

Company registration number: 04230977

ANNUAL REPORT AND FINANCIAL
STATEMENTS

FOR THE YEAR ENDED

31 OCTOBER 2021

ENGHOUSE INTERACTIVE
(UK) LIMITED



MENZIES

ENGHOUSE INTERACTIVE (UK) LIMITED

COMPANY INFORMATION

Director	R Medved
Company secretary	I R Cornes
Registered number	04230977
Registered office	Imperium Imperial Way Reading Berkshire RG2 0TD
Independent auditors	Menzies LLP Chartered Accountants & Statutory Auditor Centrum House 36 Station Road Egham Surrey TW20 9LF

ENGHOUSE INTERACTIVE (UK) LIMITED

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ENGHOUSE INTERACTIVE (UK) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 OCTOBER 2021

Introduction

The director presents their strategic report for the year ended 31 October 2020.

Business review & key performance indicators

The principal activities of the company and the group in the year under review were those of providing software and services to medium and large entities by combining voice recognition, speaker verification and CTI in an open standards solution. We are able to provide solutions and services and solve business problems, deliver reduction in operating costs, improve process efficiency and deliver a measurable return on investment.

The company is also the finance centre for group operations across Europe, Africa and the Middle East. When reviewing financial performance group management do not focus on an entity by entity basis but by region. This company for part of the European spectrum and at a local level the UK. The results for the year and the financial position at the year end were considered satisfactory by management who expect continued growth in the foreseeable future.

The entity's key achievement and performance indicators in the year to 31 October 2021 were as follows;

		2021	2020	% change
Turnover	£	23,920,522	24,398,521	-1.6%
Cash	£	4,433,138	2,530,501	75.2%
Adjusted EBITDA (*)	£	8,858,767	7,735,599	14.5%

(*)Adjusted EBITDA is calculated based on results from operating activities adjusted for depreciation of property, equipment and right-of-use assets.

Turnover in the year has decreased by 1.96%, cash has increased by 75.19% and EBITDA has increased by 14.52%. This is driven by focus on costs.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. Risks are reviewed by management on an on-going basis and appropriate processes put in place to monitor and mitigate them. The key business risks are as follows.

i. Competition

The group operates in a highly competitive market particularly around price and product availability and quality. This results not only in downward pressure on margins, but also the risk that we will not meet our customers expectations. In order to mitigate the risk, management review pricing on an on-going basis. Furthermore, we undertake market research and customer surveys to understand our customers expectations and their needs are being met.

ii. Economic, business and political environment

Periodic difficulties or changes in the domestic or international economic, business or political environment particularly affecting the technology industry or industries from which we derive a significant portion of our revenues, increase the likelihood that customers will unexpectedly delay, cancel or reduce the sizes of orders.

Management continues to invest in maintaining existing partner relationships and further establishing and expanding relationships with partners such that any general decline in trading conditions can be countered by expanding our opportunity base and attachment rate.

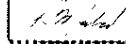
iii. Product development

As the technological, market and industry conditions in our business can change very rapidly, if we do not successfully adapt our products to these changes, our revenues and profits can be damaged. The risk is mitigated by continuing to invest significantly in acquiring and developing new products and enhancing existing products to respond to customer requirements, keeping pace with emerging technologies as well as investing in an on-going program of education and training of our sales force and partners.

ENGHOUSE INTERACTIVE (UK) LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2021

This report was approved by the board and signed on its behalf.

DocuSigned by:

779546E0-32A9-406F-A2F0-B188729C1826
R Medved
Director
Date: 28-oct.-2022

ENGHOUSE INTERACTIVE (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 2021

The directors present their report and the financial statements for the year ended 31 October 2021.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results and dividends

The profit for the year, after taxation, amounted to £6,980,680 (2020 - £5,555,927).

No dividends will be distributed for the year ended 31 October 2021 (2020 - nil).

Director

The director who served during the year was:

S Sadler (resigned 15 March 2022)
R Medved (appointed 15 March 2022)

Future developments

The company is a subsidiary of Enghouse Systems Limited, a publicly traded Canadian based software and services company founded in 1984. Enghouse serves a number of distinct vertical markets through its two divisions, each developing and selling enterprise oriented applications software.

Enghouse's overall strategy is to create a larger and more diverse enterprise software company through strategic acquisitions and managed growth. The company is led by a seasoned team of proven executives who have years of experience building and running successful software companies.

The external commercial environment is expected to remain competitive in 2020, while economic conditions remain uncertain. However, we remain confident we will maintain our market position through leveraging existing strong partner relationships and by continuing to invest in our product portfolio.

Research and development activities

In order to maintain the competitive position of the Company, there is a dedicated development team at Group level.

ENGHOUSE INTERACTIVE (UK) LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2021

Engagement with employees

The Company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2005. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Disabled employees

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Matters covered in the Strategic report

The Company has chosen in accordance with Section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out within the company's Strategic Report the Company's Strategic Report Information required by schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. This includes information that would have been included in the business review and details of the principal risks and uncertainties.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

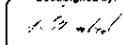
Post balance sheet events

Information on material events that occurred from 31 October 2021 to the date of this report can be found at note 23.

Auditors

Under section 487(2) of the Companies Act 2006, Menzies LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board and signed on its behalf.

DocuSigned by:

70888A906EB480
R Medved
Director

Date: 28-oct.-2022

ENGHOUSE INTERACTIVE (UK) LIMITED

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ENGHOUSE INTERACTIVE (UK) LIMITED

Opinion

We have audited the of Enghouse Interactive (UK) Limited (the 'Company') for the year ended 31 October 2021, which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the :

- give a true and fair view of the state of the Company's affairs as at 31 October 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the in the United Kingdom, including the Financial Reporting Council's Ethical Standard 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' report thereon. The directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

ENGHOUSE INTERACTIVE (UK) LIMITED

MENZIES

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ENGHOUSE INTERACTIVE (UK) LIMITED (CONTINUED)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the are prepared is consistent with the ; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of that are free from material misstatement, whether due to fraud or error.

In preparing the , the directors are responsible for assessing the Company'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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

ENGHOUSE INTERACTIVE (UK) LIMITED

MENZIES

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ENGHOUSE INTERACTIVE (UK) LIMITED (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' 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 ISAs (UK) 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 financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation. We determined that the following laws and regulations were most significant including UK Companies Act, employment law and tax legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
- We understood how the Company is complying with those legal and regulatory frameworks by, making inquiries to management, those responsible for legal and compliance procedures and the company secretary.
- The engagement partner assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations. The assessment did not identify any issues in this area.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - Identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - Understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process; and
 - Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.
- As a result of the above procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:
 - Posting of unusual journals and complex transactions; and
 - Risk of fictitious employees.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>.

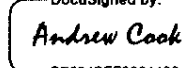
ENGHOUSE INTERACTIVE (UK) LIMITED

MENZIES

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ENGHOUSE
INTERACTIVE (UK) LIMITED (CONTINUED)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

BF524BFF3301436
Andrew Cook (Senior statutory auditor)

for and on behalf of
Menzies LLP

Chartered Accountants
Statutory Auditor

Centrum House
36 Station Road
Egham
Surrey
TW20 9LF

Date: 28-Oct-2022

ENGHOUSE INTERACTIVE (UK) LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 OCTOBER 2021

	Note	2021 £	2020 £
Turnover	4	23,920,522	24,398,521
Cost of sales		(7,187,605)	(7,426,410)
Gross profit		16,732,917	16,972,111
Administrative expenses		(8,983,246)	(10,139,061)
R&D tax credit		111,103	-
Operating profit	5	7,860,774	6,833,050
Interest receivable and similar income	8	165,560	42,828
Interest payable and similar expenses	9	(46,477)	(59,906)
Profit before tax		7,979,857	6,815,972
Tax on profit	10	(999,177)	(1,260,045)
Profit for the financial year		6,980,680	5,555,927

There was no other comprehensive income for 2021 (2020: £NIL).

The notes on pages 12 to 29 form part of these financial statements.

ENGHOUSE INTERACTIVE (UK) LIMITED

REGISTERED NUMBER:04230977

BALANCE SHEET AS AT 31 OCTOBER 2021

	Note	2021 £	As restated 2020 £
Fixed assets			
Tangible assets	11	2,841,650	2,795,418
Investments	12	40,728,687	40,728,687
		43,570,337	43,524,105
Current assets			
Debtors: amounts falling due within one year	13	24,237,608	23,150,187
Cash at bank and in hand		4,433,138	2,530,501
		28,670,746	25,680,688
Creditors: amounts falling due within one year	14	(23,043,369)	(26,928,109)
Net current assets/(liabilities)		5,627,377	(1,247,421)
Total assets less current liabilities		49,197,714	42,276,684
Creditors: amounts falling due after more than one year	15	(1,325,738)	(1,525,325)
		47,871,976	40,751,359
Provisions for liabilities			
Deferred taxation	17	(139,937)	-
		(139,937)	-
Net assets		47,732,039	40,751,359
Capital and reserves			
Called up share capital	18	315,895	315,895
Share premium account	19	10,191,037	10,191,037
Profit and loss account	19	37,225,107	30,244,427
		47,732,039	40,751,359

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

DocuSigned by:

R Medved
 Director

Date: 28-oct.-2022

The notes on pages 12 to 29 form part of these financial statements.

ENGHOUSE INTERACTIVE (UK) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 OCTOBER 2021

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 November 2019	315,895	10,191,037	27,939,831	38,446,763
Prior year adjustment	-	-	(3,251,331)	(3,251,331)
	<u>315,895</u>	<u>10,191,037</u>	<u>24,688,500</u>	<u>35,195,432</u>
At 1 November 2019 (as restated)				
Profit for the year	-	-	5,555,927	5,555,927
Total comprehensive income for the year	-	-	5,555,927	5,555,927
	<u>315,895</u>	<u>10,191,037</u>	<u>30,244,427</u>	<u>40,751,359</u>
At 1 November 2020				
Profit for the year	-	-	6,980,680	6,980,680
Total comprehensive income for the year	-	-	6,980,680	6,980,680
	<u>315,895</u>	<u>10,191,037</u>	<u>37,225,107</u>	<u>47,732,039</u>
At 31 October 2021				

The notes on pages 12 to 29 form part of these financial statements.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

1. General information

Enghouse Interactive (UK) Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The presentation currency of the financial statements is Pound Sterling (£).

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

2. Accounting policies (continued)

2.2 Financial Reporting Standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based payment
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of paragraph 33(c) of IFRS 5 Non Current Assets Held For Sale and Discontinued Operations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
 - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
 - paragraph 50 of IAS 41 Agriculture
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

This information is included in the consolidated financial statements of Enghouse Systems Limited (incorporated in Canada) as at 31 October 2021 and these financial statements may be obtained from <https://www.enghouse.com/investors/financials/php>.

The company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of Enghouse Systems Limited.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

2. Accounting policies (continued)

2.3 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

2.4 Turnover

Revenue represents net invoiced sales of goods, excluding value added tax. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The company has four main streams of turnover. The streams along with the accounting policy associated with their recognition are as follows:

- Software licence and hardware sales - Turnover is recognised in full upon shipment of the software. This is deemed to be at the point of delivery to the customer.
- Maintenance sales - Maintenance sales are held on the balance sheet as "deferred revenue" and amortised over the period of maintenance to which it relates on a straight line basis.
- Service sales - Turnover for services such as consultancy and training are recognised upon the performance of service.
- Hosted revenue - Software and services supplied over a centrally hosted platform are recognised by the number of ports used by the customers each month.

2.5 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.6 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

2. Accounting policies (continued)

2.7 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.8 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

2. Accounting policies (continued)

2.9 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.10 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, on a reducing balance basis.

Depreciation is provided on the following basis:

Short-term leasehold property	- Straight line over period of lease
Fixtures and fittings	- 33% reducing balance
Computer equipment	- 33% reducing balance

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.11 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

2. Accounting policies (continued)

2.12 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets and financial liabilities are initially measured at fair value.

Financial assets

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial assets.

Fair value through profit or loss

All of the Company's financial assets are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses being recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Impairment of financial assets

The Company always recognises lifetime ECL for trade receivables and amounts due on contracts with customers. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

Financial liabilities

Fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss, when the financial liability is held for trading, or is designated as at fair value through profit or loss. This designation may be made if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or the financial liability forms part of a group of financial instruments which is managed and its performance is evaluated on a fair value basis, or the financial liability forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at fair value through profit or loss. Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

At amortised cost

Financial liabilities which are neither contingent consideration of an acquirer in a business combination, held for trading, nor designated as at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. This is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate a shorter period, to the amortised cost of a financial liability.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

2. Accounting policies (continued)

2.13 Preference shares

Preference shares that give the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount are classified as a financial liability rather than equity.

The companies preference shares are redeemable at both the holder's option and the issuers option at their fair market value, and therefore are classified as a financial liability, as the company is obliged to redeem these shares for cash. The preference shares are redeemable at their fair market value and are therefore accounted for under IFRS 9 at amortised cost. Under IFRS 9, in instances where it is not possible to reliably estimate the cash flows and expected life of an instrument, such that the effective interest rate can be reliably determined, the rate should be calculated based on the contractual cash flows over the full contractual term of the instrument.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the company estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-to-use asset, with similar terms, security and economic environment.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

4. Turnover

An analysis of turnover by class of business is as follows:

	2021 £	2020 £
Hosting revenue	762,920	770,589
Professional services	2,729,279	2,255,646
Maintenance revenue	12,676,087	12,625,165
Software licences	7,674,491	8,325,367
Hardware & third party licence	77,745	301,844
R&D tax credit	-	119,910
	<u>23,920,522</u>	<u>24,398,521</u>

Analysis of turnover by country of destination:

	2021 £	2020 £
United Kingdom	16,172,700	16,423,266
Rest of Europe	3,474,847	4,003,390
Rest of the world	4,272,975	3,971,865
	<u>23,920,522</u>	<u>24,398,521</u>

5. Operating profit

The operating profit is stated after charging:

	2021 £	2020 £
Depreciation of tangible fixed assets	1,109,096	902,550
Exchange differences	(714,564)	(110,186)
Share based payments	156,395	216,887
Defined contribution pension cost	333,364	357,122

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

6. Auditors' remuneration

	2021 £	2020 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	36,750	28,000
Fees payable to the Company's auditor and its associates in respect of:		
Taxation compliance services	1,500	1,000
All other services	500	500
	2,000	1,500

Audit fees of £5,500 (2020 - £5,550) for the following companies are borne by the company; Enghouse Development (UK) Limited and Enghouse Interactive Holdings (UK) Limited.

7. Employees

Staff costs were as follows:

	2021 £	2020 £
Wages and salaries	7,948,234	8,254,274
Social security costs	1,002,246	1,016,000
Cost of defined contribution scheme	333,364	357,122
	9,283,844	9,627,396

The average monthly number of employees, including the directors, during the year was as follows:

	2021 No.	2020 No.
Technical services	41	41
Sales and marketing	27	27
Research and development	21	21
Finance and administration	42	47
	131	136

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

8. Interest receivable

	2021 £	2020 £
Other interest receivable	165,560	42,828
	<u>165,560</u>	<u>42,828</u>

9. Interest payable and similar expenses

	2021 £	2020 £
Bank interest payable	-	33
Interest on lease liabilities (note 16)	46,477	59,873
	<u>46,477</u>	<u>59,906</u>

10. Taxation

	2021 £	2020 £
Corporation tax		
Current tax on profits for the year	1,009,008	1,291,489
Adjustments in respect of previous periods	(186,871)	(99,965)
	<u>822,137</u>	<u>1,191,524</u>
Total current tax	<u>822,137</u>	<u>1,191,524</u>
Deferred tax		
Origination and reversal of timing differences	177,040	68,521
Total deferred tax	<u>177,040</u>	<u>68,521</u>
Taxation on profit on ordinary activities	<u>999,177</u>	<u>1,260,045</u>

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2020 - *the same as*) the standard rate of corporation tax in the UK of 19% (2020 - 19%) as set out below:

	2021 £	2020 £
Profit on ordinary activities before tax	7,979,857	6,815,972
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	1,516,173	1,295,035
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	30,023	91,113
Fixed asset timing differences	(39,279)	-
Adjustments to tax charge in respect of prior periods	(186,871)	14,917
Other timing differences leading to an increase (decrease) in taxation	69,294	137,859
Non-taxable income	(149,532)	-
Adjustment in research and development tax credit leading to an increase (decrease) in the tax charge	-	(114,882)
Double taxation relief	8,079	-
Tax deduction arising from exercise of employee options	(229,378)	-
Group relief	(19,332)	(163,997)
Total tax charge for the year	999,177	1,260,045

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

11. Tangible fixed assets

	Short-term leasehold property £	Fixtures and fittings £	Computer equipment £	Right of use assets £	Total £
Cost or valuation					
At 1 November 2020	235,671	22,331	2,982,468	1,907,796	5,148,266
Additions	-	-	1,155,328	-	1,155,328
At 31 October 2021	235,671	22,331	4,137,796	1,907,796	6,303,594
Depreciation					
At 1 November 2020	108,209	20,880	1,930,252	293,507	2,352,848
Charge for the year on owned assets	23,529	1,451	745,601	338,515	1,109,096
At 31 October 2021	131,738	22,331	2,675,853	632,022	3,461,944
Net book value					
At 31 October 2021	103,933	-	1,461,943	1,275,774	2,841,650
At 31 October 2020	127,462	1,451	1,052,216	1,614,289	2,795,418

The net book value of owned and leased assets included as "Tangible fixed assets" in the Balance sheet is as follows:

	2021 £	2020 £
Tangible fixed assets owned	1,565,876	1,181,129
Right-of-use tangible fixed assets	1,275,774	1,614,289
	<u>2,841,650</u>	<u>2,795,418</u>

Information about right-of-use assets is summarised below:

Net book value

	2021 £	2020 £
Property	1,275,774	1,614,289
	<u>1,275,774</u>	<u>1,614,289</u>

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

12. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 November 2020	40,728,687
At 31 October 2021	<u>40,728,687</u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Andtek GmbH	Germany	Ordinary	100%
Enghouse Holdings (UK) Limited	Reading	Preference	71%
Enghouse Transportation Limited	Canada	Preference	100%

The preference shares held in Enghouse Holdings (UK) Limited and Enghouse Transportation Limited carry no right to fixed income.

An amount totalling £35,847,997 of the investments held are preference shares in entities which are not direct subsidiaries of the entity but wholly owned within the Enghouse Systems Limited group.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

13. Debtors

	2021 £	2020 £
Trade debtors	8,863,230	8,461,129
Amounts owed by group undertakings	14,164,650	14,071,370
Prepayments and accrued income	567,617	411,744
Tax recoverable	642,111	168,841
Deferred taxation	-	37,103
	24,237,608	23,150,187

Amounts owed by group undertakings are potentially subject to a nominal interest charge, are unsecured and repayable upon demand.

Trade debtors are including a doubtful debt provision of £152,883 (2020 - £298,883).

14. Creditors: Amounts falling due within one year

	2021 £	As restated 2020 £
Trade creditors	1,224,895	807,287
Amounts owed to group undertakings	1,733,093	3,512,869
Other taxation and social security	762,751	1,466,458
Lease liabilities	199,587	317,981
Other creditors	88,749	153,023
Accruals and deferred income	5,788,913	6,638,102
Share capital treated as debt	13,245,381	14,032,389
	23,043,369	26,928,109

Share capital treated as debt has been restated to increase by £3,251,331 to account for foreign exchange movements since initial recognition.

15. Creditors: Amounts falling due after more than one year

	2021 £	2020 £
Lease liabilities	1,325,738	1,525,325
	1,325,738	1,525,325

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

16. Leases

Company as a lessee

The Company leases land and building for its office.

As at 31 October 2021, the Company is committed to £1,191,456 (2020: £1,992,690) in future lease payments, none of which relates to short-term leases.

The Company's obligations are secured by the lessors' title to the leased asset which have a carrying value of £1,275,774 (2020: £1,614,289). The carrying amount of the lease liabilities approximates the fair value.

Lease liabilities are due as follows:

	2021 £	2020 £
Not later than one year	199,587	317,981
Between one year and five years	1,325,738	1,372,650
Later than five years	-	152,675
	1,525,325	1,843,306

Contractual undiscounted cash flows are due as follows:

	2021 £	2020 £
Not later than one year	368,058	362,178
Between one year and five years	1,296,583	1,476,690
Later than five years	-	153,822
	1,664,641	1,992,690

The Company does not face a significant liquidity risk with regard to its lease liabilities and these are monitored as part of the overall process of managing cash flows which is described in the cash flow statement.

The following amounts in respect of leases, where the Company is a lessee, have been recognised in profit or loss:

	2021 £	2020 £
Interest expense on lease liabilities	46,477	59,873

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

17. Deferred taxation

	2021 £
At beginning of year	37,103
Charged to profit or loss	(177,040)
At end of year	(139,937)

The deferred taxation balance is made up as follows:

	2021 £	2020 £
Tax losses carried forward	(139,937)	37,103
	(139,937)	37,103

18. Share capital

	2021 £	2020 £
Shares classified as equity		
Allotted, called up and fully paid		
315,140 (2020 - 315,140) Ordinary shares of £1.000 each	315,140	315,140
54,000 (2020 - 54,000) A Ordinary shares of £0.001 each	54	54
600,000 (2020 - 600,000) Senior convertible preference shares of £0.001 each	600	600
37,000 (2020 - 37,000) Convertible preferred shares of £0.001 each	37	37
28,000 (2020 - 28,000) Deferred shares of £0.001 each	28	28
36,000 (2020 - 36,000) Participating Preferred shares of £0.001 each	36	36
	315,895	315,895

The 'A' ordinary shares, participating preferred shares, convertible preferred shares and senior convertible preference shares rank equally in respect of dividends and votes. The deferred shares have no entitlement to dividends or to vote.

Upon the winding up of the company any surplus is used first to repay the capital of the holders of the senior convertible preference shares, then to the participating preferred shares and then the holders of the convertible preferred shares. In any remaining surplus up to a maximum of £1,000,000, the holders of the participating preferred shares and the 'A' ordinary shares shall then rank as one class. Amounts over and above this are first used to repay the subscription price to the holders of the deferred shares and then allocated to the holders and the participating preferred shares and the 'A' ordinary shares who shall then rank as one class.

The senior convertible preference shares and convertible preferred shares may be converted at the rate of one ordinary share for each senior convertible and convertible preference share at any time at the option of the holder.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

18. Share capital (continued)

	2021 £	As restated 2020 £
Shares classified as debt		
Allotted, called up and fully paid		
9,763,200 (2020 - 9,763,200) Redeemable shares of USD\$1.000 each	7,119,743	7,542,780
8,400,000 (2020 - 8,400,000) Redeemable A shares of USD\$1.000 each	6,125,638	6,489,609
	<u>13,245,381</u>	<u>14,032,389</u>

Share capital treated as debt has been restated to increase by £3,251,331 to account for foreign exchange movements since initial recognition.

19. Reserves

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Profit and loss account

This reserve records retained earnings and accumulated losses.

20. Share based payments

Some employees of the Company hold share options in the ultimate controlling party, Enghouse Systems Limited. Therefore, expenses related to share options are accounted for by the Company. The options are valued at the market value at grant date, generally vest of 4-5 years, and expire after 7 years.

In respect of these options, the total expense during the year was £156,395 (2020 - £216,887).

These options have been treated as cash settled with the corresponding liability in the intercompany balance with Enghouse Systems Limited.

21. Prior year adjustment

The details of the correction of a prior period error are given below:

i) An amount of £3,251,331 has been recognised as the foreign exchange movements on the share capital treated as debt to correct the translation of these shares in their correct denomination from USD\$ to GBP rather than CAD\$ to GBP, as previously treated. The value of the share capital treated as debt as at 1 November 2019 and 31 October 2020 increased by £3,251,331.

After the recognition of the above adjustment, the retained earnings as at 1 November 2019 and 31 October 2020 reduced by £3,251,331.

ENGHOUSE INTERACTIVE (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

22. Contingent liabilities

An unlimited guarantee has been given in favour of Barclays Bank PLC in respect of this company. CTI Billing Solutions Limited, CTI Data Solutions Limited, Enghouse Development (UK) Limited, Enghouse Holdings (UK) Limited, Tollgrade UK Limited, Enghouse Interactive Holdings (UK) Limited, Enghouse Networks (UK) Limited.

23. Post balance sheet events

Fixed assets investment with carrying value of £4,880,690 as at 31 Oct 2021 has been disposed off post year end with the sales proceed of £8,661,242 (€10,452,421).

24. Ultimate controlling party

The Company is exempted from preparing consolidated accounts.

The immediate parent company is Enghouse Interactive Holdings (UK) Limited, a company incorporated in England.

The Company's ultimate controlling party is Enghouse Systems Limited, a company incorporated in Canada.

The consolidated financial statements of Enghouse Systems Limited can be obtained from <https://www.enghouse.com/investors/financials/php>.



Enghouse Systems

AN IRVING-CLOUD COMPANY

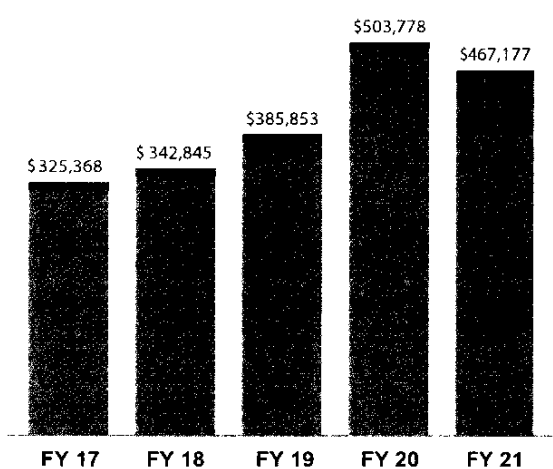
2021

Annual Report

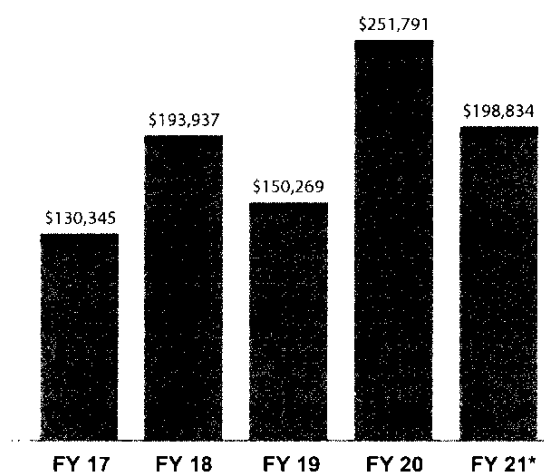
COMPLIANCE HOUSE

“Fiscal 2021 was another year of positive income and operating cash flows, improved Adjusted EBITDA margins and record distributions to shareholders.”

TOTAL REVENUE (in \$000)



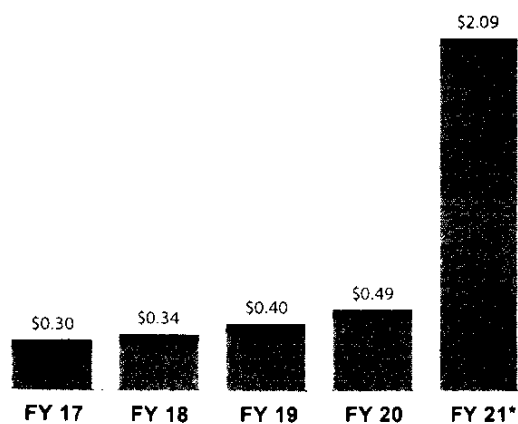
CASH & SHORT-TERM INVESTMENTS[†] (in \$000)



*Including a special dividend of \$83.2 million, paid in fiscal 2021

†Cash & short-term investments balances are achieved after payments for acquisitions and dividends

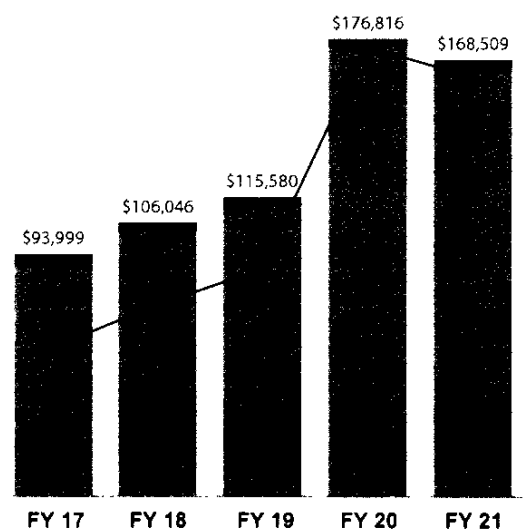
DIVIDEND PER SHARE



*Including a special dividend of \$1.50 per common share, paid in fiscal 2021

ADJUSTED EBITDA (in \$000s)

■ ADJUSTED EBITDA — EBITDA PER DILUTED SHARE





Enghouse Systems

NYSE: ENHS OTC: ENHSF

Chairman's Message:

Dear fellow Shareholders,

Fiscal 2021 was another year of positive income and operating cash flows, improved Adjusted EBITDA margins and record distributions to shareholders. Although record revenue was not achieved this year, we again demonstrated the benefit of maintaining our financial discipline during times of significant market fluctuations. In doing so, we achieved Adjusted EBITDA margins of 36.1% and cash flows from operations, excluding changes in working capital, of \$167.8 million. We closed the year with \$198.8 million in cash, cash equivalents and short-term investments while completing several acquisitions and returning dividends to our shareholders of \$115.7 million.

Revenue for the year was \$467.2 million, compared to revenue of \$503.8 million in the prior year when Enghouse recognized an exceptional surge in revenue from its remote-work and video communications during the onset of the COVID-19 pandemic. Following the first quarter of 2021, our revenue trend has returned to levels more consistent with pre-COVID volumes. While the decline in revenue is primarily attributable to customers decreasing their video software and hosted requirements as well as reduced demand for video hardware room systems considered less critical in remote working arrangements, \$13.6 million of the revenue decline was the result of foreign exchange. The ongoing pandemic has also accelerated customer's transition to the cloud that adversely impacts both license and maintenance support revenue. In response, Enghouse continues to expand its cloud offerings and implement initiatives aimed at increasing sales of cloud-based products while continuing to offer choice to its customers by providing multi-tenant cloud, private cloud and on-premise solutions to the market.

During the year, we focused on scaling costs to revenues, improving our gross profit margins and decreasing overheads by reducing facilities, travel and headcount costs. This, combined with higher margins associated with reduced acquisition integration requirements during the fiscal year, increased our Adjusted EBITDA margins for the year to 36.1% from 35.1% in the prior year. We completed three acquisitions during the year, broadening our product portfolio, geographic reach and hosted solutions portfolio, deploying \$35.5 million for the acquisitions of Altitude, Nebu and Momindum. We continue to actively pursue acquisition opportunities and expand our acquisition pipeline. However, valuations for technology acquisitions remain high and many opportunities did not meet our acquisition, financial and operating criteria during the year. We also returned record dividends to shareholders during the year, including a special dividend of \$83.2 million or \$1.50 per common share.

We remain committed to generating operating cash flows to augment our cash reserves to be deployed for acquisitions and continued investment in our business. We believe that our financial discipline and commitment to running a profitable business, consistent with our demonstrated value-for-money philosophy, will continue to increase long-term shareholder returns.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") has been prepared as of December 16, 2021 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 2021 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, 2021.

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, Adjusted EBITDA margin, and Adjusted EBITDA per diluted share 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, including its Annual Information Form, copies of which are filed electronically on SEDAR at www.sedar.com.

Corporate Overview

Enghouse is a Canadian publicly traded company (TSX:ENGH) that provides enterprise software solutions focusing on contact centers, video communications, remote work, communications for next generation software defined networks, public safety and the transit market. 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 has no debt financing and is organized around two business segments: the Interactive Management Group ("IMG") and the Asset Management Group ("AMG").

IMG specializes in contact center and 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, artificial intelligence, outbound dialers, attendant console, agent performance optimization, customer survey, 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 financial services companies, telecoms, business process service providers, as well as technology and health care providers.

AMG provides a portfolio of software and services solutions to a number of verticals such as cable operators, network telecommunication providers, media, transit, defence 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 generating positive operating cash flows and having a strong balance sheet. Deploying capital on acquisitions and replacing it through operating cash flows is pivotal to our acquisition strategy and allows Enghouse to pursue further acquisitions.

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, including expanding our hosted solution offerings, 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

During the fiscal year, we experienced changing market conditions driven by ongoing changes related to COVID-19. As a result, we experienced:

- A decline in the use of our video technologies primarily in the healthcare market, following the initial surge in fiscal 2020,
- Heightened interest in cloud offerings across many of our technologies,
- Additional professional services required in public safety business driven by two significant new contracts signed in fiscal 2020 and 2021, and
- Reduced delays of our professional service work compared to the previous fiscal year. This resulted in a 10.8% increase in professional services revenue in the year.

Following the first quarter of 2021, sales have returned to levels that are more consistent with pre-COVID volumes, primarily for Vidyo license and hosted services revenue. However, we also continue to experience cost savings from remote work arrangements, fewer travel costs, decreased headcount and reduced expenditure on our physical footprint, combined with fewer expenditures on acquisition integrations, which have further improved operating margins.

We continue our efforts to attract, convert and retain customers who require cloud-based solutions, particularly for our Interactive Management Group. Although focus on cloud-based solutions is increasing, we continue to provide flexibility and choice and remain committed to servicing our customers who may have strict on-premise or private cloud requirements that competing products may fail to satisfy.

As a result of Enghouse's ability to generate significant operating cash flows and maintain strong cash balances, the low interest rate environment and the Company's ability to acquire additional funding, the Board of Directors approved a special dividend of \$1.50 per common share, paid February 16, 2021 to shareholders of record at the close of business on January 15, 2021.

The Company completed three acquisitions during the fiscal year, deploying capital of \$35.5 million, albeit at a slower pace than in prior years as a result of higher valuations and challenges related to completing acquisition due diligence remotely in the current environment. As always, the Company continues to adhere to its disciplined acquisition strategy seeking acquisitions that provide shareholder value within its prescribed parameters.

On December 30, 2020, Enghouse acquired 100% of the issued and outstanding common shares of Sociedade Altitude Software Sistemas e Serviços S.A. ("Altitude"). Headquartered in Lisbon, Portugal, Altitude provides omni-channel contact center solutions for small and large organizations, with a focus on the business process outsourcing market segment. Its modular software suite supports all media channels and has inbound and outbound capabilities for both on-premise and hosted contact center activities.

The acquisition of Altitude extends our presence to Portugal, expands our research and development footprint and further solidifies our operations in Spain, Brazil and Mexico enabling us to leverage additional sales opportunities within these markets. We completed the onboarding of the Altitude team and aligned their processes to those of Enghouse during the year.

The acquisitions of Nebu BV ("Nebu") and Momindum SAS ("Momindum"), both completed during the third quarter, extend our presence in the market research and video communications sectors enabling us to leverage additional opportunities within these markets. Efforts to onboard the Nebu and Momindum teams and align their processes were well underway as of the close of the year.

All acquisitions in 2021 were included in the results of the Interactive Management Group.

Outlook

COVID-19 had an unprecedented impact on business during both fiscal 2021 and fiscal 2020. While the full impact of the pandemic remains to be seen, it has fundamentally changed 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 cost savings on facilities.

As always, we remain focused on scaling our operating costs to revenue levels to consistently operate profitably and generate positive operating cash flows. As a result, Adjusted EBITDA margins increased from 35.1% to 36.1% for the year despite a decline in revenue compared to record sales in the comparative period. We closed the fiscal year with \$198.8 million in cash, cash equivalents and short-term investments that we are eager to deploy on acquisitions.

While the decline in revenue is partially attributable to customers right-sizing their Vidyo software and hosted requirements as well as cancelling video hardware room support considered less critical in remote working arrangements, the ongoing pandemic has accelerated the customer transition to the cloud. Enghouse continues to expand its cloud offerings and implement initiatives aimed at increasing sales of cloud-based products, while offering choice to its customers by providing multi-tenant cloud, private cloud and on-premise solutions to the market. In addition to changing how we conduct business, the pandemic has also 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 go to market strategy. As physical distancing and travel restrictions loosen, we are beginning to see a gradual increase in travel related to customers desiring to meet face-to-face.

Changes in the macroeconomic environment, whether caused by COVID or other factors, continue to impact our business. In particular, although we closed three acquisitions during the year, acquisitions in the technology marketplace are generally priced at higher valuations. Some of these valuations result in prices that do not support our value-for-money philosophy.

Going forward, we continue to seek earnings-accretive acquisitions to grow our revenue and further expand both our product suite and geographic reach, while maintaining our commitment to profitable growth in accordance with our disciplined business model. We will continue to operate our business consistent with our value-for-money philosophy that we believe provides shareholder value in the long-term.

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 as well as fluctuations in usage volumes of our software. Our quarterly results may be influenced by COVID-19, foreign exchange, timing of new acquisitions, and changes in staffing and infrastructure. See "Risks and Uncertainties" for more details.

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

For the three months ended	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue	\$ 113,099	\$ 117,644	\$ 117,334	\$ 119,100	\$ 120,898	\$ 131,324	\$ 140,900	\$ 110,656
Direct costs	31,149	33,437	33,533	31,508	33,261	39,740	39,699	32,477
Revenue, net of direct costs	\$ 81,950	\$ 84,207	\$ 83,801	\$ 87,592	\$ 87,637	\$ 91,584	\$ 101,201	\$ 78,179
As a % of revenue	72.5%	71.6%	71.4%	73.5%	72.5%	69.7%	71.8%	70.7%
Operating expenses	42,784	45,267	46,852	46,510	44,952	49,351	55,046	45,760
Special charges	31	433	57	383	(12)	35	(121)	1,576
Results from operating activities	\$ 39,135	\$ 38,507	\$ 36,892	\$ 40,699	\$ 42,697	\$ 42,198	\$ 46,276	\$ 30,843
As a % of revenue	34.6%	32.7%	31.4%	34.2%	35.3%	32.1%	32.8%	27.9%
Amortization	(10,438)	(10,355)	(10,854)	(10,774)	(10,958)	(11,502)	(11,600)	(10,080)
Other	(724)	(1,147)	241	(3,764)	1,055	2,627	233	4
Income before income taxes	\$ 27,973	\$ 27,005	\$ 26,279	\$ 26,161	\$ 32,794	\$ 33,323	\$ 34,909	\$ 20,767
(Recovery of) provision for income taxes	(2,213)	5,778	5,540	5,519	3,422	7,330	7,820	4,631
Net Income for the period	\$ 30,186	\$ 21,227	\$ 20,739	\$ 20,642	\$ 29,372	\$ 25,993	\$ 27,089	\$ 16,136
Basic earnings per share	0.54	0.38	0.37	0.37	0.53	0.47	0.49	0.29
Diluted earnings per share	0.54	0.38	0.37	0.37	0.52	0.46	0.49	0.29
Operating cash flows	25,206	33,552	39,155	20,545	34,989	55,690	57,533	19,933
Operating cash flows excluding changes in working capital	42,385	41,105	42,600	41,715	48,008	45,294	50,033	35,183
Cash and short-term investments	198,834	187,797	169,573	230,371	251,791	228,938	168,089	116,329
Total assets	674,624	687,064	683,464	793,093	763,646	758,099	743,081	691,556
Adjusted EBITDA:								
Results from operating activities	39,135	38,507	36,892	40,699	42,697	42,198	46,276	30,843
Depreciation	791	719	758	735	795	801	758	887
Depreciation of right-of-use assets	2,168	2,006	2,492	2,703	3,158	2,534	2,368	2,023
Special charges	31	433	57	383	(12)	35	(121)	1,576
Adjusted EBITDA	\$ 42,125	\$ 41,665	\$ 40,199	\$ 44,520	\$ 46,638	\$ 45,568	\$ 49,281	\$ 35,329
Adjusted EBITDA margin	37.2%	35.4%	34.3%	37.4%	38.6%	34.7%	35.0%	31.9%
Adjusted EBITDA per diluted share	\$ 0.75	\$ 0.75	\$ 0.72	\$ 0.80	\$ 0.83	\$ 0.81	\$ 0.89	\$ 0.64

Results of Operations

The following table provides details regarding operating results for the three and twelve months ended October 31, 2021.

For the period ended October 31	Three months				Twelve months			
	2021	2020	Var (\$)	Var (%)	2021	2020	Var (\$)	Var (%)
Revenue	\$ 113,099	\$ 120,898	(7,799)	(6.5)	\$ 467,177	\$ 503,778	(36,601)	(7.3)
Direct costs	31,149	33,261	(2,112)	(6.3)	129,627	145,177	(15,550)	(10.7)
Revenue, net of direct costs	\$ 81,950	\$ 87,637	(5,687)	(6.5)	\$ 337,550	\$ 358,601	(21,051)	(5.9)
As a % of revenue	72.5%	72.5%			72.3%	71.2%		
Operating expenses	42,784	44,952	(2,168)	(4.8)	181,413	195,109	(13,696)	(7.0)
Special charges	31	(12)	43	358.3	904	1,478	(574)	(38.8)
Results from operating activities	\$ 39,135	\$ 42,697	(3,562)	(8.3)	\$ 155,233	\$ 162,014	(6,781)	(4.2)
As a % of revenue	34.6%	35.3%			33.2%	32.2%		
Amortization of acquired software and customer relationships	(10,438)	(10,958)	520	4.7	(42,421)	(44,140)	1,719	3.9
Foreign exchange (losses) gains	(62)	850	(912)	(107.3)	(2,038)	(298)	(1,740)	(583.9)
Interest expense – lease obligations	(218)	(467)	249	53.3	(1,036)	(1,331)	295	22.2
Finance income	52	43	9	20.9	214	734	(520)	(70.8)
Finance expenses	(10)	(42)	32	76.2	(86)	(81)	(5)	(6.2)
Other (expense) income	(486)	671	(1,157)	(172.4)	(2,448)	4,895	(7,343)	(150.0)
Income before income taxes	\$ 27,973	\$ 32,794	(4,821)	(14.7)	\$ 107,418	\$ 121,793	(14,375)	(11.8)
(Recovery of) provision for income taxes	(2,213)	3,422	(5,635)	(164.7)	14,624	23,203	(8,579)	(37.0)
Net income for the period	\$ 30,186	\$ 29,372	814	2.8	\$ 92,794	\$ 98,590	(5,796)	(5.9)
Basic earnings per share	0.54	0.53	0.01	1.9	1.67	1.79	(0.12)	(6.7)
Diluted earnings per share	0.54	0.52	0.02	3.8	1.66	1.77	(0.11)	(6.2)
Operating cash flows	25,206	34,989	(9,783)	(28.0)	118,460	168,145	(49,685)	(29.5)
Operating cash flows excluding changes in working capital	42,385	48,008	(5,623)	(11.7)	167,807	178,518	(10,711)	(6.0)

Revenue

The following table provides details regarding revenue for the three and twelve months ended October 31, 2021.

For the period ended October 31	Three months			Twelve months		
	2021	2020	Variance	2021	2020	Variance
Software licenses	\$ 24,798	\$ 27,658	\$ (2,860)	\$ 105,072	\$ 134,287	\$ (29,215)
Hosted and maintenance services	67,917	73,037	(5,120)	278,981	286,770	(7,789)
Professional services	18,121	16,906	1,215	71,197	64,235	6,962
Hardware	2,263	3,297	(1,034)	11,927	18,486	(6,559)
Revenue	\$ 113,099	\$ 120,898	\$ (7,799)	\$ 467,177	\$ 503,778	\$ (36,601)
Interactive Management Group	66,846	70,927	(4,081)	268,584	298,876	(30,292)
Asset Management Group	46,253	49,971	(3,718)	198,593	204,902	(6,309)
Revenue	\$ 113,099	\$ 120,898	\$ (7,799)	\$ 467,177	\$ 503,778	\$ (36,601)

Revenue for the three months ended October 31, 2021 was \$113.1 million, a decrease of \$7.8 million or 6.5% from the same period in the prior year. The variance is explained by:

- A decrease of \$5.1 million in hosted and maintenance revenue, primarily attributable to lower hardware support, particularly for Vidyo, along with decreases resulting from customers right-sizing operations as they continue to adjust their software and hosted services requirements to changes in the working environment following the end of the first year after the outbreak of COVID-19. Hosted and maintenance services represent an important strategic source of revenue given its generally predictable and recurring nature and represented 60.1% of total revenues for the period (2020–60.4%).
- A decrease of \$2.9 million in software revenue particularly of Vidyo.

- These decreases are inclusive of a decrease of \$4.4 million due to foreign exchange. This is calculated by applying the change in the average exchange rates between the fourth quarters of 2020 and 2021 to our foreign currency denominated revenue in the fourth quarter of 2021.

Revenue for the twelve months ended October 31, 2021 was \$467.2 million, a decrease of \$36.6 million or 7.3% from the same period in the prior year. The variance is primarily attributable to:

- A decrease of \$29.2 million in software revenue primarily from exceptional sales, particularly of Vidyo, in the same period in the prior year.
- A decrease of \$7.8 million in hosted and maintenance revenue, primarily attributable to the same reasons discussed for the quarter.
- A decrease of \$6.6 million in hardware primarily as a result of several large hardware deliveries in FY 2020 for our transportation products that are variable in their timing. Additionally, we experienced decreased sales of Vidyo on-premise hardware, consistent with the move to remote working. Hardware is sold to customers to complement our software offerings and is generally not a core product offering.
- These decreases are inclusive of a decrease of \$13.6 million due to foreign exchange. This is calculated by applying the change in the average exchange rates between 2020 and 2021 to our foreign currency denominated revenue in 2021.
- A partially offsetting increase of \$7.0 million in professional services revenue as a result of loosening physical distancing restrictions allowing the resumption of on-site work, as well as efforts that continue on deliveries for two large projects in our Transportation business.

Interactive Management Group

IMG revenue for the three months ended October 31, 2021 was \$66.8 million, a decrease of \$4.1 million or 5.8% from same period in the prior year. The variance is primarily explained by a \$3.4 million decrease in hosted and maintenance revenue, particularly from Vidyo, attributable to customers right-sizing operations as they continue to adjust their software requirements to changes in the working environment following the outbreak of COVID-19.

Revenue for the twelve months ended October 31, 2021 was \$268.6 million, a decrease of \$30.3 million or 10.1% from the same period in the prior year. The decrease is primarily the result of a \$25.0 million decrease in software revenue, principally from exceptional sales, particularly of Vidyo, in the same period in the prior year in addition to a decline of \$4.4 million in hosted and maintenance revenue primarily for the same reasons discussed for the quarter.

Asset Management Group

AMG revenue for the three months ended October 31, 2021 was \$46.3 million, a decrease of \$3.7 million or 7.4% from the same period in the prior year. The decline was primarily the result of lower sales of Networks products.

Revenue for the twelve months ended October 31, 2021 was \$198.6 million, a decrease of \$6.3 million or 3.1% from the same period in the prior year. The variance is primarily explained by:

- A decrease of \$5.7 million in hardware revenue, primarily as a result of a large hardware sale recognized during the prior year in the Transportation business.
- A decrease of \$4.2 million in software license revenue largely attributable to two large telecommunications deals in the first quarter of the comparative period combined with comparably lower sales of networks products.
- A partially offsetting increase in services revenue of \$3.6 million resulting from increased professional services work as remote-work restrictions loosen and customers resume initiatives previously put on hold as well as the aforementioned Transportation projects.

Direct Costs

The following table provides details regarding direct costs for the three and twelve months ended October 31, 2021.

For the period ended October 31	Three months			Twelve months		
	2021	2020	Variance	2021	2020	Variance
Software licenses	\$ 535	\$ 1,649	\$ (1,114)	\$ 4,555	\$ 10,094	\$ (5,539)
Services	29,422	29,557	(135)	117,670	121,400	(3,730)
Hardware	1,192	2,055	(863)	7,402	13,683	(6,281)
Direct Costs	\$ 31,149	\$ 33,261	\$ (2,112)	\$ 129,627	\$ 145,177	\$ (15,550)
<i>As a % of revenue</i>						
Software licenses	2.2%	6.0%		4.3%	7.5%	
Services	34.2%	32.9%		33.6%	34.6%	
Hardware	52.7%	62.3%		62.1%	74.0%	
Total	27.5%	27.5%		27.7%	28.8%	
Interactive Management Group	15,281	16,055	(774)	64,941	70,295	(5,354)
Asset Management Group	15,868	17,206	(1,338)	64,686	74,882	(10,196)
Direct Costs	\$ 31,149	\$ 33,261	\$ (2,112)	\$ 129,627	\$ 145,177	\$ (15,550)
<i>As a % of revenue</i>						
Interactive Management Group	22.9%	22.6%		24.2%	23.5%	
Asset Management Group	34.3%	34.4%		32.6%	36.5%	

Direct costs for the three months ended October 31, 2021 were \$31.1 million or 27.5% of revenue compared to \$33.3 million or 27.5% of revenue in the same period in the prior year. Overall margins remained relatively flat with improvements on licenses and hardware combined with slightly lower margins on services, particularly from IMG. Hardware is sold at lower margins than traditionally achieved on other revenue streams.

Direct costs for the twelve months ended October 31, 2021 were \$129.6 million or 27.7% of revenue compared to \$145.2 million or 28.8% of revenue in the same period in the prior year. Margins improved on all revenue categories over the prior year.

Interactive Management Group

IMG direct costs for the three months ended October 31, 2021 were \$15.3 million or 22.9% of segment revenue compared to \$16.1 million or 22.6% of revenue in the same period in the prior year. Lower margins were realized on maintenance and hosted services while software and hardware margins both improved.

IMG direct costs for the twelve months ended October 31, 2021 were \$64.9 million or 24.2% of segment revenue compared to \$70.3 million or 23.5% of revenue in the same period in the prior year as a result of the same reasons discussed for the quarter.

Asset Management Group

AMG direct costs were \$15.9 million or 34.3% of segment revenue for the three months ended October 31, 2021 compared to \$17.2 million or 34.4% of revenue in the same period in the prior year. The improvement in segment margin was the result of improved margins on professional services and hardware despite lower margins on maintenance revenue.

AMG direct costs for the twelve months ended October 31, 2021 were \$64.7 million or 32.6% of segment revenue compared to \$74.9 million or 36.5% of revenue in the same period in the prior year. Direct costs as a percentage of revenue improved as a result of higher margins on licenses, services and hardware. Margins for AMG have continued to improve as expected following integration of prior-year acquisitions. There were no acquisitions in AMG this year.

Revenue, Net of Direct Costs

Revenue, net of direct costs for the three months ended October 31, 2021 decreased by \$5.7 million to \$82.0 million or 72.5% of revenue compared to \$87.6 million or 72.5% in the same period in the prior year. The decrease in revenue, net of direct costs is attributable to lower revenue despite stable margins.

Revenue, net of direct costs for the twelve months ended October 31, 2021 decreased by \$21.1 million to \$337.6 million or 72.3% of revenue compared to \$358.6 million or 71.2% in the same period in the prior year. The decrease is a result of lower revenue, partially offset by higher margins on all revenue categories.

Operating Expenses

The following table provides details regarding operating expenses for the three and twelve months ended October 31, 2021.

For the period ended October 31	Three months			Twelve months		
	2021	2020	Variance	2021	2020	Variance
Selling, general and administrative	\$ 22,959	\$ 21,922	\$ 1,037	\$ 91,844	\$ 102,028	\$ (10,184)
Research and development	16,866	19,077	(2,211)	77,197	79,757	(2,560)
Depreciation	791	795	(4)	3,003	3,241	(238)
Depreciation of right-of-use assets	2,168	3,158	(990)	9,369	10,083	(714)
Special charges	31	(12)	43	904	1,478	(574)
Operating expenses	\$ 42,815	\$ 44,940	\$ (2,125)	\$ 182,317	\$ 196,587	\$ (14,270)
<i>As a % of revenue</i>						
<i>Selling, general and administrative</i>	<i>20.3%</i>	<i>18.1%</i>		<i>19.7%</i>	<i>20.3%</i>	
<i>Research and development</i>	<i>14.9%</i>	<i>15.8%</i>		<i>16.5%</i>	<i>15.8%</i>	
<i>Depreciation</i>	<i>0.7%</i>	<i>0.7%</i>		<i>0.6%</i>	<i>0.6%</i>	
<i>Depreciation of right-of-use assets</i>	<i>1.9%</i>	<i>2.6%</i>		<i>2.0%</i>	<i>2.0%</i>	
<i>Special charges</i>	<i>0.0%</i>	<i>0.0%</i>		<i>0.2%</i>	<i>0.3%</i>	
<i>Operating expenses</i>	<i>37.9%</i>	<i>37.2%</i>		<i>39.0%</i>	<i>39.0%</i>	

Operating expenses for the three months ended October 31, 2021 totaled \$42.8 million, a decrease of 4.7%. The variance is explained by:

- A decrease of \$2.2 million in research and development expense, primarily the result of R&D tax credits recognized during the year of \$1.9 million and the favourable impact of foreign exchange. Research and development expense is equivalent to 14.9% of revenue compared to 15.8% in the same period in the prior year with the decrease resulting from primarily from tax credits recognized.
- A decrease of \$1.0 million in depreciation of right-of-use assets as a result of the closure and downsizing of facilities as remote work continues to be embraced.
- A partially offsetting increase of \$1.0 million in selling, general and administrative expense as a result of several factors:
 - Increased operating expenses from acquisitions completed during fiscal 2021 including Altitude, Nebu and Momindum.
 - The end 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 comparative year.

Operating expenses for the twelve months ended October 31, 2021 totaled \$182.3 million, a decrease of \$14.3 million or 7.3% from the same period in the prior year. The decrease in cost is explained by:

- A decrease of \$10.2 million in selling, general and administrative expense primarily as a result of scaling operating costs to revenue as well as reduced expenditure as a result of the integration of acquisitions and the favourable impact of FX rates.
- A decrease of \$2.6 million in research and development expense primarily attributable to the same reasons discussed for the quarter.
- A decrease in depreciation of right-of-use assets of \$0.7 million primarily attributable to the same reasons discussed for the quarter.

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, 2021, the Canadian dollar strengthened against most major currencies compared to the same period in the prior year. As result, in the fourth quarter, there was a negative impact to revenue of \$4.4 million reported in Canadian dollars and total operating costs were lower by \$2.9 million compared to the same period in the prior year. For the year ended October 31, 2021 there was a negative impact to revenue of \$13.6 million reported in Canadian dollars and total operating costs were lower by \$8.6 million compared to the prior year.

For the three months ended October 31, 2021, we recognized unrealized foreign exchange losses of \$0.1 million related to foreign currency denominated monetary assets and liabilities in the current period compared to gains of \$0.9 million in the same period in

the prior year. The loss was a result of movements in the Canadian dollar against international currencies on Canadian dollar denominated monetary assets and liabilities on functional currency books denominated in foreign currencies.

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

For the twelve months ended October 31, 2021, we recognized \$2.0 million of unrealized foreign exchange losses related to foreign currency denominated monetary assets and liabilities compared to losses of \$0.3 million 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, 2021 decreased by \$0.5 million to \$10.4 million and by \$1.7 million to \$42.4 million respectively, compared to the same periods in the prior year. Both variances are attributable to reduced charges as a result of redundant assets, net of increased charges from the current year's acquisitions. This was mitigated by incremental amortization on fiscal 2020 acquisitions, which added \$6.7 million for the twelve months ended October 31, 2021.

Other (expense) income

Other expense for the three months ended October 31, 2021 increased by \$1.2 million during the quarter as a result of comparably higher unrealized losses on investments in equity positions carried at fair value during the comparative period. There were no realized gains or losses on the sale of equity positions in the current year's fourth quarter, compared to realized gains of \$0.5 million in the comparative quarter. For the twelve months ended October 31, 2021, Other expense increased by \$7.3 million compared to the same period in the prior year. The increase is attributable to the aforementioned unrealized investment losses on investments in equity positions carried at fair value, net of realized gains on investments in equity positions sold during each period.

(Recovery of) provision for income taxes

Income tax expense for the three months ended October 31, 2021 decreased by \$5.6 million to reflect a \$2.2 million recovery of taxes, compared to the same period in the prior year. For the three and twelve months ended October 31, 2021, our effective tax rate was (7.9%) (recovery) and 13.6% (expense), respectively, compared to expenses of 10.4% and 19.1%, respectively, for the same periods in the prior year. The decreases are a result of lower revenue and profitability combined with comparably larger resolutions of tax positions in the current year as well as changes in recognized assets between the periods.

Net income

Net income for the three months ended October 31, 2021, increased by \$0.8 million to \$30.2 million while Net income for the twelve months ended October 31, 2021 decreased by \$5.8 million to \$92.8 million, respectively, compared to the same periods in the prior year. The increase in the quarter is attributable to the tax recovery booked in the fourth quarter, whereas the annual decrease is a result of exceptional COVID-19 related demand experienced during the comparative period.

For the three and twelve months ended October 31, 2021, diluted earnings per share was \$0.54 and \$1.66, respectively, compared to \$0.52 and \$1.77 in the same periods in the prior year.

Cash flows from operating activities

For three months and twelve months ended October 31, 2021, cash flows from operating activities were \$25.2 million and \$118.5 million, respectively, compared to \$35.0 million and \$168.1 million in the same periods in the prior year. The decrease in operating cash flow reflects:

- A decrease in net income before tax after exceptional COVID-19 related demand in the comparative period.
- A decrease in payables, deferred revenue and income taxes.

Operating cash flows excluding changes in non-cash working capital items for the three months and twelve months, respectively, ended October 31, 2021 decreased by 11.7% and by 6.0% respectively to \$42.4 million and \$167.8 million compared to the same periods in the prior year primarily as a result of decreased Results from operating activities.

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, 2021.

For the period ended October 31	Three months			Twelve months		
	2021	2020	Variance	2021	2020	Variance
Total revenue	\$ 113,099	\$ 120,898	\$ (7,799)	\$ 467,177	\$ 503,778	\$ (36,601)
Results from operating activities	39,135	42,697	(3,562)	155,233	162,014	(6,781)
Depreciation	791	795	(4)	3,003	3,241	(238)
Depreciation of right-of-use assets	2,168	3,158	(990)	9,369	10,083	(714)
Special charges	31	(12)	43	904	1,478	(574)
Adjusted EBITDA	\$ 42,125	\$ 46,638	\$ (4,513)	\$ 168,509	\$ 176,816	\$ (8,307)
<i>Adjusted EBITDA margin</i>	<i>37.2%</i>	<i>38.6%</i>		<i>36.1%</i>	<i>35.1%</i>	
Adjusted EBITDA per diluted share	\$ 0.75	\$ 0.83	\$ (0.08)	\$ 3.02	\$ 3.18	\$ (0.16)

Adjusted EBITDA for the three and twelve months ended October 31, 2021 decreased by \$4.5 million and \$8.3 million respectively, compared to the same periods in the prior year. The decrease in Adjusted EBITDA reflects lower revenue relative to exceptional revenue experienced during the three and twelve month comparative periods in addition to unfavorable foreign exchange. In contrast, adjusted EBITDA margins have improved during the twelve month period as a result of scaling costs to revenue and fewer acquisition integration requirements during the fiscal year, which tend to dampen margins as acquisitions are brought into line with Enghouse's operating metrics over the quarters following acquisition.

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, cash equivalents and short-term investments of \$198.8 million, compared to the October 31, 2020 balance of \$251.8 million. This reflects continued positive operating cash flow for the year of \$118.5 million offset by cash spent of \$35.5 million on the acquisitions of Altitude, Nebu and Momindum during the year and \$115.7 million for dividends, including the special dividend that returned \$83.2 million to shareholders. As a result, dividends increased 329.3% from \$27.0 million compared to the prior year. Collections of receivables remained strong despite the ongoing pandemic.

For the year ended October 31, 2021, Cash and cash equivalents decreased by a total of \$48.9 million compared to an increase of \$100.0 million over the same period in the prior year. The decrease is the result of lower operating cash flows of \$118.5 million that funded the \$37.6 million of cash used in investing activities, primarily acquisitions, and the payment of the special dividend noted previously. In comparison, in the same period last year Enghouse generated operating cash flows of \$168.1 million and spent \$45.1 million, primarily on acquisitions as part of investing activities and \$27.0 million on dividends. The ability to generate strong operating cash flows is pivotal to our acquisition strategy, which has enabled us to pursue further acquisitions without the need to obtain debt-financing.

At October 31, 2021 working capital was \$129.1 million compared to \$150.8 million at the end of fiscal 2020. The decrease in working capital is predominately a result of paying a special dividend of \$83.2 million to shareholders, partially offset by continued positive operating cashflow. 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 55,553,424 Common Shares issued and outstanding as at December 16, 2021. During the year, 204,500 stock options were exercised contributing \$5.9 million in cash compared to 611,500 stock options and \$15.0 million in cash to the Company in the prior year. The Company granted 35,000 options in fiscal 2021 compared to 310,000 options, granted in the prior year.

Enghouse Systems renewed its Normal Course Issuer Bid for a further year commencing April 26, 2021 and expiring April 29, 2022, whereby it may repurchase up to a maximum of 3,000,000 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.

Dividend Policy

The Company has paid regular quarterly dividends since May 31, 2007 and has increased its regular quarterly dividend in each of the past thirteen years from \$0.013 per common share in 2007 to \$0.16 per common share presently. The Company also paid a special dividend of \$1.50 per common share on February 16, 2021.

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

Declaration date <i>(in thousands of dollars, except per share amounts)</i>	Record date	Payment date	Common shares outstanding	Dividend per share (\$)	Total dividend
September 9, 2021	November 16, 2021	November 30, 2021	55,553,424	0.16	\$ 8,889
June 10, 2021	August 17, 2021	August 31, 2021	55,516,924	0.16	8,883
March 11, 2021	May 17, 2021	May 31, 2021	55,494,924	0.16	8,879
December 17, 2020	January 15, 2021	February 16, 2021	55,352,924	1.50	83,029
December 17, 2020	February 12, 2021	February 26, 2021	55,352,924	0.135	7,473
					\$ 117,153
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
					\$ 28,410
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
					\$ 22,966

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, automobiles, office and computer equipment.

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 is included within our consolidated financial statements.

Off-Statement of Financial Position Arrangements

We have not entered into off-statement of financial position financing arrangements. Except for operating leases and other low probability and/or immeasurable contingencies (not accrued in accordance with IFRS), all commitments are reflected on our 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, 2021, which is available on SEDAR (www.sedar.com). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 16, 2021, the date the Board of Directors approved the consolidated financial statements.

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 and Measurement of Customer Contract Obligations and Deliverables

Management applies significant judgment when evaluating contracts with customers to deliver more than one type of product or service within a single arrangement. Significant judgment is exercised to evaluate whether the goods or services are considered distinct performance obligations that should be accounted for separately from some or all of the other goods or services in the arrangement and in determining the relative contract consideration allocated to the distinct performance obligations.

In certain arrangements with multiple performance obligations, the standalone selling price ("SSP") may not always be directly observable. In arrangements with a combination of license and services we allocate the transaction price between the license and other performance obligations. Given that the SSP of the license is highly variable, contract consideration is assigned in sequence to each performance obligation using a residual approach:

- A portion of contract consideration is allocated to hardware at cost plus a standard margin,
- A portion of contract consideration is allocated to the services using standard daily rates that are based on cost plus margin,
- The residual amount is assigned as the fair-value to the software license.

Judgment and estimates could impact the timing of when revenue is recognized and could have a material impact on our consolidated financial statements.

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. Significant judgment is applied in making assumptions about inputs that impact the amount and timing of future cashflows.

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. 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 favourable 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 remains 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's employees continue to productively work from home, while some employees have voluntarily returned 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 impacting delivery schedules, restrictions on cross-border commerce and travel, greater currency volatility, increased staff turnover, increased tax and/or higher interest rates, delays in hiring and increased risks to IT systems, cybersecurity 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 in the prior year, 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, similar pandemic or the introduction of new variants could expose us to additional business risk. Furthermore, a pandemic could further exacerbate difficulties (described subsequently) in identifying and successfully completing or integrating acquisitions as travel restrictions make it more 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 continued importance of cyber security. Despite implementing 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. During the year, 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 acquisitions of Altitude, Nebu and Momindum and paid \$35.5 million in aggregate, net of cash acquired and holdbacks, and paid \$0.2 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.

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. As previously mentioned, this is further exacerbated by current macroeconomic trends, including inflation and "The Great Resignation" whereby an increasing percentage of the population is exiting the workforce along with an increased propensity to switch jobs.

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

The growth of our operations places a strain on financial and human resources. Our success depends on our ability to manage growth from a financial and human resources perspective. 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, 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. An inability to access third-party technologies 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 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 considering the use of our products in critical applications. Accordingly, any such claim could have a material adverse effect upon our business, results of operations, and financial condition. In addition, defending this kind of claim, regardless of its merits, or otherwise satisfying affected customers, could entail substantial expense and require the devotion of significant time and attention by key management personnel.

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

In addition to being subject to litigation in the ordinary course of business, we may become subject to class actions, securities litigation or other actions, including anti-trust and anti-competitive actions. Any 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"), hosted service providers, 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 (59.7% in fiscal 2021 compared to 56.9% in fiscal 2020) 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. Attrition in our customer base does occur when existing customers elect not to renew their hosted or maintenance arrangements or cease purchasing professional services. Customer attrition occurs for a variety of reasons, including a customer's decision to replace our software product with that of a competing vendor, to purchase maintenance or consulting services from a third-party service provider or to forego maintenance services altogether. It can also occur when a customer is acquired or ceases operations. Any factors that adversely affect the ability of our software products to compete with those available from others, such as availability of competitors' products offering more advanced product architecture, superior functionality or performance or lower prices could lead to increased rates of customer attrition.

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

We intend to maintain 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; climate change; 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; inflation; 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 continue to actively pursue a strategy of growth by acquisition, most of which are in international markets, which exposes us to revenue denominated in numerous foreign currencies. Our organizational structure includes a large presence in Scandinavia and Europe as well as the United States of America and United Kingdom and our corporate headquarters in Canada. We have operations in a number of countries around the world that has exposed us to foreign currency risk on global basis.

In fiscal 2021, compared to the prior year the Canadian dollar strengthened against most major world currencies after weakening in the immediate aftermath of the pandemic. The U.S. dollar was reported using an average foreign exchange rate of \$1.26 in fiscal 2021 versus \$1.35 in fiscal 2020, representing a 6.5% decrease while the pound sterling averaged \$1.73 in the current year compared to \$1.72 in the prior fiscal year, a 0.6% increase. Meanwhile, the euro averaged \$1.50, a 0.8% decrease compared to \$1.51 in the prior year.

Overall, 14% of our revenue was generated by operations in the U.K. compared to 13% in the prior fiscal year, while revenue generated by European operations increased to 22% from 15% in the prior fiscal year and revenue generated by our Scandinavian operations increased to 18% from 16% in the prior year. Revenue generated by our U.S. based operations was 34% compared to 47% in the prior fiscal year as a result of the decline in Vidyio sales along with fiscal 2021 acquisitions, with operations primarily based in Europe. Approximately 7% of our revenue was generated by operations in the Asia-Pacific and other regions compared to 4% in fiscal 2020, 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, Portugal, 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 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, Portugal, 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. Additionally, increases in tax rates as a result of increased government spending related to COVID-19 or other factors could increase our deferred tax liabilities and, as a result, our cash-paid taxes.

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

Our revenue is difficult to forecast and may fluctuate significantly from quarter to quarter. In addition, our operating results may not follow any past trends. The factors affecting revenue and results, many of which are outside of our control, include: foreign exchange fluctuations; competitive conditions; market acceptance of our products; the ability to hire, train and retain sufficient sales and professional services staff; the ability to complete our service obligations related to product sales in a timely manner; varying size,

timing and contractual terms of orders for products, which may delay the recognition of revenue; the ability to maintain existing relationships and to create new relationships to assist with sales and marketing efforts; the discretionary nature of customers' 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.

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, 2021, 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, 2021, 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, 2021, 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, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

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

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 Enghouse 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 16, 2021

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, 2021 and 2020, 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, 2021 and 2020, 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.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue Recognition - Allocation of transaction price in customer arrangements with multiple performance obligations

Key Audit Matter

The Group enters into arrangements with customers whereby they have multiple performance obligations of which some are delivered at a point in time while other performance obligations are provided over time. On-premise software licenses provided on a fixed-fee basis, subject to monthly or annual minimum payments, are recognized at the time that both the right to use the software has commenced and the software has been made available to the customer. Typically, the Group's software license arrangements also contain multiple performance obligations that may include the provision of some, or all, of maintenance, hosting services, professional services and hardware. Consideration from the customer arrangement is allocated based on the standalone selling price to the performance obligations in accordance with International Financial Reporting Standard 15. Typically, the standalone selling price for software licenses is determined utilizing the residual approach where the software license is allocated the remaining contract consideration after the allocation to other performance obligations. Typically, the standalone selling price of maintenance, professional services and hardware is determined using standard list prices. The contract consideration allocated to maintenance and hardware is supported by observable standalone selling prices for maintenance renewals and stand-alone hardware sales. The standalone selling price of professional services is determined on daily rates that are based on employee costs plus a profit margin that is considered to be consistent with that of comparable companies.

For the year ended October 31, 2021, the Group recorded total revenue of \$467 million. Customer arrangements with multiple performance obligations contribute to the total revenue recognized during the year ended October 31, 2021.

How our audit addressed the key audit matter

In respect to the allocation of consideration of customer arrangements with multiple performance obligations our procedures, among others, included the following:

- We obtained an understanding of the Group's methodology in allocating revenue for customer arrangements with multiple performance obligations. Our understanding included an assessment of the appropriateness of management using the residual approach and their assertion that the pricing of software licenses is highly variable.
- We evaluated design and tested the operating effectiveness of the controls over the review and setup of transactions involving a bundling of services.
- We tested a sample of customer arrangements to determine whether management had applied their allocation policy in a consistent and appropriate manner.
- We assessed the support for the standalone selling prices of maintenance such as auditing the consistency with standard list prices and contractual renewal rates.
- We assessed management's cost-plus margin approach for allocating consideration to professional services by validating cost rates are derived from accurate costs and that margins are consistent with expectations and other comparable companies.

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.

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.
- 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
December 16, 2021

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	Notes	As at October 31, 2021	As at October 31, 2020
ASSETS			
Current assets:			
Cash and cash equivalents	16	\$ 195,890	\$ 244,792
Short-term investments	16	2,944	6,999
Accounts receivable	16	89,374	90,789
Prepaid expenses and other assets		13,322	14,772
Income taxes recoverable		2,130	-
		303,660	357,352
Non-current assets:			
Property and equipment	4	6,246	6,301
Right-of-use assets	12	25,943	42,832
Intangible assets	5	101,822	123,616
Goodwill	5	223,021	217,426
Deferred income tax assets	9	13,932	16,119
		370,964	406,294
		\$ 674,624	\$ 763,646
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 71,506	\$ 80,339
Income taxes payable		-	13,245
Dividends payable	7	8,889	7,472
Provisions	6	5,588	5,697
Deferred revenue		80,614	89,927
Lease obligations	12	7,941	9,914
		174,538	206,594
Non-current liabilities:			
Income taxes payable	9	2,949	3,829
Deferred income tax liabilities	9	13,392	14,782
Deferred revenue		9,111	7,021
Net employee defined benefit obligation		2,663	2,855
Lease obligations	12	17,660	32,242
		45,775	60,729
		220,313	267,323
Shareholders' equity			
Share capital	7	106,470	99,405
Contributed surplus		7,406	6,583
Retained earnings		355,019	379,378
Accumulated other comprehensive (loss) income	7	(14,584)	10,957
		454,311	496,323
		\$ 674,624	\$ 763,646

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

On Behalf of the Board of Directors:



Stephen J. Sadler
Director



Eric A. Demirian
Director

Consolidated Statements of Operations and Comprehensive Income

(in thousands of Canadian dollars except per share amounts)

Year ended October 31	Notes	2021	2020
Revenue			
Software licenses		\$ 105,072	\$ 134,287
Hosted and maintenance services		278,981	286,770
Professional services		71,197	64,235
Hardware		11,927	18,486
		467,177	503,778
Direct costs			
Software licenses		4,555	10,094
Services		117,670	121,400
Hardware		7,402	13,683
		129,627	145,177
Revenue, net of direct costs		337,550	358,601
Operating expenses			
Selling, general and administrative	18	91,844	102,028
Research and development		77,197	79,757
Depreciation	4	3,003	3,241
Depreciation of right-of-use assets	12	9,369	10,083
Special charges		904	1,478
		182,317	196,587
Results from operating activities		155,233	162,014
Amortization of acquired software and customer relationships	5	(42,421)	(44,140)
Foreign exchange losses		(2,038)	(298)
Interest expense – lease obligations	12	(1,036)	(1,331)
Finance income		214	734
Finance expenses		(86)	(81)
Other (expense) income		(2,448)	4,895
Income before income taxes		107,418	121,793
Provision for income taxes	9	14,624	23,203
Net income for the year		\$ 92,794	\$ 98,590
Items that may be subsequently reclassified to income:			
Cumulative translation adjustment		(25,541)	6,335
Other comprehensive (loss) income		(25,541)	6,335
Comprehensive income		\$ 67,253	\$ 104,925
Earnings per share			
Basic	10	\$ 1.67	\$ 1.79
Diluted	10	\$ 1.66	\$ 1.77

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

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)

	Share capital (#)	Share capital	Contributed surplus	Accumulated other comprehensive (loss) income	Retained earnings	Total
As at November 1, 2020	55,348,924	\$ 99,405	\$ 6,583	\$ 10,957	\$ 379,378	\$ 496,323
Net income for the year	-	-	-	-	92,794	92,794
Cumulative translation adjustment (Note 7)	-	-	-	(25,541)	-	(25,541)
Comprehensive income	-	\$ -	\$ -	\$ (25,541)	\$ 92,794	\$ 67,253
Employee share options:						
Value of services recognized	-	-	2,026	-	-	2,026
Proceeds on issuing shares	204,500	7,065	(1,203)	-	-	5,862
Dividends declared (Note 7)	-	-	-	-	(117,153)	(117,153)
As at October 31, 2021	55,553,424	\$ 106,470	\$ 7,406	\$ (14,584)	\$ 355,019	\$ 454,311
As at November 1, 2019	54,737,424	\$ 81,576	\$ 6,677	\$ 4,622	\$ 309,198	\$ 402,073
Net income for the year	-	-	-	-	98,590	98,590
Cumulative translation adjustment (Note 7)	-	-	-	6,335	-	6,335
Comprehensive income	-	\$ -	\$ -	\$ 6,335	\$ 98,590	\$ 104,925
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 7)	-	-	-	-	(28,410)	(28,410)
As at October 31, 2020	55,348,924	\$ 99,405	\$ 6,583	\$ 10,957	\$ 379,378	\$ 496,323

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	2021	2020
OPERATING ACTIVITIES			
Net income		\$ 92,794	\$ 98,590
Adjustments for non-cash items			
Depreciation	4	3,003	3,241
Depreciation of right-of-use assets	12	9,369	10,083
Interest expense – lease obligations	12	1,036	1,331
Amortization of acquired software and customer relationships	5	42,421	44,140
Stock-based compensation expense	8	2,026	2,744
Provision for income taxes	9	14,624	23,203
Finance expenses and other expense (income)		2,534	(4,814)
		\$ 167,807	\$ 178,518
Changes in non-cash operating working capital	17	(21,671)	9,388
Income taxes paid		(27,676)	(19,761)
Net cash provided by operating activities		\$ 118,460	\$ 168,145
INVESTING ACTIVITIES			
Purchase of property and equipment	4	\$ (3,333)	\$ (2,540)
Acquisitions, net of cash acquired*	11	(35,476)	(43,454)
Purchase consideration for prior-year acquisitions	11	(158)	(452)
Sale of short-term investments		1,352	1,379
Net cash used in investing activities		\$ (37,615)	\$ (45,067)
FINANCING ACTIVITIES			
Issuance of share capital		5,862	14,991
Repayment of loans		-	(128)
Repayment of lease obligations	12	(9,633)	(10,220)
Dividends paid		(115,736)	(26,959)
Net cash used in financing activities		\$ (119,507)	\$ (22,316)
Impact of foreign exchange on cash and cash equivalents		(10,240)	(734)
(Decrease) increase in cash and cash equivalents		\$ (48,902)	\$ 100,028
Cash and cash equivalents - beginning of year		244,792	144,764
Cash and cash equivalents - end of year		\$ 195,890	\$ 244,792

* Acquisitions are net of cash acquired of \$3,613 for the year ended October 31, 2021 (2020-\$6,906).
The accompanying notes form an integral part of these consolidated financial statements.

1. Description of the Business and Reporting Entity

Enghouse is a Canadian publicly traded company (TSX:ENGH) that provides enterprise software solutions focusing on contact centers, video communications, remote work, communications for next generation software defined networks, public safety and the transit market. 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 has no debt financing and is organized around two business segments: the Interactive Management Group ("IMG") and the Asset Management Group ("AMG").

IMG specializes in contact center and 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, artificial intelligence, outbound dialers, attendant console, agent performance optimization, customer survey, 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 financial services companies, telecoms, business process service providers, as well as technology and health care providers.

AMG provides a portfolio of software and services solutions to a number of verticals such as cable operators, network telecommunication providers, media, transit, defence 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 Limited 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, China and Portugal.

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 16, 2021.

3. Summary of 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 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.

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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.

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.

Foreign Currency Translation

(i) Functional and Presentation Currency

The Company's subsidiaries generally operate in their local currency environment. Accordingly, items included in the financial statements of each legal entity consolidated within the Enghouse group are measured using the currency of the primary economic environment in which the legal entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is also the Company's 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.

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(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.

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 at the end of the period.

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.

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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.

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.

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 (expense) income in the Consolidated Statements of Operations and Comprehensive Income.

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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 upgrade and enhancements result in additional functionality, are capitalized.

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

Goodwill

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

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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, 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 8.

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 as an expense 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.

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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 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.

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.

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Leases

The Company leases various 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 readily determined, which is generally the case for leases of the Company, the lessee's incremental borrowing rate 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.

Share Capital

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

Revenue Recognition

Revenue represents the 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.

(i) Arrangements with Multi-Performance Obligations

The Company typically contracts with customers to deliver more than one of the goods and services noted below as part of a single arrangement. The Company exercises significant judgment to evaluate these arrangements to determine whether the goods or services are considered distinct performance obligations that should be accounted for separately from some or all of the other goods or services in the arrangement. A good or service is distinct if the customer can benefit from it on its own or together with other readily

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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"). 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.

The SSP may not be directly observable for all performance obligations within bundled transactions. In bundled transactions with license and customer maintenance, the Company typically 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) Hosted and Maintenance Services Revenue

In the Company's hosted/Software as a Service "SaaS" arrangements, the end user generally does not take possession of the software and the software application resides on the Company's hardware or that of a third party with the customer obtaining the right to access the software. Hosted solutions and services are provided on a usage basis, which can vary depending on the number of users or subscribers, and is recognized based on a customer's utilization of the services over the term of the arrangement.

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

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

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(vi) 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 a distinct performance obligation 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.

(vii) 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 as a reduction to research and development expense on the Consolidated Statements of Operations and Comprehensive Income when reasonable assurance of realization exists. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use or sell the technology, are met; otherwise, they are expensed as incurred. No costs have been deferred on the Consolidated Statements of Financial Position as at October 31, 2021 or 2020.

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.

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Segment Reporting

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

Critical Accounting Estimates and Judgments

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

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

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

Revenue Recognition

Separation and Measurement of Customer Contract Obligations and Deliverables

Management applies significant judgment when evaluating contracts with customers to deliver more than one type of product or service within a single arrangement. Significant judgment is exercised to evaluate whether the goods or services are considered distinct performance obligations that should be accounted for separately from some or all of the other goods or services in the arrangement and in determining the relative contract consideration allocated to the distinct performance obligations.

In certain arrangements with multiple performance obligations, the SSP may not always be directly observable. In arrangements with a combination of license and services we allocate the transaction price between the license and other performance obligations. Given that the SSP of the license is highly variable, contract consideration is assigned in sequence to each performance obligation using a residual approach:

- A portion of contract consideration is allocated to hardware at cost plus a standard margin,
- A portion of contract consideration is allocated to the services using standard daily rates that are based on cost plus margin,
- The residual amount is assigned as the fair-value to the software license.

Judgment and estimates could impact the timing of when revenue is recognized and could have a material impact on our consolidated financial statements.

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. Significant judgment is applied in making assumptions about inputs that impact the amount and timing of future cashflows.

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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 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 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, 2021 and 2020, 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 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 and variants may continue to have a significant impact on the Company's business and customers. A prolonged economic slowdown could result in procurement 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.

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The Company has adjusted its operating procedures in response to COVID-19 however, procurement delays and deferral of on-site professional services work have been noted. Meanwhile, the products and services required by our customers continue to change as our customers adjust their needs to remote and/or hybrid work arrangements. The extent to which the pandemic impacts future operations and financial results, and the duration of any such impact, depends on future developments and changes in the macro-economic environment that are follow-on of the pandemic may continue to manifest such as employee turnover, inflation, increases in interest rates and tax rates among other factors.

4. Property and Equipment

	Property	Furniture and Fixtures	Computer Hardware	Leasehold Improvements	Total
At October 31, 2019					
Cost	\$ 986	\$ 2,085	\$ 16,339	\$ 2,601	\$ 22,011
Accumulated depreciation	(136)	(1,350)	(12,813)	(1,432)	(15,731)
Net book value	\$ 850	\$ 735	\$ 3,526	\$ 1,169	\$ 6,280
Year ended October 31, 2020					
Opening net book value	850	735	3,526	1,169	6,280
Additions	-	-	2,540	-	2,540
Acquisitions (Note 11)	-	-	371	239	610
Depreciation	(18)	(234)	(2,708)	(281)	(3,241)
Exchange difference	10	(4)	249	(143)	112
Closing net book value	\$ 842	\$ 497	\$ 3,978	\$ 984	\$ 6,301
At October 31, 2020					
Cost	986	2,085	19,250	2,840	25,161
Accumulated depreciation	(144)	(1,588)	(15,272)	(1,856)	(18,860)
Net book value	\$ 842	\$ 497	\$ 3,978	\$ 984	\$ 6,301
Year ended October 31, 2021					
Opening net book value	842	497	3,978	984	6,301
Additions	-	-	3,228	105	3,333
Acquisitions (Note 11)	-	-	266	-	266
Depreciation	(17)	(175)	(2,519)	(292)	(3,003)
Exchange difference	(58)	(27)	(450)	(116)	(651)
Closing net book value	\$ 767	\$ 295	\$ 4,503	\$ 681	\$ 6,246
At October 31, 2021					
Cost	986	2,085	22,744	2,945	28,760
Accumulated depreciation	(219)	(1,790)	(18,241)	(2,264)	(22,514)
Net book value	\$ 767	\$ 295	\$ 4,503	\$ 681	\$ 6,246

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5. Intangible Assets and Goodwill

	Acquired software	Capitalized software	Customer relationships	Total intangibles	Goodwill
At October 31, 2019					
Cost	\$ 213,490	\$ 3,592	\$ 140,659	\$ 357,741	\$ 203,298
Accumulated amortization	(147,673)	(2,109)	(86,074)	(235,856)	-
Net book value	\$ 65,817	\$ 1,483	\$ 54,585	\$ 121,885	\$ 203,298
Year ended October 31, 2020					
Opening net book value	65,817	1,483	54,585	121,885	203,298
Acquisitions (Note 11)	28,976	-	13,209	42,185	11,078
Purchase price adjustments	-	-	-	-	(2,514)
Amortization	(24,786)	(717)	(18,637)	(44,140)	-
Exchange difference	2,070	3	1,613	3,686	5,564
Closing net book value	\$ 72,077	\$ 769	\$ 50,770	\$ 123,616	\$ 217,426
At October 31, 2020					
Cost	242,466	3,592	153,868	399,926	217,426
Accumulated amortization	(170,389)	(2,823)	(103,098)	(276,310)	-
Net book value	\$ 72,077	\$ 769	\$ 50,770	\$ 123,616	\$ 217,426
Year ended October 31, 2021					
Opening net book value	72,077	769	50,770	123,616	217,426
Acquisitions (Note 11)	13,115	-	15,368	28,483	18,401
Amortization	(24,376)	(631)	(17,414)	(42,421)	-
Exchange difference	(4,012)	(6)	(3,838)	(7,856)	(12,806)
Closing net book value	\$ 56,804	\$ 132	\$ 44,886	\$ 101,822	\$ 223,021
At October 31, 2021					
Cost	255,581	3,592	169,236	428,409	223,021
Accumulated amortization	(198,777)	(3,460)	(124,350)	(326,587)	-
Net book value	\$ 56,804	\$ 132	\$ 44,886	\$ 101,822	\$ 223,021

6. Provisions

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

	Total
At November 1, 2019	\$ 6,536
Additional provisions expensed	2,160
Pre-existing provisions assumed from acquisitions	414
Reversed	(321)
Utilized during the period	(3,304)
Effect of movements in foreign exchange	212
At October 31, 2020	\$ 5,697
At November 1, 2020	\$ 5,697
Pre-existing provisions assumed from acquisitions	3,926
Utilized during the period	(3,564)
Effect of movements in foreign exchange	(471)
At October 31, 2021	\$ 5,588

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7. Share Capital and Other Components of Shareholders' Equity

Share Capital

The authorized share capital of the Company consists of an unlimited number of common shares with no par value, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2021 or 2020.

Common Share Repurchase Plan

On April 26, 2021, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 3,000,000 common shares of the Company, expiring on April 29, 2022. The Company did not repurchase any common shares in either fiscal 2021 or 2020.

Dividends

During the year ended October 31, 2021, the Company declared dividends of \$117,153 (\$2.115 per common share) of which \$8,889 was paid on November 30, 2021 and was reflected as a liability in the Consolidated Statements of Financial Position at October 31, 2021 (\$7,472 October 31, 2020). For the year ended October 31, 2020, dividends declared were \$28,410 (\$0.515 per common share).

Accumulated Other Comprehensive Income (loss)

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

	Translation of foreign operations	Unrealized gains (losses)	Total
At November 1, 2019	\$ 4,741	\$ (119)	\$ 4,622
Cumulative translation adjustment	6,335	-	6,335
At October 31, 2020	\$ 11,076	\$ (119)	\$ 10,957
Cumulative translation adjustment	(25,541)	-	(25,541)
At October 31, 2021	\$ (14,465)	\$ (119)	\$ (14,584)

8. Stock-Based Compensation

The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 3,109,900 (2020 – 3,314,400) 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, 2021 and 2020 and changes during the period ended on those dates, is presented as follows:

	Number of options		Weighted average exercise price	
	2021	2020	2021	2020
Outstanding at beginning of period	1,387,000	1,744,500	\$ 35.50	\$ 29.89
Granted	35,000	310,000	61.41	46.10
Exercised	(204,500)	(611,500)	28.67	24.51
Forfeited	(77,000)	(56,000)	46.50	39.34
Outstanding at end of period	1,140,500	1,387,000	\$ 36.78	\$ 35.50
Exercisable at end of period	443,000	262,000	\$ 31.39	\$ 27.25

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A summary of stock options outstanding as at October 31, 2021 is set out below:

Exercise Price	Outstanding Stock Options			Exercisable Stock Options	
	Number Outstanding as at October 31, 2021	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price in \$	Number Exercisable as at October 31, 2021	Weighted Average Exercise Price in \$
\$24.00 to \$30.00	256,000	2.68	27.81	176,000	26.86
\$30.01 to \$40.00	607,500	3.82	35.91	252,000	33.53
\$40.01 to \$50.00	262,000	5.14	46.12	15,000	48.46
\$50.01 to \$62.00	15,000	6.38	61.41	-	-
	1,140,500	3.90	36.78	443,000	31.39

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2, *Share Based Payments*. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. During fiscal 2021, the Company recorded a non-cash charge of \$2.0 million (2020 – \$2.7 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	2021	2020
Risk-free interest rate	0.73%	1.54%
Estimated volatility	29%	26%
Dividend yield	\$0.64	\$0.44
Expected life (in years)	5.0	5.0
Weighted average fair value	\$14.85	\$10.66
Weighted average share price at grant date	\$61.41	\$46.10

9. Income taxes

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

	2021	2020
Current income taxes:		
Current tax on profits for the year	\$ 19,635	\$ 29,125
Foreign withholding taxes	2,213	1,658
Adjustments upon filing of tax returns	(3,839)	(2,958)
	\$ 18,009	\$ 27,825
Deferred income taxes:		
Origination and reversal of timing differences	4,087	514
Change in tax rates	(174)	(473)
Recognition of previously unrecognized tax assets	(7,298)	(4,663)
	\$ (3,385)	\$ (4,622)
Total income tax provision	\$ 14,624	\$ 23,203

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(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:

	2021		2020	
Expected income tax amount at statutory rate	\$ 28,466	% 26.5	\$ 32,280	% 26.5
Foreign earnings subject to different income tax rates	(4,041)	(3.8)	(3,575)	(2.9)
Change in tax rates	(174)	(0.2)	(473)	(0.4)
Non-deductible expenses	737	0.7	955	0.8
Tax-exempt income	(201)	(0.2)	(635)	(0.5)
Foreign withholding taxes	2,213	2.1	1,658	1.4
Resolution of tax positions	(5,078)	(4.8)	(2,344)	(2.0)
Changes in recognized assets	(7,298)	(6.7)	(4,663)	(3.8)
Effective income tax amount and rate	\$ 14,624	% 13.6	\$ 23,203	% 19.1

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

Jurisdiction	New Rate	Prior Rate	Effective Date
Belgium	34.0%	25.0%	January 2021
Colombia	30.0%	32.0%	January 2022
France	25.0%	32.0%	January 2022
United Kingdom	19.0%	17.0%	April 2021

(C) The Company has recognized deferred income tax assets and liabilities as at October 31, 2021 and 2020 of the following:

	2021	2020
Deferred income tax assets:		
Provisions and reserves	\$ 6,360	\$ 4,404
Income tax loss carry-forwards	2,669	8,126
SRED expenditures	34	173
Property and equipment	4,869	3,416
	13,932	16,119
Deferred income tax liabilities:		
Property and equipment	23	126
Other intangibles	3,490	5,796
Acquired software	5,794	4,931
Deferred revenue reserves	4,085	3,929
	13,392	14,782
Net deferred income tax assets	\$ 540	\$ 1,337

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

	Balance November 1, 2020	Recognized in profit or loss	Acquired in business combinations	Other	Balance October 31, 2021
Provisions and reserves	\$ 4,404	\$ 1,956	\$ -	\$ -	\$ 6,360
Income tax loss carry-forwards	8,126	(5,855)	398	-	2,669
SRED expenditures	173	(139)	-	-	34
Property and equipment	3,416	1,453	-	-	4,869
Other	-	(180)	-	180	-
Assets	\$ 16,119	\$ (2,765)	\$ 398	\$ 180	\$ 13,932
Property and equipment	126	(103)	-	-	23
Acquired software	4,931	(840)	1,703	-	5,794
Intangible assets	5,796	(5,145)	2,839	-	3,490
Deferred revenue reserves	3,929	(63)	219	-	4,085
Liabilities	\$ 14,782	\$ (6,151)	\$ 4,761	\$ -	\$ 13,392

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	Balance November 1, 2019	Recognized in profit or loss	Acquired in business combinations	Other	Balance October 31, 2020
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)	-
Assets	\$ 12,739	\$ (4,792)	\$ 8,413	\$ (241)	\$ 16,119
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
Liabilities	\$ 16,197	\$ (9,414)	\$ 7,999	\$ -	\$ 14,782

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 2021	Non-capital losses available 2020	Expiry terms
Canada	\$ 104,000	\$ 112,000	Expire in periods commencing in 2030 – 2041
United States	73,000	108,000	Expire in periods commencing in 2022 – 2041
United Kingdom	21,000	18,000	No expiry
Belgium	7,000	9,000	No expiry
Denmark	-	3,000	No expiry
Other	81,000	92,000	No expiry
	\$286,000	\$342,000	

The Company has \$286 million of non-capital losses available, of which \$192 million have not been recognized. Of the unrecognized amount, \$17 million in losses was incurred by companies resident in the U.S., which are subject to IRC 382 limitations with \$6 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 \$175 million, \$93 million of losses were incurred in Canada and \$82 million in losses are related to losses incurred by other 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.

Additionally, the Company has not recognized approximately \$91 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, \$42 million relates to scientific research and development credits available in Canada that are subject to expiry between 2025 and 2040. The current year's tax provision includes a credit of \$6.8 million booked for the recognition of deferred tax assets related primarily to non-capital losses for tax purposes, compared to a credit of \$4.1 million recorded in fiscal 2020 for the same reason.

10. Earnings per Share

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

Year ended October 31	2021	2020
Net income for the period	\$ 92,794	\$ 98,590
Weighted average number of common shares outstanding	55,450	55,062
Basic earnings per share	\$ 1.67	\$ 1.79

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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 being 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.

Year ended October 31	2021	2020
Net income for the period	\$ 92,794	\$ 98,590
Weighted average number of common shares outstanding	55,450	55,062
Adjustment for stock options	430	547
Weighted average number of common shares outstanding for diluted earnings per share	55,880	55,609
Diluted earnings per share	\$ 1.66	\$ 1.77

11. 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.

2021 Acquisitions

On December 30, 2020, the Company acquired 100% of the issued and outstanding common shares of Sociedade Altitude Software Sistemas e Serviços S.A. ("Altitude"). Headquartered in Lisbon, Portugal, Altitude provides omni-channel contact center solutions for small and large organizations, with a focus on the business process outsourcing market segment. Its modular software suite supports all media channels and has inbound and outbound capabilities for both on premise and hosted contact center activities.

On June 3, 2021, the Company acquired 100% of the issued and outstanding common shares of Nebu BV ("Nebu"). Headquartered in Amsterdam, the Netherlands, Nebu provides market research and data analytics software solution, with a focus on allowing enterprises, researchers and analysts to cover multiple requirements needed to gain an understanding of customer and community behaviours.

On July 7, 2021, the Company acquired 100% of the issued and outstanding common shares of Momindum SAS ("Momindum"). Headquartered in Paris, France, Momindum is an enterprise software provider of a secure, SaaS based platform for virtual events, recording, editing and sharing interactive video presentations.

The three acquisitions were completed for an aggregate cash purchase price of \$40.9 million, with €1.2 million subject to holdback and €2.3 million in escrow, subject to potential adjustment. Results for all three acquisitions are included in IMG from their respective dates of acquisition.

2020 Acquisitions

On December 31, 2019, the Company acquired Dialogic Group Inc. ("Dialogic"). Headquartered in Piscataway, New Jersey, Dialogic is a technology provider of media processing software, with a highly scalable solution that supports real-time video conferencing and collaboration applications across all devices. Dialogic's communication infrastructure products offer a 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. \$1.9 million remaining in escrow that is subject to potential adjustment. Results for Dialogic are included in both IMG and AMG from the date of acquisition.

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Purchase Price Allocation

	IMG Final 2021	Dialogic Final 2020
Cash and cash equivalents	\$ 3,613	\$ 6,906
Short-term investments	130	-
Accounts receivable	9,900	17,752
Prepaid expenses and other assets	1,787	3,316
Property and equipment	266	610
Deferred income tax assets	398	414
Acquired software	13,115	28,976
Customer relationships	15,368	13,209
Right-of-use assets	2,437	7,781
Goodwill	18,401	11,078
Total assets acquired	\$ 65,415	\$ 90,042
Current liabilities assumed	\$ 17,842	\$ 30,478
Non-current lease obligations	1,875	6,097
Deferred income tax liabilities	4,761	-
Total liabilities assumed	\$ 24,478	\$ 36,575
Net assets acquired for consideration	\$ 40,937	\$ 53,467

The gross contractual amounts of acquired receivables in 2021 for AMG and IMG were \$11.1 million (2020 – \$21.1 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 acquisitions is material to either consolidated revenue or consolidated net income.

The goodwill recognized in connection with 2021 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 \$18.4 million and \$11.1 million recorded in 2021 and 2020, respectively, is deductible for tax purposes.

12. Leases

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, 2021	October 31, 2020
Less than 1 year*	\$ 8,152	\$ 13,473
Between 1 and 5 years	12,985	19,191
More than 5 years	121	667
	\$ 21,258	\$ 33,331

*Includes short-term and low value leases in addition to leases accounted for under IFRS 16.

Notes to Consolidated Financial Statements

October 31, 2021 and 2020

(in thousands of Canadian dollars, except as indicated)

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, 2021

Lease liabilities	2021	2020
Beginning of year	\$ 42,156	\$ 34,644
Additions	216	4,988
Acquisitions	2,063	7,046
Lease modifications	(4,921)	3,102
Lease terminations	(2,342)	(1,013)
Interest expense	1,036	1,331
Payments, including repayments of interest	(9,633)	(10,220)
Foreign exchange	(2,974)	2,278
End of year	\$ 25,601	\$ 42,156
Current portion of lease liabilities	7,941	9,914
Long-term portion of lease liabilities	17,660	32,242
Right-of-use assets	2021	2020
Cost		
Beginning of year	\$ 52,686	\$ 35,820
Acquisitions	2,437	7,781
Lease modifications	(6,798)	3,102
Additions	216	4,988
Lease terminations	(2,743)	(1,267)
Foreign exchange	(3,397)	2,262
End of year	\$ 42,401	\$ 52,686
Accumulated depreciation		
Beginning of year	9,854	-
Additions	9,369	10,083
Lease terminations	(584)	(227)
Foreign exchange	(2,181)	(2)
End of year	\$ 16,458	\$ 9,854
Net Book Value	\$ 25,943	\$ 42,832

Expenses associated with short-term leases were \$2.0 million and \$0.2 million on low-value leases for the year ended October 31, 2021 and were \$2.5 million and \$0.2 million, respectively, for the year ended October 31, 2020.

13. 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.

Year ended October 31, 2021	IMG	AMG	Total
Revenue	\$ 268,584	\$ 198,593	\$ 467,177
Direct costs	(64,941)	(64,686)	(129,627)
Revenue, net of direct costs	203,643	133,907	337,550
Operating expenses excluding special charges	(88,064)	(49,306)	(137,370)
Depreciation of property and equipment	(2,570)	(433)	(3,003)
Depreciation of right-of-use assets	(5,900)	(3,469)	(9,369)
Segment profit	\$ 107,109	\$ 80,699	\$ 187,808
Special charges			(904)
Corporate and shared service expenses			(31,671)
Results from operating activities			\$ 155,233

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(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)
Revenue, net of direct costs		228,581		130,020	358,601
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)
Segment profit	\$	125,786	\$	73,696	\$ 199,482
Special charges					(1,478)
Corporate and shared service expenses					(35,990)
Results from operating activities				\$	162,014

Goodwill allocated to IMG and AMG is \$139,631 and \$83,390, respectively, for the year ended October 31, 2021 and was \$133,009 and \$84,417, respectively, for the year ended October 31, 2020.

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	
	2021	2020	2021	2020
United States	34	47	\$ 139,798	\$ 177,466
United Kingdom	14	13	36,640	38,833
Europe, excluding Scandinavia	22	15	89,772	67,104
Scandinavia	18	16	42,581	46,214
Canada	5	5	43,945	54,692
Asia-Pacific and Other	7	4	4,296	5,866
Total	100	100	\$ 357,032	\$ 390,175
Deferred tax assets			13,932	16,119
Total non-current assets			\$ 370,964	\$ 406,294

14. Litigation and Contingencies

General

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

In response to correspondence from and, in a few instances, litigation instigated by, third-party patent holders, a few of the Company's customers have attempted to tender to the Company the defence 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 defences. There are no material claims outstanding against the Company at October 31, 2021.

15. 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

Notes to Consolidated Financial Statements

October 31, 2021 and 2020

(in thousands of Canadian dollars, except as indicated)

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 debt financing. 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, 2021 and 2020.

16. Financial Instruments

Fair Value of Financial Instruments

The Company has determined that the fair value of its cash, cash equivalents, short-term investments 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, 2021 and 2020 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 2021 and 2020.

Assets	October 31, 2021			October 31, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 195,890	\$ -	\$ 195,890	\$ 244,792	\$ -	\$ 244,792
Short-term investments	2,944	-	2,944	6,999	-	6,999
Total	\$ 198,834	\$ -	\$ 198,834	\$ 251,791	\$ -	\$ 251,791

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.

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(in thousands of Canadian dollars, except as indicated)

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 expected credit 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.

Accounts receivable had a carrying value of \$89.4 million as at October 31, 2021 (2020 – \$90.8 million), representing the maximum exposure to credit risk of those financial assets, net of the loss allowance of \$8.3 million. The Company's expected credit loss for accounts receivable decreased from \$10.3 million at October 31, 2020 primarily as a result of decreased sales volumes and collections of past-due balances. 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 10.4% or \$10.2 million of Accounts receivable at October 31, 2021 was outstanding more than 90 days, compared to \$11.4 million (11.3%) past due as at October 31, 2020.

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

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 \$1.5 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, 2021, the Company reported foreign exchange losses of \$2.0 million compared to losses of \$0.3 million in fiscal 2020.

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 2021, the exchange rate for U.S. dollars to Canadian dollars averaged \$1.26 (2020 – \$1.35), while the pound

Notes to Consolidated Financial Statements

October 31, 2021 and 2020

(in thousands of Canadian dollars, except as indicated)

sterling averaged \$1.73 (2020 – \$1.72), the euro averaged \$1.50 (2020 – \$1.51). 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 \$4.8 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 \$0.7 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 debt financing and settles its financial obligations out of cash. The ability to do so relies on the Company's ability to generate cash from operations and collect accounts receivable in a timely manner and by maintaining sufficient cash on hand. As at October 31, 2021, the Company's current liabilities, all of which fall due for payment within twelve months of the Consolidated Statements of Financial Position date, were \$174.5 million (2020 – \$206.6 million). At October 31, 2021, the Company had a working capital surplus of \$129.1 million (2020 – \$150.8 million), which includes cash and short-term investments balances of \$198.8 million (2020 – \$251.8 million).

17. Changes in Non-Cash Operating Working Capital

Year ended October 31	2021	2020
Decrease in accounts receivable	\$ 4,689	\$ 16,095
Decrease (increase) in prepaid expenses and other assets	2,303	(1,756)
Decrease in accounts payable and accrued liabilities	(18,948)	(1,046)
Increase (decrease) in provisions	238	(1,056)
Decrease in income taxes payable/recoverable	(5,655)	(2,716)
Decrease in deferred revenue	(4,298)	(133)
Changes in non-cash operating working capital	\$ (21,671)	\$ 9,388

18. Additional IFRS Information

Expense by nature	2021	2020
Third-party license, maintenance and services	\$ 29,616	\$ 32,854
Hardware	7,402	13,683
Staff costs	233,182	247,341
Technology and computer supplies	9,188	6,782
Other administrative expenses	4,366	7,706
Travel and marketing	6,296	8,337
Communications	2,233	3,085
Occupancy cost, excluding right-of-use-assets	2,127	2,532
Professional services	4,258	4,642
Restructuring	904	1,478
Depreciation of right-of-use assets	9,369	10,083
Depreciation of property and equipment	3,003	3,241
Total	\$ 311,944	\$ 341,764

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(in thousands of Canadian dollars, except as indicated)

Staff costs	2021	2020
Salaries and wages	\$ 166,818	\$ 173,938
Employee benefits	33,970	33,966
Stock-based compensation	2,026	2,744
Termination benefits	516	2,216
Bonuses	7,154	8,750
Commissions	3,671	8,652
Contractors	19,027	17,075
Total	\$ 233,182	\$ 247,341

Included in employee benefits is the Company's share of costs related to defined contribution pension plans of \$5.2 million (2020 – \$5.7 million).

19. Related Parties

Related Party Transactions

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

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 11.9% (2020 – 13.2%) of the outstanding shares of Enghouse Systems.

	2021	2020
Salaries, bonus and employee benefits,	\$ 8,281	\$ 9,329
Stock options expense	937	1,239
Total	\$ 9,218	\$ 10,568

20. 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, 2021, the majority of the defined benefit obligation relates to Germany, which is carried at fair value of \$2.0 million (2020 – \$2.2 million). Sensitivity resulting from the pension plan's significant actuarial assumptions and variables does not have a significant impact on the Consolidated Statements of Operations and Comprehensive Income.

Corporate Directory

BOARD OF DIRECTORS

- Stephen J. Sadler**
*Chief Executive Officer and
Chairman of the Board*
Enghouse Systems Limited
- Eric Demirian⁽¹⁾**
President
Parklea Capital Inc.
- Reid Drury^{(1),(3)}**
Partner
Polar Capital Corporation
- John Gibson^{(2),(3)}**
*President and Chief Executive
Officer*
E.E.S. Financial Services
Limited
- Paul Stoyan^{(2),(3)}**
Chairman
Gardiner Roberts LLP
- Pierre Lassonde⁽²⁾**
Chairman
Franco-Nevada Corporation
- Jane Mowat⁽¹⁾**
Independent Consultant

EXECUTIVE OFFICERS

- Stephen J. Sadler**
*Chief Executive Officer and
Chairman of the Board*
- Vincent Mifsud**
President
- Sam Anidjar**
*Vice President
Corporate Development*
- Lynette Corbett**
*Chief Administrative &
Human Resources Officer*
- Douglas C. Bryson**
*Vice President Finance and
Corporate Secretary*
- Todd M. May**
*Vice President and
General Counsel*

CORPORATE INFORMATION

Independent Auditors

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

Transfer Agent

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

Stock Information

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

Investor Inquiries

Inquiries should be directed to:

Investor Relations
Enghouse Systems Limited
80 Tiverton Court, Suite 800
Markham, Ontario L3R 0G4 Canada
Email: investor@enghouse.com

Annual Meeting of Shareholders

The Annual Meeting of
Shareholders will be held virtually on
**Thursday March 3, 2022 at
4:30 p.m.**

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Corporate Governance Committee



