. This includes special charges for acquisition-related restructuring expenses of \$0.4 million in the year incurred on the XConnect, Simatech and Mobilethink acquisitions compared to \$1.0 million in the prior year. Excluding special charges, operating expenses were 39.6% of revenue in the fiscal year compared to 41.0% in fiscal 2017, which reflects administrative cost synergies and operating cost efficiencies related to lower acquisition volume in the fiscal year. The Company continues to scale its operating costs to its revenue to maintain operating margins with reductions in headcount undertaken during the fiscal year. This was offset by increased operating costs related to the XConnect, Simatech and Mobilethink acquisitions, as well as the full year operating costs of acquisitions completed in fiscal 2017. Operating expenses include \$47.2 million, or 13.8% of revenue, in research and development related expenses compared to \$44.6 million (13.7%) in fiscal 2017 as the Company continues to invest in product development for future growth. Research and development expenses are net of government grants and investment tax credits earned in the year in Norway, New Zealand and the U.K. valued at \$0.4 million compared to \$1.3 million recorded in fiscal 2017 as the Company's New Zealand grant program came to an end in fiscal 2018.



Operating expenses also include non-cash charges for compensation expenses related to stock options granted, which added \$1.5 million in the current year compared to \$1.1 million in the prior fiscal year (see Note 10 to the consolidated financial statements).

On a consolidated basis, the Company had 1,446 employees as at October 31, 2018 compared to 1,504 at the prior year end, which includes additional headcount from acquisitions, net of attrition, and reflects headcount reductions undertaken in the fiscal year.

### Foreign exchange

The Company earns the majority of its revenue from sales denominated in currencies other than the Canadian Dollar. As a result of acquisitions, the Company transacts a significant proportion of its business in U.S. Dollars, Pounds Sterling, Euros, Swedish, Norwegian and Danish Kronor, as well as currencies in the Asia Pacific region. This affects both operating segments as each segment has significant operations in the U.S., Nordics, U.K. and Europe.

Compared to the prior fiscal year, the Canadian Dollar weakened, on average, against most major currencies including the Pound Sterling, Euro and the Norwegian and Danish Kronor, while strengthening marginally against the U.S., New Zealand and Australian Dollars as well as the Swedish Kronor. The largest movement in the year was against the Pound Sterling, which rebounded in the fiscal year after weakening following the Brexit vote in June 2016. Overall, this positively impacted revenue by an estimated \$4.0 million in the year, while costs increased by an estimated \$2.5 million, as calculated by applying the change in the average exchange rates from 2017 to 2018 to the Company's foreign currency denominated revenue and operating expenses in fiscal 2018.

The Company does not hedge foreign currency exposure but funds operational expenses with revenue earned in that country for most of its major operations, including the U.S., U.K., Europe, the Nordics, Australia and New Zealand. Going forward, fluctuations in exchange rates among the Canadian Dollar, the U.S. Dollar, the Pound Sterling, the Swedish Krona, the 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 affect the relative cost of foreign currency denominated acquisitions stated in Canadian Dollars.

The Company recorded foreign exchange gains of \$0.6 million related to foreign currency denominated monetary assets and liabilities in the current year compared to losses of \$3.2 million in the prior year. The gain in the year was recorded primarily because of the impact of the strengthening of the U.S. Dollar against other world currencies on U.S. Dollar denominated monetary assets and liabilities on functional currency books not denominated in U.S. Dollars. The Company records foreign exchange gains and losses below the Results from operating activities in the Consolidated Statements of Operations and Comprehensive Income. Translation gains or losses incurred upon consolidation of the Company's foreign operations' Statements of Financial Position into Canadian Dollars are included in the Company's Accumulated other comprehensive income (loss) account on the Consolidated Statements of Financial Position.

### Amortization of software and customer relationships

The Company reported charges of \$28.1 million compared to \$29.4 million in the prior fiscal year related to the amortization of software and customer relationships recorded on acquisition, a decrease of 4.3%. This includes incremental charges related to current year's acquisitions as well as the full year amortization on fiscal 2017 acquisitions, which added \$2.7 million incrementally in the fiscal year.

## Finance income and other income

Finance income was \$0.5 million for the year, an increase from \$0.3 million over the prior year as a result of higher average net invested cash balances and better yields compared to fiscal 2017. Other income reported was \$2.1 million compared to \$3.2 million in the prior fiscal year, which includes gains on the sale of equities held for investment and the final gain booked on settlement of the contingent consideration payable as part of the Presence acquisition. Last year's results included the sale of the Company's investment in Vivocha S.p.A., originally recorded as part of the Reitek S.p.A. acquisition, which resulted in a gain of \$2.2 million. Last year's other income also included a gain of \$1.0 million booked on the revaluation of the contingent consideration payable as part of the Presence acquisition.

## Income tax expense

During the year, the Company recorded an income tax provision of \$20.3 million reflecting a 26.0% effective tax rate compared to \$10.4 million or 17.0%, in the prior fiscal year. The increase in the provision relates to recording a one-time repatriation tax charge of U.S. \$6.2 million in fiscal 2018 related to The United States Tax Cuts and Jobs Act ("U.S. Tax Reform"). Excluding the impact of the repatriation tax charge, the tax provision would have been approximately \$12.3 million or a 15.7% effective tax rate. The current year's tax provision also includes a credit of \$2.4 million booked for the recognition of deferred tax assets related primarily to non-capital losses for tax purposes, compared to a credit of \$2.6 million recorded in fiscal 2017 for the same reason.

U.S. Tax Reform was enacted on December 22, 2017 and included a number of significant one-time charges that adversely impacted the Company's tax provision booked in the fiscal year. 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 a one-time repatriation tax charge that was recorded in fiscal 2018. The repatriation tax is payable over eight years at a rate of 8% for each of the first five years commencing in January 2019 and increasing thereafter on a graduated basis. The first payment of U.S. \$0.5 million is due January 15, 2019, with the remaining U.S. \$5.7 million balance being recorded as a long-term income tax payable on the Consolidated Statements of Financial Position at October 31, 2018. The Company paid tax installments of \$16.3 million in the fiscal year compared to \$12.7 million in fiscal 2017.

## Net income

Enghouse reported net income of \$57.7 million in fiscal 2018 compared to \$50.8 million reported in fiscal 2017. The increase in profitability reflects improved revenue, operating cost synergies and contributions from acquisitions during the fiscal year. Earnings per share on a diluted basis were \$2.11 versus \$1.87 in fiscal 2017.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Fourth quarter operating results

(in thousands of Canadian Dollars except per share amounts)

	Q4/2018	Q4/2017	Year over year change	
			\$	%
Interactive Management Group	\$ 45,788	\$ 49,230	(3,442)	(7.0)
Asset Management Group	40,034	34,999	5,035	14.4
<b>Total revenue</b>	<b>85,822</b>	<b>84,229</b>	<b>1,593</b>	<b>1.9</b>
Direct costs	24,893	25,323	(430)	(1.7)
<b>Revenue, net of direct costs</b>	<b>60,929</b>	<b>58,906</b>	<b>2,023</b>	<b>3.4</b>
	71.0%	69.9%		
Operating expenses	33,528	34,555	(1,027)	(3.0)
Special charges	57	370	(313)	(84.6)
<b>Results from operating activities</b>	<b>27,344</b>	<b>23,981</b>	<b>3,363</b>	<b>14.0</b>
	31.9%	28.5%		
Amortization of acquired software and customer receivables	(6,386)	(7,040)	654	9.3
Foreign exchange gain (loss)	1,064	(178)	1,242	697.8
Finance income	198	121	77	63.6
Finance expense	(79)	(48)	(31)	(64.6)
Other income	136	3,085	(2,949)	(95.6)
<b>Income before income taxes</b>	<b>22,277</b>	<b>19,921</b>	<b>2,356</b>	<b>11.8</b>
Provision for income taxes	2,725	1,021	1,704	166.9
<b>Net income</b>	<b>\$ 19,552</b>	<b>\$ 18,900</b>	<b>652</b>	<b>3.4</b>
Earnings per share – basic	\$ 0.71	\$ 0.70	0.01	1.4
Earnings per share – diluted	\$ 0.71	\$ 0.69	0.02	2.9
Cash flows from operating activities	\$ 24,034	\$ 29,098	(5,064)	(17.4)
Cash flows from operating activities excluding working capital items	\$ 29,522	\$ 24,872	4,650	18.7

The table below reconciles Adjusted EBITDA to Results from operating activities:

	Three months ended		Year ended	
	October 31, 2018	October 31, 2017	October 31, 2018	October 31, 2018
<b>Total revenue</b>	<b>\$ 85,822</b>	<b>\$ 84,229</b>	<b>\$ 342,845</b>	<b>\$ 325,368</b>
<b>Results from operating activities</b>	<b>\$ 27,344</b>	<b>\$ 23,981</b>	<b>\$ 103,245</b>	<b>\$ 90,578</b>
Depreciation of property, plant and equipment	542	609	2,411	2,437
Special charges	57	370	390	984
<b>Adjusted EBITDA</b>	<b>\$ 27,943</b>	<b>\$ 24,960</b>	<b>\$ 106,046</b>	<b>\$ 93,999</b>
<b>Adjusted EBITDA margin</b>	<b>32.6%</b>	<b>29.6%</b>	<b>30.9%</b>	<b>28.9%</b>
<b>Adjusted EBITDA per diluted share</b>	<b>\$ 1.02</b>	<b>\$ 0.92</b>	<b>\$ 3.88</b>	<b>\$ 3.45</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Total revenue for the quarter was \$85.8 million, an increase of 1.9% from \$84.2 million reported in the prior year's fourth quarter and includes license revenue of \$23.7 million in the quarter compared to \$24.7 million in the prior year's fourth quarter. The increase in revenue is attributable to contributions from acquisitions including XConnect, Simatech and Mobilethink as well as stronger revenue in the Company's Locus, Transit and UK sales and services operations. This augments the positive impact of foreign exchange on revenue in the current quarter compared to prior year estimated at \$1.1 million as calculated by applying the change in the average exchange rates from Q4/2017 to Q4/2018 to the Company's foreign currency denominated revenue in the current year's fourth quarter. Hosted and maintenance services revenue was \$45.1 million in the quarter compared to \$43.3 million in the prior year and includes incremental hosted and maintenance services revenue contributions from acquisitions.

The Interactive Management Group reported revenue of \$45.8 million compared to \$49.2 million in the fourth quarter of fiscal 2017, which includes license revenue of \$13.3 million in the quarter compared to \$17.2 million last year. The decrease over last year's fourth quarter revenue is primarily attributable to weaker license sales in the Company's CCSP Sales, Northern Europe and Americas groups. Hosted and maintenance revenue was \$26.0 million in the quarter, comparable to the \$26.0 million reported last year.

The Asset Management Group contributed \$40.0 million in revenue in the fourth quarter, compared to \$35.0 million reported in the fourth quarter of fiscal 2017, an increase of 14.4%, on the strength of incremental revenue contributions in the quarter from acquisitions as well as incremental Networks license sales and stronger professional services revenue in the Locus and Transit operations.

Direct costs for the quarter were \$24.9 million or 29.0% of revenue compared to \$25.3 million or 30.1% of revenue in the prior year's fourth quarter. The improvement reflects better hardware and professional services margins.

Operating expenses for the quarter were \$33.6 million, a 3.8% decrease from the \$34.9 million reported in the fourth quarter of last year as a result of reduced operating costs. Operating expenses decreased despite incremental operating costs associated with acquired operations, which were not included in the prior year's fourth quarter results. Operating costs also include nominal special charges for restructuring incurred in the fourth quarter related to acquisitions completed earlier in the fiscal year.

The Company reported \$1.1 million in foreign exchange gains in the quarter, related to the translation of monetary assets and liabilities, compared to losses of \$0.2 million recorded in the prior year's fourth quarter. Foreign exchange gains and losses are included below the results from operating activities in the consolidated statements of operations. The Canadian Dollar averaged \$1.30 versus the U.S. Dollar in the current year's fourth quarter compared to \$1.25 in the prior years' fourth quarter and \$1.69 for the Pound Sterling compared to \$1.64 last year. The Euro averaged \$1.51 in the fourth quarter, up from \$1.48 last year, while the Swedish Krona strengthened against the Canadian dollar by 6.5% to \$0.145. Overall, this increased operating costs by \$0.6 million in the quarter. Government grants of \$0.1 million earned in Norway and New Zealand were recorded in the quarter and were offset against research and development costs.

The Company recorded non-cash amortization charges in the quarter of \$6.4 million compared to \$7.0 million in the prior year's fourth quarter related to the amortization of software and customer relationships. The decrease relates to expiry of amortization recorded on prior year acquisitions more than offsetting incremental amortization on acquisitions including the full year impact of prior year acquisitions.



During the fourth quarter, the Company recognized finance and other income of \$0.3 million compared to \$3.4 million reported in the fourth quarter last year. Last year's operating income reflected the \$2.2 million gain on sale of the Company's investment in Vivocha S.p.A. (originally reported as part of the Reitek S.p.A. acquisition) and the gain of \$1.0 million booked on the revaluation of the contingent consideration payable on the Presence acquisition.

The Company booked a tax provision of \$2.7 million in the fourth quarter, compared to a tax provision of \$1.0 million in the prior year's fourth quarter. In both year's fourth quarters the Company booked adjustments to its tax provision to reflect the recognition of deferred tax assets related to non-capital losses, with \$2.4 million booked in Q4/2018 compared to \$2.6 million in Q4/2017. The Company made tax instalment payments of \$5.2 million in the current year's fourth quarter compared to \$2.8 million in the prior year's fourth quarter.

The Company reported net income of \$19.6 million or \$0.71 per diluted share compared to net income of \$18.9 million or \$0.69 per diluted share in the fourth quarter of fiscal 2017.

The Company generated cash flows from operating activities of \$24.0 million compared to \$29.1 million in the prior year's fourth quarter and closed the year with \$193.9 million in cash and short-term investments, because of improved collections of receivables and reduced acquisition activity in the fiscal year.

### Liquidity and capital resources:

In fiscal 2018 Enghouse began to realize the benefits of investments made in the prior year to update its accounting and reporting systems. The improved visibility and reporting sharpened our focus on collections and improved conversion of revenue to cash, reducing our overall receivable balances and improving working capital. As a result, the Company closed the year with cash and short-term investments of \$193.9 million, compared to a balance of \$130.3 million at October 31, 2017. This is after the payment of approximately \$16.8 million related to acquisitions and \$18.4 million for dividends in the fiscal year. The Company has no external debt other than pre-existing debt assumed on acquisition, the amounts being related to loans with government agencies in Spain, which are partially secured with long-term deposits.

The Company generated cash flows from operating activities of \$98.3 million in the fiscal year compared to \$83.2 million in fiscal 2017, an increase of 18.0%, as a result of improved cash collections and stronger operating profits. Excluding changes in non-cash working capital items, cash flows from operating activities for the year were \$108.3 million compared to \$91.2 million in the prior year, an increase of 18.7%.

The Company had working capital of \$146.5 million at October 31, 2018 compared to \$84.7 million at the end of fiscal 2017, with the increase being attributable to stronger cash balances. Based on the Company's current plans and projections, management is confident that the Company has the funds necessary to meet its existing and future financial operating commitments as well as its dividend strategy. Future acquisition growth may be funded through a combination of cash, debt and equity consideration, which could cause dilution to existing shareholders.

The Company had 27,290,012 Common Shares issued and outstanding as at December 13, 2018. During the year, 296,800 stock options were exercised contributing \$6.2 million in cash to the Company. Last year, 86,250 options were exercised in the year, adding \$1.6 million in cash. The Company granted 195,000 options in the fiscal year compared to 300,000 in the prior fiscal year. Enghouse did not repurchase any shares of its common stock in the current or prior fiscal years under its Normal Course Issuer Bid.



## Dividend policy

The Company's policy is to pay quarterly dividends subject to Board approval, based on the Company's financial results and relevant circumstances at the time. The Company has paid regular quarterly dividends since May 31, 2007 and has increased its dividend in each of the past ten years from \$0.025 per common share in 2007 to \$0.18 per common share presently. The Company declared and made the following dividend payments in the three most recently completed fiscal years: (i) 2018 - \$0.16 per common share outstanding on February 28, 2018 and \$0.18 per common share on each of May 31, 2018, August 31, 2018 and November 30, 2018 for a total of \$19.0 million; (ii) 2017 - \$0.14 per common share outstanding on February 28, 2017 and \$0.16 per common share on each of May 31, 2017, August 31, 2017 and November 30, 2017 for a total of \$16.7 million; (iii) 2016 - \$0.12 per common share outstanding on February 29, 2016 and \$0.14 per common share on each of May 31, 2016, August 31, 2016 and November 30, 2016 for a total of \$14.5 million.

The decision on whether to declare a dividend is subject to the Board of Director's discretion. In determining whether to declare and the amount of the dividend, the Board of Directors takes into account, among other criteria, the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant at the time.

## Commitments and contractual obligations

The Company has no significant commercial commitments or obligations other than for the leases of the facilities it currently occupies, the latest of which expires in fiscal 2026, operating leases for automobiles, office and computer equipment. The Company also has pre-existing debt assumed on acquisition, the amounts being related to loans with government agencies in Spain. The following table summarizes the contractual obligations of the Company for future years.

	Less than 1 year \$	Between 1 and 5 years \$	More than 5 years \$	Total \$
Lease obligations	5,352	9,146	537	15,035
Long-term loan (including interest)	129	891	887	1,907

The Company has certain obligations related to a defined benefit pension plan that were assumed as part of an acquisition during the prior fiscal year. Further information regarding the plan commitments are included within the Company's consolidated financial statements.

## 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 commitments are reflected on the Company's Consolidated Statements of Financial Position.

## Transactions with related parties

The Company has not entered into any related party transactions. Related party transactions between wholly owned subsidiaries and the Company are eliminated on consolidation

## Basis of preparation and significant accounting policies

The consolidated 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").

The Company's significant accounting policies are described in note 3 of the consolidated financial statements as at October 31, 2018, which is available on SEDAR ([www.sedar.com](http://www.sedar.com)). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 13, 2018, the date the Board of Directors approved the consolidated financial statements.

## Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the date of the financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Significant areas requiring the Company to make estimates, assumptions and judgments include those related to revenue recognition, intangible assets, the carrying value of goodwill, and income taxes. The Company bases its estimates on historical experience as well as on various other assumptions that are believed to be reasonable under the circumstances at the time.

Under different assumptions or conditions, the actual results would differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are beyond the Company's control. Revisions to the accounting estimates are recognized in the period in which the estimates are revised and will be recorded with corresponding impact on net income.

## Revenue recognition

### *Separation of customer contract obligations and deliverables*

Management applies judgment when assessing whether certain deliverables in a customer arrangement should be included or excluded from a unit of account to which contract accounting is applied. The judgment is typically related to the sale and inclusion of third-party hardware and licenses in a customer arrangement and involves an assessment that principally addresses whether the deliverable has stand-alone value to the customer that is not dependent upon other components of the arrangement.

### *Professional services revenue*

Management exercises judgment in determining whether a contract's outcome can be reliably estimated. Management also makes estimates and assumptions in the calculation of future contract costs and related profitability, which are used to determine the value of the amounts recoverable on contracts and the timing of revenue recognition. Management updates these estimates throughout the life of the contract. Judgment is also required to assess the probability of collection of the related receivables.

## Acquired assets and liabilities including intangible assets and goodwill

The Company accounts for business combinations using the purchase method, under which it allocates the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired to goodwill. One of the most significant estimates relates to the determination of the fair value

of the assets and liabilities acquired. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, purchase price allocations are derived from a valuation analysis prepared by management. Fair values are determined using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows and are closely linked to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied.

Any goodwill or intangible assets with indefinite useful lives acquired in business combinations are not amortized to income over their useful lives but are assessed annually for any potential impairment in value.

All other intangible assets are amortized to operations over their estimated useful lives. The Company's intangible assets relate to acquired technology, patents and customer relationships. Enghouse also reviews the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In assessing the recoverability of these intangible assets, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the assets. If these estimates or related assumptions change in the future, the Company may be required to record impairment charges for these assets.

### Goodwill impairment

The goodwill recorded in the consolidated financial statements relates to two significant groups of CGUs: the Asset Management Group and the Interactive Management Group. The Company's assumptions used in testing goodwill for impairment are affected by current market conditions, which may affect expected revenue and costs. The Company also has significant competition in markets in which it operates, which may impact its revenues and operating costs. The recoverable amount of the groups of CGUs was based on an assessment of value in use using a discounted cash flow approach. The approach uses cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows for the years thereafter are extrapolated using estimated annual growth rates. The Company uses a pre-tax discount rate, which has been estimated based on the industry's weighted average cost of capital. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ or change quickly, depending on economic conditions and other events. Future changes in assumptions could negatively impact future assessments of the recoverable amount for the groups of CGUs and the Company would be required to recognize an impairment loss.

### Income taxes

Management uses significant judgment to determine the provision for income taxes, current and deferred income tax assets and liabilities and the recoverability of income tax assets recorded. The Company operates in multiple tax jurisdictions and to the extent that there are profits in these jurisdictions, the profits are subject to tax at varying tax rates and regulations under the legislation of these jurisdictions. Enghouse's effective tax rate may be affected by changes to or application of tax laws in any particular jurisdiction, changes in the geographical mix of revenue and expense, level of relative profitability in each jurisdiction, utilization of non-capital losses and income tax loss carry-forwards and management's assessment of its ability to realize deferred income tax assets. Accordingly, management must estimate the tax provision of the Company on a quarterly basis, which involves determining taxable income, temporary differences between tax and accounting carrying values and income tax loss carry-forwards. Favourable or unfavourable adjustments to tax provisions may result when tax positions are resolved or settled at amounts that differ from those estimates.

The Company has deferred income tax assets that are subject to periodic recoverability assessments. Realization of the Company's deferred income tax assets is largely dependent upon its achievement of projected future taxable income and the continued applicability of ongoing tax planning strategies. The Company's judgments regarding future profitability may change due to future market conditions, changes in tax legislation and other factors that could adversely affect the ongoing value of the deferred income tax assets. These changes, if any, may require the material adjustment of these deferred income tax asset balances through an adjustment to the carrying value thereon in the future. This adjustment would reduce the deferred income tax asset to the amount that is considered to be more likely than not to be realized and would be recorded in the period such a determination was to be made.

### Risks and uncertainties

Enghouse continues to operate in an ever changing and competitive business and economic environment that exposes the Company to a number of risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that may adversely impact our business, financial condition or results of operations. Additional risks and uncertainties not described below or not presently known to us may also impact our business and operations and cause the price of the common shares to decline.

If any of these risks actually occur, our business, financial condition or results of operations could be seriously harmed and the trading price of the Company's common shares could be materially affected. The reader should understand that the sole purpose of discussing these risks and uncertainties is to alert the reader to factors that could cause actual results to differ materially from past results or from those described in forward-looking statements and not to describe facts, trends and circumstances that could have a favorable impact on our results or financial position.

*We may have difficulties identifying, successfully completing or integrating acquisitions, or maintaining or growing our acquired businesses.*

We remain committed to our dual faceted growth strategy, pursuing accretive acquisitions and scaling our organic operations to be consistently profitable. In the current fiscal year, Enghouse completed the acquisitions of XConnect, Simatech and Mobilethink. We paid \$9.7 million in aggregate for these acquisitions, net of cash acquired, and \$7.1 million for settlement in the fiscal year of hold-backs on prior acquisitions. While Enghouse has both the experience and financial resources required to execute this strategy, we do not have control over the market conditions prevailing or likely to prevail in the future, which may impact the ability to execute this strategy. There can be no assurance that we will be able to identify suitable acquisition candidates available for sale at reasonable valuations, consummate any acquisition or successfully integrate any acquired business into our operations. We have and will likely continue to have competition for acquisition candidates from other parties including those that have greater resources or are willing to pay higher valuation multiples. Acquisitions may involve a number of other risks including: diversion of management's attention; disruption to our ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development, or the entire acquired business.

*If we fail to attract and retain key personnel, it could adversely affect our ability to develop and effectively manage our business.*

Our success depends on the continued efforts and abilities of our key technical, sales and management personnel. The loss of the services of any of these persons could have a material adverse effect on our business, results of operations and financial condition. We do not carry key man insurance.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Success is also highly dependent on our continuing ability to identify, hire, train, motivate and retain highly qualified management, finance, technical, sales and marketing personnel. Any such new hire may require a significant transition period prior to making a meaningful contribution to the Company. Competition for qualified employees is particularly intense in the technology industry, and we have in the past experienced difficulty recruiting qualified employees. Our failure to attract and to retain the necessary qualified personnel could seriously harm our operating results and financial condition.

*Our success is dependent on our ability to manage growth from managerial, financial, and human resources perspectives.*

The growth of our operations places a strain on managerial, financial and human resources. Our ability to manage future growth will depend in large part upon a number of factors, including the ability to: build and train sales and marketing staff to create an expanding presence in the evolving marketplace for our products; attract and retain qualified technical personnel in order to continue to develop reliable and scalable products and services that respond to evolving customer needs; develop customer support capacity as sales increase, so that we can provide customer support without diverting resources from product development efforts; and expand our internal management and financial controls significantly, so that we can maintain control over our operations and provide support to other functional areas within the Company as the number of personnel and size of the Company increases. Our inability to achieve any of these objectives could harm our business and operating results.

*We may not remain competitive. Increased competition could seriously harm our business.*

We experience intense competition from other software companies. Competitors may announce new products, services or enhancements including cloud-based offerings that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the business, results of operations and financial condition of the Company. Many of our competitors and potential competitors have significantly greater technical, marketing, service or financial resources. Other competitive factors include price, performance, product features, market timing, brand recognition, product quality, product availability, breadth of product line, design expertise, customer service and post contract support. A very important selection factor from a customer perspective is a large installed customer base that has widely and productively implemented our software products, which not only increases the potential for repeat business, but also provides reference accounts to promote our products and solutions with new customers. While management believes that we have a significant installed customer base in our Asset Management and Interactive Management Groups, many of our competitors have a larger installed base of users, longer operating histories or greater name recognition. In addition, if one or more of our competitors were to merge or partner with other competitors, the change in the competitive landscape could adversely affect our ability to compete effectively.

*Our success depends on our ability to continue to innovate and create new products and enhancements to our existing products.*

To keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance, we must enhance and improve existing products and continue to introduce new products and services. If we are unable to successfully develop new products, integrate acquired products or enhance and improve existing products or if we fail to position and/or price our products to meet market demand, our business and operating results will be adversely affected. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development that could adversely affect our results of operations. Further, the introduction of new products could require long development and testing periods and may not be introduced in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenue.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

No assurance can be provided that our software products will remain compatible with evolving computer hardware and software platforms and operating environments. In addition, competitive or technological developments and new regulatory requirements may require us to make substantial, unanticipated investments in new products and technologies. If we are required to expend substantial resources to respond to specific technological or product changes, our operating results could be adversely affected. Our continuing ability to address these risks will depend, to a large extent, on our ability to retain a technically competent research and development staff and to adapt to rapid technological advances in the industry.

*We are dependent on certain technologies used in our products that are licensed on a non-exclusive basis from third parties. This could disrupt our ability to ship products.*

We license certain technologies used in our products from third parties, generally on a non-exclusive basis. The termination of any of these licenses, or the failure of the licensors to adequately maintain or update their products, could delay our ability to ship our products while we seek to implement alternative technology offered by other sources and may require significant unplanned investments. In addition, alternative technology may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third party technology licenses relating to one or more of our products or relating to current or future technologies. There is a risk that we will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

*Our success and ability to compete depends upon our ability to secure and protect patents, trademarks, and other proprietary rights.*

A number of competitors and other third parties have been issued patents and may have filed patent applications or obtain additional patents and proprietary rights for technologies similar to those in our products. Some of these patents may grant very broad protection to the owners of the patents. We cannot determine with certainty whether any existing third party patents or the issuance of any third party patents would require us to alter our technology, obtain licenses or cease certain activities. We may become subject to claims by third parties alleging our technology infringes their property rights due to the growth of software products in our target markets, the overlap in functionality of these products and the prevalence of software products. We provide our 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 us or our customers letters alleging that our products infringe or might infringe upon the owner's intellectual property rights. Accordingly, where appropriate, we forward any such allegation or licensing request to outside legal counsel for review. We generally attempt to resolve any such matter by informing the owner of our position concerning non-infringement or invalidity. Even though we attempt to resolve these matters without litigation, it is always possible that the owner of a patent or copyrighted work will bring an action against the Company.

We rely on a combination of copyright and trade secret laws and contractual provisions to establish and protect our rights in our software and proprietary technology. We generally enter into non-disclosure agreements with employees and customers and historically have restricted access to our software products' source code. We regard our source code as proprietary information, and attempt to protect the source code versions of our products as trade secrets and as unpublished copyrighted works. In a few cases, we have provided copies of source code for certain products to third party escrow agents to be released on certain predefined terms. Despite our precautions, it may be possible for unauthorized parties to copy or otherwise reverse engineer portions of our products or otherwise obtain and use information that we regard as proprietary.

Existing copyright and trade secret laws offer only limited protection, and the laws of certain countries in which our products may be used in the future do not protect our products and intellectual property rights

to the same extent as the laws of Canada and the United States. Certain provisions of the license and strategic alliance agreements that may be entered into in the future by the Company, including provisions protecting against unauthorized use, transfer and disclosure, may be unenforceable under the laws of certain jurisdictions, and we are required to negotiate limits on these provisions from time to time.

Litigation may be necessary to determine the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights. Some competitors have substantially greater resources and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than the Company could. Regardless of their merit, any such claims could: be time consuming; be expensive to defend; divert management's attention and focus away from the business; cause product shipment delays or stoppages; subject us to significant liabilities; and require us to enter into costly royalty or licensing agreements or to modify or stop using the infringing technology, any of which may adversely affect our revenue, financial condition and results of operations. There can be no assurance that the steps taken by us to protect our proprietary rights will be adequate to deter misappropriation of our technology or independent development by others of technologies that are substantially equivalent or superior to our technology.

*We may be subject to product liability claims from customers if the occurrence of errors or failures is significant given the business-critical nature of our products.*

As a result of their complexity, software products may contain undetected errors or failures when entering the market. Despite conducting testing and quality assurance, defects and errors may be found in new software products after commencement of commercial shipments or the offering of a network service using these software products. In these circumstances, we may be unable to successfully correct the errors in a timely manner or at all. The occurrence of errors and failures in our software products could result in negative publicity and a loss of, or delay in, market acceptance of those software products. Such publicity could reduce revenue from new licenses and lead to increased customer attrition. Alleviating these errors and failures could require significant expenditure of capital and other resources by the Company. The consequences of these errors and failures could have a material adverse effect on our business, results of operations, and financial condition. Because many of our customers use our software products for business-critical applications, any errors, defects, or other performance problems could result in financial or other damage to our customers. Our customers or other third parties could seek to recover damages from us in the event of actual or alleged failures of our software solutions.

Although we maintain product liability insurance in certain limited circumstances and our license agreements with customers typically contain provisions designed to limit our exposure to potential product liability claims, it is possible that this insurance and these limitation of liability provisions may not effectively protect us against these claims and the liability and associated costs. While we have not experienced any product liability claims to date, the sale and support of our products may entail the risk of those claims, which are likely to be substantial in light of the use of our products in critical applications. Accordingly, any such claim could have a material adverse effect upon our business, results of operations, and financial condition. In addition, defending this kind of claim, regardless of its merits, or otherwise satisfying affected customers, could entail substantial expense and require the devotion of significant time and attention by key management personnel.

*From time to time, we may be subject to litigation or dispute resolution that could result in significant costs to us and damage our reputation.*

In addition to being subject to litigation in the ordinary course of business, we may become subject to class actions, securities litigation or other actions, including anti-trust and anti-competitive actions. Any

## MANAGEMENT'S DISCUSSION AND ANALYSIS

litigation may be time consuming, expensive and distracting from the conduct of our day-to-day business. The adverse resolution of any specific lawsuit could have a material adverse effect on our financial condition and liquidity. In addition, the resolution of those matters may require us to issue additional common shares, which could potentially result in dilution. Expenses incurred in connection with these matters (which include fees of lawyers and other professional advisors and potential obligations to indemnify officers and directors who may be parties to such actions) could adversely affect our cash position.

*Our success is dependent on certain strategic relationships with third parties to execute on our operations and strategy and to uphold our reputation.*

We currently have strategic relationships with resellers, original equipment manufacturers (OEMs), system integrators and enterprise application providers. We depend on these relationships to: distribute our products; generate sales leads; build brand and market awareness; and implement and support our solutions. We believe that our success depends, in part, on our ability to develop and maintain strategic relationships with resellers, OEMs, system integrators, and enterprise application providers. We generally do not have long-term or exclusive agreements with these strategic partners. If we lose a strategic partner in a key market, or if a current or future strategic partner fails to adequately provide customer service to our customers, our reputation will suffer and sales of our product and services could be substantially diminished.

*System or network failures or information security breaches in connection with our services and products could reduce our sales, impair our reputation, increase costs or result in liability claims, and seriously harm our business.*

Some of our businesses provide hosting services in respect of certain of our software products. These hosting services, which generally take place through third party data centers, depend upon the uninterrupted operation of data centers and the ability to protect computer equipment and information stored in these data centers against damage that may be caused by natural disaster, fire, power loss, telecommunications or internet failure, unauthorized intrusion, computer viruses and other similar damaging events. If any of the data centers we use were to become inoperable for an extended period, we might be unable to provide our customers with contracted services. Although we take what we believe to be reasonable precautions against such occurrences, and we maintain business interruption insurance in certain limited circumstances, no assurance can be given that damaging events such as these will not result in a prolonged interruption of our services, which could result in customer dissatisfaction, loss of revenue and damage to our business.

As a provider of hosted services, we receive confidential information. There can be no assurance that this information will not be subject to computer break-ins, theft, and other improper activity that could jeopardize the security of information for which we are responsible. Any such lapse in security could expose the Company to litigation, loss of customers, or otherwise harm our business. In addition, any person who is able to circumvent our security measures could misappropriate proprietary or confidential customer information or cause interruptions in our operations.

*Our existing customers might cancel their hosted or maintenance services contracts with us, fail to renew contracts on their renewal dates, and/or fail to purchase additional services and products. We may be unable to attract new customers.*

We continue to realize a significant amount (\$176.4 million in fiscal 2018 compared to \$165.8 million in fiscal 2017) of our revenue from hosted and maintenance services provided in connection with the products we license as part of our core business strategy. We expect that a substantial portion of our revenue will continue to be derived from renewals of these hosted and maintenance arrangements with our customers as well as from professional services engagements for these customers. The continued



## MANAGEMENT'S DISCUSSION AND ANALYSIS

expansion of this revenue stream as a result of incremental license and hosted sales and through the acquisition of companies with existing hosted and maintenance customer bases is a key tenet to our revenue growth strategy.

However, there can be no assurances that the rate of customer attrition, which would result in lower revenue, will be offset by a combination of new hosted and maintenance services revenue associated with incremental license and hosted sales, acquisitions and contract price increases. Although we believe we have strong customer retention rates, attrition in our customer base does occur when existing customers elect not to renew their hosted or maintenance arrangements or cease purchasing professional services. Customer attrition occurs for a variety of reasons, including a customer's decision to replace our software product with that of a competing vendor, to purchase maintenance or consulting services from a third-party service provider or to forego maintenance services altogether. It can also occur when a customer is acquired or ceases operations. Any factors that adversely affect the ability of our software products to compete with those available from others, such as availability of competitors' products offering more advanced product architecture, superior functionality or performance or lower prices could lead to increased rates of customer attrition.

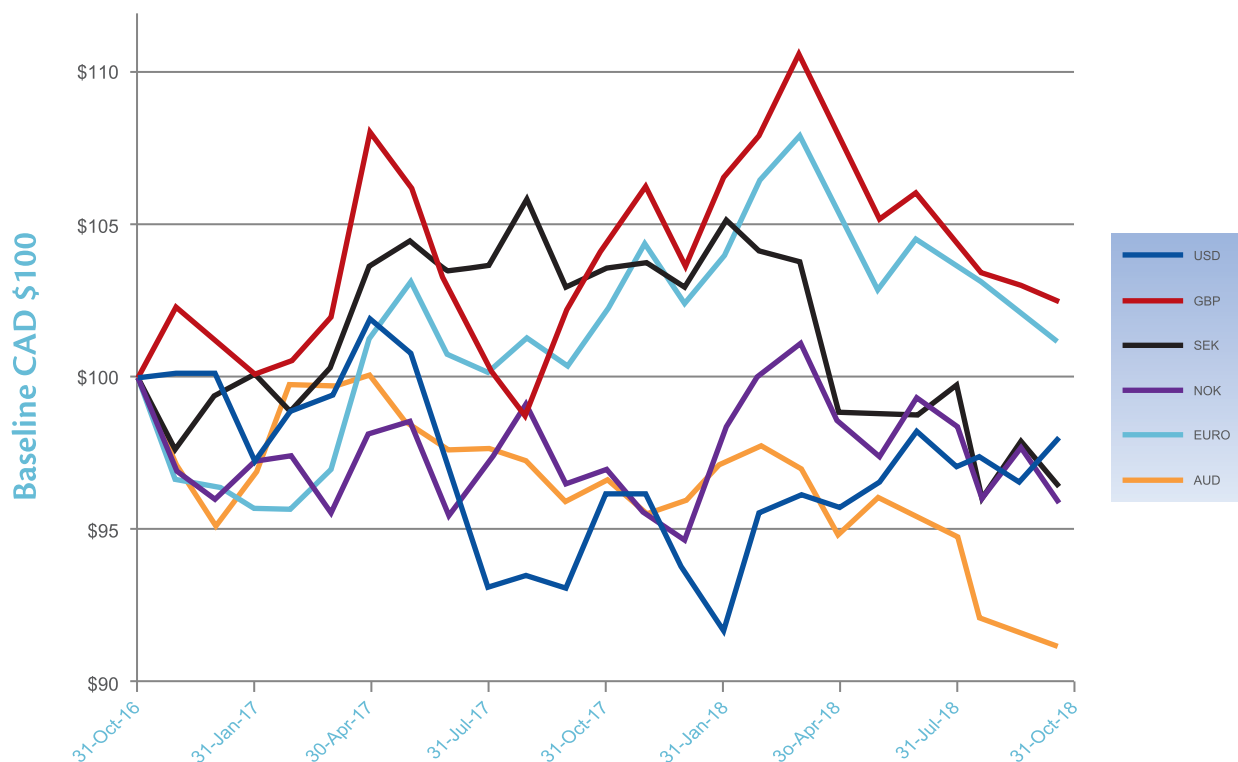
*The significance of our international operations increases our exposure to international business risks that could cause our operating results to suffer.*

We intend to maintain our international operations, which may include entry into additional international markets. The possible expansion of our international operations will require management attention and financial resources to establish additional foreign operations, hire additional personnel, and recruit additional international resellers. Incremental revenue may not be adequate to cover the expenses of international expansion. Our possible expansion into new international markets may take longer than anticipated and could directly impact how quickly we increase product sales into these markets. International markets may take additional time and resources to penetrate successfully. Any disruption in the ability of our personnel to travel could impact our ability to expand international operations and to service our international customers, which could, in turn, have a material adverse effect on our business, results of operations and financial condition. Other risks the Company may encounter in conducting international business activities generally could include the following: economic and political instability; unexpected changes in foreign regulatory requirements and laws; tariffs and other trade barriers; timing, cost, and potential difficulty of adapting our product to the local language standards; longer sales cycles and accounts receivable cash collections cycles; potentially adverse tax consequences; fluctuations in foreign currencies; and restrictions on the repatriation of funds.

*Changes in the value of the Canadian dollar, as compared to the currencies of other countries where we transact business, could harm our operating results and financial condition.*

We actively pursue a strategy of growth by acquisition, which exposes the Company to revenue denominated in numerous foreign currencies. Our organizational structure has changed to include a larger presence in Scandinavia and Europe along with our existing offices in Phoenix, Arizona, Reading, UK and our corporate headquarters in Canada. We now have operations in additional countries including Belgium, Ireland, UK, Sweden, Norway, Denmark, Germany, Hong Kong, New Zealand, Australia, Israel, Lebanon, Romania, Italy, Spain, Colombia and Croatia. Accordingly, our revenue and operating costs reflect exposure to a number of currencies including the U.S. Dollar, Pound Sterling, Swedish Krona, Euro and Australian and New Zealand Dollars.

Relative movement in currencies against CAD



In fiscal 2018, compared to the prior year the Canadian Dollar weakened against most major currencies including the Pound Sterling, Euro, Norwegian and Danish Kronor, while strengthening marginally against the U.S. Dollar and Swedish Kronor. The largest movement in the year was against the Pound Sterling, which rebounded in the fiscal year after weakening following the Brexit vote in June 2016. As our reporting currency is the Canadian Dollar, this positively impacted revenue by an estimated \$4.0 million in the year, while costs increased by an estimated \$2.5 million. This acts as a natural hedge. The U.S. Dollar was reported using an average foreign exchange rate of \$1.29 in fiscal 2018 versus \$1.31 in fiscal 2017, representing a 1.4% decrease and the Swedish Krona, which averaged \$0.15 in fiscal 2018, was down approximately 1.3% from the prior year. The Pound Sterling averaged \$1.73 in the current year compared to \$1.68 in the prior fiscal year, a 3.2% increase, while the Euro strengthened 4.2% over the year, averaging \$1.53 in fiscal 2018.

Overall, 19% of our revenue was generated by operations in the U.K. compared to 20% in the prior fiscal year, while revenue generated by European operations increased to 18% from 17% in the prior fiscal year. Revenue generated by our Scandinavian operations was 24%, the same as the prior year. Revenue generated by our U.S. based operations was 30% compared to 32% in the prior fiscal year as a result of weaker results in our IMG Americas operations. Approximately 6% of our revenue was generated by operations in the Asia-Pacific region compared to 6% in fiscal 2017, with the balance being generated by Canadian operations. Further changes in foreign exchange rates between Canada, the United States, the U.K., Sweden, Germany and other countries could have a material effect, either favourable or adverse, on both our revenue and expenses going forward. However, these currencies act as a natural hedge as we have both revenue and expenses denominated in these currencies. There can be no assurances that we will prove successful in our efforts to manage this risk, which may adversely impact our operating results.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *We may have exposure to greater than anticipated tax liabilities or expenses.*

We conduct our business operations in various foreign jurisdictions and through legal entities primarily in Canada, the United States, Sweden, Norway, Denmark, Germany, Ireland, Australia, New Zealand, Spain, Belgium, Italy and the United Kingdom. Accordingly, we are subject to income taxes as well as non-income based taxes in Canada, as well as these and other foreign jurisdictions and our tax structure is subject to review by numerous taxation authorities. The tax laws of these jurisdictions have detailed and varied tax rules, which are subject to change.

Significant judgment is required in determining our worldwide provision for income taxes, deferred tax assets and other tax liabilities. Although we strive to ensure that our tax estimates and filing positions are reasonable, no assurance can be provided that the final determination of any tax audits or litigation will not be different from what is reflected in our historical income tax provisions and accruals, and any such differences may materially affect our operating results for the affected period or periods. We also have exposure to additional non-income tax liabilities such as payroll, sales, use, value-added, non-resident withholding, repatriation, net worth, property, harmonized and goods and services taxes in Canada, the United States, Sweden, Norway, Denmark, Germany, Ireland, Australia, New Zealand, Spain, Belgium, Italy, the United Kingdom and other foreign jurisdictions.

International taxation authorities, including the Canada Revenue Agency, the United States Internal Revenue Service, the Swedish, Norwegian, Danish, Italian, Spanish, Belgian, German and Irish Tax Authorities, New Zealand Inland Revenue, Australian Taxation Office and the United Kingdom's HM Revenue and Customs, could challenge the validity of our tax filings or introduce new tax legislation. If any of these taxation authorities are successful in challenging our tax filings or introduce new tax legislation, our income tax expense may be adversely affected and it could also be subject to interest and penalty charges. Any such increase in our income tax expense and related interest and penalties could have a significant impact on future net earnings and future cash flows.

### *Changes in privacy and contact center laws and regulations may adversely impact our ability to compete and operate in our current markets and cause our operating results to suffer.*

Our customers can use our products to collect, use, process and store information regarding their customers and individuals. Federal, provincial, and foreign government bodies and agencies may adopt or change laws and regulations regarding the collection, use, processing, storage and disclosure of such information obtained from consumers and individuals. In the European Union, some of our operations are subject to the European Union's General Data Protection Regulation ("GDPR") which took effect May 25, 2018. The GDPR introduces a number of new obligations for subject companies including, for example, expanded disclosures about how personal data is to be used, new mechanisms for obtaining consent from data subjects, new controls for data subjects with respect to their personal data, limitations on retention of personal data and mandatory data breach notifications. Additionally, the GDPR places companies under new obligations relating to data transfers and the security of the personal data they possess. Given the breadth of the GDPR, there can be no assurance that the measures we have taken for the purposes of compliance will be successful in preventing breach of the GDPR. In addition to government regulatory activity, privacy advocacy groups and the technology industry and other industries may consider various new, additional or different self-regulatory standards that may place additional burdens directly on our customers and target customers, and indirectly on us. Our products are expected to be capable of use by our customers in compliance with such laws and regulations. The functional and operational requirements and costs of compliance with such laws and regulations may adversely impact our business, and failure to enable our products to comply with such laws and regulations could lead to significant fines and penalties imposed by regulators, as well as claims by our

## MANAGEMENT'S DISCUSSION AND ANALYSIS

customers or third parties. Additionally, all of these domestic and international legislative and regulatory initiatives could adversely affect our customers' ability or desire to collect, use, process and store certain information, which could reduce demand for our products.

*Our results of operating activities may vary significantly from quarter to quarter and therefore may be difficult to predict or may fail to meet investment community expectations.*

Our revenue is difficult to forecast and may fluctuate significantly from quarter to quarter. In addition, our operating results may not follow any past trends. The factors affecting revenue and results, many of which are outside of our control, include: foreign exchange fluctuations; competitive conditions; market acceptance of our products; the ability to hire, train and retain sufficient sales and professional services staff; the ability to complete our service obligations related to product sales in a timely manner; varying size, timing and contractual terms of orders for products, which may delay the recognition of revenue; the ability to maintain existing relationships and to create new relationships to assist with sales and marketing efforts; the discretionary nature of customers' purchase and budget cycles and changes in their budgets for, and timing of, software and related purchases; the length and variability of the sales cycles for our products; strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy; general weakening of the economy resulting in a decrease in the overall demand for computer software and services or otherwise affecting customers' capital investment levels in enterprise software; changes in our pricing policies and the pricing policies of our competitors; timing of product development and new product initiatives; and changes in the mix of revenue attributable to substantially lower-margin service revenue as opposed to higher-margin product license revenue or to cloud-based product offerings.

While we have consistently managed our businesses by scaling our costs to prevailing revenue levels to ensure that we operate profitably and generate positive cash flows to increase our cash reserves and fund our acquisition strategy internally, no assurance can be provided that we will be able to sustain this profitability on a quarterly or annual basis.

We, on at least an annual basis, review the value of acquired intangibles and goodwill to determine whether any impairment exists. We also periodically review opportunities to organize operations more efficiently, and may record restructuring charges in connection with any such reorganization. Our acquisition strategy provides management with a regular opportunity with each new acquisition to revisit and re-organize our operations to leverage the strength and synergies introduced by new organizations. Any write-down of intangible assets or goodwill or restructuring charges in the future could affect our results of operations materially and adversely and as a result our share price may decline.

*The price of our common shares has in the past been volatile and may also be volatile in the future.*

The market price of our common shares ("Common Shares") may be volatile and could be subject to wide fluctuations due to a number of factors, including: actual or anticipated fluctuations in results of operations; changes in estimates of future results of operations; announcements of technological innovations or new product introductions by the Company or our competitors; general industry changes in the enterprise software markets; or other events or factors. In addition, the financial markets have experienced significant price and value fluctuations that have particularly affected the market prices of equity securities of many technology companies and that sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally and in the software industry specifically, may adversely affect the market price of our Common Shares.

There can be no assurance that an active trading market for the Common Shares will be sustained in the future. If an active public market is not sustained, the liquidity of an investment in the Common Shares may be limited and the Company's share price may decline.

## Outlook

In fiscal 2018 we began to realize the benefits of investments made in the prior year to update our accounting and reporting systems. The improved visibility and reporting sharpened our focus on collections and improved conversion of revenue to cash. While revenue in the fiscal year was up 5.4% to \$342.8 million, we improved the cash generated from operating activities from \$83.2 million to \$98.3 million, a 18.0% improvement over last year and reduced overall receivable balances.

We also invested in our corporate management team to grow the business both organically and through acquisition. In the fiscal year we appointed a President to focus on the Company's sales, go to market strategy and operations, while allowing our corporate management team to focus on acquisitions. Efforts continue on the operations front to develop the lead generation team to bring a more proactive approach to selling our ever-expanding solutions portfolio. We also remain focused on acquisitions and continue to evaluate acquisition opportunities that meet our strict acquisition payback criteria. During the fiscal year we looked at a number of opportunities and closed three deals in the fiscal year at a cost of \$9.7 million, with \$7.1 million spent on hold-backs related to prior year acquisitions. These acquisitions were in the Asset Management Group, and expanded our product portfolio in the telecom and transportation sectors while extending our reach in the German and Danish markets. The acquisitions also offer new cross-selling opportunities to our existing customer base.

Given the reduction in capital deployed on acquisitions in the fiscal year and improved focus on collections, we closed the year with record cash balances of \$193.9 million, up significantly from the \$130.3 million reported at October 31, 2017. This cash surplus, combined with management's acquisition experience, bodes well for the Company's plans to continue to execute against its acquisition strategy on its own terms. We remain steadfast in adhering to our disciplined investment payback criteria in deploying this capital and continue to seek acquisitions in both of our operating segments. Shortly after year-end, we closed two acquisitions in the Asset Management Group, deploying approximately \$29.0 million of cash.

Our reduced acquisition activity in the fiscal year improved operating margins and adjusted EBITDA as we incurred less acquisition-related restructuring costs, had less redundant costs during integration and focused on refining our operating cost structures to ensure consistent profitability. As a result, we reported results from operating activities of \$103.2 million, an improvement of 14.0% over fiscal 2017. Adjusted EBITDA was \$106.0 million or 30.9% of revenue compared to \$94.0 million or 28.9% last year.

As always, we remain committed to running a sound, principled business, scaling operating costs to the prevailing revenue to consistently generate cash from operating activities to fund our acquisition strategy.

## 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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 year ended October 31, 2018 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](http://www.sedar.com) and on the Company's website at [www.enghouse.com](http://www.enghouse.com).





## Management's responsibility for financial reporting

The consolidated financial statements and other financial information for this annual report were prepared by the management of Enghouse Systems Limited, reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for the preparation of the consolidated financial statements and believes that they fairly represent the Company's financial position, the results of its operations and its cash flows in accordance with International Financial Reporting Standards. Management has included amounts in the Company's consolidated financial statements based on estimates, judgments and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control, which provide reasonable assurance, at appropriate costs, that the assets are maintained and accounted for in accordance with its policies, and that transactions are recorded accurately on the Company's books and records.

The consolidated financial statements of Enghouse Systems Limited for the year ended October 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on December 14, 2017. Ernst and Young were appointed the Company's auditors after the Annual General Meeting of Shareholders. Their report on the consolidated financial statements of the Company for the year ended October 31, 2018 outlines the scope of their examination and their opinion thereon.



Stephen J. Sadler  
Chairman of the Board and  
Chief Executive Officer



Douglas C. Bryson  
Vice President Finance and  
Corporate Secretary

Markham, Ontario  
December 13, 2018

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Enghouse Systems Limited**

We have audited the accompanying consolidated financial statements of **Enghouse Systems Limited**, which comprise the consolidated statement of financial position as at October 31, 2018, and the consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enghouse Systems Limited as at October 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## **Other matter**

The consolidated financial statements of Enghouse Systems Limited for the year ended October 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on December 14, 2017.

*Ernst + Young LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Canada  
December 13, 2018

# Consolidated Statements of Financial Position

(in thousands of Canadian Dollars)

	As at October 31, 2018	As At October 31, 2017
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents (Note 5)	\$ 187,551	\$ 120,608
Short-term investments (Note 5)	6,386	9,737
Accounts receivable, net (Note 20)	62,085	71,894
Prepaid expenses and other assets	8,951	8,528
	<b>264,973</b>	<b>210,767</b>
<b>Non-current assets:</b>		
Long-term deposits and accounts receivable, net	-	1,002
Property, plant and equipment, net (Note 6)	5,279	5,322
Intangible assets, net (Note 7)	59,895	79,714
Goodwill (Note 7)	155,419	150,687
Deferred income tax assets (Note 12)	9,634	14,345
<b>Total assets</b>	<b>\$ 495,200</b>	<b>\$ 461,837</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 44,271	\$ 54,656
Income taxes payable	4,904	6,018
Dividends payable (Note 9)	4,912	4,319
Provisions (Note 8)	268	1,521
Deferred revenue	64,020	59,104
Current portion of long-term loans (Notes 15,18)	122	468
	<b>118,497</b>	<b>126,086</b>
<b>Non-current liabilities:</b>		
Non-current portion of income taxes payable (Note 12)	7,466	-
Deferred income tax liabilities (Note 12)	13,115	21,449
Deferred revenue	2,169	3,337
Net employee defined benefit obligation (Note 24)	2,354	2,328
Long-term loans (Notes 15,18)	1,475	2,238
<b>Total liabilities</b>	<b>145,076</b>	<b>155,438</b>
<b>Shareholders' Equity</b>		
Share capital (Note 9)	78,997	71,422
Contributed surplus	4,866	4,715
Retained earnings	260,506	221,775
Accumulated other comprehensive income (Note 9)	5,755	8,487
<b>Total shareholders' equity</b>	<b>350,124</b>	<b>306,399</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 495,200</b>	<b>\$ 461,837</b>

Commitments and contingencies (Notes 15,17)

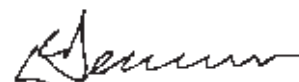
Subsequent events (Note 25)

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

On Behalf of the Board of Directors:



Stephen J. Sadler  
Director



Eric A. Demirian  
Director

# Consolidated Statements of Operations and Comprehensive Income

(in thousands of Canadian Dollars, except per share amounts)

	Year ended	
	October 31, 2018	October 31, 2017
<b>Revenue</b>		
Software licenses	\$ 100,389	\$ 97,215
Hosted and maintenance services	176,373	165,802
Professional services	58,266	55,992
Hardware	7,817	6,359
	<b>342,845</b>	<b>325,368</b>
<b>Direct costs</b>		
Software licenses	6,863	6,908
Services	91,766	89,518
Hardware	4,793	3,921
	<b>103,422</b>	<b>100,347</b>
<b>Revenue, net of direct costs</b>	<b>239,423</b>	<b>225,021</b>
<b>Operating expenses</b>		
Selling, general and administrative (Note 22)	86,209	86,457
Research and development (Note 11)	47,168	44,565
Depreciation of property, plant and equipment	2,411	2,437
Special charges (Note 22)	390	984
	<b>136,178</b>	<b>134,443</b>
<b>Results from operating activities</b>	<b>103,245</b>	<b>90,578</b>
Amortization of acquired software and customer relationships (Note 7)	(28,149)	(29,405)
Foreign exchange gains (losses)	599	(3,205)
Finance income	476	252
Finance expenses	(213)	(185)
Other income	2,076	3,186
	<b>78,034</b>	<b>61,221</b>
<b>Income before income taxes</b>	<b>78,034</b>	<b>61,221</b>
<b>Provision for income taxes (Note 12)</b>		
Current income tax expense	24,395	16,809
Deferred income tax recovery	(4,106)	(6,430)
	<b>20,289</b>	<b>10,379</b>
<b>Net income for the year</b>	<b>\$ 57,745</b>	<b>\$ 50,842</b>
<u>Items that are or may be reclassified subsequently to profit or loss:</u>		
Foreign currency translation (loss) gain from foreign operations	(2,019)	1,345
Unrealized loss on available-for-sale investments	(822)	(376)
Deferred income tax recovery	109	49
<b>Other comprehensive (loss) income</b>	<b>(2,732)</b>	<b>1,018</b>
<b>Comprehensive income</b>	<b>\$ 55,013</b>	<b>\$ 51,860</b>
<b>Earnings per share (Note 13)</b>		
Basic	\$ 2.13	\$ 1.89
Diluted	\$ 2.11	\$ 1.87

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



# Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian Dollars)

	Share capital #	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	Total \$
<b>Balance – November 1, 2017</b>	<b>26,993,212</b>	<b>71,422</b>	<b>4,715</b>	<b>8,487</b>	<b>221,775</b>	<b>306,399</b>
Net income for the year	-	-	-	-	57,745	57,745
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	(2,019)	-	(2,019)
Unrealized losses on available-for-sale investments	-	-	-	(822)	-	(822)
Deferred income tax recovery	-	-	-	109	-	109
<b>Comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,732)</b>	<b>57,745</b>	<b>55,013</b>
Employee share options:						
Value of services recognized	-	-	1,545	-	-	1,545
Proceeds on issuing shares	296,800	7,575	(1,394)	-	-	6,181
Dividends declared	-	-	-	-	(19,014)	(19,014)
<b>Balance – October 31, 2018</b>	<b>27,290,012</b>	<b>78,997</b>	<b>4,866</b>	<b>5,755</b>	<b>260,506</b>	<b>350,124</b>
<b>Balance – November 1, 2016</b>	<b>26,906,962</b>	<b>69,555</b>	<b>3,875</b>	<b>7,469</b>	<b>187,649</b>	<b>268,548</b>
Net income for the year	-	-	-	-	50,842	50,842
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	1,345	-	1,345
Unrealized losses on available-for-sale investments	-	-	-	(376)	-	(376)
Deferred income tax recovery	-	-	-	49	-	49
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,018</b>	<b>50,842</b>	<b>51,860</b>
Employee share options:						
Value of services recognized	-	-	1,148	-	-	1,148
Proceeds on issuing shares	86,250	1,867	(308)	-	-	1,559
Dividends declared	-	-	-	-	(16,716)	(16,716)
<b>Balance – October 31, 2017</b>	<b>26,993,212</b>	<b>71,422</b>	<b>4,715</b>	<b>8,487</b>	<b>221,775</b>	<b>306,399</b>

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

# Consolidated Statements of Cash Flows

(in thousands of Canadian Dollars)

	Year ended	
	October 31, 2018	October 31, 2017
<b>Cash flows from operating activities</b>		
Net income for the year	\$ 57,745	\$ 50,842
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	2,411	2,437
Amortization of acquired software and customer relationships (Note 7)	28,149	29,405
Stock-based compensation expense (Note 10)	1,545	1,148
Provision for income taxes	20,289	10,379
Finance expenses	213	185
Other income	(2,076)	(3,186)
	<b>108,276</b>	<b>91,210</b>
Changes in non-cash operating working capital (Note 21)	6,313	4,774
Income taxes paid	(16,334)	(12,742)
<b>Net cash flows from operating activities</b>	<b>98,255</b>	<b>83,242</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(2,244)	(1,689)
Purchase of other software (Note 7)	-	(1,475)
Acquisitions, net of cash acquired of \$1,235 (2017 - \$3,876) (Note 14)	(9,675)	(18,690)
Purchase consideration for prior-period acquisitions (Note 14)	(7,137)	(2,619)
Proceeds from sale of equity investment	-	2,188
Net sale (purchase) of short-term investments	3,197	(2,870)
<b>Net cash flows used in investing activities</b>	<b>(15,859)</b>	<b>(25,155)</b>
<b>Cash flows from financing activities</b>		
Issuance of share capital	6,181	1,559
Repayment of loans	(1,172)	(1,667)
Payment of cash dividend	(18,422)	(16,164)
<b>Net cash flows used in financing activities</b>	<b>(13,413)</b>	<b>(16,272)</b>
Effect of currency translation adjustments on cash and cash equivalents	(2,040)	357
<b>Net increase in cash and cash equivalents during the year</b>	<b>66,943</b>	<b>42,172</b>
Cash and cash equivalents - beginning of year	120,608	78,436
<b>Cash and cash equivalents - end of year</b>	<b>\$ 187,551</b>	<b>\$ 120,608</b>

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

# Notes to Consolidated Financial Statements

October 31, 2018 and 2017 (in thousands of Canadian Dollars, except as indicated)

## 01 Description of the business and reporting entity

Enghouse Systems Limited (“Enghouse Systems”) and its wholly owned subsidiaries (together the “Company” or “Enghouse”) develop enterprise software solutions for a number of vertical markets. The Company is organized around two business segments: the Interactive Management Group and the Asset Management Group. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. The Asset Management Group provides products and services to telecom service providers as well as fleet management and public safety software solutions to transportation, government, first responders, distribution, security, utilities and oil and gas industries. Enghouse Systems is incorporated and domiciled in Canada. The address of its registered office is 80 Tiverton Court, Suite 800, Markham, Ontario, L3R 0G4. The Company has offices around the world including the United States, the United Kingdom, Sweden, Norway, Denmark, Belgium, Brazil, Germany, Ireland, Australia, New Zealand, Israel, Lebanon, Romania, Italy, Spain, Colombia and Croatia.

## 02 Basis of preparation and adoption of International Financial Reporting Standards

The consolidated 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”).

The significant accounting policies described below are consistently applied to all the periods presented.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

The presentation of certain amounts of the previous year has been changed to conform to the Consolidated Statements of Operations and Comprehensive Income presentation adopted for the current year. Specifically, foreign exchange gains and losses, primarily arising from financing activities, have been reclassified from Selling, general and administrative expenses in the prior period to a separate line in the Consolidated Statement of Operations and Comprehensive Income, below Results from operating activities. There was no impact to net income.

These consolidated financial statements were approved by the Board of Directors for issue on December 13, 2018.

## 03 Summary of significant accounting policies, judgments and estimation uncertainties

### Summary of significant accounting policies

#### Basis of measurement

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention except for certain financial assets, which are presented at fair value in Canadian Dollars, the Company’s reporting currency. All financial information is presented in Canadian Dollars rounded to the nearest thousands, except as otherwise noted.

# Notes to Consolidated Financial Statements

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## Basis of consolidation

These consolidated financial statements include the accounts of the Company. All intercompany transactions, balances and unrealized profits and losses from intercompany transactions have been eliminated upon consolidation. The Company does not have any special purpose entities to be consolidated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Company.

Subsidiaries are all entities (including structured entities) over which Enghouse Systems has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Enghouse companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

## Business combinations

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Company expenses acquisition-related expenses as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the group is recognized at fair value as at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity. A portion of the consideration on acquisitions is subject to hold-back and adjustment in accordance with the terms of the purchase agreements. The Company accrues hold-backs as part of the consideration payable on acquisition. Adjustments to the hold-backs will be recorded through goodwill.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated.



# Notes to Consolidated Financial Statements

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## Foreign currency translation

### (i) 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 consolidated financial statements are presented in Canadian Dollars, which is also Enghouse Systems' functional currency.

When the Company disposes of its entire interest in a foreign operation, or loses control over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income (loss) related to the foreign operation are recognized in profit or loss. If the Company disposes of part of an interest in a foreign operation that remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income (loss) related to the subsidiary is reallocated between controlling and non-controlling interests.

### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the Consolidated Statements of Operations and Comprehensive Income and disclosed separately below the results from operating activities.

### (iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian Dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian Dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences are recognized in other comprehensive income (loss) in the cumulative translation account.

## Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are not subject to risks of change in fair value.

## Short-term investments

Short-term investments are highly liquid financial instruments. These include equity securities, which are investments in publicly available securities that are considered to be available-for-sale and are carried at fair market value, as well as fixed-income securities with original maturities of one year or less that are carried at cost plus accrued interest.

## Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the Consolidated Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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Financial assets and financial liabilities are initially recorded at fair value and are subsequently measured based on their classification as described below. The Company classifies its financial instruments into various categories based on the purpose for which the financial instruments were acquired and their characteristics. The Company determines the fair value of its financial instruments based on quoted market values or discounted cash flow analyses.

## *Available-for-sale*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as loans and receivables. The Company considers its portfolio equity investments to be available-for-sale assets. The equities held by the Company are those of publicly traded companies whose fair values are determined by the closing quoted market values for each investment at the Consolidated Statements of Financial Position date. Available-for-sale investments are carried at fair value, except where the instrument does not have a quoted market price in an active market, with foreign exchange and revaluation gains and losses included in other comprehensive income (loss) until the gains and losses are realized when equities are sold in the market or there is impairment in the value. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the Consolidated Statements of Operations and Comprehensive Income and included in other gains and losses. The fair value of the Company's equity portfolio is subject to fluctuations in equity markets and is denominated in both Canadian and U.S. Dollars as at October 31, 2018.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the Consolidated Statements of Operations and Comprehensive Income as part of Finance income.

Dividends on available-for-sale equity instruments are recognized in the Consolidated Statements of Operations and Comprehensive Income as part of Finance income when the Company's right to receive payment is established.

## *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, accounts receivable, deposits and short-term investments (excluding equity securities). These are classified in current assets, except for the portion expected to be realized or paid beyond twelve months of the Consolidated Statements of Financial Position date, which is classified as non-current. They are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequent measurement is at amortized cost using the effective interest rate method, less a provision for impairment.

## *Financial liabilities at amortized cost*

Accounts payable, accrued liabilities, provisions, long-term loans and dividends payable are classified as other financial liabilities at amortized cost. Trade and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce trade and other payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Company is not party to any derivative financial instruments.

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## Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment of receivables on both an individual and collective basis. All individually significant receivables are assessed for impairment, while all receivables that are not individually significant, along with those significant receivables found not to be impaired, are collectively assessed for impairment. If potential impairment exists, the Company recognizes an impairment loss, as follows:

### (i) Financial assets carried at amortized cost:

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

### (ii) Available-for-sale financial assets:

The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the Consolidated Statements of Operations and Comprehensive Income. This amount represents the cumulative loss in accumulated other comprehensive income (loss) that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The reversal of the previously recognized impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Income.

## Property, plant and equipment

Property, plant and equipment are recorded at acquisition cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the Consolidated Statements of Operations and Comprehensive Income during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated as follows:

Buildings	39 years straight-line
Land	Not amortized
Furniture and fixtures	5 years straight-line
Computer hardware	3 years straight-line
Leasehold improvements	Shorter of useful life or initial lease term

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts (if any) and separately depreciates each part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. The cost

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and accumulated depreciation of replaced assets are derecognized when replaced. Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the assets and are included as part of other income (expense) in the Consolidated Statements of Operations and Comprehensive Income.

## Acquired software and customer relationships

The Company uses the income approach to value its acquired software and customer relationship intangible assets. This approach is a valuation technique that calculates the fair value of an intangible asset based on the cash flows that an asset could be expected to generate over its remaining useful life. The Company's intangible assets include patented technology, customer relationships, and acquired software with finite useful lives. These assets are capitalized and are amortized to operations over their estimated useful lives from the date that they are acquired and available for use, since this most closely reflects the expected usage and consumption patterns related to the future economic benefits embodied in the assets. The Company considers the length of time over which it expects to earn or recover the cost of the assets. The estimated useful lives for the current and comparative periods are as follows:

Acquired software	4 to 6 years straight-line
Customer relationships	4 to 8 years straight-line
Patents	Remaining life
Capitalized software	5 years straight-line

Amortization methods, estimates of useful lives and residual values are reviewed at least annually and are adjusted as appropriate.

## Capitalized software

The Company capitalizes software development costs for computer software developed or obtained for internal use. The Company capitalizes costs for software to be used internally during the development stage. This occurs when the preliminary project stage is complete, management authorizes and commits to funding the projects, and it is feasible that the projects will be completed and the software will perform the intended function. Capitalization of costs related to the software project is ceased when it enters the post-implementation and operation stage. If different determinations are made with respect to the state of development of a software project, then the amount capitalized and the amounts charged to expense for that project could differ materially.

Costs capitalized during the development stage consist of payroll and related costs for employees who are directly associated with, and who devote time to, a project to develop or implement software for internal use. The Company capitalizes the direct costs of materials and services, which generally include outside contractors. The Company does not capitalize any general and administrative costs, or costs incurred during the development stage related to training. Costs related to upgrades and enhancements to internal-use software, if those upgrade and enhancements result in additional functionality, are capitalized.

The Company amortizes capitalized software with respect to development projects for internal-use software when the software is ready for use. The capitalized software development costs are generally amortized using the straight-line method over a five-year period. In determining and re-assessing the estimated useful life over which the cost incurred for the software should be amortized, the Company considers the effects of obsolescence, technology, competition and other economic factors. If different determinations are made with respect to the estimated useful life of the software, the amount of amortization charged in a particular period could differ materially.



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## Goodwill

Goodwill represents the excess of the purchase price of business acquisitions over the fair values of identifiable net assets acquired in such acquisitions and is allocated as at the date of the business combination. Goodwill acquired through a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. The Company has two groups of CGUs: the Interactive Management Group and the Asset Management Group, for which goodwill is monitored. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

## Impairment of non-financial assets

The unamortized portions of property, plant and equipment, acquired software and customer relationships are reviewed when events or circumstances indicate that the carrying amounts may not be recoverable. Intangible assets with an indefinite useful life or intangible assets not yet available for use are subject to an annual impairment test. Goodwill is not subject to amortization but is assessed for impairment on at least an annual basis and, additionally, whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. The recoverable amount is estimated annually on October 31 of each year.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's, or groups of CGUs' fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or groups of CGUs). An impairment loss is measured as the amount by which the asset's, or groups of CGUs' carrying amount exceeds its recoverable amount. Impairment losses are recognized in the Consolidated Statements of Operations and Comprehensive Income.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

No such impairment losses have been recognized during the period.

## Employee benefits

### (i) Post-employment benefit obligations

Employees of companies included in these consolidated financial statements have entitlements under Company pension plans, which include both defined contribution and defined benefit pension plans. These plans take different forms depending on the legal, financial and tax regime of each country. The cost of defined contribution pension plans is charged to expense as the contributions become payable and cease when an employee leaves the Company.

The Company's obligations and expenses related to defined benefit pension plans are determined using actuarial valuations and are dependent on a number of assumptions. The defined benefit obligations and benefit cost levels will change because of future changes in actuarial methods and assumptions,

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membership data, plan provisions, legislative rules, and future experience gains or losses, which may not have been anticipated at this time. Emerging experience, differing from assumptions, will result in gains or losses that will be disclosed in future accounting valuations.

## *(ii) Stock-based compensation plans*

The Company grants stock options to certain employees. Stock options are granted at a price equal to or above the market value of the shares at the date of the grant. When the stock options are exercised, the Company issues new common shares. The consideration received on the exercise of stock options is credited to share capital at the time of exercise. The Company's stock option compensation plan is described in Note 10.

Stock options generally vest over four years in a tiered manner and expire after seven years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period on a straight-line basis based on the number of awards expected to vest, with a corresponding credit to contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

## *(iii) Termination benefits*

The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees in accordance with a detailed formal plan without possibility for withdrawal or providing benefits as a result of an offer made to encourage voluntary termination. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

## *(iv) Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under the Company's incentive compensation plan if the Company has a legal or constructive obligation to pay this amount at the time bonuses are paid as a result of past service provided by the employee, and the obligation can be reliably estimated.

## Provisions

Provisions, including those for onerous contracts, legal claims and restructuring, are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

The Company performs evaluations to identify onerous contracts and legal claims and, where applicable, records provisions for such items. A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received from the contract. A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or been publicly announced. Restructuring provisions include such items as lease termination penalties, employee termination payments and over-market and excess capacity lease obligations acquired in business combinations. Provisions are not recognized for future operating losses.

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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## Income taxes

Income tax expense comprises current income tax expense and deferred income tax expense. Current income tax and deferred income tax expense are recognized in the Consolidated Statements of Operations and Comprehensive Income, except to the extent that they relate to items recognized directly in other comprehensive income (loss) or equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting periods, and any adjustment to the tax payable in respect of previous years.

In general, deferred income tax is the amount of income taxes expected to be paid or recoverable in future periods in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, carry-forward of unused tax losses and carry-forwards of unused tax credits. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the Consolidated Statements of Financial Position date and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets, including unutilized tax losses, are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilized. The carrying value of deferred income tax assets is reviewed at each Consolidated Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be recovered.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be recognized simultaneously. Deferred income tax assets and liabilities are presented as non-current.

## Dividends

Dividends on common shares are recognized in the Company's consolidated financial statements in the period in which the dividends are declared and approved by the Company's Board of Directors.

## Leases

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statements of Operations and Comprehensive Income on a straight-line basis over the period of the lease.

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Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in accounts payable and accrued liabilities. The interest element of the finance cost is charged to the Consolidated Statements of Operations and Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

## Share capital

Common shares are classified as equity. Incremental costs attributable to the issuance of shares are recognized as a deduction from equity.

## Revenue recognition

Revenue represents the fair value of consideration received or receivable from customers for goods and services provided by the Company, net of discounts and sales taxes. Revenue consists primarily of fees for licenses of the Company's software, subscriptions, hosted services and maintenance fees, professional services and third-party hardware revenue.

Revenue is recognized when the Company has transferred the significant risks and rewards of ownership of the goods or services to the buyer, delivery has occurred, the collection of the related receivable is deemed probable from the outset of the arrangement and the amount of revenue and costs incurred or to be incurred can be measured reliably. Revenue from the sale of licenses, third-party software and hardware is generally recognized on delivery to the customer as these criteria are generally met.

Typically, the Company's software license agreements are multiple-element arrangements that also include the provision of maintenance, hosted services, professional services and hardware. These multiple-element arrangements are assessed to determine whether they should be treated as more than one unit of accounting or element for the purposes of revenue recognition. Consideration from the arrangement is allocated in multiple-element arrangements to the separate units of accounting, or elements, on a relative fair value basis as determined by an internal analysis of prices, or based on the residual method, as applicable. Revenue is recognized for each element according to the revenue recognition policy stated above. Where an arrangement is accounted for as a single unit of accounting, revenue is deferred and recognized over the term of the arrangement.

Services revenue comprises hosted and maintenance services revenue and professional services revenue, which includes consulting and training revenue. 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 Consolidated 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 is recognized as delivered.

The timing of revenue recognition often differs from contract payment schedules and milestones,



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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.

## Direct costs

Direct costs include third-party costs related to the delivery of software, hardware and professional, hosted and maintenance services as well as commissions payable to sales staff.

## Research and development costs

The Company qualifies for certain investment tax credits related to the research and development of its computer software. Expenditures related to research are expensed as incurred and are reduced by related investment tax credits, which are recognized when reasonable assurance of realization exists. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use or sell the technology, are met; otherwise, they are expensed as incurred. No costs have been deferred on the Consolidated Statements of Financial Position as at October 31, 2018 or 2017.

## Special charges

Special charges include costs for certain acquisition-related restructuring initiatives undertaken as well as acquisition-related transaction costs and similar charges.

## Finance income and finance expenses

Finance income comprises interest income, gains on the disposal of available-for-sale financial assets and dividend income. Interest income is recognized as it is accrued through profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings and impairment losses recognized on financial assets other than trade receivables.

## Earnings per share

Basic earnings per share are computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding for stock options issued by the Company. The number of shares included with respect to stock options is computed using the Treasury Stock method. This method assumes that proceeds, which could be obtained upon the exercise of in-the-money stock options, would be used to purchase common shares at the average market price during the year.

## Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM is the person or persons who are responsible for allocating resources and assessing performance of the operating segments. The CODM has been identified as the Chief Executive Officer.

## Critical accounting estimates and judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the date of the consolidated financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Significant areas requiring the Company to make estimates, assumptions and judgments include those related to revenue recognition, intangible assets, the carrying value of goodwill, and income taxes. The Company bases its estimates on historical experience as well as on various other assumptions that are believed to be reasonable under the circumstances at the time.

Under different assumptions or conditions, the actual results would differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are beyond the Company's control. Revisions to the accounting estimates are recognized in the period in which the estimates are revised and will be recorded with corresponding impact on net income.

## Revenue recognition

### *Separation of customer contract obligations and deliverables*

Management applies judgment when assessing whether certain deliverables in a customer arrangement should be included or excluded from a unit of account to which contract accounting is applied. The judgment is typically related to the sale and inclusion of third-party hardware and licenses in a customer arrangement and involves an assessment that principally addresses whether the deliverable has stand-alone value to the customer that is not dependent upon other components of the arrangement.

### *Professional services revenue*

Management exercises judgment in determining whether a contract's outcome can be reliably estimated. Management also makes estimates and assumptions in the calculation of future contract costs and related profitability, which are used to determine the value of the amounts recoverable on contracts and the timing of revenue recognition. Management updates these estimates throughout the life of the contract. Judgment is also required to assess the probability of collection of the related receivables.

## Acquired assets and liabilities including intangible assets and goodwill

The Company accounts for business combinations using the purchase method, under which it allocates the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired to goodwill. One of the most significant estimates relates to the determination of the fair value of the assets and liabilities acquired. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, purchase price allocations are derived from a valuation analysis prepared by management. Fair values are determined using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows and are closely linked to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied.

Any goodwill or intangible assets with indefinite useful lives acquired in business combinations are not amortized to income over their useful lives but are assessed annually for any potential impairment in value.

All other intangible assets are amortized to operations over their estimated useful lives. The Company's

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intangible assets relate to acquired technology, patents and customer relationships. Enghouse also reviews the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In assessing the recoverability of these intangible assets, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the assets. If these estimates or related assumptions change in the future, the Company may be required to record impairment charges for these assets.

## Goodwill impairment

The goodwill recorded in the consolidated financial statements relates to two significant groups of CGUs: the Asset Management Group and the Interactive Management Group. The Company's assumptions used in testing goodwill for impairment are affected by current market conditions, which may affect expected revenue and costs. The Company also has significant competition in markets in which it operates, which may affect its revenues and operating costs. The recoverable amount of the groups of CGUs was based on an assessment of value in use using a discounted cash flow approach. The approach uses cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows for the years thereafter are extrapolated using estimated annual growth rates. The Company uses a pre-tax discount rate, which has been estimated based on the industry's weighted average cost of capital. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ or change quickly, depending on economic conditions and other events. Future changes in assumptions could negatively affect future assessments of the recoverable amount for the groups of CGUs, and the Company would be required to recognize an impairment loss.

As at October 31, 2018 and 2017, the Company's estimate of the recoverable amounts for each of the Asset Management CGU and Interactive Management CGU exceeded their respective carrying values by a significant margin, and as such, the Company determined that the groups of CGUs with goodwill had not been impaired. Based on its sensitivity analysis, management believes that any reasonable possible change in key assumptions used to calculate the recoverable amounts would have no impact on the results of the impairment test.

## Income taxes

Management uses significant judgment to determine the provision for income taxes, current and deferred income tax assets and liabilities and the recoverability of income tax assets recorded. The Company operates in multiple tax jurisdictions and to the extent that there are profits in these jurisdictions, the profits are subject to tax at varying tax rates and regulations under the legislation of these jurisdictions. Enghouse's effective tax rate may be affected by changes to or application of tax laws in any particular jurisdiction, changes in the geographical mix of revenue and expense, level of relative profitability in each jurisdiction, utilization of non-capital losses and income tax loss carry-forwards and management's assessment of its ability to realize deferred income tax assets. Accordingly, management must estimate the tax provision of the Company on a quarterly basis, which involves determining taxable income, temporary differences between tax and accounting carrying values and income tax loss carry-forwards. Favourable or unfavourable adjustments to tax provisions may result when tax positions are resolved or settled at amounts that differ from those estimates.

The Company has deferred income tax assets that are subject to periodic recoverability assessments. Realization of the Company's deferred income tax assets is largely dependent upon its achievement of projected future taxable income and the continued applicability of ongoing tax planning strategies. The Company's judgments regarding future profitability may change due to future market conditions,

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changes in tax legislation and other factors that could adversely affect the ongoing value of the deferred income tax assets. These changes, if any, may require the material adjustment of these deferred income tax asset balances through an adjustment to the carrying value thereon in the future. This adjustment would reduce the deferred income tax asset to the amount that is considered to be more likely than not to be realized and would be recorded in the period such a determination was to be made.

## 04 New standards and interpretations

### New standards and interpretations issued but not yet applied

*IFRS 15, Revenue from Contracts with Customers ("IFRS 15")* – IFRS 15 is a new standard effective for fiscal years beginning on or after January 1, 2018 and may be early adopted. The standard contains a single model for revenue recognition that applies to contracts with customers. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on November 1, 2018. The standard can be applied either (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients or (ii) retrospectively with the cumulative effect recognized at the date of initial adoption and providing certain additional disclosures.

The standard contains a single model for revenue recognition that applies to contracts with customers, which supersedes current revenue recognition guidance, including industry-specific guidance. 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. New estimation methodology and judgement-based thresholds have been introduced that may affect the amount and/or timing of revenue recognition.

The Company continues to assess the potential impact of applying the new standard; however, based on its preliminary assessment, the Company currently anticipates that the standard will affect the accounting for the following items:

- Term-based licenses – Under current standards, license revenue on term-based licenses is recognized ratably over the contract term. Under IFRS 15, Enghouse expects the timing of the license revenue on term-based licenses to change with recognition at the time the license is delivered to the customer.
- Capitalization of costs to acquire contracts – Under the Company's current accounting policies, Enghouse generally expenses incremental commission costs as they are earned by employees. Under IFRS 15, the Company expects to capitalize and amortize 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 to which the commission costs relate.
- Increase disclosure of revenue, performance obligations and contract asset and liability balances.

The Company has yet to finalize the impact of the above-noted differences under IFRS 15, but they are not expected to be material. The Company expects to adopt IFRS 15 using the modified retrospective (cumulative effect) approach when it adopts IFRS 15, starting in the first quarter of its fiscal year ending October 31, 2019.

The Company has appointed a project team to manage the adoption and compliance with IFRS 15. The team is responsible for analyzing contracts, reviewing existing accounting policies and determining and



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quantifying differences between existing policies and IFRS 15. The team is also responsible for reviewing the Company's systems and data collection processes and will develop and implement new policies and processes to ensure that data is properly captured to meet the requirements of the new revenue standard. The team reports on its activities to the Audit Committee on a regular basis and has a plan for communicating the impact of IFRS 15 to the Company's stakeholders.

**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 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories:

- Financial assets measured at fair value; or
- Financial assets measured at amortized cost.

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.

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 ("OCI"). The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date until the asset is derecognized or reclassified. IFRS 9 also includes a new general hedge accounting standard, which will align hedge accounting more closely with risk management.

IFRS 9 also includes:

- a third measurement category fair value through other comprehensive income for certain financial assets that are debt instruments: and
- a new expected credit loss ("ECL") model, which 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.

The standard has a mandatory effective date for periods beginning on or after January 1, 2018. The Company has yet to assess the impact of IFRS 9 and will adopt IFRS 9 in the accounting period beginning on November 1, 2018.

**IFRS 16, Leases ("IFRS 16")** – IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019 and may be early adopted for companies that also apply IFRS 15. The standard replaces current 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 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 consolidated financial statements for the annual period beginning on November 1, 2019. The extent of the impact of adoption of the standard has not yet been determined. However, the Company believes that on adoption of IFRS 16 there will be an increase to assets and liabilities on the Consolidated Statements of Financial Position to reflect the right-of-use asset and corresponding lease liability. The Company also expects an increase to finance costs and depreciation for the accretion of the lease liability and depreciation of right-of-use asset, respectively, as well as a decrease to operating costs related to rent expense.

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## 05 Cash and cash equivalents and Short-term investments

	October 31, 2018		October 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
<b>Cash and cash equivalents</b>	<b>\$ 187,551</b>	<b>\$ 187,551</b>	<b>\$ 120,608</b>	<b>\$ 120,608</b>
<b>Short-term investments:</b>				
Banker's acceptances	\$ 1,104	\$ 1,104	\$ 3,068	\$ 3,068
Equities	5,282	5,282	6,669	6,669
<b>Total</b>	<b>\$ 6,386</b>	<b>\$ 6,386</b>	<b>\$ 9,737</b>	<b>\$ 9,737</b>

## 06 Property, plant and equipment

	Plant (1)	Furniture and Fixtures	Computer Hardware	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
<b>At October 31, 2016</b>					
Cost	1,044	1,272	18,622	2,247	23,185
Accumulated depreciation	(110)	(917)	(15,184)	(1,278)	(17,489)
<b>Net book value</b>	<b>934</b>	<b>355</b>	<b>3,438</b>	<b>969</b>	<b>5,696</b>
<b>Year ended October 31, 2017</b>					
Opening net book value	934	355	3,438	969	5,696
Additions	-	262	1,158	269	1,689
Acquisitions (Note 14)	-	-	98	-	98
Depreciation	(18)	(122)	(2,036)	(261)	(2,437)
Exchange difference	(34)	34	265	11	276
<b>Closing net book value</b>	<b>882</b>	<b>529</b>	<b>2,923</b>	<b>988</b>	<b>5,322</b>
<b>At October 31, 2017</b>					
Cost	1,044	1,534	19,878	2,516	24,972
Accumulated depreciation	(162)	(1,005)	(16,955)	(1,528)	(19,650)
<b>Net book value</b>	<b>882</b>	<b>529</b>	<b>2,923</b>	<b>988</b>	<b>5,322</b>
<b>Year ended October 31, 2018</b>					
Opening net book value	882	529	2,923	988	5,322
Additions	-	181	1,994	69	2,244
Acquisitions (Note 14)	-	-	205	-	205
Depreciation	(16)	(182)	(1,961)	(252)	(2,411)
Exchange difference	5	(8)	3	(81)	(81)
<b>Closing net book value</b>	<b>871</b>	<b>520</b>	<b>3,164</b>	<b>724</b>	<b>5,279</b>
<b>At October 31, 2018</b>					
Cost	986	1,456	15,653	1,761	19,856
Accumulated depreciation	(115)	(936)	(12,489)	(1,037)	(14,577)
<b>Net book value</b>	<b>871</b>	<b>520</b>	<b>3,164</b>	<b>724</b>	<b>5,279</b>

During the year, certain fully depreciated property, plant and equipment assets valued at approximately \$7 million and no longer being utilized were eliminated from the books.

(1) Plant includes \$684 allocated to building and \$302 allocated to land.

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## 07 Intangible assets and goodwill

	Acquired Software \$	Capitalized Software \$	Customer Relationships \$	Total Intangibles \$	Goodwill \$
<b>At October 31, 2016</b>					
Cost	144,211	2,116	85,694	232,021	144,578
Accumulated amortization	(99,044)	(55)	(46,290)	(145,389)	-
<b>Net book value</b>	<b>45,167</b>	<b>2,061</b>	<b>39,404</b>	<b>86,632</b>	<b>144,578</b>
<b>Year ended October 31, 2017</b>					
Opening net book value	45,167	2,061	39,404	86,632	144,578
Acquisition (Note 14)	6,397	-	14,517	20,914	5,867
Purchase price adjustments	-	-	-	-	1,404
Additions	-	1,475	-	1,475	-
Amortization	(17,001)	(578)	(11,826)	(29,405)	-
Exchange difference	431	(33)	(300)	98	(1,162)
<b>Closing net book value</b>	<b>34,994</b>	<b>2,925</b>	<b>41,795</b>	<b>79,714</b>	<b>150,687</b>
<b>At October 31, 2017</b>					
Cost	150,608	3,592	100,211	254,411	150,687
Accumulated amortization	(115,614)	(667)	(58,416)	(174,697)	-
<b>Net book value</b>	<b>34,994</b>	<b>2,925</b>	<b>41,795</b>	<b>79,714</b>	<b>150,687</b>
<b>Year ended October 31, 2018</b>					
Opening net book value	34,994	2,925	41,795	79,714	150,687
Acquisition (Note 14)	4,785	-	3,765	8,550	4,513
Purchase price adjustments	-	-	-	-	(705)
Amortization	(14,884)	(712)	(12,553)	(28,149)	-
Exchange difference	(104)	(16)	(100)	(220)	924
<b>Closing net book value</b>	<b>24,791</b>	<b>2,197</b>	<b>32,907</b>	<b>59,895</b>	<b>155,419</b>
<b>At October 31, 2018</b>					
Cost	155,393	3,592	103,976	262,961	155,419
Accumulated amortization	(130,602)	(1,395)	(71,069)	(203,066)	-
<b>Net book value</b>	<b>24,791</b>	<b>2,197</b>	<b>32,907</b>	<b>59,895</b>	<b>155,419</b>

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## 08 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
<b>At November 1, 2016</b>	<b>\$ 2,111</b>
Additional provisions	1,968
Unused amounts reversed	(438)
Utilized during the year	(2,026)
Effect of movements in foreign exchange	(94)
<b>At October 31, 2017</b>	<b>\$ 1,521</b>
<b>At November 1, 2017</b>	<b>\$ 1,521</b>
Additional provisions	473
Unused amounts reversed	(543)
Utilized during the year	(1,179)
Effect of movements in foreign exchange	(4)
<b>At October 31, 2018</b>	<b>\$ 268</b>

## 09 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 27,290,012 common shares outstanding as at October 31, 2018. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2018 or October 31, 2017.

### Dividends

During the year ended October 31, 2018, the Company declared dividends of \$19,014 (\$0.70 per common share), of which \$4,912 was paid on November 30, 2018 and reflected as a liability in the Consolidated Statements of Financial Position at October 31, 2018 (\$4,319 October 31, 2017). For the year ended October 31, 2017, dividends declared were \$16,716 (\$0.62 per common share).

### Common share repurchase plan

On April 26, 2018, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 1,939,371 common shares of the Company, expiring on April 29, 2019. The Company did not repurchase any common shares in either fiscal 2018 or fiscal 2017.



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## Accumulated other comprehensive income

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

	Translation of Foreign Operations Gains/(Losses) \$	Unrealized Gains/(Losses) on AFS Assets \$	Total \$
<b>At October 31, 2016</b>	<b>7,210</b>	<b>259</b>	<b>7,469</b>
Currency translation differences	1,345	-	1,345
Unrealized losses on available-for-sale financial assets, net of income tax recovery of \$49	-	(327)	(327)
<b>At October 31, 2017</b>	<b>8,555</b>	<b>(68)</b>	<b>8,487</b>
Currency translation differences	(2,019)	-	(2,019)
Unrealized losses on available-for-sale financial assets, net of income tax recovery of \$109	-	(713)	(713)
<b>At October 31, 2018</b>	<b>6,536</b>	<b>(781)</b>	<b>5,755</b>

## 10 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 1,091,650 (2017 1,388,450) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four years and expire seven years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

A summary of the status of the Company's Plan as at October 31, 2018 and October 31, 2017, and changes during the years ended on those dates, is presented as follows:

	2018		2017	
	Number of Options	Weighted Average Exercise Price in \$	Number of Options	Weighted Average Exercise Price in \$
Outstanding at beginning of year	920,250	39.04	741,500	29.34
Granted	195,000	61.63	300,000	58.61
Exercised	(296,800)	20.83	(86,250)	18.07
Forfeited	(98,000)	56.67	(35,000)	52.99
Outstanding at end of year	<b>720,450</b>	<b>50.26</b>	<b>920,250</b>	<b>39.04</b>
Options exercisable at end of year	<b>265,950</b>	<b>36.09</b>	<b>482,250</b>	<b>24.40</b>

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A summary of stock options outstanding as at October 31, 2018 is set out below:

Exercise Price	Outstanding Stock Options			Exercisable Stock Options	
	Number Outstanding as at October 31, 2018	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price in \$	Number Exercisable as at October 31, 2018	Weighted Average Exercise Price in \$
\$10.01 to \$14.50	15,500	0.38	13.09	15,500	13.09
\$14.51 to \$23.74	79,450	1.36	19.39	79,450	19.39
\$23.75 to \$34.45	51,000	2.35	34.45	51,000	34.45
\$34.46 to \$48.47	125,000	3.36	48.47	83,000	48.47
\$48.48 to \$64.57	449,500	5.71	59.28	37,000	56.10
	<b>720,450</b>	<b>4.47</b>	<b>50.26</b>	<b>265,950</b>	<b>36.09</b>

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. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. During fiscal 2018, the Company recorded a non-cash charge of \$1,545 (2017 \$1,148).

For options granted in the year, 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 FY 2018	Options Granted FY 2017
Risk-free interest rate	1.84%	1.39%
Estimated volatility	27% - 28%	27% - 28%
Dividend yield	\$0.64-\$0.72	\$0.64
Expected life (in years)	3.5	3.5
Weighted average fair value	\$12.80	\$11.35
Weighted average share price at grant date	\$61.63	\$58.61

## 11 Research and development expense

	2018	2017
Research and development costs incurred	\$ 47,540	\$ 45,890
Investment tax credits recognized	(372)	(1,325)
<b>Net research and development expense</b>	<b>\$ 47,168</b>	<b>\$ 44,565</b>

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## 12 Income taxes

(A) The provision for income taxes consists of the following:

	2018	2017
<b>Current income taxes:</b>		
Current tax on profits for the year	\$ 17,448	\$ 13,432
U.S. repatriation tax	8,035	-
Foreign withholding taxes	1,006	869
Adjustments for prior periods	(2,094)	2,508
	<b>\$ 24,395</b>	<b>\$ 16,809</b>
<b>Deferred income taxes:</b>		
Origination and reversal of timing differences	\$ (1,059)	\$ (3,352)
Change in tax rates	1,327	100
Recognition of previously unrecognized tax assets	(4,374)	(3,178)
	<b>(4,106)</b>	<b>(6,430)</b>
<b>Total income tax provision</b>	<b>\$ 20,289</b>	<b>\$ 10,379</b>

(B) The Company operates in several tax jurisdictions. The provision for income taxes differs from the expense that would be obtained by applying the combined federal and provincial statutory rate in Canada as a result of the following:

	2018		2017	
	\$	%	\$	%
Expected income tax amount at statutory rate	20,679	26.5	16,224	26.5
Foreign earnings subject to different income tax rates	(2,075)	(2.7)	(174)	(0.3)
Change in tax rates	1,327	1.7	100	0.2
Non-deductible expenses	672	0.9	(38)	(0.1)
Tax-exempt income	(150)	(0.2)	(2,669)	(4.4)
Foreign withholding taxes	1,006	1.3	869	1.4
U.S. repatriation tax	8,035	10.3	-	-
Resolution of tax positions	(4,831)	(6.2)	(755)	(1.2)
Changes in recognized assets	(4,374)	(5.6)	(3,178)	(5.1)
<b>Effective income tax amount and rate</b>	<b>20,289</b>	<b>26.0</b>	<b>10,379</b>	<b>17.0</b>

During the year, tax rate changes have been substantively enacted as follows:

Jurisdiction	New Rate (%)	Prior Rate (%)	Effective Date
United States - Federal	21.0%	35.0%	January 2018
Norway	23.0%	24.0%	January 2018
Sweden	21.4%	22.0%	January 2019
Belgium	29.6%	34.0%	January 2019

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- (C) The Company has recognized deferred income tax assets and liabilities as at October 31, 2018 and 2017 of the following:

	2018 \$	2017 \$
<b>Deferred income tax assets:</b>		
Adjustment to available-for-sale investments	119	10
Unrealized foreign exchange	-	14
Provisions and reserves	2,755	6,169
Income tax loss carry-forwards	5,604	6,704
SRED expenditures	243	234
Property, plant and equipment	913	1,214
	<b>9,634</b>	<b>14,345</b>
<b>Deferred income tax liabilities:</b>		
Property, plant and equipment	667	591
Deferred revenue reserves	3,713	3,903
Acquired software	3,291	7,742
Other intangibles	5,444	9,213
	<b>13,115</b>	<b>21,449</b>
<b>Deferred income tax liabilities, net</b>	<b>(3,481)</b>	<b>(7,104)</b>

- (D) The movement in deferred income tax assets and liabilities during the year is as follows:

	Balance November 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2018
Available-for-sale investments	10	-	109	-	-	119
Unrealized foreign exchange	14	(14)	-	-	-	-
Provisions and reserves	6,169	(3,414)	-	-	-	2,755
Income tax loss carry-forwards	6,704	(1,906)	-	806	-	5,604
SRED expenditures	234	9	-	-	-	243
Property, plant and equipment	1,214	(301)	-	-	-	913
Other	-	(490)	-	-	490	-
<b>Assets</b>	<b>14,345</b>	<b>(6,116)</b>	<b>109</b>	<b>806</b>	<b>490</b>	<b>9,634</b>

	Balance November 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2018
Property, plant and equipment	591	76	-	-	-	667
Acquired software	7,742	(5,304)	-	853	-	3,291
Intangible assets	9,213	(4,804)	-	1,035	-	5,444
Deferred revenue reserves	3,903	(190)	-	-	-	3,713
<b>Liabilities</b>	<b>21,449</b>	<b>(10,222)</b>	<b>-</b>	<b>1,888</b>	<b>-</b>	<b>13,115</b>



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	Balance November 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2017
Available-for-sale investments	-	-	10	-	-	10
Unrealized foreign exchange	-	14	-	-	-	14
Provisions and reserves	2,021	399	-	3,749	-	6,169
Income tax loss carry-forwards	8,129	(1,425)	-	-	-	6,704
SRED expenditures	234	-	-	-	-	234
Property, plant and equipment	1,381	(167)	-	-	-	1,214
Other	-	141	-	-	(141)	-
<b>Assets</b>	<b>11,765</b>	<b>(1,038)</b>	<b>10</b>	<b>3,749</b>	<b>(141)</b>	<b>14,345</b>

	Balance November 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations	Other	Balance October 31, 2017
Property, plant and equipment	750	(159)	-	-	-	591
Acquired software	9,699	(4,177)	-	2,220	-	7,742
Intangible assets	7,232	(3,702)	-	5,683	-	9,213
Available-for-sale investments	39	-	(39)	-	-	-
Deferred revenue reserves	3,333	570	-	-	-	3,903
<b>Liabilities</b>	<b>21,053</b>	<b>(7,468)</b>	<b>(39)</b>	<b>7,903</b>	<b>-</b>	<b>21,449</b>

The Company and its subsidiaries have non-capital losses available for carry-forward for income tax purposes, which may be subject to restriction on their availability to shelter income as follows:

Jurisdiction	Non-capital losses available 2018	Non-capital losses available 2017	Expiry terms
United States	\$ 65,000	\$ 77,000	Expire in periods commencing in 2019 - 2036
United Kingdom	1,000	2,000	No expiry
Belgium	9,000	11,000	No expiry
Norway	-	2,000	No expiry
Denmark	7,000	1,000	No expiry
Canada	1,000	1,000	Expire in periods commencing in 2027 - 2035
Other	5,000	7,000	No expiry
<b>Total</b>	<b>\$ 88,000</b>	<b>\$ 101,000</b>	

The Company has not recognized a deferred income tax asset in respect of approximately \$59 million of non-capital losses. Of this amount, \$44 million in losses was incurred by companies resident in the U.S., which are subject to IRC 382 limitations. These limit the use of losses that are available and provide that these losses can only be applied on a straight-line basis over twenty years. Based on the attributes and the Company's profitability in the U.S., it is uncertain whether there will be sufficient future taxable

# Notes to Consolidated Financial Statements

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income with which to offset these losses during this period. The remaining \$15 million in losses are related to losses incurred by other non-U.S. foreign subsidiaries that have been acquired during the year or the previous years. Due to a lack of financial history and historical losses in these entities, management believes that it is not appropriate to fully recognize tax assets for losses acquired with these businesses, which could potentially reverse. The Company has not recognized approximately \$10 million of deductible temporary differences as it is uncertain whether future taxable income in the tax jurisdictions in which the temporary differences arise will be available from which to realize the benefits. The current year's tax provision includes a credit of \$2.4 million booked for the recognition of deferred tax assets related primarily to non-capital losses for tax purposes, compared to a credit of \$2.6 million recorded in fiscal 2017 for the same reason.

(E) As a result of U.S. tax reform that was enacted on December 22, 2017, there were a significant amount of one-time charges that adversely affected the Company's tax provision in the fiscal year. These changes included the revaluation of deferred tax assets and liabilities on the reduction of the federal income tax rate from 35% to 21% effective January 1, 2018 and the implementation of a one-time deemed repatriation of earnings and profits of specified foreign corporations effective December 31, 2017. This repatriation tax charge recorded in 2018 resulted in an estimated U.S. \$6.2 million tax liability payable over 8 years. The first payment of U.S. \$0.5 million is payable on January 15, 2019, with the remaining estimated balance of U.S. \$5.7 million recorded as a long-term income tax payable on the Consolidated Statements of Financial Position at October 31, 2018. These provisional estimates incorporate assumptions based on the most recent interpretations of the Tax Cut and Jobs Act and may change as the Company continues to analyze the impact of additional implementation guidance including finalized legislation or further administrative guidance.

## 13 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.

	2018	2017
Net income attributable to owners of the parent	\$ 57,745	\$ 50,842
Weighted average number of common shares issued	27,118,934	26,945,949
<b>Basic earnings per share</b>	<b>\$ 2.13</b>	<b>\$ 1.89</b>

### 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.

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	2018	2017
Net income attributable to owners of the parent	\$ 57,745	\$ 50,842
Weighted average number of common shares issued	27,118,934	26,945,949
Adjustments for: Stock options	194,822	286,508
Weighted average number of common shares for diluted earnings per share	27,313,756	27,232,457
<b>Diluted earnings per share</b>	<b>\$ 2.11</b>	<b>\$ 1.87</b>

No options to purchase common shares were excluded from the computation of diluted earnings per share because the options' exercise prices were less than the average market price of common shares during the fiscal year. In the prior fiscal year, 250,000 options were excluded in the computation of diluted earnings because the options' exercise prices were greater than the average market price of common shares.

## 14 Acquisitions

Acquisitions have been recorded under the purchase method of accounting and results have been included in the Consolidated 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.

### 2018 acquisitions

#### *Asset Management Group*

The Company completed three acquisitions in the first two quarters of the fiscal year, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of approximately \$11.6 million, with \$0.7 million subject to hold-back and adjustment and \$1.2 million held in escrow that is subject to adjustment. The purchase price allocation for these acquisitions has not yet been finalized as it is subject to the receipt of additional information. Results are included in the Asset Management Group from the dates of acquisition.

### 2017 acquisitions

#### *Asset Management Group*

The Company completed one acquisition, in April 2017, to acquire 100% of the issued and outstanding common shares for an aggregate cash purchase price of approximately \$22.7 million. Of this amount, \$0.9 million remains subject to hold-back with \$0.5 million paid to the sellers in November 2018 and the balance to be paid directly to third parties. Results were included in the Asset Management Group from date of acquisition.

#### *Interactive Management Group*

The Company completed one acquisition, in September 2017, acquiring 100% of the issued and outstanding common shares for an aggregate cash purchase price of approximately \$3.0 million. Of this amount, \$0.1 million remains subject to hold-back on receipt of additional information. Results were included in the Interactive Management Group from date of acquisition.

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The Company's purchase price allocations are as follows:

	Asset Management Group Preliminary 2018	Interactive Management Group Final 2017	Asset Management Group Final 2017
Cash and cash equivalents	\$ 1,235	\$ 239	\$ 3,637
Accounts receivable, net	2,182	589	6,150
Prepaid expenses and other assets	578	86	981
Property, plant and equipment	205	-	98
Deferred income tax assets	146	253	3,496
Acquired software	4,785	718	5,679
Customer relationships	3,765	2,078	12,439
Goodwill	4,513	1,122	4,659
<b>Total assets acquired</b>	<b>\$ 17,409</b>	<b>\$ 5,085</b>	<b>\$ 37,139</b>
Less: Current liabilities assumed	\$ 3,931	\$ 1,033	\$ 6,679
Less: Deferred income tax liabilities	1,888	1,019	5,514
Less: Other long-term liabilities	-	-	2,259
<b>Total liabilities assumed</b>	<b>\$ 5,819</b>	<b>\$ 2,052</b>	<b>\$ 14,452</b>
<b>Net assets acquired for cash consideration</b>	<b>\$ 11,590</b>	<b>\$ 3,033</b>	<b>\$ 22,687</b>

The gross contractual amounts of acquired receivables in 2018 for the Asset Management Group and the Interactive Management Group were \$2.6 million (2017 \$7.2 million). However, acquired receivables are generally represented as collectible by the sellers and therefore are expected to be fully collectible from customers or the sellers. The Company does not believe the impact of 2018 business acquisitions is material to either consolidated revenue or consolidated net income.

The goodwill recognized in connection with 2018 acquisitions for the Asset Management Group is primarily attributable to the anticipated improvement in the operations of the companies acquired and synergies with existing operations as a result of implementation of Enghouse's business strategies and methodologies. Goodwill also includes other intangibles such as assembled workforce that do not qualify for separate recognition under IFRS. None of the total goodwill of \$4.5 million recorded in 2018 (2017 \$5.8 million) arising from these acquisitions is deductible for tax purposes.

## 15 Commitments and operating leases

### Operating leases

The Company leases premises and certain equipment and automobiles under operating leases. The operating rental expense for the year ended October 31, 2018 was \$9,330 (2017 \$9,421). The annual minimum future lease commitments are as follows:

	October 31, 2018	October 31, 2017
Less than 1 year	\$ 5,352	\$ 5,789
Between 1 and 5 years	9,146	8,848
More than 5 years	537	612
<b>Total</b>	<b>\$ 15,035</b>	<b>\$ 15,249</b>



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## Loan commitments

The Company's minimum long-term loan (note 18) payment commitments, including interest, are as follows:

	October 31, 2018	October 31, 2017
Less than 1 year	\$ 129	\$ 482
Between 1 and 5 years	891	1,658
More than 5 years	887	774
<b>Total</b>	<b>\$ 1,907</b>	<b>\$ 2,914</b>

## 16 Segment information

The Company has two operating segments, the Interactive Management Group and the Asset Management Group, based on the nature of the operations and markets that each of these segments serves. The accounting policies followed by these segments are the same as those described in the summary of significant accounting policies.

The Company's operating segments each develop and market software products and provide services for their respective markets and are inclusive of the current year acquisitions. The Interactive Management Group specializes in customer interaction software and services that are designed to enhance customer service, increase efficiency and manage customer communications across the enterprise. The Asset Management Group provides a portfolio of products to telecom service providers as well as fleet management and public safety software solutions for the transportation sector, government, first responders, distribution, security, utilities and oil and gas industries.

The Company evaluates segment performance based on revenue and profit or loss before income taxes.

	Interactive Management Group	Asset Management Group	Total
<b>Year ended October 31, 2018</b>			
Revenue	\$ 189,286	\$ 153,559	\$ 342,845
Operating expenses excluding non-cash charges	(126,753)	(98,398)	(225,151)
Special charges	-	(390)	(390)
Depreciation of property, plant and equipment	(1,751)	(660)	(2,411)
<b>Segment profit</b>	<b>\$ 60,782</b>	<b>\$ 54,111</b>	<b>\$ 114,893</b>
Corporate expenses			(11,648)
<b>Results from operating activities</b>			<b>\$ 103,245</b>
Amortization of acquired software and customer relationships			(28,149)
Foreign exchange gains			599
Finance income			476
Finance expenses			(213)
Other income			2,076
<b>Income before income taxes</b>			<b>\$ 78,034</b>
Goodwill	\$ 94,194	\$ 61,225	\$ 155,419
Other assets	67,208	78,636	145,844
Cash and cash equivalents	-	-	187,551
Short-term investments	-	-	6,386
<b>Total assets</b>	<b>\$ 161,402</b>	<b>\$ 139,861</b>	<b>\$ 495,200</b>
Capital expenditures	\$ 1,701	\$ 543	\$ 2,244

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	Interactive Management Group	Asset Management Group	Total
<b>Year ended October 31, 2017</b>			
Revenue	\$ 190,668	\$ 134,700	\$ 325,368
Operating expenses excluding non-cash charges	(128,481)	(94,174)	(222,655)
Special charges	(171)	(813)	(984)
Depreciation of property, plant and equipment	(1,749)	(688)	(2,437)
<b>Segment profit</b>	<b>\$ 60,267</b>	<b>\$ 39,025</b>	<b>\$ 99,292</b>
Corporate expenses			(8,714)
<b>Results from operating activities</b>			<b>\$ 90,578</b>
Amortization of acquired software and customer relationships			(29,405)
Foreign exchange losses			(3,205)
Finance income			252
Finance expenses			(185)
Other income			3,186
<b>Income before income taxes</b>			<b>\$ 61,221</b>
Goodwill	\$ 92,924	\$ 57,763	\$ 150,687
Other assets	89,212	91,593	180,805
Cash and cash equivalents	-	-	120,608
Short-term investments	-	-	9,737
<b>Total assets</b>	<b>\$ 182,136</b>	<b>\$ 149,356</b>	<b>\$ 461,837</b>
Capital expenditures	\$ 1,229	\$ 460	\$ 1,689

Revenue from customers is attributable to individual countries based on the reporting entity that records the transaction and is distributed geographically as follows:

Jurisdiction	2018 %	2017 %
United States	30	32
United Kingdom	19	20
Europe	18	17
Scandinavia	24	24
Canada	3	1
Other	6	6
<b>Total</b>	<b>100</b>	<b>100</b>

Non-current assets by geographic region are attributable to individual countries based on reporting entity and are distributed geographically as follows:

Jurisdiction	2018 \$	2017 \$
United States	82,493	86,544
United Kingdom	35,236	37,321
Europe	40,440	49,532
Scandinavia	42,507	39,835
Canada	16,904	19,411
Other	3,013	4,082
<b>Subtotal</b>	<b>220,593</b>	<b>236,725</b>
Deferred tax assets	9,634	14,345
<b>Total non-current assets</b>	<b>230,227</b>	<b>251,070</b>

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## 17 Litigation and contingencies

### General

The Company provides its customers with a qualified indemnity against the infringement of third-party intellectual property rights. From time to time, various owners of patents and copyrighted works send the Company or its customers letters alleging that the Company's products do or might infringe upon the owner's intellectual property rights, and/or suggesting that the Company or its customers should negotiate a license agreement with the owner. The Company's policy is to never knowingly infringe upon any third party's intellectual property rights. Accordingly, where appropriate, the Company forwards any such allegation or licensing request to its outside legal counsel for review. The Company generally attempts to resolve any such matter by informing the owner of the Company's position concerning non-infringement or invalidity. Even though the Company attempts to resolve these matters without litigation, it is always possible that the owner of a patent or copyrighted work will sue the Company.

In response to correspondence from and, in a few instances, litigation instigated by, third-party patent holders, a few of the Company's customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. With respect to this litigation, and any other litigation the Company becomes involved with, under a contractual indemnity or any other legal theory, the Company has and will continue to consider all its options for resolution and vigorously assert all appropriate defenses. There are no material claims outstanding against the Company at October 31, 2018.

## 18 Long-term loans

The Company assumed long-term loans on the acquisition of Presence Technology, S.L. ("Presence"). Presence has long-term loans with Spanish government agencies. The loans bear fixed interest rates that vary between 0.08% and 0.67%. The facilities are collateralized by long-term deposits held by financial institutions; however, the Company can settle these loans at any time in the future. As at October 31, 2018, there is \$0.9 million in undrawn loans. The terms require that remaining balances on each loan must be re-paid in agreed instalments per loan between now and various due dates, with the last settlement occurring in 2028. The loans contain standard terms of default, which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at year-end, the Company was in compliance with standard terms. The loans are available for research and development expenditure and working capital needs.

## 19 Capital disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to deploy capital to provide an appropriate return on investment to its shareholders. The capital structure of the Company consists of shareholders' equity, comprising retained earnings, share capital and accumulated other comprehensive income or loss amounts relating to available-for-sale securities and cumulative translation adjustments. The Company does not have any long-term debt other than that assumed on the acquisition of Presence on October 28, 2016. The Company manages its capital structure and adjusts it in light of economic conditions and the risk characteristics of the underlying assets. The Company's primary uses of capital are to finance non-cash working capital requirements, capital expenditures and acquisitions, which are currently funded from its internally generated cash flows.

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The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. There has been no change with respect to the overall capital risk management strategy during the years ended October 31, 2018 and October 31, 2017.

## 20 Financial instruments

### Fair value of financial instruments

The Company has determined that the fair value of its cash, cash equivalents, short-term investments, accounts receivable and financial liabilities approximate their respective carrying amounts as at the Consolidated Statements of Financial Position dates due to their short-term nature. Long-term loans assumed on acquisition of Presence were fair valued at acquisition based on market interest rates and are carried at amortized cost.

### Fair value hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices). Level 3 inputs are inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

In the table below, the Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. The Company has no financial assets that are measured using Level 2 or 3 inputs.

Financial assets and financial liabilities that are measured at fair value as at October 31, 2018 and October 31, 2017 in the consolidated financial statements are summarized below. The Company has no financial liabilities measured at fair value initially other than those recognized in connection with business combinations. There were no transfers of fair value measurements between Level 1 and Level 2 of the fair value hierarchy in 2018 and 2017.

	October 31, 2018			October 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Assets:</b>						
Equities	\$ 5,282	\$ -	\$ 5,282	\$ 6,669	\$ -	\$ 6,669
<b>Total financial assets</b>	<b>\$ 5,282</b>	<b>\$ -</b>	<b>\$ 5,282</b>	<b>\$ 6,669</b>	<b>\$ -</b>	<b>\$ 6,669</b>

	October 31, 2018			October 31, 2017		
	Level 2	Level 3	Total	Level 2	Level 3	Total
<b>Liabilities:</b>						
Contingent consideration	\$ -	\$ -	\$ -	\$ -	\$ 2,399	\$ 2,399
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,399</b>	<b>\$ 2,399</b>



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## **Risk management**

The Company, through its financial assets and liabilities, is exposed to risks of varying degrees of significance that could impact its ability to achieve its strategic growth objectives. The main objective of the Company's risk management process is to ensure that risks are properly identified and addressed. The Company has exposure to credit risk, market risk and liquidity risk.

The Company manages its short-term investment portfolio to maximize returns, maintain liquidity and diversify its credit risk exposure to safeguard its principal. To achieve this objective, the Company has established an investment committee consisting of the Company's Chief Executive Officer, Vice President, Finance, and Chairman of the Audit Committee. The Company has also adopted a formal investment policy to govern the management of the Company's investment portfolio, which specifies eligible investments, investment limits, minimum allowable credit ratings of investments and the permissible concentration of credit risk. The Company does not enter into any hedge transactions in its investment portfolio and is not party to any derivative financial instruments.

## **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The amounts reported in the Consolidated Statements of Financial Position are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by adjusting the allowance for doubtful accounts as soon as the account is determined not to be fully collectible. The Company believes that its credit risk with respect to accounts receivable is limited for a number of reasons including dealing primarily with large companies and governmental agencies, diversifying its customer base across varying industries and geographic locations, regular management review, negotiating progress payments as contracts are executed and past experience with bad debt expense. The Company historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. No individual customer's trade receivable poses a significant credit risk to the Company.

The Company's accounts receivables had a carrying value of \$62.1 million as at October 31, 2018 (2017 \$71.9 million), representing the maximum exposure to credit risk of those financial assets, net of the allowance for doubtful accounts of \$5.1 million. The Company's allowance for doubtful accounts decreased from \$7.6 million at October 31, 2017 as a result of stronger collections and certain write-offs, net of increases for acquisitions. The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 30 to 60 days. Approximately 6.7% or \$4.5 million of trade receivables at October 31, 2018 was outstanding more than 90 days, compared to \$8.0 million (10.1%) past due as at October 31, 2017, which has been fully provided for at October 31, 2018.

With respect to its investment portfolio, the Company limits its exposure to credit risks from counterparties to financial instruments by dealing only with major financial institutions and large multi-national corporations with high credit ratings, investing only in high-grade investment products and limiting exposure to any one financial institution, commercial issuer or investment type and limiting the term of maturity. Management does not expect any counterparties to fail to meet their obligations. The carrying amount of financial assets represents the maximum credit exposure to the Company.

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## Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments.

## Foreign exchange risk

Foreign currency risk is related to the portion of the Company's business transactions denominated in currencies other than Canadian Dollars, a large portion of which relates to fluctuations in the value of the Canadian Dollar relative to that of the U.S. Dollar. However, a significant proportion of revenue is also generated by the Company's U.K. and European operations.

Approximately 19% of the Company's revenues are derived from sales by its U.K. operations, which may be denominated in Pounds Sterling, Euros or U.S. Dollars, while 18% of its revenue is generated from sales by the Company's European offices in Ireland, Germany, Italy, Spain and Belgium. An estimated 24% of its revenues are generated by Scandinavian operations primarily in Sweden, Denmark and Norway. Approximately 4% of revenues are derived from sales to customers in Australia and New Zealand and are denominated in Australian and New Zealand Dollars. Approximately 30% of the Company's revenues are derived from sales to customers in the United States, which are naturally hedged by the Company's U.S. based operating costs associated primarily with the Company's Interactive Management Group U.S. operations. In contrast, the Company's head office expenses are incurred in Canadian Dollars, which is not sufficiently hedged by Canadian Dollar denominated revenue. Similar natural hedges exist in most other operations where revenue and operating expenses are denominated in the same currencies. If all the foreign currencies in which the Company transacts were to fluctuate by 1% from existing rates against the Canadian Dollar, results from operating activities would be increased or decreased by approximately \$0.9 million in the Consolidated Statements of Operations and Comprehensive Income.

For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the Canadian Dollar will create volatility in the Company's cash flows and the reported amounts for revenue and selling, general and administrative expenses on a period-to-period basis.

Additional earnings volatility arises from the translation of monetary assets and liabilities denominated in currencies other than the functional currency of the subsidiary in which they are recorded. Changes in the rates of exchange at each Consolidated Statements of Financial Position date of these monetary assets and liabilities are reported as a foreign exchange gain or loss. For the year ended October 31, 2018, the Company reported foreign exchange gains of \$0.6 million compared to losses of \$3.2 million in fiscal 2017.

Translation gains or losses incurred upon consolidation of the Company's foreign operation's financial positions into Canadian Dollars are included in the Company's accumulated other comprehensive income (loss) account on the Consolidated Statements of Financial Position. During fiscal 2018, the exchange rate for U.S. Dollars to Canadian Dollars averaged \$1.29 (2017 \$1.31), while the Pound Sterling averaged \$1.73 (2017 \$1.68), the Euro averaged \$1.53 (2017 \$1.47) and the Swedish Krona averaged \$0.15 (2017 \$0.15). If exchange rates were to fluctuate by 1%, the translation gain or loss on the Company's net assets could be valued at plus or minus \$3.5 million due to the fluctuation and would be recorded in other comprehensive income.

## Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and short-term investments. If interest rates were to fluctuate proportionally by 10%

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of existing rates, interest income would be increased or decreased by approximately \$0.15 million per year. The Company is not materially exposed to interest rate risk on debt as the Company has nominal long-term debt.

## Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it has sufficient liquidity to meet its obligations, mainly accounts payable, accrued liabilities, accrued provisions and deferred revenue, when due. The Company does not have any short-term borrowing or debt facilities other than that assumed on the acquisition of Presence on October 28, 2016 and settles its financial obligations out of cash. The ability to do so relies on the Company's ability to generate cash from operations and collect accounts receivable in a timely manner and by maintaining sufficient cash on hand. As at October 31, 2018, the Company's current liabilities, all of which fall due for payment within twelve months of the Consolidated Statements of Financial Position date, were \$118,497 (2017 \$126,086). At October 31, 2018, the Company had a working capital surplus of \$146,476 (2017 \$84,681), which includes cash balances of \$193,937 (2017 \$130,345).

## 21 Changes in non-cash operating working capital

	2018 \$	2017 \$
Decrease in accounts receivable, net	11,984	8,034
Decrease in prepaid expenses and other assets	81	3,135
Decrease in accounts payable and accrued liabilities	(3,414)	(1,571)
Decrease in provisions	(1,253)	(553)
Decrease in income taxes payable	(3,272)	(5,166)
Increase in deferred revenue	2,187	895
	<b>6,313</b>	<b>4,774</b>

## 22 Additional IFRS information

### Expense by nature

	2018 \$	2017 \$
Third-party license, maintenance and services	19,349	16,876
Hardware	4,793	3,921
Staff costs	178,133	172,480
Supplies	3,978	4,051
Other administrative expenses	4,002	4,257
Travel and marketing	10,695	11,555
Communications	3,014	3,056
Occupancy	9,549	10,362
Professional services	3,241	4,811
Restructuring	390	984
Depreciation of property, plant and equipment	2,411	2,437
	<b>239,555</b>	<b>234,790</b>

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## Staff costs

	2018 \$	2017 \$
Salaries and wages	131,345	125,337
Employee benefits	26,627	26,151
Stock-based compensation	1,545	1,148
Termination benefits	956	925
Bonuses	5,640	4,936
Commissions	3,574	3,826
Contractors	8,446	10,157
	<b>178,133</b>	<b>172,480</b>

Included in employee benefits is the Company's share of costs related to defined contribution pension plans of \$5.1 million (2017 \$4.1 million).

## 23 Related parties

### Related party transactions

The Company has not entered into any related party transactions.

### Key management personnel compensation

The key management personnel of the Company are the members of the Company's executive management team and control approximately 14.3% (2017 – 16.6%) of the outstanding shares of Enghouse.

	2018 \$	2017 \$
Salaries, bonus and employee benefits	6,329	5,037
Stock options expense	873	292
<b>Total</b>	<b>7,202</b>	<b>5,329</b>

## 24 Defined benefit pension obligation

The Company assumed certain defined benefit pension obligations with respect to several employees in Belgium, Germany, and the Netherlands resulting from the Company's Tollgrade acquisition. There are no plan assets and therefore the net defined benefit obligation per the Consolidated Statements of Financial Position represents the complete benefit obligation for all three countries. At October 31, 2018, the majority of the defined benefit obligation relates to Germany, which is carried at fair value of \$1.8 million. The German plan's significant actuarial assumptions and sensitivity analysis against those assumptions are outlined below.

Parameter	Original Value	Sensitivity Analysis	Effect on Defined Benefit Obligation in \$
Discount rate	1.85%	-1.00%	334,972
Discount rate	1.85%	+1.00%	(263,256)
Rate of salary increase	2.50%	-0.50%	(6,788)
Rate of salary increase	2.50%	+0.50%	6,955
Pension increases for in payment benefits	1.75%	-0.25%	(60,089)
Pension increases for in payment benefits	1.75%	+0.25%	63,064



# Notes to Consolidated Financial Statements

October 31, 2018 and 2017 (in thousands of Canadian Dollars, except as indicated)

## 25 Subsequent events

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.

The acquisitions were completed for an aggregate purchase price of approximately \$29.0 million, subject to hold-back and adjustment, with results to be included in the Asset Management Group from the dates of acquisition. The purchase price allocations have not been established as they remain subject to receipt of additional information.

## Board of Directors

### Stephen J. Sadler

Chief Executive Officer and  
Chairman of the Board  
Enghouse Systems Limited

### Eric Demirian <sup>(1)</sup>

President  
Parklea Capital Inc.

### Reid Drury <sup>(1),(3)</sup>

Partner  
Polar Capital Corporation

### John Gibson <sup>(1)(2)(3)</sup>

President and Chief Executive Officer  
E.E.S. Financial Services Limited

### Paul Stoyan <sup>(3)</sup>

Chairman  
Gardiner Roberts LLP

### Pierre Lassonde <sup>(2)</sup>

Chairman  
Franco-Nevada Corporation

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Corporate Governance Committee

## Executive Officers

### Stephen J. Sadler

Chief Executive Officer and  
Chairman of the Board

### Vincent Mifsud

President

### Douglas C. Bryson

Vice President Finance and  
Corporate Secretary

### Lynette Corbett

Chief Administrative & Human  
Resources Officer

### Sam Anidjar

Vice President  
Corporate Development

### Geoff Bartle

Vice President  
Corporate Information Systems

### Todd M. May

Vice President and  
General Counsel

# Corporate Information

## Independent Auditors

### Ernst & Young LLP

Chartered Professional Accountants  
EY Tower  
100 Adelaide St. West, P.O. Box 1  
Toronto, Ontario M5H 0B3  
Canada

## Transfer Agent

### TSX Trust Company

100 Adelaide St. West, Suite 301  
Toronto, Ontario M5H 4H1  
Canada

## Stock Information

Shares of Enghouse Systems Limited  
are traded on the Toronto Stock  
Exchange under the symbol **ENGH**

## Investor Inquiries

Inquiries should be directed to:

Investor Relations

### Enghouse Systems Limited

80 Tiverton Court, Suite 800  
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email: [investor@enghouse.com](mailto:investor@enghouse.com)

## Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on

**Thursday, March 7, 2019 at 4:30 p.m.** at the

TSX Broadcast Centre  
130 King Street West  
Toronto, Ontario, Canada

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Enghouse Transportation**

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**Enghouse Systems**

Software engineered for results