

# Annual Report | 2020

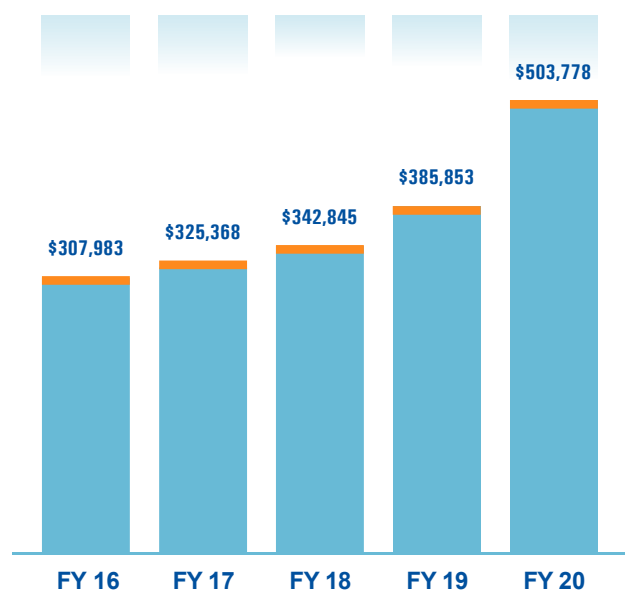


**Enghouse Systems**

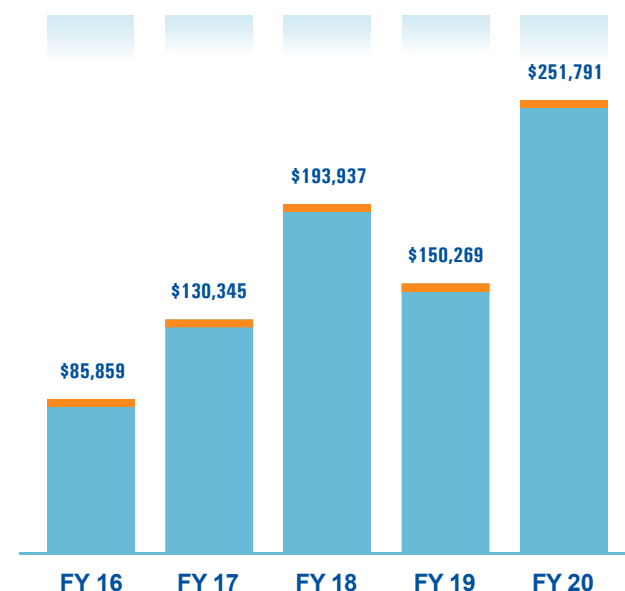
Software engineered for results

“We remain focused on scaling our operating costs to revenue levels to consistently operate profitably and generate positive operating cash flows”

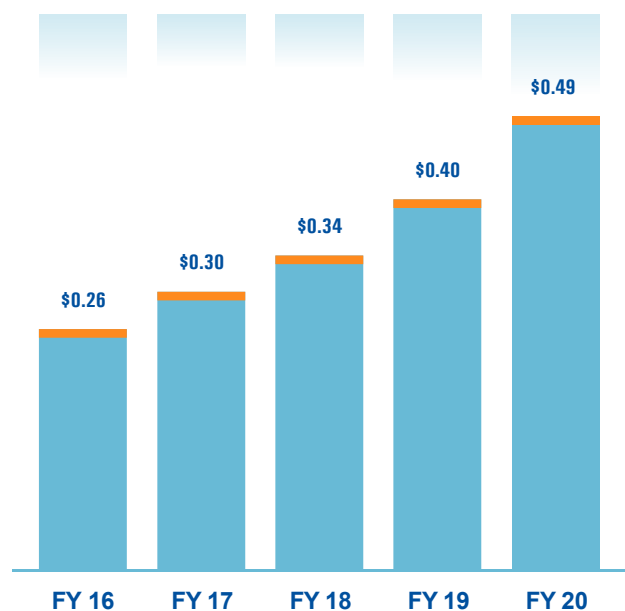
TOTAL REVENUE (in \$000s)



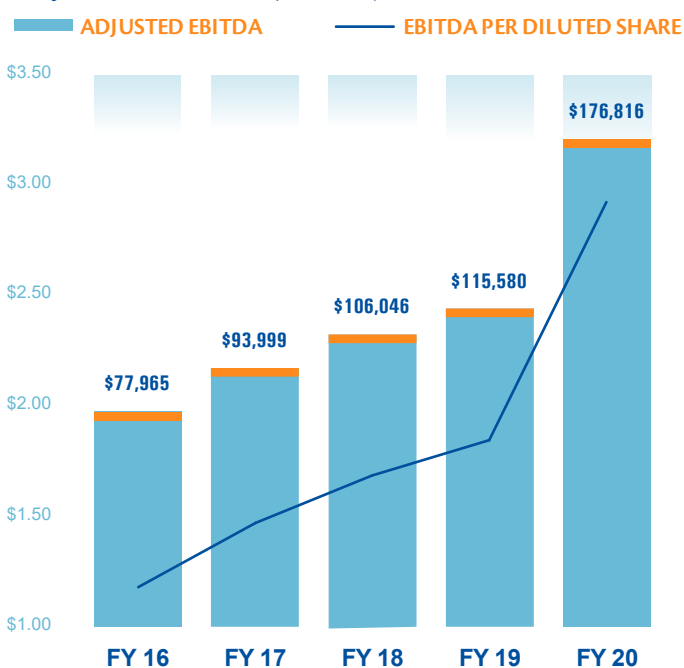
CASH & SHORT-TERM INVESTMENTS (in \$000s)



DIVIDEND PER SHARE



ADJUSTED EBITDA (in \$000s)



# Chairman's Message

To our Shareholders,

Enghouse once again achieved record results in fiscal 2020, surpassing the half-billion-dollar mark with annual revenue of \$503.8 million, compared to revenue of \$385.9 million in the prior year, an increase of 30.6%. Meanwhile, Adjusted EBITDA grew to \$176.8 million or \$3.18 per diluted share compared to \$115.6 million or \$2.10 per diluted share last year, an increase of 53.0%.

2020 was a transformative year for Enghouse and our customers. COVID-19 had an unprecedented impact on business during fiscal 2020. While the full effect of the pandemic remains to be seen, it will continue to fundamentally change the way we conduct business and interact with each other, our customers and technology. The pandemic led to increased demand for our remote-work and visual computing solutions leading to a surge in revenue, particularly in our second quarter at the outbreak of the pandemic. Our team successfully transitioned to a temporary remote-work model. Productivity and employee satisfaction remains high and we are exploring a more permanent shift to this remote-work model, which is expected to generate long-term cost savings in reduced premises and travel costs.

Annual cash flows from operating activities, excluding changes in working capital, were \$178.5 million compared to \$118.5 million in the prior year, an increase of 50.6%. As a result, Enghouse closed the year with \$251.8 million in cash, cash equivalents and short-term investments, compared to \$150.3 million at October 31, 2019. The increase in cash was achieved after making payments of \$43.9 million for acquisitions and \$27.0 million for dividends this year. While the transition to remote-work has been mostly positive, leading to increased sales, global travel restrictions have tempered the pace at which we are able to conduct due diligence after closing the acquisition of Dialogic early in the fiscal year. The slower pace of acquisitions has expanded operating margins beyond our historical averages as we quickly integrated Dialogic into our business and realized operating cost synergies.

As we reflect upon the year, we are proud to have been listed in the Toronto Stock Exchange's TSX30 for 2020 list that tallies the top-performing stocks over the past three years citing our 185% growth in share price between June 30, 2017 and June 30, 2020<sup>1</sup>. On March 5, 2020, the Company's eligible quarterly dividend was increased 22.7% from \$0.11 per common share to \$0.135, marking the twelfth consecutive year we have increased our dividend by over 10%.

Although the world is changing at an unprecedented pace, bringing innovation to how we conduct business, our core values remain unchanged. We continue to seek accretive acquisitions to grow our revenue and further expand our product suite and geographic reach, while maintaining our commitment to profitable growth in accordance with our disciplined business model. We remain focused on running the business consistent with our value for money philosophy that we believe provides shareholder value in the long-term.



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

<sup>1</sup>Source: <https://money.tmx.com/en/tsx30>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following Management Discussion and Analysis ("MD&A") has been prepared as of December 17, 2020 and all information contained herein is current as of that date unless otherwise indicated. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with Enghouse Systems Limited's ("Enghouse Systems") and its subsidiaries (together "Enghouse", "we", "us", "our" or "the Company") fiscal 2020 audited consolidated financial statements and the notes thereto. This MD&A covers the consolidated results of operations, financial condition and cash flows of Enghouse Systems and its subsidiaries, all wholly owned, for the year ended October 31, 2020.*

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

*This document is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The 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 and Forward-Looking Statements

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

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

## Corporate overview

Enghouse is a Canadian publicly traded company (TSX:ENGH) that provides enterprise software solutions focusing on remote work, visual computing and communications for next generation software defined networks. The Company's two-pronged growth strategy focuses on internal growth and acquisitions, which, to date, have been funded through operating cash flows. The Company is well capitalized, has no long-term debt and is organized around two business segments: the Interactive Management Group ("IMG") and the Asset Management Group ("AMG").

## MANAGEMENT'S DISCUSSION AND ANALYSIS

IMG specializes in customer interaction software and services designed to facilitate remote work, enhance customer service, increase efficiency and manage customer communications across multiple types of interactions including voice, email, web chats, text and video. Core technologies include contact center, video collaboration, interactive voice response, outbound dialers, attendant console, agent performance optimization, business intelligence and analytics that may be deployed in private cloud, multi-tenant cloud or on-premise environments. IMG's customers are varied and include insurance companies, telecoms, business process service providers, banks as well as technology and health care companies.

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

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

The Company emphasizes the importance of recurring revenue streams to increase shareholder value and the predictability of its operating results. While Enghouse continues to develop and enhance its existing product portfolio to grow organically, it is also important to augment and expedite this strategy with new and complementary technology, products and services obtained through acquisition. This dual-faceted approach will enable us to provide a broader spectrum of products and services to our customer base more quickly than through organic means alone.

### Key Events

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

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

The acquisition of Dialogic was completed for a purchase price of \$43.5 million, net of cash acquired, with U.S. \$3.2 million remaining in escrow subject to adjustment. Results for Dialogic are included in both IMG and AMG from the date of acquisition. During the prior fiscal year, Enghouse completed six acquisitions, all of which have been fully integrated into the Company's operations.

The COVID-19 pandemic has had a significant impact on our customers, employees, suppliers and other stakeholders. While the duration and effects remain unknown, we continue to react quickly to changing circumstances, with our team working remotely and some employees voluntarily returning to



# MANAGEMENT'S DISCUSSION AND ANALYSIS

the office where it is safe to do so and where local governmental guidance supports a return to the office. Our team continues to remain safe, delivering high quality work and results. Critical to this success has been our previous investment in upgrading our financial systems combined with the internal deployment of Enghouse products such as Vidyo that support remote work, including working from home.

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

- Increased sales of Vidyo and other solutions that support remote work;
- Sales have remained consistent despite some variability in timing of hardware revenue recognition, which has been subject to procurement delays resulting from COVID-19;
- While customers continue to renew existing contracts and sign new orders, some have deferred planned upgrades, expansions and roll-outs, especially those involving an on-site professional services element;
- Collections have remained strong;
- Cost savings continue to be realized as a result of decreased travel and other traditional marketing expenses either avoided or deferred as a result of COVID-19. This has been offset by increased demand generation initiatives;
- Certain subsidiaries qualified for an estimated \$3.8 million of grants from various government authorities and recognized such amounts as a reduction to expenses during the year;
- In light of the continued efficiency and productivity achieved through remote work we continue to reevaluate our physical footprint in light of current circumstances and are taking steps to reduce office space and implement other cost saving initiatives, as applicable.

Enghouse experienced growth from contributions from existing products as well as contributions from Dialogic (acquired in Q1/2020). Internal growth includes the expansion of the acquired businesses, particularly Vidyo (acquired Q2/2019) and Dialogic, relative to pre-acquisition sales volumes. Although the initial surge of customers requiring immediate solutions upon the initial outbreak of the pandemic was primarily served in the second quarter of 2020, demand for these solutions remains above historic averages.

## Outlook

COVID-19 had an unprecedented impact on business during fiscal 2020. While the full impact of the pandemic remains to be seen, it will continue to fundamentally change the way we conduct business and interact with each other, our customers and technology. This is seen through our ability to not only adapt to a remote-work environment, but to also benefit from such an arrangement. These benefits include overall increased employee satisfaction and productivity as well as potential cost savings on facilities. While the transition to remote-work has been mostly positive, it has hindered our ability to conduct due diligence, closing one acquisition early in the fiscal year and deploying \$43.5 million of our cash. The slower pace of acquisitions has expanded operating margins beyond our historical averages as we quickly integrated Dialogic into our business and realized operating cost synergies. We remain focused on scaling our operating costs to revenue levels to consistently operate profitably and generate positive operating cash flows. As a result, we grew revenue by 30.6% over last year to \$503.8 million and reported adjusted EBITDA of \$178.6 million or 35.1% of revenue. We closed the fiscal year with \$251.8 million in cash, cash equivalents and short-term investments that we are eager to deploy on acquisitions.

In addition to changing how we conduct business, the pandemic has changed how we sell to our customers. Travel restrictions preventing traditional sales approaches involving 'boots on the ground' and tradeshow have expedited changes to our sales approach already underway. The cost savings

## MANAGEMENT'S DISCUSSION AND ANALYSIS

from forgoing travel and tradeshow has been redeployed to demand generation initiatives that continue to yield positive results, which will remain beyond the conclusion of the pandemic alongside traditional sales approaches in a two-pronged approach to attract new customers.

As evidenced by our significant growth in sales during the year, our products are now more relevant than ever. With increased global focus on video communications and healthcare our Vidyo line of products remains well positioned to deliver a wide range of video communications solutions. Our customers have demonstrated countless use cases for Vidyo, providing alternatives when face-to-face interaction is no longer safe or desirable. In the healthcare industry, Vidyo's security features as well as ability to deploy on-premises have given Vidyo a particular competitive advantage. Although the focus has been on video solutions, we offer a number of remote-work solutions and other products including our contact center software as well as networking solutions that continue to see a rise in demand as a result of these macroeconomic trends.

Although the world is changing at an unprecedented pace, bringing innovation to how we conduct business, our core values remain unchanged. Going forward, we continue to seek accretive acquisitions to grow our revenue and further expand our product suite and geographic reach, while maintaining our commitment to profitable growth in accordance with our disciplined business model. We remain focused on running the business consistent with our value for money philosophy that we believe provides shareholder value in the long-term.



# 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. Our operating results may fluctuate quarterly, mainly as a result of the timing of certain large software license and hardware sales. Our quarterly results may also be influenced by COVID-19, foreign exchange, timing of new acquisitions, and changes in staffing and infrastructure. See "Risks and Uncertainties" for more details.

The following table provides details regarding operating results for the past eight quarters, presented in thousands of Canadian dollars except per share amounts:

For the three months ended	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
<b>Revenue</b>	<b>\$ 120,898</b>	<b>\$ 131,324</b>	<b>\$ 140,900</b>	<b>\$ 110,656</b>	<b>\$ 109,331</b>	<b>\$ 101,274</b>	<b>\$ 89,203</b>	<b>\$ 86,045</b>
Direct costs	33,261	39,740	39,699	32,477	32,382	31,749	27,460	27,212
<b>Revenue, net of direct costs</b>	<b>\$ 87,637</b>	<b>\$ 91,584</b>	<b>\$ 101,201</b>	<b>\$ 78,179</b>	<b>\$ 76,949</b>	<b>\$ 69,525</b>	<b>\$ 61,743</b>	<b>\$ 58,833</b>
<i>As a % of revenue</i>	<i>72.5%</i>	<i>69.7%</i>	<i>71.8%</i>	<i>70.7%</i>	<i>70.4%</i>	<i>68.7%</i>	<i>69.2%</i>	<i>68.4%</i>
Operating expenses	44,952	49,351	55,046	45,760	43,731	42,038	35,066	33,038
Special charges	(12)	35	(121)	1,576	677	470	56	-
<b>Results from operating activities</b>	<b>\$ 42,697</b>	<b>\$ 42,198</b>	<b>\$ 46,276</b>	<b>\$ 30,843</b>	<b>\$ 32,541</b>	<b>\$ 27,017</b>	<b>\$ 26,621</b>	<b>\$ 25,795</b>
<i>As a % of revenue</i>	<i>35.3%</i>	<i>32.1%</i>	<i>32.8%</i>	<i>27.9%</i>	<i>29.8%</i>	<i>26.7%</i>	<i>29.8%</i>	<i>30.0%</i>
Amortization	(10,958)	(11,502)	(11,600)	(10,080)	(9,244)	(8,453)	(6,884)	(7,116)
Other	1,055	2,627	233	4	1,719	263	1,604	385
<b>Income before income taxes</b>	<b>\$ 32,794</b>	<b>\$ 33,323</b>	<b>\$ 34,909</b>	<b>\$ 20,767</b>	<b>\$ 25,016</b>	<b>\$ 18,827</b>	<b>\$ 21,341</b>	<b>\$ 19,064</b>
Provision for income taxes	3,422	7,330	7,820	4,631	329	4,166	4,804	4,100
<b>Net Income for the period</b>	<b>\$ 29,372</b>	<b>\$ 25,993</b>	<b>\$ 27,089</b>	<b>\$ 16,136</b>	<b>\$ 24,687</b>	<b>\$ 14,661</b>	<b>\$ 16,537</b>	<b>\$ 14,964</b>
Basic earnings per share	0.53	0.47	0.49	0.29	0.45	0.27	0.30	0.27
Diluted earnings per share	0.52	0.46	0.49	0.29	0.45	0.27	0.30	0.27
Operating cash flows	34,989	55,690	57,533	19,933	21,729	13,862	21,630	24,154
Operating cash flows excluding changes in working capital	48,008	45,294	50,033	35,183	33,854	28,531	29,010	27,121
Cash and short-term investments	251,791	228,938	168,089	116,329	150,269	141,334	205,519	190,537
Total assets	763,646	758,099	743,081	691,556	590,600	575,084	540,351	526,442
<b>Adjusted EBITDA:</b>								
Results from operating activities	42,697	42,198	46,276	30,843	32,541	27,017	26,621	25,795
Depreciation	795	801	758	887	804	570	499	530
Depreciation of right-of-use assets	3,158	2,534	2,368	2,023	-	-	-	-
Special charges	(12)	35	(121)	1,576	677	470	56	-
<b>Adjusted EBITDA</b>	<b>\$ 46,638</b>	<b>\$ 45,568</b>	<b>\$ 49,281</b>	<b>\$ 35,329</b>	<b>\$ 34,022</b>	<b>\$ 28,057</b>	<b>\$ 27,176</b>	<b>\$ 26,325</b>
Adjusted EBITDA margin	38.6%	34.7%	35.0%	31.9%	31.1%	27.7%	30.5%	30.6%
<b>Adjusted EBITDA per diluted share</b>	<b>\$ 0.83</b>	<b>\$ 0.81</b>	<b>\$ 0.89</b>	<b>\$ 0.64</b>	<b>\$ 0.62</b>	<b>\$ 0.51</b>	<b>\$ 0.49</b>	<b>\$ 0.48</b>



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Results of Operations

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

For the period ended October 31	Three months				Twelve months			
	2020	2019	Var (\$)	Var (%)	2020	2019	Var (\$)	Var (%)
<b>Revenue</b>	<b>\$ 120,898</b>	<b>\$ 109,331</b>	<b>11,567</b>	<b>10.6</b>	<b>\$ 503,778</b>	<b>\$ 385,853</b>	<b>117,925</b>	<b>30.6</b>
Direct costs	33,261	32,382	879	2.7	145,177	118,803	26,374	22.2
<b>Revenue, net of direct costs</b>	<b>\$ 87,637</b>	<b>\$ 76,949</b>	<b>10,688</b>	<b>13.9</b>	<b>\$ 358,601</b>	<b>\$ 267,050</b>	<b>91,551</b>	<b>34.3</b>
<i>As a % of revenue</i>	72.5%	70.4%			71.2%	69.2%		
Operating expenses	44,952	43,731	1,221	2.8	195,109	153,873	41,236	26.8
Special charges	(12)	677	(689)	(101.8)	1,478	1,203	275	22.9
<b>Results from operating activities</b>	<b>\$ 42,697</b>	<b>\$ 32,541</b>	<b>10,156</b>	<b>31.2</b>	<b>\$ 162,014</b>	<b>\$ 111,974</b>	<b>50,040</b>	<b>44.7</b>
<i>As a % of revenue</i>	35.3%	29.8%			32.2%	29.0%		
Amortization of acquired software and customer relationships	(10,958)	(9,244)	(1,714)	(18.5)	(44,140)	(31,697)	(12,443)	(39.3)
Foreign exchange gains (losses)	850	(367)	1,217	331.6	(298)	66	(364)	(551.5)
Interest expense – lease obligations	(467)	-	(467)	-	(1,331)	-	(1,331)	-
Finance income	43	331	(288)	(87.0)	734	1,805	(1,071)	(59.3)
Finance expenses	(42)	(10)	(32)	(320.0)	(81)	(76)	(5)	(6.6)
Other income	671	1,765	(1,094)	(62.0)	4,895	2,176	2,719	125.0
<b>Income before income taxes</b>	<b>\$ 32,794</b>	<b>\$ 25,016</b>	<b>7,778</b>	<b>31.1</b>	<b>\$ 121,793</b>	<b>\$ 84,248</b>	<b>37,545</b>	<b>44.6</b>
Provision for income taxes	3,422	329	3,093	940.1	23,203	13,399	9,804	73.2
<b>Net Income for the period</b>	<b>\$ 29,372</b>	<b>\$ 24,687</b>	<b>4,685</b>	<b>19.0</b>	<b>\$ 98,590</b>	<b>\$ 70,849</b>	<b>27,741</b>	<b>39.2</b>
Basic earnings per share	0.53	0.45	0.08	17.8	1.79	1.30	0.49	37.7
Diluted earnings per share	0.52	0.45	0.07	15.6	1.77	1.29	0.48	37.2
Operating cash flows	34,989	21,729	13,260	61.0	168,145	81,375	86,770	106.6
Operating cash flows excluding changes in working capital	48,008	33,854	14,154	41.8	178,518	118,516	60,002	50.6

## Revenue

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

For the period ended October 31	Three months			Twelve months		
	2020	2019	Variance	2020	2019	Variance
Software licenses	\$ 27,658	\$ 26,765	\$ 893	\$ 134,287	\$ 89,093	\$ 45,194
Hosted and maintenance services	73,037	60,931	12,106	286,770	219,630	67,140
Professional services	16,906	16,962	(56)	64,235	60,889	3,346
Hardware	3,297	4,673	(1,376)	18,486	16,241	2,245
<b>Revenue</b>	<b>\$ 120,898</b>	<b>\$ 109,331</b>	<b>\$ 11,567</b>	<b>\$ 503,778</b>	<b>\$ 385,853</b>	<b>\$ 117,925</b>
Interactive Management Group	70,927	60,036	10,891	298,876	204,899	93,977
Asset Management Group	49,971	49,295	676	204,902	180,954	23,948
<b>Revenue</b>	<b>\$ 120,898</b>	<b>\$ 109,331</b>	<b>\$ 11,567</b>	<b>\$ 503,778</b>	<b>\$ 385,853</b>	<b>\$ 117,925</b>

Revenue for the three months ended October 31, 2020 was \$120.9 million, an increase of \$11.6 million or 10.6% from the same period in the prior year. The variance is explained by:

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- An increase of \$12.1 million in hosted and maintenance revenue, primarily attributable to hosted Vidyo sales as well as incremental maintenance on new license sales, net of churn on existing customers, and the addition of new product offerings. Hosted and maintenance services represent an important strategic source of revenue given its predictable and recurring nature and represented 60.4% of total revenues for the period (2019–55.7%). The percentage increase in contributions from hosted and maintenance revenue is attributable to a proportionate increase in recurring revenue including recurring revenue from deals signed in the preceding quarters as a result of increased COVID-19 related demand.
- An increase of \$0.9 million in software revenue primarily from increased sales of Vidyo and Dialogic licenses.
- An offsetting decrease in hardware primarily as a result of decreased sales of Vidyo Room hardware, as employees are more frequently working remotely a result of COVID-19, as well as some cyclicity in transportation hardware. Hardware is sold to customers to complement our software offerings and is generally not a core product offering.
- A further increase of \$2.4 million due to foreign exchange. This is calculated by applying the change in the average exchange rates between the fourth quarters of 2019 and 2020 to our foreign currency denominated revenue in the fourth quarter of 2020.

Revenue for the twelve months ended October 31, 2020 was \$503.8 million, an increase of \$117.9 million or 30.6% from the same period in the prior year. The variance is primarily attributable to:

- An increase of \$67.1 million in hosted and maintenance revenue, primarily attributable to the same reasons discussed for the quarter.
- An increase of \$45.2 million in software revenue primarily from increased sales of Vidyo licenses and network infrastructure software including a significant perpetual license order recognized by Dialogic. License revenue also increased as a result of new product offerings added since the comparative period.
- A further increase of \$2.6 million due to foreign exchange. This is calculated by applying the change in the average exchange rates between 2019 and 2020 to our foreign currency denominated revenue in 2020.

### *Interactive Management Group*

IMG revenue for the three months ended October 31, 2020 was \$70.9 million, an increase of \$10.9 million or 18.1% from same period in the prior year. The variance is primarily explained by:

- An increase of \$8.6 million in hosted and maintenance revenue, which includes maintenance on new license sales and incremental hosted revenue, particularly from Vidyo and Dialogic.
- An increase of \$3.2 million in software license revenue primarily attributable to increased Vidyo and Dialogic license sales.

Revenue for the twelve months ended October 31, 2020 was \$298.9 million, an increase of \$94.0 million or 45.9% from the same period in the prior year. The increase is primarily the result of higher revenue from new product offerings and incremental contributions from Vidyo and Dialogic.

### *Asset Management Group*

AMG revenue for the three months ended October 31, 2020 was \$50.0 million, an increase of \$0.7 million or 1.4% from same period in the prior year. Overall, AMG revenue remained relatively consistent with prior year despite a slight shift from license sales to hosted sales.

Revenue for the twelve months ended October 31, 2020 was \$204.9 million, an increase of \$23.9 million or 13.2% from the same period in the prior year. The increase is primarily explained by:

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- An increase of \$17.3 million in hosted and maintenance revenue attributable to the addition of product offerings from Dialogic and Espial, incremental revenue in the Nordics region as well as incremental maintenance on new sales across a number of product lines.
- An increase of \$5.6 million in software license revenue primarily attributable to strong sales in Networks and Espial operations in the first quarter of the year, as well as incremental contributions from Dialogic. This mitigated lower license revenues in the Transportation operations, which were adversely impacted by reduced demand related to COVID-19.

### Direct Costs

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

For the period ended October 31	Three months			Twelve months		
	2020	2019	Variance	2020	2019	Variance
Software licenses	\$ 1,649	\$ 1,403	\$ 246	\$ 10,094	\$ 5,461	\$ 4,633
Services	29,557	27,156	2,401	121,400	101,281	20,119
Hardware	2,055	3,823	(1,768)	13,683	12,061	1,622
<b>Direct Costs</b>	<b>\$ 33,261</b>	<b>\$ 32,382</b>	<b>\$ 879</b>	<b>\$ 145,177</b>	<b>\$ 118,803</b>	<b>\$ 26,374</b>
<i>Software licenses</i>	6.0%	5.2%		7.5%	6.1%	
<i>Services</i>	32.9%	34.9%		34.6%	36.1%	
<i>Hardware</i>	62.3%	81.8%		74.0%	74.3%	
<b>Total</b>	<b>27.5%</b>	<b>29.6%</b>		<b>28.8%</b>	<b>30.8%</b>	
Interactive Management Group	16,055	15,681	374	70,295	53,558	16,737
Asset Management Group	17,206	16,701	505	74,882	65,245	9,637
<b>Direct Costs</b>	<b>\$ 33,261</b>	<b>\$ 32,382</b>	<b>\$ 879</b>	<b>\$ 145,177</b>	<b>\$ 118,803</b>	<b>\$ 26,374</b>
<i>As a % of revenue</i>						
<i>Interactive Management Group</i>	22.6%	26.1%		23.5%	26.1%	
<i>Asset Management Group</i>	34.4%	33.9%		36.5%	36.1%	

Direct costs for the three months ended October 31, 2020 were \$33.3 million or 27.5% of revenue compared to \$32.4 million or 29.6% of revenue in the same period in the prior year. Overall margins improved as a result of reduced direct costs on both hardware and services as well as a shift in product mix away from lower margin hardware. The improved margin on hardware is a result of changes in product mix as well as recent pricing adjustments to yield improved margins. Hardware is sold at lower margins than traditionally achieved on other revenue streams.

Direct costs for the twelve months ended October 31, 2020 were \$145.2 million or 28.8% of revenue compared to \$118.8 million or 30.8% of revenue in the same period in the prior year for the same reasons discussed for the quarter in addition to a significant perpetual license order at Dialogic in the second quarter of 2020.

### Interactive Management Group

IMG direct costs for the three months ended October 31, 2020 were \$16.1 million or 22.6% of segment revenue compared to \$15.7 million or 26.1% of revenue in the same period in the prior year. The lower costs are primarily a result of reduced costs on both services and hardware.

IMG direct costs for the twelve months ended October 31, 2020 were \$70.3 million or 23.5% of segment revenue compared to \$53.6 million or 26.1% of revenue in the same period in the prior year as a result of a shift in product mix towards higher-margin license sales in addition to higher margins on hardware and services.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Asset Management Group

AMG direct costs were \$17.2 million or 34.4% of segment revenue for the three months ended October 31, 2020 compared to \$16.7 million or 33.9% of revenue in the same period in the prior year. The higher costs are primarily a result of a shift in sales mix away from lower-cost license sales in the quarter.

AMG direct costs for the twelve months ended October 31, 2020 were \$74.9 million or 36.5% of segment revenue compared to \$65.2 million or 36.1% of revenue in the same period in the prior year. The higher costs are primarily a result of higher costs of services and hardware despite a shift in product mix towards lower-cost license revenue.

## Revenue, Net of Direct Costs

Revenue, net of direct costs for the three months ended October 31, 2020 increased by \$10.7 million to \$87.6 million or 72.5% of revenue compared to \$76.9 million or 70.4% in the same period in the prior year. The increase in revenue, net of direct costs is attributable to higher margins on services combined with a shift in product mix towards higher margin license sales.

Revenue, net of direct costs for the twelve months ended October 31, 2020 increased by \$91.6 million to \$358.6 million or 71.2% of revenue compared to \$267.1 million or 69.2% in the same period in the prior year. The increase is a result of the aforementioned higher margins on increased maintenance services as well as a shift in product mix towards higher margin software.

## Operating Expenses

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

For the period ended October 31	Three months			Twelve months		
	2020	2019	Variance	2020	2019	Variance
Selling, general and administrative	\$ 21,922	\$ 25,635	\$ (3,713)	\$ 102,028	\$ 92,421	\$ 9,607
Research and development	19,077	17,292	1,785	79,757	59,049	20,708
Depreciation	795	804	( 9)	3,241	2,403	838
Depreciation of right-of-use assets	3,158	-	3,158	10,083	-	10,083
Special charges	(12)	677	(689)	1,478	1,203	275
<b>Operating expenses</b>	<b>\$ 44,940</b>	<b>\$ 44,408</b>	<b>\$ 532</b>	<b>\$ 196,587</b>	<b>\$ 155,076</b>	<b>\$ 41,511</b>
<i>As a % of revenue</i>						
<i>Selling, general and administrative</i>	18.1%	23.4%		20.3%	24.0%	
<i>Research and development</i>	15.8%	15.8%		15.8%	15.3%	
<i>Depreciation</i>	0.7%	0.7%		0.6%	0.6%	
<i>Depreciation of right-of-use assets</i>	2.6%	0.0%		2.0%	0.0%	
<i>Special charges</i>	(0.0)%	0.6%		0.3%	0.3%	
<i>Operating expenses</i>	37.2%	40.6%		39.0%	40.2%	

Operating expenses for the three months ended October 31, 2020 totaled \$44.9 million, an increase of \$0.5 million or 1.2% despite revenue growth of 10.6% and additional costs from acquisitions compared to the same period in prior year. The variance is further explained by:

- A decrease of \$3.7 million in selling, general and administrative expense as a result of several factors:
  - Vacation accruals that increased significantly since the start of the pandemic but have declined over the three months ended October 31, 2020;
  - The inclusion of various grants from government authorities as certain subsidiaries qualified for COVID-19 related support and recognized such amounts as a reduction to expenses during the year;

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- Reduced travel expense as well as reduced occupancy expense from closed facilities;
- A reduction in occupancy expense as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis as explained subsequently.
- An offsetting increase resulting from the addition of \$3.2 million in depreciation of right-of-use assets as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis while comparative balances were not revised. Prior to the adoption of IFRS 16, lease related costs, which are now expensed under both interest and depreciation, were classified as occupancy costs as part of selling, general and administrative expense.
- An offsetting increase of \$1.8 million in research and development expense. Research and development expense is equivalent to 15.8% of revenue compared to 15.8% in the same period in the prior year with incremental investment in Microsoft Teams certification, new BI reporting tools, Espial's IPTV solution and Vidyo-enabling existing contact center product offerings.

Operating expenses for the twelve months ended October 31, 2020 totaled \$196.6 million, an increase of \$41.5 million or 26.8% from the same period in the prior year with 30.6% revenue growth in the same period. The variance is explained by:

- An increase of \$9.6 million in selling, general and administrative expense primarily as a result of incremental costs from Eptica and Dialogic where cost containment initiatives in the first half of the year were still in progress resulting in improved cost efficiencies in the second half of the year. Expenses also include increased vacation accruals (which remain relatively high despite a partial decline in the fourth quarter) as a result of employees not taking vacation during the pandemic. The increases were partially offset by the change in accounting policy under IFRS 16 whereby rent expense is now classified as depreciation and interest expense.
- An increase in depreciation of right-of-use assets of \$10.1 million as a result of the adoption of IFRS 16 as previously discussed.
- An increase of \$20.7 million in research and development expense primarily a result of the factors previously discussed, including adding the costs related to Dialogic's R&D team.

### Foreign Exchange

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

During the three months ended October 31, 2020, the Canadian dollar weakened against most major currencies other than the U.S. dollar compared to the same period in the prior year. As result, in the fourth quarter, there was a positive impact to revenue of \$2.4 million reported in Canadian dollars and operating costs were higher by \$1.7 million compared to the same period in the prior year. For the year ended October 31, 2020 there was a positive impact to revenue of \$2.6 million reported in Canadian dollars and operating costs were higher by \$1.4 million compared to the prior year.

For the three months ended October 31, 2020, we recognized unrealized foreign exchange gains of \$0.9 million related to foreign currency denominated monetary assets and liabilities in the current period compared to losses of \$0.4 million in the same period in the prior year. The gain was a result of movements in the Canadian dollar against international currencies on Canadian dollar denominated monetary assets and liabilities on functional currency books denominated in foreign currencies.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

For the twelve months ended October 31, 2020, we recognized \$0.3 million of unrealized foreign exchange losses related to foreign currency denominated monetary assets and liabilities in the current period compared to gains of \$0.1 million in the same period in the prior year.

## Amortization of Software and Customer Relationships

Amortization expense for acquired software and customer relationships for the three and twelve months ended October 31, 2020 increased by \$1.7 million to \$11.0 million and by \$12.4 million to \$44.1 million respectively, compared to the same periods in the prior year. Both variances are attributable to incremental charges from the current year's acquisition as well as amortization on fiscal 2019 acquisitions, which added \$7.1 million for the twelve months ended October 31, 2020.

## Other Income

Other income for the three months ended October 31, 2020 decreased by \$1.1 million during the quarter as a result of comparably higher unrealized gains on investments in equity positions carried at fair value during the comparative period but include realized gains on the sale of equity positions of \$0.5 million in the current year's fourth quarter. For the twelve months ended October 31, 2020, Other income increased by \$2.7 million compared to the same period in the prior year. The increase is attributable to the unrealized gains on investments in equity positions carried at fair value of \$2.0 million, the aforementioned realized gain and a gain of U.S. \$1.2 million booked on the refund of contingent consideration paid in the second quarter as part of the Dialogic acquisition.

## Income Tax Expense

Income tax expense for the three months ended October 31, 2020 increased by \$3.1 million to \$3.4 million, compared to the same period in the prior year. For the three and twelve months ended October 31, 2020, our effective tax rate was 10.4% and 19.1% compared to 1.3% and 15.9%, respectively, for the same periods in the prior year. The increases are primarily attributable to comparably larger resolutions of tax positions in the comparative year as well as changes in recognized assets between the periods.

## Net income

Net income for the three and twelve months ended October 31, 2020 increased by \$4.7 million and \$27.7 million to \$29.4 million and \$98.6 million, respectively, compared to the same periods in the prior year. The increased profitability reflects both higher hosted and maintenance revenue as well as license revenue combined with operating cost synergies from integrating acquisitions.

For the three and twelve months ended October 31, 2020, diluted earnings per share was \$0.52 and \$1.77, respectively, compared to \$0.45 and \$1.29 in the same periods in the prior year.

## Cash flows from operating activities

For the three and twelve months ended October 31, 2020, cash flows from operating activities were \$35.0 million and \$168.1 million, respectively, compared to \$21.7 million and \$81.4 million in the same periods in the prior year. The increase in operating cash flow reflects:

- An increase in net income as a result of higher revenue combined with improved margins and operating cost synergies.
- An increase in working capital as a result of improved collections during the three and twelve months ended October 31, 2020.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- A further increase of \$3.6 million and \$11.4 million for the three and twelve months, respectively, as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis while comparative balances were not revised. Prior to the adoption of IFRS 16, lease related outflows, now classified under financing activities, were previously classified as operating cash outflows.

Operating cash flows excluding changes in non-cash working capital items for the three months and twelve months, respectively, ended October 31, 2020 increased by 41.8% and by 50.6% respectively to \$48.0 million and \$178.5 million compared to the same periods in the prior year primarily as a result of higher operating income.

### Adjusted EBITDA

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

For the period ended October 31	Three months			Twelve months		
	2020	2019	Variance	2020	2019	Variance
Total revenue	\$ 120,898	\$ 109,331	\$ 11,567	\$ 503,778	\$ 385,853	\$ 117,925
Results from operating activities	42,697	32,541	10,156	162,014	111,974	50,040
Depreciation	795	804	(9)	3,241	2,403	838
Depreciation of right-of-use assets	3,158	-	3,158	10,083	-	10,083
Special charges	(12)	677	(689)	1,478	1,203	275
<b>Adjusted EBITDA</b>	<b>\$ 46,638</b>	<b>\$ 34,022</b>	<b>\$ 12,616</b>	<b>\$ 176,816</b>	<b>\$ 115,580</b>	<b>\$ 61,236</b>
<i>Adjusted EBITDA margin</i>	38.6%	31.1%		35.1%	30.0%	
<b>Adjusted EBITDA per diluted share</b>	<b>\$ 0.83</b>	<b>\$ 0.62</b>	<b>\$ 0.21</b>	<b>\$ 3.18</b>	<b>\$ 2.10</b>	<b>\$ 1.08</b>

Adjusted EBITDA for the three and twelve months ended October 31, 2020 increased by \$12.6 million and \$61.2 million respectively, compared to the same periods in the prior year. The increase in adjusted EBITDA reflects:

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

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

### Liquidity and cash reserves

We closed the year with cash and short-term investments of \$251.8 million, compared to the October 31, 2019 balance of \$150.3 million. This reflects strong cash collections related to annual maintenance billings and incremental license sales, which offset cash spent of \$43.5 million on the acquisition of Dialogic on December 31, 2019. This is also net of payment of \$27.0 million for dividends, which increased 23.3% from \$21.9 million in the same period in the prior year. Collections of receivables remained strong despite COVID-19.

For the year ended October 31, 2020, Cash and cash equivalents increased by a total of \$100.0 million compared to a decrease of \$42.8 million over the same period in the prior year. The increase is the result of operating cash flows of \$168.1 million that funded the \$45.1 million of cash used in investing activities, primarily acquisitions. In comparison, in the same period last year Enghouse generated operating cash

# MANAGEMENT'S DISCUSSION AND ANALYSIS

flows of \$81.4 million and spent \$102.8 million, primarily on acquisitions as part of investing activities. The ability to generate strong operating cash flows is pivotal to our acquisition strategy, which enables us to pursue further acquisitions without the need to obtain financing.

At October 31, 2020 working capital was \$150.8 million compared to \$85.4 million at the end of fiscal 2019. The increase in working capital is predominately a result of continued increases in operating cash flow combined with delays in deploying capital on acquisitions as a result of COVID-19 related travel restrictions that hamper due-diligence efforts. Consequently, Cash, cash equivalents and Short-term investments increased by \$101.5 million during the year. These factors ultimately led to a \$65.3 million increase in working capital despite higher payables and deferred revenue (primarily from acquisitions) as well as the addition of \$9.9 million in current lease obligations recorded under the introduction of IFRS 16. Management is confident that the Company has the funds necessary to meet its existing and future financial operating commitments and dividend strategy. Future acquisition growth may be funded through a combination of cash, debt and equity consideration, which could cause dilution to existing shareholders.

## Capital Stock

The Company had 55,348,924 Common Shares issued and outstanding as at December 17, 2020. During the year, 611,500 stock options were exercised contributing \$15.0 million in cash compared to 157,400 stock options and \$2.1 million in cash to the Company in the same period in the prior year. The Company granted 310,000 options in fiscal 2020 compared to 500,000 options, granted in the prior year.

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

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

## Dividend Policy

The Company has paid regular quarterly dividends since May 31, 2007 and has increased its quarterly dividend in each of the past twelve years from \$0.013 per common share in 2007 to \$0.135 per common share presently.

The following table provides details regarding dividends declared for the last three fiscal years.

Declaration date	Record date	Payment date	Common shares outstanding	Dividend per share (\$)	Total dividend
September 10, 2020	November 16, 2020	November 30, 2020	55,348,924	0.135	\$ 7,472
June 4, 2020	August 17, 2020	August 31, 2020	55,284,924	0.135	7,464
March 5, 2020	May 15, 2020	May 29, 2020	55,016,924	0.135	7,427
December 12, 2019	February 14, 2020	February 28, 2020	54,976,924	0.11	6,047
					<b>\$ 28,410</b>
September 12, 2019	November 15, 2019	November 29, 2019	54,737,424	0.11	6,021
June 6, 2019	August 16, 2019	August 30, 2019	54,693,524	0.11	6,016
March 7, 2019	May 17, 2019	May 31, 2019	54,648,024	0.11	6,012
December 13, 2018	February 14, 2019	February 28, 2019	54,638,024	0.09	4,917
					<b>\$ 22,966</b>
September 6, 2018	November 16, 2018	November 30, 2018	54,580,024	0.09	4,912
June 7, 2018	August 17, 2018	August 31, 2018	54,431,424	0.09	4,899
March 8, 2018	May 17, 2018	May 31, 2018	54,221,224	0.09	4,880
December 14, 2017	February 14, 2018	February 28, 2018	54,056,824	0.08	4,323
					<b>\$ 19,014</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 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

We have no significant commercial commitments or obligations other than for the leases of the facilities we currently occupy (the latest of which expires in fiscal 2029), automobiles, office and computer equipment. The following table summarizes our future contractual obligations:

	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Lease obligations	\$ 13,473	\$ 19,191	\$ 667	\$ 33,331

We have certain obligations related to a defined benefit pension plan that was assumed as part of a previous acquisition. Further information regarding the plan commitments are included within our consolidated financial statements.

## Off-Statement of Financial Position Arrangements

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

## Transactions with Related Parties

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

## Basis of Preparation and Significant Accounting Policies

The 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").

Our significant accounting policies are described in Note 3 of the audited consolidated financial statements as at October 31, 2020, 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 17, 2020, the date the Board of Directors approved the consolidated financial statements.

## New Standards and Interpretations Adopted

### IFRS 16, Leases ("IFRS 16")

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

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

On adoption of IFRS 16, the Company recognized lease obligations in relation to leases that had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were

# MANAGEMENT'S DISCUSSION AND ANALYSIS

measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of November 1, 2019.

As a result of these changes, there is an increase in interest expense and depreciation of the right-of-use assets, as well as a reduction in selling, general and administrative expense on the Consolidated Statements of Operations and Comprehensive Income due to the decrease in rent expense. Meanwhile, on the Consolidated Statements of Financial Position, right-of-use assets are recorded along with the associated lease liabilities. The overall impact to net income is not significant. Additionally, an increase in cash flow from operating activities results from the lease payments being recorded as financing outflows instead of operating outflows in the Consolidated Statements of Cash Flows.

## Critical Accounting Estimates and Judgments

The preparation of our 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 us to make estimates, assumptions and judgments include those related to revenue recognition, intangible assets, the carrying value of goodwill, and income taxes. We base our 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 our 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 services and licenses in a customer arrangement and involves an assessment that principally addresses whether the deliverable is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

### *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.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Acquired Assets and Liabilities Including Intangible Assets and Goodwill

We account for business combinations using the acquisition method, under which an allocation of the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired to goodwill is made. 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. Our intangible assets relate to acquired technology, patents and customer relationships. We also reviewed 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, we 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, we 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 cash generating units ("CGUs"): AMG and IMG. Our assumptions used in testing goodwill for impairment are affected by current market conditions, which may affect expected revenue and costs. We also have significant competition in markets in which we operate, which may impact our 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. We use 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 we could 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. We operate 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. Our 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Favourable or unfavourable adjustments to tax provisions may result when tax positions are resolved or settled at amounts that differ from those estimates.

We have deferred income tax assets that are subject to periodic recoverability assessments. Realization of our deferred income tax assets is largely dependent upon its achievement of projected future taxable income and the continued applicability of ongoing tax planning strategies. Our 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

We continue 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.

#### ***A significant national or international health pandemic increases our exposure to business risks that could cause our operating results to suffer.***

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

subsequently) in identifying and successfully completing or integrating acquisitions as travel restrictions make it difficult to perform due diligence.

***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.***

We receive confidential information and recognize the importance of cyber security. Despite security measures, information technology and infrastructure may be vulnerable to unforeseen break-ins, theft, hacks, viruses, phishing, malware, denial of service attacks, and other improper activity that could jeopardize the security of information for which we are responsible. Although we generally do not store third party financial data, cyber attacks could compromise our networks and stored information could be accessed, lost, stolen or used maliciously. Any such breach could expose the Company to litigation, loss of customers or otherwise harm our reputation and business. To minimize this risk, we have employees whose role is to monitor information technology, adhere to industry standards for cyber security, use encryption technology and have remediation plans that can be engaged should the need arise. Subsequent to year end, Enghouse was subject to a phishing attack that we investigated. This did not impact our hosted customer-facing or hosted internal systems. We were able to quickly restore our internal systems and resume business as usual.

Some of our businesses provide hosting services for 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 and cyber risk 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. To minimize this risk, we engage leading hosting providers who employ cutting edge security practices.

***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, we completed the acquisition of Dialogic and paid \$43.5 million in aggregate, net of cash acquired, and paid \$0.5 million to settle hold-backs from prior acquisitions. While we have 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, including international pandemics, 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### ***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.

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 IMG and AMG, 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,

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 purchase 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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 us, 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 we 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 us. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

***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 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.

***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 (\$286.8 million in fiscal 2020 compared to \$219.6 million in fiscal 2019) 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 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, as is further developing our current hosted service offerings.

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### ***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 and expand our international operations, which may include entry into new 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 we 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 us 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 the United States of America and United Kingdom and our corporate headquarters in Canada. We now have operations in a number of countries around the world that has exposed us to foreign currency risk on global basis.

In fiscal 2020, compared to the prior year the Canadian dollar weakened against most major world currencies. The U.S. dollar was reported using an average foreign exchange rate of \$1.35 in fiscal 2020 versus \$1.32 in fiscal 2019, representing a 2.3% increase while the pound sterling averaged \$1.72 in the current year compared to \$1.64 in the prior fiscal year, a 4.9% increase. Meanwhile, the euro averaged \$1.51, a 1.3% increase compared to \$1.49 in the prior year.

Overall, 13% of our revenue was generated by operations in the U.K. compared to 16% in the prior fiscal year, while revenue generated by European operations decreased to 15% from 19% in the prior fiscal year and revenue generated by our Scandinavian operations decreased to 16% from 22% in the prior year. Revenue generated by our U.S. based operations was 47% compared to 34% in the prior fiscal year as a result of the addition of Dialogic combined with increased sales in the U.S., particularly of Vidyo. Approximately 4% of our revenue was generated by operations in the Asia-Pacific region compared to 5% in fiscal 2019, with the balance being generated by Canadian operations. Further changes in foreign exchange rates between Canada 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.

### ***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, France, the Netherlands, 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, France, the Netherlands, Italy, the United Kingdom and other foreign jurisdictions.

International taxation authorities in these regions 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 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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' purchasing 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 us 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.

## 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.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Disclosure Controls and Procedures

Disclosure controls and procedures have been designed under the supervision of the CEO and CFO, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by us is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2020, an evaluation of the effectiveness of our disclosure controls and procedures was carried out under the supervision of the CEO and CFO. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered our disclosure policy, a sub-certification process and the functioning of our Disclosure Committee.

## Internal controls over financial reporting

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

As at October 31, 2020, 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, 2020, 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, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Additional Information

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

## Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the Company's consolidated financial statements and all other information in Management's Discussion and Analysis as well as the Annual Report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which involve management's best estimates and judgments based on available information.

Management maintains appropriate systems of internal accounting and administrative controls, which are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

The Board of Directors of Enhouse Systems Limited (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee (the "Committee").

The Committee is appointed by the Board and all of its members are independent directors. The Committee meets periodically with management and the external auditors to discuss internal controls over financial reporting, auditing matters and financial reporting issues, to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board.

The consolidated financial statements have been audited on behalf of shareholders by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. The external auditors have full and free access to management and the Committee.



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



Douglas C. Bryson  
Vice President Finance and  
Corporate Secretary

Markham, Ontario  
December 17, 2020

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Enghouse Systems Limited

## Opinion

We have audited the consolidated financial statements of Enghouse Systems Limited and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at October 31, 2020 and 2019, and the consolidated statements of operations and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at October 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

# INDEPENDENT AUDITOR'S REPORT

## Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

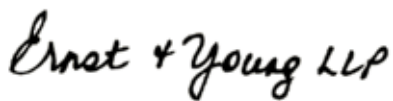
## Auditor's responsibilities for the audit of the consolidated financial statements

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Martin Lundie.



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada | December 17, 2020



# Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

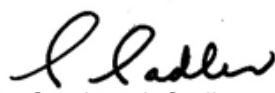
	Notes	As at October 31, 2020	As at October 31, 2019
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	17	\$ 244,792	\$ 144,764
Short-term investments	17	6,999	5,505
Accounts receivable	17	90,789	84,982
Prepaid expenses and other assets		14,772	11,147
		<b>357,352</b>	<b>246,398</b>
<b>Non-current assets:</b>			
Property and equipment	5	6,301	6,280
Right-of-use assets	4/13	42,832	-
Intangible assets	6	123,616	121,885
Goodwill	6	217,426	203,298
Deferred income tax assets	10	16,119	12,739
		<b>406,294</b>	<b>344,202</b>
		<b>\$ 763,646</b>	<b>\$ 590,600</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities		\$ 80,339	\$ 62,813
Income taxes payable		13,245	6,953
Dividends payable	8	7,472	6,021
Provisions	7	5,697	6,536
Deferred revenue		89,927	78,405
Lease obligations	4/13	9,914	-
Current portion of long-term loans		-	249
		<b>206,594</b>	<b>160,977</b>
<b>Non-current liabilities:</b>			
Income taxes payable	10	3,829	4,434
Deferred income tax liabilities	10	14,782	16,197
Deferred revenue		7,021	3,665
Net employee defined benefit obligation		2,855	2,380
Lease obligations	4/13	32,242	-
Long-term loans		-	874
		<b>60,729</b>	<b>27,550</b>
		<b>267,323</b>	<b>188,527</b>
<b>Shareholders' equity:</b>			
Share capital	8	99,405	81,576
Contributed surplus		6,583	6,677
Retained earnings		379,378	309,198
Accumulated other comprehensive income	8	10,957	4,622
		<b>496,323</b>	<b>402,073</b>
		<b>\$ 763,646</b>	<b>\$ 590,600</b>

Commitments and contingencies (Note 13).

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

\*The Company has applied IFRS 16 'Leases' using the modified retrospective method. Under this method, the comparative information is not restated. Please see Note 13.

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	Notes	2020	2019
<b>Revenue</b>			
Software licenses		\$ 134,287	\$ 89,093
Hosted and maintenance services		286,770	219,630
Professional services		64,235	60,889
Hardware		18,486	16,241
		<b>503,778</b>	<b>385,853</b>
<b>Direct costs</b>			
Software licenses		10,094	5,461
Services		121,400	101,281
Hardware		13,683	12,061
		<b>145,177</b>	<b>118,803</b>
<b>Revenue, net of direct costs</b>		<b>358,601</b>	<b>267,050</b>
<b>Operating expenses</b>			
Selling, general and administrative	19	102,028	92,421
Research and development		79,757	59,049
Depreciation	5	3,241	2,403
Depreciation of right-of-use assets	4/13	10,083	-
Special charges		1,478	1,203
		<b>196,587</b>	<b>155,076</b>
<b>Results from operating activities</b>		<b>162,014</b>	<b>111,974</b>
Amortization of acquired software and customer relationships	6	(44,140)	(31,697)
Foreign exchange (losses) gains		(298)	66
Interest expense—lease obligations	4/13	(1,331)	-
Finance income		734	1,805
Finance expenses		(81)	(76)
Other income		4,895	2,176
<b>Income before income taxes</b>		<b>121,793</b>	<b>84,248</b>
<b>Provision for income taxes</b>	10	23,203	13,399
<b>Net income for the year</b>		<b>\$ 98,590</b>	<b>\$ 70,849</b>
<u>Items that may be subsequently reclassified to income:</u>			
Cumulative translation adjustment		6,335	(1,795)
Deferred income tax expense		-	(119)
<b>Other comprehensive income (loss)</b>		<b>6,335</b>	<b>(1,914)</b>
<b>Comprehensive income</b>		<b>\$ 104,925</b>	<b>\$ 68,935</b>
<b>Earnings per share</b>			
Basic	11	\$ 1.79	\$ 1.30
Diluted	11	\$ 1.77	\$ 1.29

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

\*The Company has applied IFRS 16 'Leases' using the modified retrospective method. Under this method, the comparative information is not restated. Please see Note 13.

# Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)

	Share capital (#)	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total
<b>As at November 1, 2019</b>	<b>54,737,424</b>	<b>\$ 81,576</b>	<b>\$ 6,677</b>	<b>\$ 4,622</b>	<b>\$ 309,198</b>	<b>\$ 402,073</b>
Net income for the year	-	-	-	-	98,590	98,590
Cumulative translation adjustment (Note 8)	-	-	-	6,335	-	6,335
<b>Comprehensive income</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,335</b>	<b>\$ 98,590</b>	<b>\$ 104,925</b>
Employee share options:						
Value of services recognized	-	-	2,744	-	-	2,744
Proceeds on issuing shares	611,500	17,829	(2,838)	-	-	14,991
Dividends declared (Note 8)	-	-	-	-	(28,410)	(28,410)
<b>As at October 31, 2020</b>	<b>55,348,924</b>	<b>\$ 99,405</b>	<b>\$ 6,583</b>	<b>\$ 10,957</b>	<b>\$ 379,378</b>	<b>\$ 496,323</b>
<b>As at November 1, 2018, as previously presented</b>	<b>54,580,024</b>	<b>\$ 78,997</b>	<b>\$ 4,866</b>	<b>\$ 5,755</b>	<b>\$ 260,506</b>	<b>\$ 350,124</b>
IFRS 9 transitional adjustment	-	-	-	781	(781)	-
IFRS 15 transitional adjustment	-	-	-	-	1,590	1,590
<b>Adjusted balance as at November 1, 2018</b>	<b>54,580,024</b>	<b>\$ 78,997</b>	<b>\$ 4,866</b>	<b>\$ 6,536</b>	<b>\$ 261,315</b>	<b>\$ 351,714</b>
Net income for the year	-	-	-	-	70,849	70,849
Cumulative translation adjustment (Note 8)	-	-	-	(1,795)	-	(1,795)
Deferred income tax expense	-	-	-	(119)	-	(119)
<b>Comprehensive income</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,914)</b>	<b>\$ 70,849</b>	<b>\$ 68,935</b>
Employee share options:						
Value of services recognized	-	-	2,268	-	-	2,268
Proceeds on issuing shares	157,400	2,579	(457)	-	-	2,122
Dividends declared (Note 8)	-	-	-	-	(22,966)	(22,966)
<b>As at October 31, 2019</b>	<b>54,737,424</b>	<b>\$ 81,576</b>	<b>\$ 6,677</b>	<b>\$ 4,622</b>	<b>\$ 309,198</b>	<b>\$ 402,073</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	Notes	2020	2019
<b>OPERATING ACTIVITIES</b>			
Net income		\$ 98,590	\$ 70,849
Adjustments for non-cash items			
Depreciation	5	3,241	2,403
Depreciation of right-of-use assets	4/13	10,083	-
Interest expense—lease obligations	4/13	1,331	-
Amortization of acquired software and customer relationships	6	44,140	31,697
Stock-based compensation expense	9	2,744	2,268
Provision for income taxes	10	23,203	13,399
Finance expenses and other (income) expenses		(4,814)	(2,100)
		<b>\$ 178,518</b>	<b>\$ 118,516</b>
Changes in non-cash operating working capital	18	9,388	(15,732)
Income taxes paid		(19,761)	(21,409)
<b>Net cash provided by operating activities</b>		<b>\$ 168,145</b>	<b>\$ 81,375</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	5	\$ (2,540)	\$ (2,155)
Acquisitions, net of cash acquired*	12	(43,454)	(101,219)
Purchase consideration for prior-year acquisitions	12	(452)	(1,105)
Sale of short-term investments		1,379	1,709
<b>Net cash used in investing activities</b>		<b>\$ (45,067)</b>	<b>\$ (102,770)</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of share capital		14,991	2,122
Repayment of loans		(128)	(1,452)
Repayment of lease obligations	4/13	(10,220)	-
Dividends paid		(26,959)	(21,857)
<b>Net cash used in financing activities</b>		<b>\$ (22,316)</b>	<b>\$ (21,187)</b>
Impact of foreign exchange on cash and cash equivalents		(734)	(205)
<b>Increase (decrease) in cash and cash equivalents</b>		<b>\$ 100,028</b>	<b>\$ (42,787)</b>
Cash and cash equivalents-beginning of year		<b>144,764</b>	<b>187,551</b>
<b>Cash and cash equivalents - end of year</b>		<b>\$ 244,792</b>	<b>\$ 144,764</b>

\* Acquisitions are net of cash acquired of \$6,906 for the year ended October 31, 2020 (2019—\$36,708).

\*\*The Company has applied IFRS 16 'Leases' using the modified retrospective method. Under this method, the comparative information is not restated.

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

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

## 1. Description of the Business and Reporting Entity

Enghouse is a Canadian publicly traded company (TSX:ENGH) that provides enterprise software solutions focusing on remote work, visual computing and communications for next-generation software-defined networks. The Company's two-pronged growth strategy focuses on internal growth and acquisitions. The Company is well capitalized, has no long-term debt and is organized around two business segments: the Interactive Management Group ("IMG") and the Asset Management Group ("AMG").

IMG specializes in customer interaction software and services designed to facilitate remote work, enhance customer service, increase efficiency and manage customer communications across multiple types of interactions including voice, email, web chats, text and video. Core technologies include contact center, video collaboration, interactive voice response, outbound dialers, attendant console, agent performance optimization, business intelligence and analytics that may be deployed in private cloud, multi-tenant cloud or on-premise environments. IMG's customers are varied and include insurance companies, telecoms, business process service providers, banks as well as technology and health care companies.

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

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

## 2. Basis of Preparation and Adoption of International Financial Reporting Standards

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.

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.

These consolidated financial statements were approved by the Audit Committee of the Board of Directors for issue on December 17, 2020.

## 3. Significant Accounting Policies

### Basis of Measurement

The consolidated financial statements are prepared on a going concern basis, using historical cost, except for investments in equity securities designated at fair value through profit or loss, certain assets



# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

and liabilities initially recognized in connection with business combinations, and derivative financial instruments, which are measured at fair value. All financial information is presented in Canadian dollars rounded to the nearest thousands, except as otherwise noted.

## 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 de-consolidated 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 are recognized in the Consolidated Statements of Operations and Comprehensive Income. 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

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

## 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 Enhouse 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 Enhouse 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 in Accumulated 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 in Accumulated 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.

## Short-term Investments

Short-term investments include equity securities, which are investments in publicly available securities that are carried at fair market value, as well as fixed-income securities with original maturities of one year or less that do not qualify for measurement at either amortized cost or fair value through other comprehensive income ("FVOCI").

## 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.

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

## **Financial Assets at Fair Value through Profit or Loss**

The Company classifies the following financial assets at fair value through profit or loss: debt investments that do not qualify for measurement at either amortized cost or FVOCI, equity investments held for trading and equity investments for which the Company has not elected to recognize gains and losses through other comprehensive income. 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. The fair value of the Company's equity portfolio is subject to fluctuations in equity markets and is denominated in Canadian dollars as at October 31, 2020.

Interest on cash and cash equivalents, calculated using the effective interest method, is recognized in the Consolidated Statements of Operations and Comprehensive Income as part of Finance income.

Dividends on equity investments that are held for trading 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.

## **Trade Receivables**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. 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. Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value. The Company holds trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

## **Cash and Cash Equivalents**

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable within 24 hours' notice with no loss of interest.

## **Trade and Other Payables**

Trade payables are unsecured and are usually paid within 45 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Accounts payable includes accrued liabilities, provisions, dividends and other payables. 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.

## **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.

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over prior periods and the corresponding historical credit losses experienced during this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Impairment losses on financial assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and recorded as an expected credit loss against receivables. When a subsequent event causes the impairment loss to decrease, the decrease is reversed through profit or loss.

## Property and Equipment

Property 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 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 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 and accumulated depreciation of replaced assets are derecognized when replaced. Gains and losses on disposal of property 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.

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

## 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 legal 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 upgrades 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.

## 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



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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: IMG and AMG, 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 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, 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,

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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 9.

Stock options generally vest over four or five 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.

## **Income Taxes**

Income tax expense comprises current income tax expense and deferred income tax expense. Current income tax expense 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.

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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-forwards of unused tax losses and 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 Statements 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

The Company leases various offices, facilities, equipment and vehicles. Lease terms are negotiated on an individual lease basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be

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readily determined, which is generally the case for leases of the Company, the lessee's incremental borrowing rate (estimated on average to be 3.0%) is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- Where possible, uses recent third-party financing received by, or available to, the individual lessee as a starting point, adjusted to reflect changes in financing conditions since the third-party financing was received;
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company and its subsidiaries that do not have recent third party financing; and
- Makes adjustments specific to the lease, eg. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the liability less any lease payments at or before the commencement date less any lease incentives received.

All short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less.

The Company adopted IFRS 16, Leases ("IFRS 16"), with an initial adoption date of November 1, 2019. See Note 4 for further details.

## 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

On November 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers. Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company accounts for customer contracts when it secures written approval in the form of a signed contract, the parties are committed to the contract with the rights of the parties, including payment terms, specifically identified, the contract has commercial substance and the consideration is probable of collection. The timing of revenue recognition often differs from contract payment schedules and milestones, resulting in revenue that has been earned but not billed. These amounts are included as accounts receivable. Amounts billed in accordance with customer contracts, but in advance of revenue being recognized, are classified as deferred revenue.

## Arrangements with Multi-Performance Obligations

The Company typically contracts with customers to deliver more than one of the goods and services noted below as part of a single arrangement. The Company exercises significant judgment to evaluate these arrangements to determine whether the goods or services are considered distinct performance

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

## **Standalone Selling Price**

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

## **Allocation of Transaction Price**

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

## **Nature of Goods and Services**

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

## **License Revenue**

The Company sells on-premise software licenses on both a perpetual and specified-term basis. Perpetual licenses provide customers the right to use the software for an indefinite period of time in exchange for a one-time license fee, generally paid at contract inception. Term licenses provide the customer with the right to use software for a specified period in exchange for a fee, which may be paid at contract inception or paid in installments over the period of the contract. Revenue from the licensing of software on a perpetual basis is recognized at the time that both the right to use the software has commenced and the software has been made available to the customer for download at the commencement of the term. Term license revenue provided on a fixed-fee basis, subject to monthly or annual minimum fees, is recognized at the time that both the right to use the software has commenced and the software has been made available to the customer. Term license revenue provided on a variable usage basis, such as the number of transactions, subscribers or other variable measure, is recognized over time based on a customer's utilization in a given period. The Company also sells third-party software as an added service to customers. This revenue is generally recognized on delivery to the customer on the same terms and basis as the Company provides its own proprietary software to customers.

## **Hardware Revenue**

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

## **Hosted and Maintenance Services Revenue**

In the Company's hosted/SaaS arrangements, the end user generally does not take possession of the software and the software application resides on the Company's hardware or that of a third party with the



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customer obtaining the right to access the software. Hosted solutions and services are provided on a usage basis, which can vary depending on the number of users or subscribers, and is recognized based on a customer's utilization of the services over the term of the arrangement.

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

The amount of the selling price associated with hosted and maintenance services revenue agreements is deferred and recognized as revenue over the period during which the services are performed. This deferred revenue is included on the 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

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

## Performance Obligations

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

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

## 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

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expensed as incurred. No costs have been deferred on the Consolidated Statements of Financial Position as at October 31, 2020 or 2019.

## 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 short-term investments 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.

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## 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 services and licenses in a customer arrangement and involves an assessment that principally addresses whether the deliverable is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

### 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 acquisition 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 IMG and AMG. 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

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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, 2020 and 2019, 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. The Company'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, 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.

## COVID-19

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

Although the Company has adjusted some of its operating procedures in response to COVID-19, operations have not experienced any significant negative impact to date. The extent to which the

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pandemic impacts future operations and financial results, and the duration of any such impact, depends on future developments, which are highly uncertain and unknown at this time.

## 4. New Standards and Interpretations

### New Standards and Interpretations Adopted

#### IFRS 16, Leases

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

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

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

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

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

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

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



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

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

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

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

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

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



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## 5. Property and Equipment

	Property	Furniture and Fixtures	Computer Hardware	Leasehold Improvements	Total
<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>
<b>Year ended October 31, 2019</b>					
Opening net book value	871	520	3,164	724	5,279
Additions	-	629	686	840	2,155
Acquisitions (Note 12)	-	-	1,597	-	1,597
Depreciation	(22)	(340)	(1,655)	(386)	(2,403)
Exchange difference	1	(74)	(266)	(9)	(348)
<b>Closing net book value</b>	<b>\$ 850</b>	<b>\$ 735</b>	<b>\$ 3,526</b>	<b>\$ 1,169</b>	<b>\$ 6,280</b>
<b>At October 31, 2019</b>					
Cost	986	2,085	16,339	2,601	22,011
Accumulated depreciation	(136)	(1,350)	(12,813)	(1,432)	(15,731)
<b>Net book value</b>	<b>\$ 850</b>	<b>\$ 735</b>	<b>\$ 3,526</b>	<b>\$ 1,169</b>	<b>\$ 6,280</b>
<b>Year ended October 31, 2020</b>					
Opening net book value	850	735	3,526	1,169	6,280
Additions	-	-	2,540	-	2,540
Acquisitions (Note 12)	-	-	371	239	610
Depreciation	(18)	(234)	(2,708)	(281)	(3,241)
Exchange difference	10	(4)	249	(143)	112
<b>Closing net book value</b>	<b>\$ 842</b>	<b>\$ 497</b>	<b>\$ 3,978</b>	<b>\$ 984</b>	<b>\$ 6,301</b>
<b>At October 31, 2020</b>					
Cost	986	2,085	19,250	2,840	25,161
Accumulated depreciation	(144)	(1,588)	(15,272)	(1,856)	(18,860)
<b>Net book value</b>	<b>\$ 842</b>	<b>\$ 497</b>	<b>\$ 3,978</b>	<b>\$ 984</b>	<b>\$ 6,301</b>

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

## 6. Intangible Assets and Goodwill

	Acquired software	Capitalized software	Customer relationships	Total intangibles	Goodwill
<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>
<b>Year ended October 31, 2019</b>					
Opening net book value	24,791	2,197	32,907	59,895	155,419
Acquisitions (Note 12)	58,097	-	36,683	94,780	49,597
Purchase price adjustments	-	-	-	-	-
Amortization	(16,631)	(717)	(14,349)	(31,697)	-
Exchange difference	(440)	3	(656)	(1,093)	(1,718)
<b>Closing net book value</b>	<b>\$ 65,817</b>	<b>\$ 1,483</b>	<b>\$ 54,585</b>	<b>\$ 121,885</b>	<b>\$ 203,298</b>
<b>At October 31, 2019</b>					
Cost	213,490	3,592	140,659	357,741	203,298
Accumulated amortization	(147,673)	(2,109)	(86,074)	(235,856)	-
<b>Net book value</b>	<b>\$ 65,817</b>	<b>\$ 1,483</b>	<b>\$ 54,585</b>	<b>\$ 121,885</b>	<b>\$ 203,298</b>
<b>Year ended October 31, 2020</b>					
Opening net book value	65,817	1,483	54,585	121,885	203,298
Acquisitions (Note 12)	28,976	-	13,209	42,185	11,078
Amortization	(24,786)	(717)	(18,637)	(44,140)	-
Purchase price adjustments*	-	-	-	-	(2,514)
Exchange difference	2,070	3	1,613	3,686	5,564
<b>Closing net book value</b>	<b>\$ 72,077</b>	<b>\$ 769</b>	<b>\$ 50,770</b>	<b>\$ 123,616</b>	<b>\$ 217,426</b>
<b>At October 31, 2020</b>					
Cost	242,466	3,592	153,868	399,926	217,426
Accumulated amortization	(170,389)	(2,823)	(103,098)	(276,310)	-
<b>Net book value</b>	<b>\$ 72,077</b>	<b>\$ 769</b>	<b>\$ 50,770</b>	<b>\$ 123,616</b>	<b>\$ 217,426</b>

\* During the year period, the Company recorded adjustments to goodwill representing the finalization of certain purchase price allocations. These adjustments had no impact on the Consolidated Statements of Operations and Comprehensive Income or the Consolidated Statements of Cash Flows during the year ended October 31, 2020.

# Notes to Consolidated Financial Statements

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## 7. Provisions

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

	Total
<b>At November 1, 2018</b>	\$ 268
Additional provisions expensed	1,506
Pre-existing provisions assumed from acquisitions	9,544
Reversed	(302)
Utilized during the period	(4,467)
Effect of movements in foreign exchange	(13)
<b>At October 31, 2019</b>	<b>\$ 6,536</b>
<b>At November 1, 2019</b>	\$ 6,536
Additional provisions expensed	2,160
Pre-existing provisions assumed from acquisitions	414
Reversed	(321)
Utilized during the period	(3,304)
Effect of movements in foreign exchange	212
<b>At October 31, 2020</b>	<b>\$ 5,697</b>

## 8. Share Capital and Other Components of Shareholders' Equity

### Share Capital

The authorized share capital of the Company consists of an unlimited number of common shares with no par value, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 55,348,924 common shares outstanding as at October 31, 2020. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2020 or 2019.

### Common Share Repurchase Plan

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

### Dividends

During the year ended October 31, 2020, the Company declared dividends of \$28,410 (\$0.515 per common share) of which \$7,472 was paid on November 30, 2020 and was reflected as a liability in the Consolidated Statements of Financial Position at October 31, 2020 (\$6,021 October 31, 2019). For the year ended October 31, 2019, dividends declared were \$22,966 (\$0.42 per common share).

### Stock Dividend

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

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

## Accumulated Other Comprehensive Income

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

	Translation of foreign operations		Unrealized gains/losses		Total
<b>At October 31, 2018</b>	\$	6,536	\$	(781)	\$ 5,755
Adjustment on transition to IFRS 9		-		781	781
<b>At November 1, 2018</b>	\$	<b>6,536</b>	\$	<b>-</b>	<b>\$ 6,536</b>
Cumulative translation adjustment		(1,795)		-	(1,795)
Deferred income tax expense		-		(119)	(119)
<b>At October 31, 2019</b>	\$	<b>4,741</b>	\$	<b>(119)</b>	<b>\$ 4,622</b>
<b>At November 1, 2019</b>	\$	4,741	\$	(119)	4,622
Cumulative translation adjustment		6,335		-	6,335
<b>At October 31, 2020</b>	\$	<b>11,076</b>	\$	<b>(119)</b>	<b>\$ 10,957</b>

## 9. Stock-Based Compensation

The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 3,314,400 (2019–3,925,900) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be exercisable. These options vest at various times over four or five years and expire seven years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

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

	Number of options		Weighted average exercise price	
	2020	2019	2020	2019
Outstanding at beginning of period	1,744,500	1,440,900	\$ 29.89	\$ 25.13
Granted	310,000	500,000	46.10	38.35
Exercised	(611,500)	(157,400)	24.51	16.53
Forfeited	(56,000)	(39,000)	39.34	28.87
<b>Outstanding at end of period</b>	<b>1,387,000</b>	<b>1,744,500</b>	<b>\$ 35.50</b>	<b>\$ 29.89</b>
<b>Exercisable at end of period</b>	<b>262,000</b>	<b>607,500</b>	<b>\$ 27.25</b>	<b>\$ 22.85</b>

A summary of stock options outstanding as at October 31, 2020 is set out below:

Exercise Price	Outstanding Stock Options			Exercisable Stock Options	
	Number Outstanding as at October 31, 2020	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price in \$	Number Exercisable as at October 31, 2020	Weighted Average Exercise Price in \$
\$17.00 to \$25.00	95,000	0.93	21.29	95,000	21.29
\$25.01 to \$30.00	236,000	3.96	28.31	58,000	25.67
\$30.01 to \$35.00	296,000	3.69	30.87	71,000	30.59
\$35.01 to \$50.00	760,000	5.65	41.31	38,000	38.35
	<b>1,387,000</b>	<b>4.62</b>	<b>35.50</b>	<b>262,000</b>	<b>27.25</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, Share Based Payments. For the purposes of expensing stock options, each tranche in an award is considered a

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

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 2020, the Company recorded a non-cash charge of \$2.7 million (2019 – \$2.3 million).

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

## 10. Income taxes

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

Current income taxes:	2020	2019
Current tax on profits for the year	\$ 29,125	\$ 21,962
Foreign withholding taxes	1,658	1,210
Adjustments upon filing of tax returns	(2,958)	(1,614)
	<b>\$ 27,825</b>	<b>\$ 21,558</b>
Deferred income taxes:		
Origination and reversal of timing differences	514	(4,242)
Change in tax rates	(473)	(33)
Recognition of previously unrecognized tax assets	(4,663)	(3,884)
	<b>\$ (4,622)</b>	<b>\$ (8,159)</b>
<b>Total income tax provision</b>	<b>\$ 23,203</b>	<b>\$ 13,399</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:

	2020		2019	
Expected income tax amount at statutory rate	\$ 32,280	% 26.5	\$ 22,326	% 26.5
Foreign earnings subject to different income tax rates	(3,575)	(2.9)	(3,335)	(4.0)
Change in tax rates	(473)	(0.4)	(33)	-
Non-deductible expenses	955	0.8	898	1.1
Tax-exempt income	(635)	(0.5)	(662)	(0.8)
Foreign withholding taxes	1,658	1.4	1,210	1.4
Resolution of tax positions	(2,344)	(2.0)	(3,121)	(3.7)
Changes in recognized assets	(4,663)	(3.8)	(3,884)	(4.6)
<b>Effective income tax amount and rate</b>	<b>\$ 23,203</b>	<b>% 19.1</b>	<b>\$ 13,399</b>	<b>% 15.9</b>

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

Jurisdiction	New Rate	Prior Rate	Effective Date
France	32.0%	33.33%	January 2020
Sweden	20.6%	21.4 %	January 2021



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(C) The Company has recognized deferred income tax assets and liabilities as at October 31, 2020 and 2019 of the following:

<b>Deferred income tax assets:</b>	<b>2020</b>	<b>2019</b>
Provisions and reserves	\$ 4,404	\$ 3,325
Income tax loss carry-forwards	8,126	6,817
SRED expenditures	173	329
Property and equipment	3,416	2,268
	<b>16,119</b>	<b>12,739</b>
<b>Deferred income tax liabilities:</b>		
Property and equipment	126	343
Deferred revenue reserves	3,929	3,576
Acquired software	4,931	5,963
Other intangibles	5,796	6,315
	<b>14,782</b>	<b>16,197</b>
<b>Deferred income tax liabilities, net</b>	<b>\$ 1,337</b>	<b>\$ (3,458)</b>

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

	<b>Balance November 1, 2019</b>	<b>Recognized in profit or loss</b>	<b>Acquired in business combinations</b>	<b>Other</b>	<b>Balance October 31, 2020</b>
Provisions and reserves	\$ 3,325	\$ 640	\$ 439	\$ -	\$ 4,404
Income tax loss carry - forwards	6,817	(6,673)	7,982	-	8,126
SRED expenditures	329	(156)	-	-	173
Property and equipment	2,268	1,156	(8)	-	3,416
Other	-	241	-	(241)	-
<b>Assets</b>	<b>\$ 12,739</b>	<b>\$ (4,792)</b>	<b>\$ 8,413</b>	<b>\$ (241)</b>	<b>\$ 16,119</b>
Property and equipment	343	(217)	-	-	126
Acquired software	5,963	(8,162)	7,130	-	4,931
Intangible assets	6,315	(1,388)	869	-	5,796
Deferred revenue reserves	3,576	353	-	-	3,929
<b>Liabilities</b>	<b>\$ 16,197</b>	<b>\$ (9,414)</b>	<b>\$ 7,999</b>	<b>\$ -</b>	<b>\$ 14,782</b>

	<b>Balance November 1, 2018</b>	<b>Recognized in profit or loss</b>	<b>Recognized in other comprehensive income</b>	<b>Acquired in business combinations</b>	<b>Other</b>	<b>Balance October 31, 2019</b>
Short-term investments	\$ 119	\$ -	\$ (119)	\$ -	\$ -	\$ -
Provisions and reserves	2,755	570	-	-	-	3,325
Income tax loss carry - forwards	5,604	892	-	321	-	6,817
SRED expenditures	243	86	-	-	-	329
Property and equipment	913	1,355	-	-	-	2,268
Other	-	(225)	-	-	225	-
<b>Assets</b>	<b>\$ 9,634</b>	<b>\$ 2,678</b>	<b>\$ (119)</b>	<b>\$ 321</b>	<b>\$ 225</b>	<b>\$ 12,739</b>
Property and equipment	667	(324)	-	-	-	343
Acquired software	3,291	(2,284)	-	4,956	-	5,963
Intangible assets	5,444	(2,413)	-	3,284	-	6,315
Deferred revenue reserves	3,713	(460)	-	323	-	3,576
<b>Liabilities</b>	<b>\$ 13,115</b>	<b>\$ (5,481)</b>	<b>\$ -</b>	<b>\$ 8,563</b>	<b>\$ -</b>	<b>\$ 16,197</b>

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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 2020	Non-capital losses available 2019	Expiry terms
Canada	\$ 112,000	\$ 8,000	Expire in periods commencing in 2030 – 2040
United States	108,000	106,000	Expire in periods commencing in 2021 – 2040
United Kingdom	18,000	14,000	No expiry
Belgium	9,000	9,000	No expiry
Denmark	3,000	5,000	No expiry
Other	92,000	30,000	No expiry
	<b>\$ 342,000</b>	<b>\$172,000</b>	

The Company has not recognized a deferred income tax asset in respect of approximately \$252 million of non-capital losses. Of this amount, \$74 million in losses was incurred by companies resident in the U.S., which are subject to IRC 382 limitations with \$23 million expiring over the next 4 years. These limit the use of losses that are available and provide that these losses can only be applied on a straight-line basis over the applicable expiry period. Based on the attributes and the Company's profitability in the U.S., it is uncertain whether there will be sufficient future taxable income with which to offset these losses during this period. Of the remaining \$178 million, \$92 million of losses were incurred in Canada and \$86 million in losses are related to losses incurred by other non-U.S or Canadian 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 \$116 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. Of this amount, \$81 million relates to scientific research and development credits available in Canada which are subject to expiry between 2025 and 2040. The current year's tax provision includes a credit of \$4.1 million booked for the recognition of deferred tax assets related primarily to non-capital losses for tax purposes, compared to a credit of \$3.0 million recorded in fiscal 2019 for the same reason.

## 11. Earnings per Share

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

Year ended October 31	2020	2019
Net income for the period	\$ 98,590	\$ 70,849
Weighted average number of common shares outstanding	55,062	54,652
<b>Basic earnings per share</b>	<b>\$ 1.79</b>	<b>\$ 1.30</b>

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

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

Year ended October 31	2020	2019
Net income for the period	\$ 98,590	\$ 70,849
Weighted average number of common shares outstanding	55,062	54,652
Adjustment for stock options	547	311
Weighted average number of common shares outstanding for diluted earnings per share	<b>55,609</b>	<b>54,963</b>
<b>Diluted earnings per share</b>	<b>\$ 1.77</b>	<b>\$ 1.29</b>

## 12. Acquisitions

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

### 2020 Acquisitions

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

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

### 2019 Acquisitions

#### Asset Management Group

The Company completed three acquisitions in fiscal 2019, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of \$86.3 million, with \$2.3 million held in escrow that is subject to adjustment. During fiscal 2020, \$0.6 million was paid to the sellers in respect of hold-backs.

#### Interactive Management Group

The Company completed three acquisitions in fiscal 2019, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of \$55.3 million, with \$2.7 million subject to hold-back and adjustment, which is not held in escrow. During fiscal 2020 \$0.1 million, previously held in escrow, was received by the Company.

# Notes to Consolidated Financial Statements

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## Purchase Price Allocations

	Dialogic Final 2020	AMG Final 2019	IMG Final 2019
Cash and cash equivalents	\$ 6,906	\$ 31,951	\$ 4,757
Short-term investments	-	-	219
Accounts receivable	17,752	7,689	13,166
Prepaid expenses and other assets	3,316	4,720	3,846
Property and equipment	610	1,295	302
Deferred income tax assets	414	2,509	5,680
Acquired software	28,976	26,362	31,735
Customer relationships	13,209	12,296	24,387
Right-of-use assets	7,781	-	-
Goodwill	11,078	21,493	25,458
<b>Total assets acquired</b>	<b>\$ 90,042</b>	<b>\$ 108,315</b>	<b>\$ 109,550</b>
Current liabilities assumed	\$ 30,478	\$ 15,437	\$ 44,381
Non-current lease obligations	6,097	-	-
Deferred income tax liabilities	-	6,591	9,840
<b>Total liabilities assumed</b>	<b>\$ 36,575</b>	<b>\$ 22,028</b>	<b>\$ 54,221</b>
<b>Net assets acquired for consideration</b>	<b>\$ 53,467</b>	<b>\$ 86,287</b>	<b>\$ 55,329</b>

The gross contractual amounts of acquired receivables in 2020 for AMG and IMG were \$21.1 million (2019—\$23.3 million). However, acquired receivables are generally represented as collectible by the sellers and therefore are expected to be fully collectible from either the customers or sellers. The Company does not believe the impact of the acquisition of Dialogic is material to either consolidated revenue or consolidated net income.

The goodwill recognized in connection with 2020 acquisitions for AMG and IMG 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 the Company'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 \$11.1 million and \$47.0 million recorded in 2020 and 2019, respectively, is deductible for tax purposes.

## 13. Commitments and Leases

### Commitments

The Company has the right-of-use of land, buildings, automobiles and equipment under leases. The non-cancellable contract period for the Company's leases typically range from less than one year to ten years.

	October 31, 2020	October 31, 2019
Less than 1 year	\$ 13,473	\$ 7,450
Between 1 and 5 years	19,191	17,511
More than 5 years	667	2,861
	<b>\$ 33,331</b>	<b>\$ 27,822</b>

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## Lease liabilities and right of use assets

Below is a summary of the activity related to lease liabilities and right-of-use assets for the year ended October 31, 2020:

Lease liabilities		2020
As at November 1, 2019 IFRS 16 transitional adjustment	\$	34,644
Additions		4,988
Acquisitions		7,046
Adjustment and extensions		3,102
Lease terminations		(1,013)
Interest expense		1,331
Payments, including repayments of interest		(10,220)
Foreign exchange		2,278
<b>As at October 31, 2020</b>	<b>\$</b>	<b>42,156</b>
Current portion of lease liabilities		9,914
Long-term portion of lease liabilities		32,242
Right-of-use assets		2020
<b>Cost</b>		
As at November 1, 2019 IFRS 16 transitional adjustment	\$	35,820
Acquisitions		7,781
Adjustments and extensions		3,102
Additions		4,988
Lease terminations		(1,267)
Foreign exchange		2,262
<b>As at October 31, 2020</b>	<b>\$</b>	<b>52,686</b>
<b>Accumulated depreciation</b>		
Additions		10,083
Lease terminations		(229)
<b>As at October 31, 2020</b>	<b>\$</b>	<b>9,854</b>
<b>Net book value</b>	<b>\$</b>	<b>42,832</b>

For the year ended October 31, 2020, expenses associated with short-term leases were \$2.5 million and \$0.2 million on low-value leases.

## 14. Segment Information

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

Certain segment information previously presented has been changed to conform to the presentation adopted for the current period. This change was made to conform to how management and the chief operating decision maker view the business with increasing regionalization of shared service centers. In effect, this resulted in the reallocation of shared service costs that were previously recorded in the segments' operating expenses to the corporate and shared service expenses. This change had no impact on segment revenue or direct costs and has been applied retrospectively.

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

Year ended October 31, 2020	IMG	AMG	Total
Revenue	\$ 298,876	\$ 204,902	\$ 503,778
Direct costs	(70,295)	(74,882)	(145,177)
<b>Revenue, net of direct costs</b>	<b>228,581</b>	<b>130,020</b>	<b>358,601</b>
Operating expenses excluding special charges	(93,875)	(51,920)	(145,795)
Depreciation of property and equipment	(2,297)	(944)	(3,241)
Depreciation of right-of-use assets	(6,623)	(3,460)	(10,083)
<b>Segment profit</b>	<b>\$ 125,786</b>	<b>\$ 73,696</b>	<b>\$ 199,482</b>
Special charges			(1,478)
Corporate and shared service expenses			(35,990)
<b>Results from operating activities</b>			<b>\$ 162,014</b>

Year Ended October 31, 2019	IMG	AMG	Total
Revenue	\$ 204,899	\$ 180,954	\$ 385,853
Direct costs	(53,558)	(65,245)	(118,803)
<b>Revenue, net of direct costs</b>	<b>151,341</b>	<b>115,709</b>	<b>267,050</b>
Operating expenses excluding special charges	(72,024)	(47,221)	(119,245)
Depreciation of property and equipment	(1,619)	(784)	(2,403)
<b>Segment profit</b>	<b>\$ 77,698</b>	<b>\$ 67,704</b>	<b>\$ 145,402</b>
Special charges			(1,203)
Corporate and shared service expenses			(32,225)
<b>Results from operating activities</b>			<b>\$ 111,974</b>

Goodwill allocated to IMG and AMG is \$133,009 and \$84,417, respectively, for the year ended October 31, 2020 and was \$119,232 and \$84,066, respectively, for the year ended October 31, 2019.

Revenue from customers as well as non-current assets are attributable to individual countries based on the reporting entity that records the transaction and is distributed geographically as follows:

Jurisdiction	Revenue (%)		Non-Current Assets	
	2020	2019	2020	2019
United States	47	34	\$ 177,466	\$ 121,194
United Kingdom	13	16	38,833	33,599
Europe	15	19	67,104	66,750
Scandinavia	16	22	46,214	43,445
Canada	5	4	54,692	63,693
Other	4	5	5,866	2,782
<b>Total</b>	<b>100</b>	<b>100</b>	<b>\$ 390,175</b>	<b>\$ 331,463</b>
Deferred tax assets			16,119	12,739
<b>Total non-current assets</b>			<b>\$ 406,294</b>	<b>\$ 344,202</b>

## 15. 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



# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

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, 2020.

## 16. 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 equity securities held for trading and cumulative translation adjustments. The Company does not have any long-term debt. 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.

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, 2020 and 2019.

## 17. 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.

### *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 following table, 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, 2020 and 2019 in the consolidated financial statements are summarized below. The Company has no significant 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 2020 and 2019.

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

Assets	October 31, 2020			October 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 244,792	\$ -	\$ 244,792	\$ 144,764	\$ -	\$ 144,764
Short-term investments	6,999	-	6,999	5,505	-	5,505
<b>Total</b>	<b>\$ 251,791</b>	<b>\$ -</b>	<b>\$ 251,791</b>	<b>\$ 150,269</b>	<b>\$ -</b>	<b>\$ 150,269</b>

## 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 loss allowance for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The lifetime expected credit loss reflects the Company's best estimate of losses on the accounts receivable and unbilled revenues. The Company reviews its trade receivable accounts regularly and makes adjustments 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 \$90.8 million as at October 31, 2020 (2019—\$85.0 million), representing the maximum exposure to credit risk of those financial assets, net of the loss allowance of \$10.3 million. The Company's expected credit loss for accounts receivable increased from \$5.7 million at October 31, 2019 primarily as a result of increased sales volumes. 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 12.5% or \$11.4 million of trade receivables at October 31, 2020 was outstanding more than 90 days, compared to \$6.9 million (8.1%) past due as at October 31, 2019.

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

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

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.

## 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, which diversifies the risk.

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 \$1.6 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, 2020, the Company reported foreign exchange losses of \$0.4 million compared to gains of \$0.1 million in fiscal 2019.

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 2020, the exchange rate for U.S. dollars to Canadian dollars averaged \$1.35 (2019—\$1.32), while the pound sterling averaged \$1.72 (2019—\$1.64), the euro averaged \$1.51 (2019—\$1.46) and the Swedish krona averaged \$0.14 (2019—\$0.14). 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 \$4.6 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 1% of existing rates, interest income would be increased or decreased by approximately \$1.1 million per year.

## 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 significant short-term borrowing or any long-term debt 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

# Notes to Consolidated Financial Statements

October 31, 2020 and 2019 (in thousands of Canadian dollars, except as indicated)

on hand. As at October 31, 2020, the Company's current liabilities, all of which fall due for payment within twelve months of the Consolidated Statements of Financial Position date, were \$206.6 million (2019—\$161.0 million). At October 31, 2020, the Company had a working capital surplus of \$150.8 million (2019—\$85.4 million), which includes cash and short-term investments balances of \$251.8 million (2019—\$150.3 million).

## 18. Changes in Non-Cash Operating Working Capital

Year ended October 31	2020	2019
Decrease (increase) in accounts receivable	\$ 16,095	\$ (519)
(Increase) decrease in prepaid expenses and other assets	(1,756)	3,870
Decrease in accounts payable and accrued liabilities	(1,046)	(6,527)
Decrease in provisions	(1,056)	(2,827)
Decrease in income taxes payable	(2,716)	(1,829)
Decrease in deferred revenue	(133)	(7,900)
<b>Changes in non-cash operating working capital</b>	<b>\$ 9,388</b>	<b>\$ (15,732)</b>

## 19. Additional IFRS Information

Expense by nature	2020	2019
Third-party license, maintenance and services	\$ 32,854	\$ 23,771
Hardware	13,683	12,061
Staff costs	247,341	198,276
Supplies	6,783	4,479
Other administrative expenses	7,706	4,413
Travel and marketing	8,337	11,684
Communications	3,085	2,723
Occupancy	2,532	9,542
Professional services	4,642	3,324
Restructuring	1,478	1,203
Depreciation of right-of-use assets	10,083	-
Depreciation of property and equipment	3,241	2,403
<b>Total</b>	<b>\$ 341,765</b>	<b>\$ 273,879</b>

Staff costs	2020	2019
Salaries and wages	\$ 173,938	\$ 144,123
Employee benefits	33,966	28,427
Stock-based compensation	2,744	2,268
Termination benefits	2,216	729
Bonuses	8,750	6,329
Commissions	8,652	4,015
Contractors	17,075	12,385
<b>Total</b>	<b>\$ 247,341</b>	<b>\$ 198,276</b>

Included in employee benefits is the Company's share of costs related to defined contribution pension plans of \$5.7 million (2019—\$4.6 million).

# Notes to Consolidated Financial Statements

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## 20. Related Parties

### *Related Party Transactions*

The Company has not entered into any related party transactions other than key management compensation discussed subsequently.

### *Key management personnel compensation*

The key management personnel of the Company are the seven members of the Company's executive management team located in Canada who control approximately 13.2% (2019–14.0%) of the outstanding shares of Enghouse Systems.

	2020	2019
Salaries, bonus and employee benefits	\$ 7,256	\$ 6,510
Stock options expense	1,239	1,027
<b>Total</b>	<b>\$ 8,495</b>	<b>\$ 7,537</b>

## 21. 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, 2020, the majority of the defined benefit obligation relates to Germany, which is carried at fair value of \$2.2 million (2019 - \$2.1 million). Sensitivity as a result of the pension plan's significant actuarial assumptions and variables is not significant.





## Corporate Directory

### 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>(2),(3)</sup>

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

#### Paul Stoyan <sup>(2),(3)</sup>

Chairman  
Gardiner Roberts LLP

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

Chairman  
Franco-Nevada Corporation

#### Jane Mowat <sup>(1)</sup>

Independent Consultant

- (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

#### Sam Anidjar

Vice President  
Corporate Development

#### Lynette Corbett

Chief Administrative & Human  
Resources Officer

#### Todd M. May

Vice President and  
General Counsel

## Corporate Information

### Independent Auditors

#### Ernst & Young LLP

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

### Investor Inquiries

Inquiries should be directed to:

Investor Relations

#### Enghouse Systems Limited

80 Tiverton Court, Suite 800  
Markham, Ontario, L3R 0G4, Canada  
email: [investor@enghouse.com](mailto:investor@enghouse.com)

### Transfer Agent

#### TSX Trust Company

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

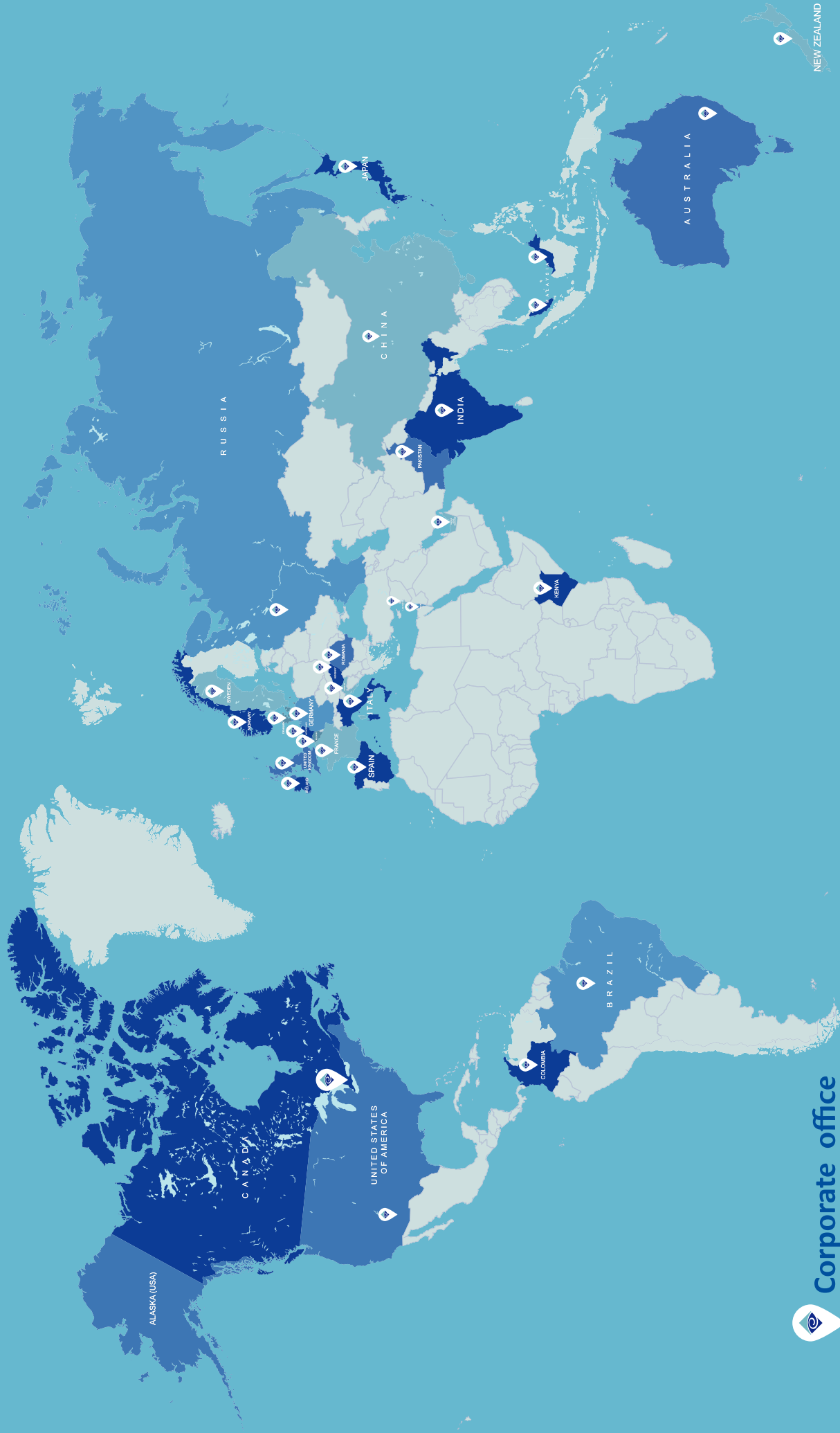
### Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held virtually on  
**Thursday March 11<sup>th</sup>, 2021 at 4:30 p.m.**

### Stock Information

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





Corporate office



Principal offices



**Enghouse Systems**  
Software engineered for results