Enghouse Systems

Software engineered for results

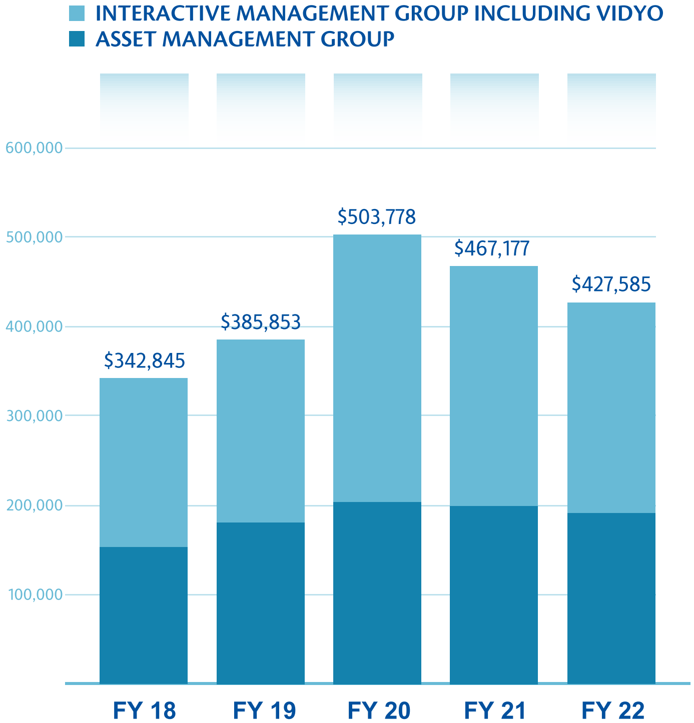
# 2022

# Annual

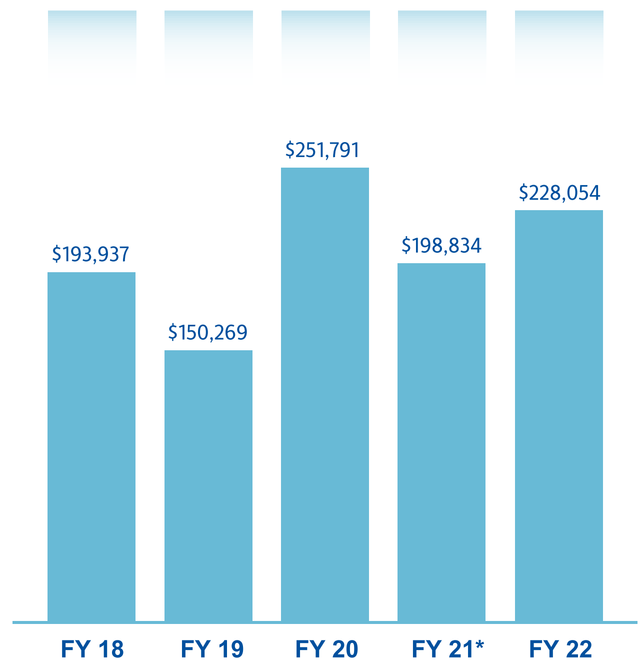
## Report

**"Even during adverse economic conditions, we continued to manage our business with financial discipline, once again generating positive operating income and cash flows while increasing our quarterly distributions to shareholders."**

## TOTAL REVENUE (in $000)



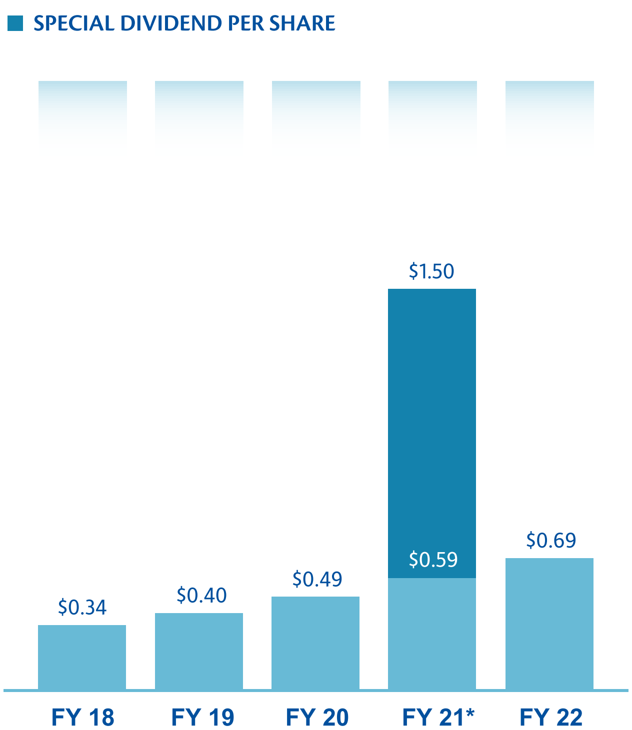

## CASH & SHORT-TERM INVESTMENTS† (in $000)




*Including a special dividend of $83.0 million, paid in fiscal 2021

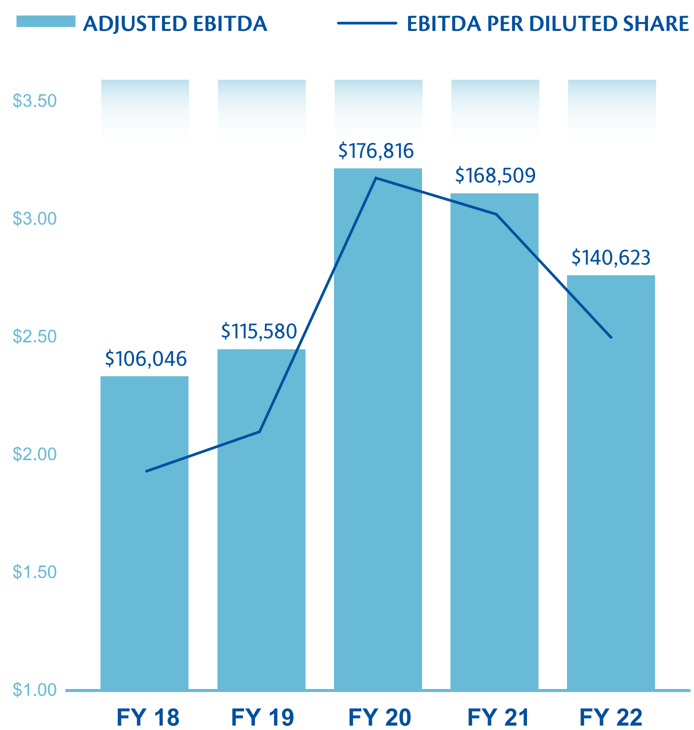
†Cash & short-term investments balances are achieved after payments for acquisitions and dividends

## DIVIDEND PER SHARE




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

## ADJUSTED EBITDA (in $000s)



# Chairman's Message:

Dear fellow Shareholders,

Turbulent global markets, rising interest rates, high inflation and aggressive competition in the technology sector, particularly from vendors offering software-as-a-service ("SaaS"), highlight the environment in which we operated during fiscal 2022. Despite these factors, consistent with our operating approach and strategy, we continued to manage our business with financial discipline once again generating positive operating income and cash flows while increasing quarterly distributions to shareholders for the fourteenth consecutive year. During fiscal 2022 we invested $72.3 million in research and development activities aimed at on-going product improvements and innovation. We continue with our strategy of offering customers and partners choice, providing various deployment options of private cloud, multi-tenanted cloud or on-premise solutions. We believe offering choice differentiates us in the vertically-focused enterprise-software markets in which we operate and addresses the varying needs of our customers.

In fiscal 2022, we achieved Adjusted EBITDA of $140.6 million or 32.9% of revenue and cash flows from operations, excluding changes in working capital, of $145.1 million, closing the year with $228.1 million in cash, cash equivalents and short-term investments with no external debt. Our capital allocation focused on deploying $20.2 million for acquisitions, repurchasing $9.3 million of Enghouse common stock and paying dividends to our shareholders of $38.3 million.

Revenue for the year was $427.6 million, compared to $467.2 million in the prior year. Revenue was negatively impacted by the decline in our Vidyo revenue (post-COVID), in addition to $15.7 million of unfavourable foreign exchange and the growing shift from on-premise solutions to SaaS. Consistent with our strategy of offering choice, we continued to expand the availability of our SaaS offerings globally, primarily for our customer experience and contact center technologies where demand for SaaS is rapidly growing. Operating Income for the year was $129.7 million compared to $155.2 million in the prior year resulting from lower revenue levels. Net income for the year increased to $94.5 million compared to $92.8 million in fiscal 2021 as a result of lower non-operating expenses and taxes.

During the year we completed the acquisitions of Competella, NTW and VoicePort broadening our geographic reach and product portfolio, including SaaS offerings. We continue to expand our acquisition pipeline and actively pursue acquisition opportunities. Valuations are generally decreasing in the enterprise software market that we believe are the result of higher debt servicing costs, reduced ability to raise capital and a broader focus on profitability and cash flow in response to economic uncertainty. We are closely monitoring acquisition opportunities as valuations become more aligned with our financial and operating criteria.

We have consistently demonstrated, even during adverse economic conditions, that we can generate positive operating cash flows and augment our cash reserves to be deployed for acquisitions and further investment in our business. We believe that our financial discipline, product approach and commitment to customers, partners and employees will continue to drive long-term shareholder value.

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 15, 2022 *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 2022 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, 2022.*

*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 and legal 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, virtual healthcare, telecommunications networks, public safety and the transit market. The Company's two-pronged growth strategy to grow earnings focuses on internal growth and acquisitions, which, to date, have been funded through operating cash flows. The Company has no outstanding external 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, social channels, 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, media businesses, 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, utilities 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 transit e-ticketing, automated fare collections, fleet routing, dispatch, scheduling, 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, vertically focused 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 statement of financial position. Deploying capital on acquisitions, shareholder dividends and business acquisitions and replacing it through operating cash flows is pivotal to our strategy

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 Software as a Service ("Saas") offerings, it is also important to augment and expedite this strategy with new and complementary technology, products and services built by our engineering team or 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 a changing global economic outlook, foreign exchange fluctuations, high inflation and economic uncertainty having a noticeable impact upon our business as well as a loosening or, in some instances, complete removal of COVID-19 related restrictions. As a result, we experienced:

- A continuing decline in the use of our video technologies primarily in the healthcare market following the initial surge in fiscal 2020. The tail-end of this was experienced in the first quarter of the prior year resulting from the cancellation of Vidyo support contracts originally signed during the onset of the pandemic in 2020.
- Heightened interest in SaaS offerings across many of our technologies as well as increased cloud-based competition. This trend has resulted in decreased software license revenue as well as decreased professional services revenue as SaaS solutions generally do not require significant professional services work and less hardware requirements.
- A $15.7 million decline in revenue as a result of unfavorable foreign exchange.

We continue our efforts to attract, convert and retain customers who require SaaS solutions, particularly for our Interactive Management Group. Although focus on SaaS 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. Offering choice was key to winning several large customer contracts, particularly in the fourth quarter of 2022 for our Interactive Management Group. While we believe that this differentiation will allow us to win similar contracts in the future, the timing of large contracts has been and will remain ultimately uncertain.

The Company completed three acquisitions during the fiscal year, deploying capital of $20.2 million. Although recent economic events have put downward pressure on valuations, we remain focused on our financial discipline and continue to adhere to our disciplined strategy to ensure that potential acquisitions will be accretive and provide shareholder value.

On September 6, 2022, the Company acquired the business assets and certain liabilities of VoicePort LLC ("VoicePort"), a provider of SaaS automated solutions for the Media industry, based in Rochester, New York.

On July 6, 2022, the Company acquired 100% of the issued and outstanding common shares of NTW Software GmbH ("NTW"). Headquartered in Innsbruck, Austria, NTW provides a suite of products, ranging from attendant console to contact centers for organizations of all sizes primarily within the Cisco market segment.

On June 23, 2022, the Company acquired 100% of the issued and outstanding common shares of Competella AB ("Competella"). Headquartered in Stockholm, Sweden, Competella provides a complete cloud-hosted contact center platform created to enhance the offerings of Microsoft Teams and is focused on the small to midsize business ("SMB") segment of the market.

## Outlook

COVID-19 continues to have a lessened impact on our business each quarter as it recedes from the public and business conscience. With the exclusion of the comparative negative impact to revenue in the first quarter of 2022, it had minimal impact on how we operated when comparing fiscal 2022 to fiscal 2021. We continue to monitor the ongoing situation with most of our offices returning to a hybrid work environment. We are beginning to see customer-related travel become more common but are focused on this cost to ensure it is generating appropriate revenue relative to the expense.

As we see a growing demand for SaaS solutions, as with all our revenue streams, we are careful to ensure that sales are achieved without sacrificing profitability, particularly as we observe some competitors reducing prices in an effort to retain revenue growth without achieving profitability. As a result, we are also focused on ensuring our pricing is set appropriately to provide adequate margins.

In light of future economic uncertainty, we remain cautiously optimistic and will exercise continued diligence on controlling expenses and take a conservative approach towards committing to new expenses. A large portion of our planning focuses on matching revenues with expenses such that we can continue to invest where outlooks are positive and curtail spending where unforeseen economic events may adversely impact our profitability.

As always, we maintain our financial discipline when seeking earnings-accretive acquisitions to grow our revenue and further expand both our product suite and geographic reach, while maintaining our commitment to profitable growth. 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

Our operating results may fluctuate quarterly, mainly as a result of the timing of certain large software license sales, renewal of recurring revenue arrangements as well as fluctuations in usage volumes of our software and professional services. Our quarterly results also may be influenced by changes in COVID-19 restrictions, foreign exchange, timing of new acquisitions and changes in staffing and infrastructure. See "Risks and Uncertainties" for more details. The following table sets forth certain unaudited information for each of the eight most recent quarters.

| For the three months ended | Q4 2022 | Q3 2022 | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **$ 108,060** | **$ 102,111** | **$ 106,312** | **$ 111,102** | **$ 113,099** | **$ 117,644** | **$ 117,334** | **$ 119,100** |
| Direct costs | 32,340 | 31,348 | 33,581 | 32,828 | 31,149 | 33,437 | 33,533 | 31,508 |
| **Revenue, net of direct costs** | **$ 75,720** | **$ 70,763** | **$ 72,731** | **$ 78,274** | **$ 81,950** | **$ 84,207** | **$ 83,801** | **$ 87,592** |
| *As a % of revenue* | *70.1%* | *69.3%* | 68.4% | *70.5%* | *72.5%* | *71.6%* | *71.4%* | *73.5%* |
| Operating expenses | 42,448 | 40,790 | 41,629 | 42,551 | 42,784 | 45,267 | 46,852 | 46,510 |
| Special charges | 123 | 216 | 46 | 18 | 31 | 433 | 57 | 383 |
| **Results from operating activities** | **$ 33,149** | **$ 29,757** | **$ 31,056** | **$ 35,705** | **$ 39,135** | **$ 38,507** | **$ 36,892** | **$ 40,699** |
| *As a % of revenue* | *30.7%* | *29.1%* | 29.2% | 32.1% | 34.6% | *32.7%* | *31.4%* | *34.2%* |
| Amortization | (8,826) | (8,484) | (9,207) | (9,657) | (10,438) | (10,355) | (10,854) | (10,774) |
| Other | 884 | 1,051 | 242 | 568 | (724) | (1,147) | 241 | (3,764) |
| **Income before income taxes** | **$ 25,207** | **$ 22,324** | **$ 22,091** | **$ 26,616** | **$ 27,973** | **$ 27,005** | **$ 26,279** | **$ 26,161** |
| (Recovery of) provision for income taxes | (11,742) | 4,243 | 4,220 | 5,019 | (2,213) | 5,778 | 5,540 | 5,519 |
| **Net Income for the period** | **$ 36,949** | **$ 18,081** | **$ 17,871** | **$ 21,597** | **$ 30,186** | **$ 21,227** | **$ 20,739** | **$ 20,642** |
| Basic earnings per share | 0.67 | 0.33 | 0.32 | 0.39 | 0.54 | 0.38 | 0.37 | 0.37 |
| Diluted earnings per share | 0.67 | 0.33 | 0.32 | 0.39 | 0.54 | 0.38 | 0.37 | 0.37 |
| Operating cash flows | 18,539 | 29,158 | 31,142 | 24,342 | 25,206 | 33,552 | 39,155 | 20,545 |
| Operating cash flows excluding changes in working capital | 37,740 | 34,081 | 34,510 | 38,743 | 42,385 | 41,105 | 42,600 | 41,715 |
| Cash and short-term investments | 228,054 | 229,485 | 231,218 | 214,814 | 198,834 | 187,797 | 169,573 | 230,371 |
| Total assets | 704,998 | 670,400 | 688,882 | 699,284 | 674,624 | 687,064 | 683,464 | 793,093 |
| **Adjusted EBITDA:** | | | | | | | | |
| Results from operating activities | 33,149 | 29,757 | 31,056 | 35,705 | 39,135 | 38,507 | 36,892 | 40,699 |
| Depreciation | 709 | 665 | 705 | 720 | 791 | 719 | 758 | 735 |
| Depreciation of right-of-use assets | 1,824 | 1,849 | 1,969 | 2,112 | 2,168 | 2,006 | 2,492 | 2,703 |
| Special charges | 123 | 216 | 46 | 18 | 31 | 433 | 57 | 383 |
| **Adjusted EBITDA** | **$ 35,805** | **$ 32,487** | **$ 33,776** | **$ 38,555** | **$ 42,125** | **$ 41,665** | **$ 40,199** | **$ 44,520** |
| Adjusted EBITDA margin | *33.1%* | *31.8%* | *31.8%* | *34.7%* | *37.2%* | *35.4%* | *34.3%* | *37.4%* |
| **Adjusted EBITDA per diluted share** | **$ 0.65** | **$ 0.59** | **$ 0.61** | **$ 0.69** | **$ 0.75** | **$ 0.75** | **$ 0.72** | **$ 0.80** |

## Results of Operations

The following table provides details regarding operating results for the three and twelve months ended October 31, 2022.

| | Three months | | | | Twelve months | | | |
|---|---|---|---|---|---|---|---|---|
| **For the period ended October 31** | **2022** | **2021** | **Var ($)** | **Var (%)** | **2022** | **2021** | **Var ($)** | **Var (%)** |
| **Revenue** | **$ 108,060** | **$ 113,099** | **(5,039)** | ***(4.5)*** | **$ 427,585** | **$ 467,177** | **(39,592)** | ***(8.5)*** |
| Direct costs | 32,340 | 31,149 | 1,191 | *3.8* | 130,097 | 129,627 | 470 | *0.4* |
| **Revenue, net of direct costs** | **$ 75,720** | **$ 81,950** | **(6,230)** | ***(7.6)*** | **$ 297,488** | **$ 337,550** | **(40,062)** | ***(11.9)*** |
| *As a % of revenue* | *70.1%* | *72.5%* | | | *69.6%* | *72.3%* | | |
| Operating expenses | 42,448 | 42,784 | (336) | *(0.8)* | 167,418 | 181,413 | (13,995) | *(7.7)* |
| Special charges | 123 | 31 | 92 | *296.8* | 403 | 904 | (501) | *(55.4)* |
| **Results from operating activities** | **$ 33,149** | **$ 39,135** | **(5,986)** | ***(15.3)*** | **$ 129,667** | **$ 155,233** | **(25,566)** | ***(16.5)*** |
| *As a % of revenue* | *30.7%* | *34.6%* | | | *30.3%* | *33.2%* | | |
| Amortization of acquired software and customer relationships | (8,826) | (10,438) | 1,612 | *15.4* | (36,174) | (42,421) | 6,247 | *14.7* |
| Foreign exchange gains (losses) | 931 | (62) | 993 | *1601.6* | 1,954 | (2,038) | 3,992 | *195.9* |
| Interest expense – lease obligations | (164) | (218) | 54 | *24.8* | (735) | (1,036) | 301 | *29.1* |
| Finance income | 651 | 52 | 599 | *1151.9* | 1,192 | 214 | 978 | *457.0* |
| Finance expenses | (27) | (10) | (17) | *(170.0)* | (89) | (86) | (3) | *(3.5)* |
| Other (expense) income | (507) | (486) | (21) | *(4.3)* | 423 | (2,448) | 2,871 | *117.3* |
| **Income before income taxes** | **$ 25,207** | **$ 27,973** | **(2,766)** | ***(9.9)*** | **$ 96,238** | **$ 107,418** | **(11,180)** | ***(10.4)*** |
| (Recovery of) provision for income taxes | (11,742) | (2,213) | (9,529) | *(430.6)* | 1,740 | 14,624 | (12,884) | *(88.1)* |
| **Net Income for the period** | **$ 36,949** | **$ 30,186** | **6,763** | **22.4** | **$ 94,498** | **$ 92,794** | **1,704** | **1.8** |
| Basic earnings per share | 0.67 | 0.54 | 0.13 | *24.1* | *1.70* | 1.67 | 0.03 | *1.8* |
| Diluted earnings per share | 0.67 | 0.54 | 0.13 | *24.1* | *1.70* | 1.66 | 0.04 | *2.4* |
| Operating cash flows | 18,539 | 25,206 | (6,667) | *(26.5)* | 103,181 | 118,460 | (15,279) | *(12.9)* |
| Operating cash flows excluding changes in working capital | 37,740 | 42,385 | (4,645) | *(11.0)* | 145,074 | 167,807 | (22,733) | *(13.5)* |

## Revenue

The following table provides details regarding revenue for the three and twelve months ended October 31, 2022.

| | Three months | | | Twelve months | | |
|---|---|---|---|---|---|---|
| **For the period ended October 31** | **2022** | **2021** | **Variance** | **2022** | **2021** | **Variance** |
| Software licenses | $ 25,588 | $ 24,798 | $ 790 | $ 90,602 | $ 105,072 | $ (14,470) |
| SaaS and maintenance services | 64,575 | 67,917 | (3,342) | 258,277 | 278,981 | (20,704) |
| Professional services | 16,066 | 18,121 | (2,055) | 68,648 | 71,197 | (2,549) |
| Hardware | 1,831 | 2,263 | (432) | 10,058 | 11,927 | (1,869) |
| **Revenue** | **$ 108,060** | **$ 113,099** | **$ (5,039)** | **$ 427,585** | **$ 467,177** | **$ (39,592)** |
| Interactive Management Group | 61,759 | 66,846 | (5,087) | 235,925 | 268,584 | (32,659) |
| Asset Management Group | 46,301 | 46,253 | 48 | 191,660 | 198,593 | (6,933) |
| **Revenue** | **$ 108,060** | **$ 113,099** | **$ (5,039)** | **$ 427,585** | **$ 467,177** | **$ (39,592)** |

Revenue for the three months ended October 31, 2022 was $108.1 million, a decrease of $5.0 million or 4.5% from the same period in the prior year. Revenue was negatively impacted by $4.0 million as a result of unfavorable foreign exchange. The foreign exchange impact represents a decrease of $2.0 million in SaaS and maintenance revenue, $1.0 million in professional services, $0.8 million in software and a nominal decrease in hardware revenue. This is calculated by applying the change in the average exchange rates between 2021 and 2022 to our foreign currency denominated revenue in 2022. On a constant-currency basis, the variance is explained by:

- A decrease of $1.3 million in SaaS and maintenance revenue, primarily attributable to decreased renewals of maintenance revenue as customers migrate to the cloud in a highly competitive environment. Despite the decline in maintenance revenue, which is associated with on-premise software, our SaaS revenue has increased, albeit not enough to offset the decline in maintenance revenue. SaaS and maintenance services represent an important strategic source of revenue given its generally predictable and recurring nature and represented 59.8% of total revenues for the period compared to 60.1% in the same period in the prior year.
- A decrease of $1.0 million in professional services primarily attributable to an increase in demand for SaaS products, which generally entail less professional services.

- An offsetting increase of $1.6 million in software revenue primarily attributable to new contracts received during the quarter. These contracts were primarily won as a result of our ability to offer choice to our customers and partners, which remains a key differentiating factor for Enghouse. While this certainly benefited us this quarter, the timing of these large deals is subject to considerable volatility.

Revenue for the twelve months ended October 31, 2022 was $427.6 million, a decrease of $39.6 million or 8.5% from the prior year. Revenue was negatively impacted by $15.7 million as a result of unfavorable foreign exchange. The foreign exchange impact represents decreases of $8.4 million in SaaS and maintenance revenue, $3.7 million in professional services, $3.2 million in software and $0.4 million in hardware revenue. This is calculated by applying the change in the average exchange rates between 2021 and 2022 to our foreign currency denominated revenue in 2022. On a constant-currency basis, the variance is explained by:

- A decrease of $12.3 million primarily attributable to lower maintenance in our Interactive group resulting from attrition on support agreements for our on-premise solutions including our Vidyo offerings.
- A decrease of $11.3 million in software license revenue primarily driven by a market shift away from on-premise perpetual licensing and less demand for our Vidyo offerings in the Interactive group.
- A decrease of $1.5 million in hardware revenue primarily as a result of hardware deliveries in fiscal 2021 for our Networks products and IMG products that are variable in their timing.
- An increase of $1.2 million in professional services primarily attributable to increased volume in AMG.

*Interactive Management Group*

IMG revenue for the three months ended October 31, 2022 was $61.8 million, a decrease of $5.1 million or 7.6% from same period in the prior year. The variance reflects a $2.0 million decrease as a result of foreign exchange. On a constant-currency basis, the variance is explained by:

- A $1.3 million decrease in professional services, primarily attributable to increased demand for SaaS products that generally entail less or no professional services.
- A decrease of $0.8 million on SaaS and maintenance services, primarily attributable to lower maintenance resulting from attrition of support agreements for on-premise solutions including our Vidyo offerings.

Revenue for the twelve months ended October 31, 2022 was $235.9 million, a decrease of $32.7 million or 12.2% from the same period in the prior year. The variance includes an $8.4 million decrease as a result of foreign exchange. On a constant-currency basis, the variance is explained by:

- A $10.5 million decrease in SaaS and maintenance revenue for the same reasons discussed for the quarter.
- A decrease of $9.9 million in software license revenue driven by a market shift away from on-premise perpetual licensing. Approximately half of the decline is from the first quarter of 2022 where the comparative first quarter experienced the tail-end of the pandemic-related surge in revenue, particularly for Vidyo.

*Asset Management Group*

AMG revenue for the three months ended October 31, 2022 was $46.3 million, consistent with the same period in the prior year. Revenue ultimately remained flat as a result of negative foreign exchange, offset by a $2.1 million increase in revenue on a constant-currency basis. The majority of the increase was related to software license revenue.

Revenue for the twelve months ended October 31, 2022 was $191.7 million, a decrease of $6.9 million or 3.5% from the prior year. The variance is the result of $7.3 million of unfavorable foreign exchange partially offset by increased revenue. The nominal increase in revenue on a constant-currency basis is primarily attributable to increased professional services revenue, partially offset by lower software license and maintenance revenue.

## Direct Costs

The following table provides details regarding direct costs for the three and twelve months ended October 31, 2022.

| | Three months | | | Twelve months | | |
|---|---|---|---|---|---|---|
| **For the period ended October 31** | **2022** | **2021** | **Variance** | **2022** | **2021** | **Variance** |
| Software licenses | $ 704 | $ 535 | $ 169 | $ 4,340 | $ 4,555 | $ (215) |
| Services | 30,594 | 29,422 | 1,172 | 119,762 | 117,670 | 2,092 |
| Hardware | 1,042 | 1,192 | (150) | 5,995 | 7,402 | (1,407) |
| **Direct Costs** | **$ 32,340** | **$ 31,149** | **$ 1,191** | **$ 130,097** | **$ 129,627** | **$ 470** |
| *As a % of revenue* | | | | | | |
| *Software licenses* | *2.8%* | *2.2%* | | *4.8%* | *4.3%* | |
| *Services* | *37.9%* | *34.2%* | | *36.6%* | *33.6%* | |
| *Hardware* | *56.9%* | *52.7%* | | *59.6%* | *62.1%* | |
| ***Total*** | ***29.9%*** | ***27.5%*** | | ***30.4%*** | ***27.7%*** | |
| Interactive Management Group | 15,815 | 15,281 | 534 | 62,079 | 64,941 | (2,862) |
| Asset Management Group | 16,525 | 15,868 | 657 | 68,018 | 64,686 | 3,332 |
| **Direct Costs** | **$ 32,340** | **$ 31,149** | **$ 1,191** | **$ 130,097** | **$ 129,627** | **$ 470** |
| *As a % of revenue* | | | | | | |
| *Interactive Management Group* | *25.6%* | *22.9%* | | *26.3%* | *24.2%* | |
| *Asset Management Group* | *35.7%* | *34.3%* | | *35.5%* | *32.6%* | |

Direct costs for the three months ended October 31, 2022 were $32.3 million or 29.9% of revenue compared to $31.1 million or 27.5% of revenue in the same period in the prior year. Overall margins declined as a result of increased costs of services, primarily as a result of inflationary factors as well as increased reliance on external contractors for several large projects.

Direct costs for the twelve months ended October 31, 2022 were $130.1 million or 30.4% of revenue compared to $129.6 million or 27.7% of revenue in the same period in the prior year. Overall margins declined as a result of increased cost of services combined with a shift from higher-margin software licenses towards lower-margin services revenue, partially mitigated by favourable foreign exchange.

*Interactive Management Group*

IMG direct costs for the three months ended October 31, 2022 were $15.8 million or 25.6% of segment revenue compared to $15.3 million or 22.9% of revenue in the prior year. The increase is a result of increased costs of providing services, offset by the favourable impact of foreign exchange.

IMG direct costs for the twelve months ended October 31, 2022 were $62.1 million or 26.3% of segment revenue compared to $64.9 million or 24.2% of revenue in the prior year as a result higher costs of providing services and a shift in product mix away from higher-margin on-premise software towards SaaS, partially mitigated by the favourable impact of foreign exchange.

*Asset Management Group*

AMG direct costs were $16.5 million or 35.7% of segment revenue for the three months ended October 31, 2022 compared to $15.9 million or 34.3% of revenue in the same period in the prior year. The lower margins are primarily a result of increased costs of providing services as well as increased reliance on external contractors for several large transportation projects, partially offset by the favourable impact of foreign exchange.

AMG direct costs for the twelve months ended October 31, 2022 were $68.0 million or 35.5% of segment revenue compared to $64.7 million or 32.6% of revenue in the prior year as a result of increased costs of providing services as well as increased reliance on external contractors for several large transportation projects, partially offset by the favourable impact of foreign exchange.

## Revenue, Net of Direct Costs

Revenue, net of direct costs for the three months ended October 31, 2022 decreased by $6.2 million to $75.7 million or 70.1% of revenue compared to $82.0 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 combined with lower margins and favourable foreign exchange impacts as noted above.

Revenue, net of direct costs for the twelve months ended October 31, 2022 decreased by $40.1 million to $297.5 million or 69.6% of revenue compared to $337.6 million or 72.3% in the prior year. The decrease is attributable to the same factors as for the fourth quarter, as noted above.

## Operating Expenses

The following table provides details regarding operating expenses for the three and twelve months ended October 31, 2022.

| | Three months | | | Twelve months | | |
|---|---|---|---|---|---|---|
| **For the period ended October 31** | **2022** | **2021** | **Variance** | **2022** | **2021** | **Variance** |
| Selling, general and administrative | $ 21,727 | $ 22,959 | $ (1,232) | $ 84,603 | $ 91,844 | $ (7,241) |
| Research and development | 18,188 | 16,866 | 1,322 | 72,262 | 77,197 | (4,935) |
| Depreciation | 709 | 791 | (82) | 2,799 | 3,003 | (204) |
| Depreciation of right-of-use assets | 1,824 | 2,168 | (344) | 7,754 | 9,369 | (1,615) |
| Special charges | 123 | 31 | 92 | 403 | 904 | (501) |
| **Operating expenses** | **$ 42,571** | **$ 42,815** | **$ (244)** | **$ 167,821** | **$ 182,317** | **$ (14,496)** |
| *As a % of revenue* | | | | | | |
| *Selling, general and administrative* | *20.1%* | *20.3%* | | *19.8%* | *19.7%* | |
| *Research and development* | *16.8%* | *14.9%* | | *16.9%* | *16.5%* | |
| *Depreciation* | *0.7%* | *0.7%* | | *0.7%* | *0.6%* | |
| *Depreciation of right-of-use assets* | *1.7%* | *1.9%* | | *1.8%* | *2.0%* | |
| *Special charges* | *0.1%* | *0.0%* | | *0.1%* | *0.2%* | |
| *Operating expenses* | *39.4%* | *37.9%* | | *39.2%* | *39.0%* | |

Operating expenses for the three months ended October 31, 2022 totaled $42.6 million, a decrease of 0.6%. The variance is explained by:

- A decrease of $1.2 million in selling, general and administrative expense as a result of reduced headcount costs and other cost savings achieved to align our cost structure to revenue.
- An offsetting increase of $1.3 million in research and development, primarily attributable to higher R&D tax credits recognized during the comparative period.

Operating expenses for the twelve months ended October 31, 2022 totaled $167.8 million, a decrease of $14.5 million or 8.0% from the same period in the prior year. The decrease in cost is explained by:

- A decrease of $7.2 million in selling, general and administrative expense primarily as a result of scaling operating costs to revenue and the favourable impact of foreign exchange.
- A decrease of $4.9 million in research and development expense primarily as a result of cost savings achieved through transferring a portion of our software-engineering resources to more cost-effective geographic regions combined with decreased headcount and favourable foreign exchange.
- A decrease in depreciation of right-of-use assets of $1.6 million primarily attributable to the closure of facilities as we scale our physical footprint to address increased work from home scenarios and reduced headcount.

## 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, 2022, the Canadian dollar strengthened against most major currencies other than the U.S. dollar compared to the same period in the prior year. As a result, in the fourth quarter, there was a negative impact to revenue of $4.0 million reported in Canadian dollars and total direct and operating costs were lower by $3.6 million compared to the same period in the prior year. For the year ended October 31, 2022 there was a negative impact to revenue of $15.7 million reported in Canadian dollars while operating expenses and direct costs were lower by $12.3 million compared to the prior year.

For the three months ended October 31, 2022, we recognized unrealized foreign exchange gains of $0.9 million related to foreign currency denominated monetary assets and liabilities in the current period compared to losses of $0.1 million in the same period in the prior year. The gains were a result of movements in non-functional currencies on monetary assets and liabilities relative to the functional currencies of the entities recording the gain or loss.

For the twelve months ended October 31, 2022, we recognized $2.0 million of unrealized foreign exchange gains related to foreign currency denominated monetary assets and liabilities compared to losses of $2.0 million in the prior year.

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.

## Amortization of Software and Customer Relationships

Amortization expense for acquired software and customer relationships for the three and twelve months ended October 31, 2022 decreased by $1.6 million to $8.8 million and by $6.2 million to $36.2 million respectively, compared to the same periods in the prior year. Both variances are attributable to reduced charges as a result of fully-amortized assets, net of increased charges from acquisitions.

## Other (expense) income

Other expense for the three months ended October 31, 2022 remained relatively flat relative to the comparative period as a result of roughly equal unrealized losses on investments in equity positions carried at fair value during both periods. There were no realized gains or losses on the sale of equity positions in the current or prior year's fourth quarter. For the twelve months ended October 31, 2022, other income increased by $2.9 million compared to the same period in the prior year. The increase is attributable to the reduction in unrealized losses on investments in equity positions in the current year. There were no realized gains or losses in the current year compared to realized gains of $0.4 million in the prior year.

## (Recovery of) provision for income taxes

The recovery of income taxes for the three months ended October 31, 2022 increased by $9.5 million to reflect a $11.7 million recovery of income taxes, compared to the same period in the prior year. For the twelve month period ended October 31, 2022, the provision for income taxes decreased by $12.9 million compared to the prior year to $1.7 million. For the three and twelve months ended October 31, 2022, our effective tax rate was 46.6% (recovery) and 1.8% (expense), compared to 7.9% (recovery) and 13.6% (expense), respectively, for the same periods in the prior year. As a result of realigning operations, there was an increase in recognized deferred tax assets that reduced our provision for income taxes resulting in a recovery for the quarter and a reduced provision for the year.

## Net income

Net income for the three months ended October 31, 2022, increased by $6.8 million to $36.9 million while Net income for the twelve months ended October 31, 2022 increased by $1.7 million to $94.5 million, respectively, compared to the same periods in the prior year. The increase in the quarter and year are both attributable to the aforementioned tax recovery and lower non-operating costs, partially offset by decreased Results from operating activities.

For the three and twelve months ended October 31, 2022, diluted earnings per share was $0.67 and $1.70, respectively, compared to $0.54 and $1.66 in the same periods in the prior year.

## Cash flows from operating activities

For three months and twelve months ended October 31, 2022, cash flows from operating activities were $18.5 million and $103.2 million, respectively, compared to $25.2 million and $118.5 million in the same periods in the prior year. The decrease in operating cash flow, for both periods, reflects lower operating income on lower revenue.

Operating cash flows excluding changes in non-cash working capital items for the three months and twelve months, respectively, ended October 31, 2022 decreased by 11.0% and by 13.5% respectively to $37.7 million and $145.1 million compared to the same periods in the prior year as a result of decreased Results from operating activities, primarily related to the decrease in revenue.

## 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, 2022.

| For the period ended October 31 | Three months | | | Twelve months | | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | Variance | 2022 | 2021 | Variance |
| Total revenue | $ 108,060 | $ 113,099 | $ (5,039) | $ 427,585 | $ 467,177 | $ (39,592) |
| Results from operating activities | 33,149 | 39,135 | (5,986) | 129,667 | 155,233 | (25,566) |
| Depreciation | 709 | 791 | (82) | 2,799 | 3,003 | (204) |
| Depreciation of right-of-use assets | 1,824 | 2,168 | (344) | 7,754 | 9,369 | (1,615) |
| Special charges | 123 | 31 | 92 | 403 | 904 | (501) |
| **Adjusted EBITDA** | **$ 35,805** | **$ 42,125** | **$ (6,320)** | **$ 140,623** | **$ 168,509** | **$ (27,886)** |
| *Adjusted EBITDA margin* | *33.1%* | *37.2%* | | *32.9%* | *36.1%* | |
| **Adjusted EBITDA per diluted share** | **$ 0.65** | **$ 0.75** | **$ (0.10)** | **$ 2.53** | **$ 3.02** | **$ (0.49)** |

Adjusted EBITDA for the three and twelve months ended October 31, 2022 decreased by $6.3 million and $27.9 million respectively, compared to the same periods in the prior year. The decrease in Adjusted EBITDA reflects lower revenue relative to the three- and twelve-month comparative periods. Meanwhile, adjusted EBITDA margins have eroded during the twelve-month period reflecting the shift in revenue mix from higher-margin software to lower-margin service-based revenue.

Special charges, primarily reflecting acquisition related restructuring and legal 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 $228.1 million, compared to the October 31, 2021 balance of $198.8 million. This reflects continued positive operating cash flow for the year of $103.2 million offset by cash spent of $20.2 million on the acquisitions of Competella, NTW and VoicePort during the year, $38.3 million for dividends and the repurchase of $9.3 million of our common stock. Excluding the special dividend of $83.0 million paid in the prior year, dividends increased 17.0% compared to the prior year.

For the year ended October 31, 2022, Cash and cash equivalents increased by a total of $29.2 million compared to a decrease of $48.9 million over the prior year. The increase reflects relatively lower dividend payments after the $83.0 million special dividend paid in fiscal 2021, offset by lower operating cash flows during the current year. The ability to generate positive 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, 2022 working capital was $170.6 million compared to $129.1 million at the end of fiscal 2021. The increase in working capital reflects continued positive operating cash flow throughout the year in addition to lower payables and accrued liabilities, partially offset by an increase in accounts receivable. Management is confident that the Company continues to have 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 55,250,239 Common Shares issued and outstanding as at December 15, 2022. During the year, 40,000 stock options were exercised contributing $1.0 million in cash compared to 204,500 stock options and $5.9 million in cash to the Company in the prior year. The Company granted 430,000 options in fiscal 2022 compared to 35,000 options, granted in the prior year.

The Company renewed its Normal Course Issuer Bid for a further year commencing May 2, 2022 and expiring May 1, 2023, whereby it may repurchase up to a maximum of 3,000,000 common shares of Enghouse. During the three months ended October 31, 2022, the Company repurchased and cancelled 13,000 common shares (2021 – NIL) at a weighted average price of $28.22 per share, for a total cost of $0.4 million. For the twelve months ended October 31, 2022, the company purchased and cancelled 343,185 common shares (2021—NIL) at a weighted average price of $27.15 per share for a total cost of $9.3 million.

## 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 fourteen years from $0.013 per common share in 2007 to $0.185 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<br>*(in thousands of dollars, except per share amounts)* | Record date | Payment date | Common shares outstanding | Dividend per share ($) | Total Dividend ($) |
|---|---|---|---|---|---|
| September 8, 2022 | November 16, 2022 | November 30, 2022 | 55,250,239 | 0.185 | 10,221 |
| June 7, 2022 | August 17, 2022 | August 31, 2022 | 55,263,239 | 0.185 | 10,224 |
| March 3, 2022 | May 17, 2022 | May 31, 2022 | 55,593,424 | 0.185 | 10,285 |
| December 16, 2021 | February 14, 2022 | February 28, 2022 | 55,553,424 | 0.160 | 8,889 |
| | | | | | **39,619** |
| September 9, 2021 | November 16, 2021 | November 30, 2021 | 55,553,424 | 0.160 | 8,889 |
| June 10, 2021 | August 17, 2021 | August 31, 2021 | 55,516,924 | 0.160 | 8,883 |
| March 11, 2021 | May 17, 2021 | May 31, 2021 | 55,494,924 | 0.160 | 8,879 |
| December 17, 2020 | January 15, 2021 | February 16, 2021 | 55,352,924 | 1.500 | 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 | 0.110 | 6,047 |
| | | | | | **28,410** |

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. During fiscal 2022, we decreased our lease facility obligations as we have adopted a hybrid work environment requiring less facilities.

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, 2022, 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 15, 2022, 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 rates. Rates are based on cost plus margin, daily rates or, where applicable, a percentage of the list price based on standard selling terms.
- 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 income taxes 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 provision for income taxes 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 the provisions for income taxes 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.

## Environmental, Social, Governance ("ESG"):

Enghouse is committed to fulfilling its Environmental, Social and Governance ("ESG") responsibilities. Reducing our physical footprint results in a positive environmental impact while providing cost-savings. Encouraging diversity in our workforce and supporting our employees creates a work environment that we believe increases productivity and reduces turnover. We also believe good governance protects our operations and assets while all three elements help ensure a strong standing within the broader community.

Additional information on ESG can be found in our Annual Information Form ("AIF"). Further supplementing the information contained in our AIF, our ESG policies are published on our website linked at: *https://www.enghouse.com/investors/environmental-social-governance/*

## 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 our 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.

***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 including those that address our customer's increasing SaaS requirements. If we are unable to successfully develop new products, develop, update and offer SaaS versions of our product suite where applicable, 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, including the growing shift towards SaaS offerings.

***Our existing customers might cancel their SaaS 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 (60.4% in fiscal 2022 compared to 59.7% in fiscal 2021) of our revenue from SaaS and maintenance services provided in connection with the products we provide 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 SaaS 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 SaaS sales and through the acquisition of companies with existing SaaS and maintenance customer bases is a key tenet to our revenue growth strategy, as is further developing our current SaaS 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 SaaS and maintenance services revenue associated with incremental license and SaaS sales, acquisitions and contract price increases. Attrition in our customer base occurs when existing customers elect not to renew their SaaS 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, on a SaaS basis, superior functionality or performance or lower prices could lead to increased rates of customer attrition.

***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 SaaS 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 or SaaS capabilities. 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.

***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.

Some of our businesses provide SaaS services for certain of our software products. These SaaS 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 Competella, NTW and VoicePort and paid $20.2 million in aggregate, net of cash acquired and holdbacks and received $0.1 million to settle holdbacks 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.

***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 2022, compared to the prior year the Canadian dollar strengthened against most major world currencies, except the U.S. dollar, after weakening in the immediate aftermath of the pandemic. The U.S. dollar was reported using an average foreign exchange rate of $1.29 in fiscal 2022 versus $1.26 in fiscal 2021, representing a 2.4% increase while the pound sterling averaged $1.62 in the current year compared to $1.73 in the prior fiscal year, a 6.4% decrease. Meanwhile, the euro averaged $1.38, a 8.0% decrease compared to $1.50 in the prior year.

Overall, 13% of our revenue was generated by operations in the U.K. compared to 14% in the prior fiscal year, while revenue generated by European operations increased to 24% from 22% in the prior fiscal year and revenue generated by our Scandinavian operations was flat at 18% compared to the prior year. Revenue generated by our U.S. based operations was 34%, consistent with the prior fiscal year. Approximately 5% of our revenue was generated by operations in the Asia-Pacific and other regions compared to 7% in fiscal

2021, 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 generally 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.

***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, recruit, 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, especially in the current labour market 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, labour shortages and “The Great Resignation”, whereby an increasing percentage of the population is exiting the workforce along with an increased propensity to switch jobs.

***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, albeit to a lesser extent in the current fiscal year. 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 future COVID-19 related impacts on the financial results and operations of the Company. Most of the Company’s employees have returned to the office in a hybrid environment and continue to productively work from home. 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 years, 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.

***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 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.

***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.

### *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 provision for income taxes may be adversely affected and we could also be subject to interest and penalty charges. Any such increase in our provision for income taxes 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 on 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, including conversion to SaaS offerings, 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 including rising interest rates and inflation 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 operating 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, 2022, 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, 2022, 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, 2022, 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, 2022 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 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.

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| Stephen J. Sadler | Rob Medved |
| Chairman of the Board and | Vice President Finance and |
| Chief Executive Officer | Corporate Secretary |

Markham, Ontario
December 15, 2022

## 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, 2022 and 2021, 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB").

### 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, 2022, the Group recorded total revenue of $428 million. Customer arrangements with multiple performance obligations contribute to the total revenue recognized during the year ended October 31, 2022.

*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 Brittany Keenan.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
December 15, 2022

## Consolidated Statements of Financial Position

| *(in thousands of Canadian dollars)* | Notes | As at October 31, 2022 | As at October 31, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 16 | $ 225,104 | $ 195,890 |
| Short-term investments | 16 | 2,950 | 2,944 |
| Accounts receivable | 16 | 93,104 | 89,374 |
| Prepaid expenses and other assets | | 12,848 | 13,322 |
| Income taxes recoverable | | 492 | 2,130 |
| | | **334,498** | **303,660** |
| **Non-current assets:** | | | |
| Property and equipment | 4 | 4,186 | 6,246 |
| Right-of-use assets | 12 | 20,063 | 25,943 |
| Intangible assets | 5 | 85,902 | 101,822 |
| Goodwill | 5 | 230,002 | 223,021 |
| Deferred income tax assets | 9 | 30,347 | 13,932 |
| | | **370,500** | **370,964** |
| | | **$ 704,998** | **$ 674,624** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities:** | | | |
| Accounts payable and accrued liabilities | | $ 60,525 | $ 71,506 |
| Dividends payable | 7 | 10,221 | 8,889 |
| Provisions | 6 | 3,183 | 5,588 |
| Deferred revenue | | 83,122 | 80,614 |
| Lease obligations | 12 | 6,822 | 7,941 |
| | | **163,873** | **174,538** |
| **Non-current liabilities:** | | | |
| Income taxes payable | 9 | 2,576 | 2,949 |
| Deferred income tax liabilities | 9 | 12,038 | 13,392 |
| Deferred revenue | | 3,470 | 9,111 |
| Net employee defined benefit obligation | | 1,821 | 2,663 |
| Lease obligations | 12 | 13,055 | 17,660 |
| | | **32,960** | **45,775** |
| | | **196,833** | **220,313** |
| **Shareholders' equity** | | | |
| Share capital | 7 | 107,007 | 106,470 |
| Contributed surplus | | 8,882 | 7,406 |
| Retained earnings | | 401,247 | 355,019 |
| Accumulated other comprehensive loss | 7 | (8,971) | (14,584) |
| | | **508,165** | **454,311** |
| | | **$ 704,998** | **$ 674,624** |

*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 | 2022 | 2021 |
|---|---|---|---|
| **Revenue** | | | |
| Software licenses | | $ 90,602 | $ 105,072 |
| SaaS and maintenance services | | 258,277 | 278,981 |
| Professional services | | 68,648 | 71,197 |
| Hardware | | 10,058 | 11,927 |
| | | **427,585** | **467,177** |
| **Direct costs** | | | |
| Software licenses | | 4,340 | 4,555 |
| Services | | 119,762 | 117,670 |
| Hardware | | 5,995 | 7,402 |
| | | **130,097** | **129,627** |
| **Revenue, net of direct costs** | | **297,488** | **337,550** |
| **Operating expenses** | | | |
| Selling, general and administrative | | 84,603 | 91,844 |
| Research and development | | 72,262 | 77,197 |
| Depreciation | 4 | 2,799 | 3,003 |
| Depreciation of right-of-use assets | 12 | 7,754 | 9,369 |
| Special charges | | 403 | 904 |
| | | **167,821** | **182,317** |
| **Results from operating activities** | | **129,667** | **155,233** |
| Amortization of acquired software and customer relationships | 5 | (36,174) | (42,421) |
| Foreign exchange gains (losses) | | 1,954 | (2,038) |
| Interest expense – lease obligations | 12 | (735) | (1,036) |
| Finance income | | 1,192 | 214 |
| Finance expenses | | (89) | (86) |
| Other income (expense) | | 423 | (2,448) |
| **Income before income taxes** | | **96,238** | **107,418** |
| **Provision for income taxes** | 9 | 1,740 | 14,624 |
| **Net income for the year** | | **$ 94,498** | **$ 92,794** |
| Items that may be subsequently reclassified to income: | | | |
| Cumulative translation adjustment | 7 | 5,613 | (25,541) |
| **Other comprehensive income (loss)** | | **5,613** | **(25,541)** |
| **Comprehensive income** | | **$ 100,111** | **$ 67,253** |
| **Earnings per share** | | | |
| Basic | 10 | $ **1.70** | $ 1.67 |
| Diluted | 10 | $ **1.70** | $ 1.66 |

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

## Consolidated Statements of Changes in Shareholders' Equity

| *(in thousands of Canadian dollars)* | Share capital (#) | | Share capital | | Contributed surplus | | Accumulated other comprehensive income (loss) | | Retained earnings | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at November 1, 2021** | 55,553,424 | $ | 106,470 | $ | 7,406 | $ | (14,584) | $ | 355,019 | **$** | 454,311 |
| Net income for the year | - | | - | | - | | - | | 94,498 | | 94,498 |
| Cumulative translation adjustment (Note 7) | - | | - | | - | | 5,613 | | - | | 5,613 |
| **Comprehensive income** | **-** | **$** | **-** | **$** | **-** | **$** | **5,613** | **$** | **94,498** | **$** | **100,111** |
| Employee share options: | | | | | | | | | | | |
| Value of services recognized | - | | - | | 1,708 | | - | | - | | 1,708 |
| Proceeds on issuing shares | 40,000 | | 1,203 | | (232) | | - | | - | | 971 |
| Normal course issuer bid share repurchases (Note 7) | (343,185) | | (666) | | - | | - | | (8,652) | | (9,318) |
| Dividends declared (Note 7) | - | | - | | - | | - | | (39,618) | | (39,618) |
| **As at October 31, 2022** | **55,250,239** | **$** | **107,007** | **$** | **8,882** | **$** | **(8,971)** | **$** | **401,247** | **$** | **508,165** |
| | | | | | | | | | | | |
| **As at November 1, 2020** | **55,348,924** | **$** | **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** |

*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 | 2022 | 2021 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income for the year | | $ 94,498 | $ 92,794 |
| Adjustments for non-cash items | | | |
| Depreciation | 4 | 2,799 | 3,003 |
| Depreciation of right-of-use assets | 12 | 7,754 | 9,369 |
| Interest expense – lease obligations | 12 | 735 | 1,036 |
| Amortization of acquired software and customer relationships | 5 | 36,174 | 42,421 |
| Stock-based compensation expense | 8 | 1,708 | 2,026 |
| Provision for income taxes | 9 | 1,740 | 14,624 |
| Finance expenses and other income (expense) | | (334) | 2,534 |
| | | **$ 145,074** | **$ 167,807** |
| Changes in non-cash operating working capital | 17 | (26,139) | (21,671) |
| Income taxes paid | | (15,754) | (27,676) |
| **Net cash provided by operating activities** | | **$ 103,181** | **$ 118,460** |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment, net | 4 | $ (919) | $ (3,333) |
| Acquisitions, net of cash acquired* | 11 | (20,231) | (35,476) |
| Recovery (payment) of purchase consideration for prior-year acquisitions | | 120 | (158) |
| (Purchase) sale of short-term investments | | (60) | 1,352 |
| **Net cash used in investing activities** | | **$ (21,090)** | **$ (37,615)** |
| **FINANCING ACTIVITIES** | | | |
| Issuance of share capital | | 971 | 5,862 |
| Normal course issuer bid share repurchases | 7 | (9,318) | - |
| Repayment of lease obligations | 12 | (8,235) | (9,633) |
| Dividends paid | | (38,286) | (115,736) |
| **Net cash used in financing activities** | | **$ (54,868)** | **$ (119,507)** |
| Impact of foreign exchange on cash and cash equivalents | | 1,991 | (10,240) |
| **Increase (decrease) in cash and cash equivalents** | | **$ 29,214** | **$ (48,902)** |
| Cash and cash equivalents - beginning of year | | 195,890 | 244,792 |
| **Cash and cash equivalents - end of year** | | **$ 225,104** | **$ 195,890** |

** Acquisitions are net of cash acquired of $3,647 for the year ended October 31, 2022 (2021 – $3,613).*
*The accompanying notes form an integral part of these consolidated financial statements.*

## 1. Description of the Business and Reporting Entity

Enghouse Systems Limited ("Enghouse" or the "Company") 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 external 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, social channels, 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, media businesses, 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, utilities 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 transit e-ticketing, automated fare collections, fleet routing, dispatch, scheduling, communications and emergency control center solutions for the transportation, government, first responders, distribution and security sectors.

Enghouse 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, China, Portugal and Austria.

## 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 15, 2022.

## 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 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 Company. They are de-consolidated from the date that control ceases.

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

### Business Combinations

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

The Company expenses acquisition-related expenses as incurred.

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

Any contingent consideration to be transferred by the Company 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 holdback and adjustment in accordance with the terms of the purchase agreements. The Company accrues holdbacks 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 parent 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.

*(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 (loss). 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 Statement of Financial Position dates. The fair value of the Company's equity portfolio is subject to fluctuations in equity markets and is denominated in Canadian dollars.

Interest on cash and cash equivalents, calculated using the effective interest rate 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 12 months of the Consolidated Statement of Financial Position dates, 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 rate method.

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

*Cash and Cash Equivalents*
Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable within 24 hours' notice with no loss of interest.
*Trade and Other Payables*
Trade payables are unsecured and are usually paid within 45 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Accounts payable includes accrued liabilities, provisions, dividends and other payables. Trade and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce trade and other payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities if payment is due within 12 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.

### 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.

### 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.

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 CGU's 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 CGU). An impairment loss is measured as the amount by which the asset's or CGU's 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 year.

**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 12 months after the end of the reporting period are discounted to their present value.

*(iv) Short-Term Employee Benefits*

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

**Provisions**

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

The Company performs evaluations to identify onerous contracts and legal claims and, where applicable, records provisions for such items. A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received from the contract. A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan and the restructuring either has commenced or been publicly announced. Restructuring provisions include such items as 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

The provision for (recovery of) income taxes comprise current 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 Statement of Financial Position dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets, including unutilized tax losses, are recognized to the extent that it is probable that the assets can be recovered.

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

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

### Dividends

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

### Leases

The Company leases various 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, e.g., 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 12 months or less.

### 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 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, Software as a Service ("SaaS") 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) SaaS and Maintenance Services Revenue*

In the Company's 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. SaaS 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 SaaS 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. Setup fees on SaaS services revenue are deferred and recognized on a straight-line basis over the estimated life of the customer relationship period.

*(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) |
| SaaS 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, SaaS 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, 2022 or 2021.

### 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 rate 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 for the period by the weighted average number of common shares outstanding during the period.

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

### Segment Reporting

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

### Critical Accounting Estimates and Judgments

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

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

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

### Revenue Recognition

*Separation 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 rates. Rates are based on cost plus margin, daily rates or, where applicable, a percentage of the list price based on standard selling terms.
- 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 the Company's 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 cash flows.

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, 2022 and 2021, 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 provision for income taxes 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 the provision for income taxes 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 had a significant impact on the Company's business and customers. While the impact felt in 2022 has tapered off, Enghouse may still experience further repercussions of any resurgence in the outbreak through a prolonged economic slowdown, procurement delays and the inability to collect receivables.

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 have been a follow-on to the pandemic. This may continue to manifest itself in the form of employee turnover, inflation, increases in interest rates and tax rates among other factors.

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

## 4. Property and Equipment

| | Property | Furniture and fixtures | Computer hardware | Leasehold improvements | Total |
|---|---|---|---|---|---|
| **As 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** |
| **As 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** |
| **Year ended October 31, 2022** | | | | | |
| Opening net book value | $ 767 | $ 295 | $ 4,503 | $ 681 | $ 6,246 |
| Additions | - | 71 | 1,357 | 20 | 1,448 |
| Acquisitions (Note 11) | - | - | 207 | - | 207 |
| Disposal | (782) | - | - | - | (782) |
| Depreciation | - | (199) | (2,416) | (184) | (2,799) |
| Exchange difference | 15 | - | (161) | 12 | (134) |
| **Closing net book value** | **$ -** | **$ 167** | **$ 3,490** | **$ 529** | **$ 4,186** |
| **As at October 31, 2022** | | | | | |
| Cost | $ - | $ 2,156 | $ 24,308 | $ 2,965 | $ 29,429 |
| Accumulated depreciation | - | (1,989) | (20,818) | (2,436) | (25,243) |
| **Net book value** | **$ -** | **$ 167** | **$ 3,490** | **$ 529** | **$ 4,186** |

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

## 5. Intangible Assets and Goodwill

| | | Acquired software | | Capitalized software | | Customer relationships | | Total intangibles | | Goodwill |
|---|---|---|---|---|---|---|---|---|---|---|
| **As 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** |
| | | | | | | | | | | |
| **As 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** |
| | | | | | | | | | | |
| **Year ended October 31, 2022** | | | | | | | | | | |
| Opening net book value | $ | 56,804 | $ | 132 | $ | 44,886 | $ | 101,822 | $ | 223,021 |
| Acquisitions (Note 11) | | 11,402 | | - | | 7,051 | | 18,453 | | 6,197 |
| Amortization | | (21,832) | | (132) | | (14,210) | | (36,174) | | - |
| Exchange difference | | 1,211 | | - | | 590 | | 1,801 | | 784 |
| **Closing net book value** | **$** | **47,585** | **$** | **-** | **$** | **38,317** | **$** | **85,902** | **$** | **230,002** |
| | | | | | | | | | | |
| **As at October 31, 2022** | | | | | | | | | | |
| Cost | $ | 266,983 | $ | - | $ | 176,287 | $ | 443,270 | $ | 230,002 |
| Accumulated amortization | | (219,398) | | - | | (137,970) | | (357,368) | | - |
| **Net book value** | **$** | **47,585** | **$** | **-** | **$** | **38,317** | **$** | **85,902** | **$** | **230,002** |

## 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.

| Year ended October 31 | | 2022 | | 2021 |
|---|---|---|---|---|
| **At beginning of year** | **$** | **5,588** | **$** | **5,697** |
| Pre-existing provisions assumed from acquisitions | | - | | 3,926 |
| Additions | | 507 | | - |
| Reversed | | (2,075) | | - |
| Utilized during the year | | (1,144) | | (3,564) |
| Effect of movements in foreign exchange | | 307 | | (471) |
| **At end of year** | **$** | **3,183** | **$** | **5,588** |

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

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

### Share Capital

The authorized share capital of the Company consists of an unlimited number of common shares with no par value, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were no Class A and no Class B preference shares issued and outstanding as at either October 31, 2022 or 2021.

### Normal Course Issuer Bid Share Repurchases

On April 28, 2022, 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 May 1, 2023.

During the year ended October 31, 2022, the Company repurchased and cancelled 343,185 common shares (2021 – NIL) at a weighted average price of $27.15 per share for a total cost of $9.3 million.

### Dividends

During the year ended October 31, 2022, the Company declared dividends of $39,618 ($0.715 per common share) of which $10,221 was paid on November 30, 2022 and was reflected as a liability in the Consolidated Statements of Financial Position as at October 31, 2022 ($8,889 October 31, 2021). For the year ended October 31, 2021, dividends declared were $117,153 ($2.115 per common share), of which $83,029 related to a special dividend.

### Accumulated Other Comprehensive Income (loss)

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

| | Translation of foreign operations | Unrealized losses | Total |
|---|---|---|---|
| **As at November 1, 2020** | $ 11,076 | $ (119) | $ **10,957** |
| Cumulative translation adjustment | (25,541) | - | (25,541) |
| **As at October 31, 2021** | $ **(14,465)** | $ **(119)** | $ **(14,584)** |
| Cumulative translation adjustment | 5,613 | - | 5,613 |
| **As at October 31, 2022** | $ **(8,852)** | $ **(119)** | $ **(8,971)** |

## 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, as of October 31, 2022, a total of 3,069,900 (2021 – 3,109,900) common shares remain 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, 2022 and 2021 and changes during the year ended on those dates, is presented as follows:

| | Number of options | | Weighted average exercise price | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Outstanding at beginning of year | 1,140,500 | 1,387,000 | $ 36.78 | $ 35.50 |
| Granted | 430,000 | 35,000 | 34.71 | 61.41 |
| Exercised | (40,000) | (204,500) | 24.24 | 28.67 |
| Forfeited | (67,000) | (77,000) | 41.20 | 46.50 |
| **Outstanding at end of year** | **1,463,500** | **1,140,500** | $ **36.31** | $ **36.78** |
| **Exercisable at end of year** | **678,500** | **443,000** | $ **33.95** | $ **31.39** |

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

A summary of stock options outstanding as at October 31, 2022 is set out below:

| | Outstanding stock options | | | Exercisable stock options | |
|---|---|---|---|---|---|
| Exercise price | Number outstanding | Weighted average remaining contractual life in years | Weighted average exercise price in $ | Number exercisable | Weighted average exercise price in $ |
| $25.00 to $30.00 | 216,000 | 2.12 | 28.47 | 216,000 | 28.47 |
| $30.01 to $40.00 | 995,500 | 4.33 | 35.29 | 407,000 | 34.71 |
| $40.01 to $50.00 | 237,000 | 4.15 | 46.14 | 44,500 | 46.82 |
| $50.01 to $62.00 | 15,000 | 5.38 | 61.41 | 11,000 | 61.41 |
| | **1,463,500** | **3.99** | **36.31** | **678,500** | **33.95** |

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 2022, the Company recorded a non-cash charge of $1.7 million (2021 – $2.0 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 monthly 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 | 2022 | 2021 |
|---|---|---|
| Risk-free interest rate | 1.73% | 0.73% |
| Estimated volatility | 29% | 29% |
| Dividend yield | $0.74 | $0.64 |
| Expected life (in years) | 5.0 | 5.0 |
| Weighted average fair value | $7.65 | $14.85 |
| Weighted average share price at grant date | $34.71 | $61.41 |

## 9. Income taxes

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

| **Current income taxes:** | **2022** | **2021** |
|---|---|---|
| Current tax on profits for the year | $ 20,631 | $ 19,635 |
| Foreign withholding taxes | 1,183 | 2,213 |
| Adjustments upon filing of tax returns | (1,763) | (3,839) |
| | **$ 20,051** | **$ 18,009** |
| **Deferred income taxes:** | | |
| Origination and reversal of timing differences | (3,184) | 4,087 |
| Change in tax rates | 146 | (174) |
| Recognition of previously unrecognized tax assets | (15,273) | (7,298) |
| | **$ (18,311)** | **$ (3,385)** |
| **Provision for income taxes** | **$ 1,740** | **$ 14,624** |

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

**(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:

| | 2022 | | 2022 | | 2021 | | 2021 | |
|---|---|---|---|---|---|---|---|---|
| Expected income tax amount at statutory rate | $ | 25,503 | % | 26.5 | $ | 28,466 | % | 26.5 |
| Foreign earnings subject to different income tax rates | | (2,491) | | (2.6) | | (4,041) | | (3.8) |
| Change in tax rates | | 146 | | 0.2 | | (174) | | (0.2) |
| Non-deductible expenses | | 3,350 | | 3.5 | | 737 | | 0.7 |
| Tax-exempt income | | (12,912) | | (13.4) | | (201) | | (0.2) |
| Foreign withholding taxes | | 1,183 | | 1.2 | | 2,213 | | 2.1 |
| Resolution of tax positions | | 2,234 | | 2.3 | | (5,078) | | (4.8) |
| Changes in recognized assets | | (15,273) | | (15.9) | | (7,298) | | (6.7) |
| **Effective income tax amount and rate** | **$** | **1,740** | **%** | **1.8** | **$** | **14,624** | **%** | **13.6** |

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

| Jurisdiction | New rate | Prior rate | Effective date |
|---|---|---|---|
| Colombia | 35.0% | 32.0% | January 2022 |
| United Kingdom | 25.0% | 19.0% | April 2023 |

**(C)** The Company has recognized deferred income tax assets and liabilities as at October 31, 2022 and 2021 of the following:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| **Deferred income tax assets:** | | | | |
| Provisions and reserves | $ | 7,612 | $ | 6,360 |
| Income tax loss carry-forwards | | 4,791 | | 2,669 |
| SRED expenditures | | 190 | | 34 |
| Property and equipment | | 1,041 | | 4,869 |
| Acquired software | | 16,713 | | - |
| | | 30,347 | | 13,932 |
| **Deferred income tax liabilities:** | | | | |
| Property and equipment | | - | | 23 |
| Other intangibles | | 4,456 | | 3,490 |
| Acquired software | | 4,213 | | 5,794 |
| Deferred revenue reserves | | 3,369 | | 4,085 |
| | | 12,038 | | 13,392 |
| **Net deferred income tax assets** | **$** | **18,309** | **$** | **540** |

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

| | Balance November 1, 2021 | Recognized in profit or loss | Acquired in business combinations | Other | Balance October 31, 2022 |
|---|---|---|---|---|---|
| Provisions and reserves | $ 6,360 | $ 1,252 | $ - | $ - | $ 7,612 |
| Income tax loss carry-forwards | 2,669 | 2,122 | - | - | 4,791 |
| SRED expenditures | 34 | 156 | - | - | 190 |
| Property and equipment | 4,869 | (3,828) | - | - | 1,041 |
| Acquired software | - | 16,713 | - | - | 16,713 |
| Other | - | (1,510) | - | 1,510 | - |
| **Assets** | **$ 13,932** | **$ 14,905** | **$ -** | **$ 1,510** | **$ 30,347** |
| Property and equipment | 23 | (23) | - | - | - |
| Acquired software | 5,794 | (2,766) | 1,185 | - | 4,213 |
| Intangible assets | 3,490 | 99 | 867 | - | 4,456 |
| Deferred revenue reserves | 4,085 | (716) | - | - | 3,369 |
| **Liabilities** | **$ 13,392** | **$ (3,406)** | **$ 2,052** | **$ -** | **$ 12,038** |

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

| | 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** |

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 2022 | Non-capital losses available 2021 | Expiry terms |
|---|---|---|---|
| Canada | $ 66,000 | $ 104,000 | Expire in periods commencing in 2029 – 2042 |
| United States | 60,000 | 73,000 | Expire in periods commencing in 2023 – 2040 |
| United Kingdom | 19,000 | 21,000 | No expiry |
| Belgium | 7,000 | 7,000 | No expiry |
| Other | 81,000 | 81,000 | No expiry |
| | **$ 233,000** | **$ 286,000** | |

The Company has $233 million of non-capital losses available, of which $151 million have not been recognized. Of the unrecognized amount, $7 million in losses were incurred by companies resident in the U.S., which are subject to IRC 382 limitations expiring over the next 15 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 $144 million, $61 million of losses were incurred in Canada and $83 million in losses are related to losses incurred by other foreign subsidiaries that have been acquired during the year or in 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 $103 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, $40 million relates to scientific research and development credits available in Canada that are subject to expiry between 2025 and 2041. The current year's tax provision includes a credit of $2.0 million booked for the recognition of deferred income tax assets related primarily to non-capital losses for tax purposes, compared to a credit of $6.8 million recorded in fiscal 2021 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 year.

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

| Year ended October 31 | 2022 | 2021 |
|---|---|---|
| Net income for the year | $ 94,498 | $ 92,794 |
| Weighted average number of common shares outstanding | 55,465 | 55,450 |
| **Basic earnings per share** | **$ 1.70** | **$ 1.67** |

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 | 2022 | 2021 |
|---|---|---|
| Net income for the year | $ 94,498 | $ 92,794 |
| Weighted average number of common shares outstanding | 55,465 | 55,450 |
| Adjustment for stock options | 122 | 430 |
| Weighted average number of common shares outstanding for diluted earnings per share | **55,587** | **55,880** |
| **Diluted earnings per share** | **$ 1.70** | **$ 1.66** |

## 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.

### 2022 Acquisitions

On September 6, 2022, the Company acquired the business assets and certain liabilities of VoicePort LLC ("VoicePort"), a provider of SaaS automated solutions for the media industry based in Rochester, New York.

On June 23, 2022, the Company acquired 100% of the issued and outstanding common shares of Competella AB ("Competella"). Headquartered in Stockholm, Sweden, Competella provides a complete cloud-hosted contact center platform created to enhance the offerings of Microsoft Teams and is focused on the Small and Midsize Business ("SMB") segment of the market.

On July 6, 2022, the Company acquired 100% of the issued and outstanding common shares of NTW Software GmbH ("NTW"). Headquartered in Innsbruck, Austria, NTW provides a suite of products, ranging from attendant console to contact centers for organizations of all sizes primarily within the Cisco market segment.

The three acquisitions were completed for an aggregate cash purchase price of $25.2 million with $1.2 million remaining in holdback and $2.7 million (USD $2.0 million) held in escrow, subject to potential adjustment. Results for all acquisitions are included in the IMG from their respective dates of acquisition.

### 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 SaaS 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 solutions, with a focus on allowing enterprises, researchers and analysts to cover multiple requirements needed to gain an understanding of customer and community behaviours.

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

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. Results for all three acquisitions are included in IMG from their respective dates of acquisition.

Management has established that the preliminary price allocation taking into account all relevant information at the time of preparing these notes to the Consolidated Financial Statements. The purchase price allocations have not been finalized, subject to receipt of additional information related to the settlement of the holdback obligations.

### Purchase Price Allocation

| | IMG Preliminary 2022 | IMG Final 2021 |
|---|---|---|
| Cash and cash equivalents | $ 3,647 | $ 3,613 |
| Short-term investments | - | 130 |
| Accounts receivable | 2,429 | 9,900 |
| Prepaid expenses and other assets | 320 | 1,787 |
| Property and equipment | 207 | 266 |
| Deferred income tax assets | - | 398 |
| Acquired software | 11,402 | 13,115 |
| Customer relationships | 7,051 | 15,368 |
| Right-of-use assets | 60 | 2,437 |
| Goodwill | 6,197 | 18,401 |
| **Total assets acquired** | **$ 31,313** | **$ 65,415** |
| Current liabilities assumed | $ 4,092 | $ 17,842 |
| Non-current lease obligations | 15 | 1,875 |
| Deferred income tax liabilities | 2,052 | 4,761 |
| **Total liabilities assumed** | **$ 6,159** | **$ 24,478** |
| **Net assets acquired for consideration** | **$ 25,154** | **$ 40,937** |

The gross contractual amounts of acquired receivables in 2022 for IMG were $2.5 million (2021 – $11.1 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 2022 acquisitions 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. Of the total goodwill of $6.2 million recorded in 2022, $3.0 million will be deductible for tax purposes while none of the $18.4 million recorded in 2021 is deductible for tax purposes.

## 12. Leases

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

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

| | | October 31, 2022 | | October 31, 2021 |
|---|---|---|---|---|
| Less than 1 year* | $ | 6,822 | $ | 8,152 |
| Between 1 and 5 years | | 9,449 | | 12,985 |
| More than 5 years | | 649 | | 121 |
| | **$** | **16,920** | **$** | **21,258** |

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

### 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 years ended October 31, 2022 and 2021:

| Lease liabilities | | 2022 | | 2021 |
|---|---|---|---|---|
| Beginning of year | $ | 25,601 | $ | 42,156 |
| Additions | | 4,067 | | 216 |
| Acquisitions | | 60 | | 2,063 |
| Lease modifications | | 843 | | (4,921) |
| Lease terminations | | (2,925) | | (2,342) |
| Interest expense | | 735 | | 1,036 |
| Payments, including repayments of interest | | (8,235) | | (9,633) |
| Foreign exchange | | (269) | | (2,974) |
| **End of year** | **$** | **19,877** | **$** | **25,601** |
| Current portion of lease liabilities | | 6,822 | | 7,941 |
| Long-term portion of lease liabilities | | 13,055 | | 17,660 |

| Right-of-use assets | | 2022 | | 2021 |
|---|---|---|---|---|
| **Cost** | | | | |
| Beginning of year | $ | 42,401 | $ | 52,686 |
| Acquisitions | | 60 | | 2,437 |
| Lease modifications | | 827 | | (6,798) |
| Additions | | 4,067 | | 216 |
| Lease terminations | | (5,134) | | (2,743) |
| Foreign exchange | | (1,078) | | (3,397) |
| **End of year** | **$** | **41,143** | **$** | **42,401** |
| **Accumulated depreciation** | | | | |
| Beginning of year | | 16,458 | | 9,854 |
| Depreciation | | 7,754 | | 9,369 |
| Lease terminations | | (2,338) | | (584) |
| Foreign exchange | | (794) | | (2,181) |
| **End of year** | **$** | **21,080** | **$** | **16,458** |
| **Net book value** | **$** | **20,063** | **$** | **25,943** |

Expenses associated with short-term leases were $0.8 million and $0.2 million on low-value leases for the year ended October 31, 2022 and were $2.0 million and $0.2 million, respectively, for the year ended October 31, 2021.

## 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.

(in thousands of Canadian dollars, except as indicated)

| Year ended October 31 | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | IMG | AMG | Total | IMG | AMG | Total |
| Revenue | $ 235,925 | $ 191,660 | $ 427,585 | $ 268,584 | $ 198,593 | $ 467,177 |
| Direct costs | (62,079) | (68,018) | (130,097) | (64,941) | (64,686) | (129,627) |
| **Revenue, net of direct costs** | **173,846** | **123,642** | **297,488** | **203,643** | **133,907** | **337,550** |
| Operating expenses excluding special charges | (75,272) | (45,816) | (121,088) | (88,064) | (49,306) | (137,370) |
| Depreciation | (2,336) | (463) | (2,799) | (2,570) | (433) | (3,003) |
| Depreciation of right-of-use assets | (4,742) | (3,012) | (7,754) | (5,900) | (3,469) | (9,369) |
| **Segment profit** | **$ 91,496** | **$ 74,351** | **$ 165,847** | **$ 107,109** | **$ 80,699** | **$ 187,808** |
| Special charges | | | (403) | | | (904) |
| Corporate and shared service expenses | | | (35,777) | | | (31,671) |
| **Results from operating activities** | | | **$ 129,667** | | | **$ 155,233** |

Goodwill allocated to IMG and AMG is $148,987 and $81,015, respectively, for the year ended October 31, 2022 and was $139,631 and $83,390, respectively, for the year ended October 31, 2021.

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 | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| United States | 34 | 34 | $ 148,035 | $ 139,798 |
| United Kingdom | 13 | 14 | 32,169 | 36,640 |
| Europe, excluding Scandinavia | 24 | 22 | 78,588 | 89,772 |
| Scandinavia | 18 | 18 | 40,874 | 42,581 |
| Canada | 6 | 5 | 36,940 | 43,945 |
| Asia-Pacific and other | 5 | 7 | 3,547 | 4,296 |
| **Total** | **100** | **100** | **$ 340,153** | **$ 357,032** |
| Deferred income tax assets | | | 30,347 | 13,932 |
| **Total non-current assets** | | | **$ 370,500** | **$ 370,964** |

## 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, 2022.

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

## 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 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, 2022 and 2021.

## 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 Statement 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, 2022 and 2021 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 2022 and 2021.

| | October 31, 2022 | | | October 31, 20221 | | |
|---|---|---|---|---|---|---|
| **Assets** | **Level 1** | **Level 2** | **Total** | **Level 1** | **Level 2** | **Total** |
| Cash and cash equivalents | $ 225,104 | $ - | $ 225,104 | $ 195,890 | $ - | $ 195,890 |
| Short-term investments | 2,950 | - | 2,950 | 2,944 | - | 2,944 |
| **Total** | **$ 228,054** | **$ -** | **$ 228,054** | **$ 198,834** | **$ -** | **$ 198,834** |

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

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

*Credit Risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The amounts reported in the Consolidated Statements of Financial Position are net of 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 $93.1 million as at October 31, 2022 (2021 – $89.4 million), representing the maximum exposure to credit risk of those financial assets, net of the loss allowance of $7.8 million. The Company's expected credit loss for accounts receivable decreased from $8.3 million as at October 31, 2021 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 11.0% or $11.1 million of accounts receivable as at October 31, 2022 was outstanding more than 90 days, compared to $10.2 million (10.4%) past due as at October 31, 2021.

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 exchange 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 $1.3 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 Statement 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, 2022, the Company reported foreign exchange gains of $2.0 million compared to losses of $2.0 million in fiscal 2021.

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

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 2022, the exchange rate for U.S. dollars to Canadian dollars averaged $1.29 (2021 – $1.26), while the pound sterling averaged $1.62 (2021 – $1.73), and the euro averaged $1.38 (2021 – $1.50). 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 $5.7 million due to the fluctuation and would be recorded in other comprehensive income (loss).

*Interest Rate Risk*
Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and short-term investments. If interest rates were to fluctuate proportionally by 1% of existing rates, interest income would be increased or decreased by approximately $1.1 million per year.

*Liquidity Risk*
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it has sufficient liquidity to meet its obligations, mainly accounts payable, accrued liabilities, accrued provisions and deferred revenue, when due. The Company does not have any outstanding 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, 2022, the Company's current liabilities, all of which fall due for payment within 12 months of the Consolidated Statement of Financial Position date, were $163.9 million (2021 – $174.5 million). As at October 31, 2022, the Company had a working capital surplus of $170.6 million (2021 – $129.1 million), which includes cash and short-term investments balances of $228.1 million (2021 – $198.8 million).

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

| Year ended October 31 | 2022 | 2021 |
|---|---|---|
| (Increase) decrease in accounts receivable | $ (4,101) | $ 4,689 |
| Decrease in prepaid expenses and other assets | 953 | 2,303 |
| Decrease in accounts payable and accrued liabilities | (12,946) | (18,948) |
| (Decrease) increase in provisions | (2,297) | 238 |
| Changes in income taxes payable/recoverable | (2,629) | (5,655) |
| Decrease in deferred revenue | (5,119) | (4,298) |
| **Changes in non-cash operating working capital** | **$ (26,139)** | **$ (21,671)** |

## 18. Additional IFRS Information

| Expense by nature | 2022 | 2021 |
|---|---|---|
| Third-party license, maintenance and services | $ 32,831 | $ 29,616 |
| Hardware | 5,995 | 7,402 |
| Staff costs | 224,704 | 233,182 |
| Technology and computer supplies | 9,106 | 9,188 |
| Other administrative expenses | 480 | 4,366 |
| Travel and marketing | 6,679 | 6,296 |
| Communications | 1,795 | 2,233 |
| Occupancy cost, excluding right-of-use-assets | 1,021 | 2,127 |
| Professional services | 4,352 | 4,258 |
| Restructuring | 403 | 904 |
| Depreciation of right-of-use assets | 7,754 | 9,369 |
| Depreciation | 2,799 | 3,003 |
| **Total** | **$ 297,919** | **$ 311,944** |

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

| Staff costs | 2022 | 2021 |
|---|---|---|
| Salaries and wages | $ 158,327 | $ 166,818 |
| Employee benefits | 30,064 | 33,970 |
| Stock-based compensation | 1,708 | 2,026 |
| Termination benefits | 869 | 516 |
| Bonuses | 5,273 | 7,154 |
| Commissions | 3,465 | 3,671 |
| Contractors | 24,998 | 19,027 |
| **Total** | **$ 224,704** | **$ 233,182** |

Included in employee benefits is the Company's share of costs related to defined contribution pension plans of $5.0 million (2021 – $5.2 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% (2021 – 11.9%) of the outstanding shares of Enghouse.

| | 2022 | 2021 |
|---|---|---|
| Salaries, bonuses and employee benefits | $ 8,368 | $ 8,281 |
| Stock options expense | 906 | 937 |
| **Total** | **$ 9,274** | **$ 9,218** |

## 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. As at October 31, 2022 , the majority of the defined benefit obligation relates to Germany, which is carried at fair value of $1.3 million (2021 – $2.0 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

**Melissa Sonberg**(2)(3)
*Professor of Practice*
McGill University, Desautel
Faculty of Management

**Paul Stoyan**(2)(3)
*Chairman*
Gardiner Roberts LLP

**Pierre Lassonde**(2)
*Chairman*
Franco-Nevada Corporation

**Jane Mowat**(1)
Independent Consultant

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Corporate Governance Committee

## Executive Officers

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

**Vincent Mifsud**
*President*

**Sam Anidjar**
*Vice President*
*Corporate Development*

**Lynette Corbett**
*Chief Administrative &*
*Human Resources Officer*

**Robert Medved**
*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 on **Thursday March 9, 2023 at 4:30 p.m.**