



SANGOMA TECHNOLOGIES CORPORATION

Condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian Dollars)

**100 Renfrew Drive, Suite 100,
Markham, Ontario,
Canada L3R 9R6**

Sangoma Technologies Corporation

September 30, 2017

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The accompanying unaudited condensed interim financial statements of the company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the International Financial Reporting Standards ("IFRS") of interim financial statements by an entity's auditor.

Sangoma Technologies Corporation

Condensed consolidated interim statements of financial position
as at September 30, 2017 and June 30, 2017

(Unaudited in Canadian dollars)

	September 30, 2017	June 30, 2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 8)	2,996,194	6,758,889
Trade receivables (Note 9)	3,426,971	3,001,167
Inventories (Note 4)	5,564,670	4,545,739
Investment tax credits receivable	168,307	206,264
Other current assets	721,948	699,157
	12,878,090	15,211,216
Non-current assets		
Property and equipment (Note 5)	628,857	571,425
Intangible assets (Note 6)	8,322,416	5,534,781
Development costs (Note 7)	2,751,675	2,763,664
Deferred income tax assets (Note 11)	1,614,327	1,539,327
Goodwill (Note 16)	2,832,813	1,638,546
	29,028,178	27,258,959
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	5,257,416	2,872,996
Provisions (Note 17)	128,318	123,318
Sales tax payable	156,846	73,854
Income tax payable	129,378	182,490
Operating facility and loan (Notes 9,18)	2,282,658	3,883,434
Deferred revenue	606,100	787,480
	8,560,716	7,923,572
Shareholders' equity		
Share capital (Note 14)	17,261,930	16,521,072
Contributed surplus (Note 14)	2,319,397	2,285,243
Accumulated other comprehensive gain / (loss)	7,651	41,043
Retained earnings / (deficit)	878,484	488,029
	20,467,462	19,335,387
	29,028,178	27,258,959

Approved by the Board

(Signed) Al Guarino Director

(Signed) Yves Laliberte Director

The accompanying notes are an integral part of these consolidated financial statements

Sangoma Technologies Corporation

Condensed consolidated interim statements of income and comprehensive income for the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

	September 30, 2017	September 30, 2016
	\$	\$
Revenue (Note 13)	11,845,606	5,820,431
Cost of sales	5,725,525	2,054,980
Gross profit	6,120,081	3,765,451
Expenses		
Sales and marketing	1,803,896	1,074,293
Research and development	1,405,230	1,193,845
General and administration	2,238,687	1,351,792
Foreign currency exchange (gain) loss	(73,358)	15,339
	5,374,455	3,635,269
Income before interest, income taxes, and business acquisition costs	745,626	130,182
Interest income (Note 8)	(176)	-
Interest expense (Note 8)	41,978	24,565
Business acquisition costs (Note 16)	100,058	-
	141,860	24,565
Income before income tax	603,766	105,617
Provision for income taxes		
Current (Note 11)	213,311	42,075
Net income	390,455	63,542
Other comprehensive loss		
Items to be reclassified to net income		
Foreign currency translation adjustment (gain) / loss	33,392	(68,380)
Comprehensive income	357,063	131,922
Earnings per share		
Basic (Note 10(iii))	0.012	0.002
Diluted (Note 10(iii))	0.011	0.002
Weighted average number of shares outstanding (Note 10(iii))		
Basic	33,553,589	32,479,809
Diluted	36,536,387	33,021,912

The accompanying notes are an integral part of these consolidated financial statements

Sangoma Technologies Corporation

Condensed consolidated interim statements of changes in shareholders' equity
for the three months ended September 30, 2017 and the year ended June 30, 2017

(Unaudited in Canadian dollars)

	Number of common shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Retained earnings (deficit) \$	Total Shareholders' equity \$
Balance, June 30, 2016	32,479,809	16,497,326	2,060,557	(19,162)	(312,166)	18,226,555
Net income	-	-	-	-	800,195	800,195
Other comprehensive gain / (loss)	-	-	-	60,205	-	60,205
Share-based compensation expense (Note 10(ii))	-	-	231,034	-	-	231,034
Common shares issued (Note 10(i))	40,153	23,746	(6,348)	-	-	17,398
Balance, June 30, 2017	32,519,962	16,521,072	2,285,243	41,043	488,029	19,335,387
Net income	-	-	-	-	390,455	390,455
Other comprehensive gain / (loss)	-	-	-	(33,392)	-	(33,392)
Share-based compensation expense (Note 10(ii))	-	-	34,154	-	-	34,154
Common shares issued (Note 10(i))	1,033,627	740,858	-	-	-	740,858
Balance, September 30, 2017	33,553,589	17,261,930	2,319,397	7,651	878,484	20,467,462

The accompanying notes are an integral part of these consolidated financial statements

Sangoma Technologies Corporation

Condensed consolidated interim statements of cash flows for the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

	September 30, 2017	September 30, 2016
	\$	\$
Operating activities		
Net income	390,455	63,542
Adjustments for		
Depreciation of property and equipment (Note 5)	35,081	34,513
Amortization of intangible assets (Note 6)	287,914	185,972
Amortization of capitalized development costs (Note 7)	418,830	423,703
Income tax expense	213,311	42,075
Income tax paid	(233,053)	-
Share-based compensation expense (Note 10(ii))	34,154	71,433
Accretion expense	14,193	-
Changes in item of working capital		
Trade receivables	(425,804)	919,803
Inventories	(1,018,931)	(106,130)
Other current assets	(22,791)	(113,045)
Sales tax payable	82,992	(53,729)
Accounts payable and accrued liabilities	2,384,420	(706,566)
Provisions (Note 17)	5,000	5,000
Income tax payable	(53,112)	(53,054)
Deferred revenue	(181,380)	77,916
Investment tax credits receivables	37,957	60,278
	1,969,236	851,711
Investing activities		
Purchase of property and equipment (Note 5)	(92,513)	(7,181)
Development costs (Note 7)	(481,841)	(573,364)
Goodwill	(1,194,267)	-
Intangible assets	(3,075,549)	-
	(4,844,170)	(580,545)
Financing activities		
Operating facility and loan (Note 18)	(1,600,775)	-
Issuance of common shares from treasury	740,858	-
	(859,917)	-
Effect of foreign exchange rate changes on cash and cash equivalents	(27,843)	7,009
Decrease in cash and cash equivalents	(3,762,694)	278,175
Cash and cash equivalents, beginning of period	6,758,888	2,086,932
Cash and cash equivalents, end of period	2,996,194	2,365,107

The accompanying notes are an integral part of these consolidated financial statements

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

1. General information

Founded in 1984, Sangoma Technologies Corporation (“Sangoma” or the “Company”) is publicly traded on the TSX Venture Exchange (TSX VENTURE: STC). The Company was incorporated in Canada, its legal name is Sangoma Technologies Corporation and its primary operating subsidiaries are Sangoma Technologies Inc., Sangoma US Inc., and Sangoma Technologies Private Limited.

Sangoma is a leading provider of hardware and software components that enable or enhance Internet Protocol Communications Systems for both telecom and datacom applications. Enterprises, small to medium sized businesses (“SMBs”) and telecom operators in over 150 countries rely on Sangoma’s technology as part of their mission critical infrastructures. The product line includes data and telecom boards for media and signal processing, as well as gateway appliances and software.

The Company is domiciled in Ontario, Canada. The address of the Company’s registered office and its principal place of business is 100 Renfrew Dr., Suite 100, Markham, Ontario, L3R 9R6.

2. Significant accounting policies

The accompanying condensed unaudited consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting*. The condensed unaudited consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended June 30, 2017.

These condensed consolidated interim financial statements were, at the recommendation of the audit committee, approved and authorized for issuance by the Company’s Board of Directors on November 16, 2017.

3. Significant accounting judgments, estimates and uncertainties

These condensed unaudited consolidated interim financial statements were prepared using the same basis of presentation, accounting policies and methods of computation as those of the audited consolidated financial statements for the year ended June 30, 2017 and which are available at www.sedar.com. They the same critical estimates and judgments in applying the accounting policies as those of the audited consolidated financial statements for the year ended June 30, 2017

4. Inventories

Inventories recognized in the consolidated statements of financial position are comprised of:

	September 30, 2017	June 30, 2017
	\$	\$
Finished goods	3,855,811	2,379,175
Parts	1,762,935	2,220,640
	<u>5,618,746</u>	<u>4,599,815</u>
Provision for obsolescence	(54,076)	(54,076)
Net inventory carrying value	<u>5,564,670</u>	<u>4,545,739</u>

During the three month period ended September 30, 2017 there were no further provisions made against inventory.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

5. Property and equipment

	Office furniture and computer equipment	Software and books	Stockroom and production equipment	Tradeshaw equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, June 30, 2016	1,076,568	216,737	162,873	64,338	135,557	1,656,073
Additions	59,102	37,062	-	-	-	96,164
Effect of movements in exchange rates	5,112	3,206	-	-	-	8,318
Balance, June 30, 2017	1,140,782	257,005	162,873	64,338	135,557	1,760,555
Additions	76,005	2,079	-	-	14,429	92,513
Effect of movements in exchange rates	-	-	-	-	-	-
Balance, September 30, 2017	1,216,787	259,084	162,873	64,338	149,986	1,853,068
Accumulated depreciation						
Balance, June 30, 2016	697,757	161,529	88,745	38,458	72,481	1,058,970
Depreciation expense	84,440	14,219	14,489	5,208	11,594	129,950
Effects of movements in exchange rates	210	-	-	-	-	210
Balance, June 30, 2017	782,407	175,748	103,234	43,666	84,075	1,189,130
Depreciation expense	23,277	4,453	3,377	1,239	2,735	35,081
Effect of movements in exchange rates	-	-	-	-	-	-
Balance, September 30, 2017	805,684	180,201	106,611	44,905	86,810	1,224,211
Carrying amount						
Balance, June 30, 2017	358,375	81,257	59,639	20,672	51,482	571,425
Balance, September 30, 2017	411,103	78,883	56,262	19,433	63,176	628,857

Depreciation expense is included in general and administration expense in the consolidated statement of income and comprehensive income.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

6. Intangible assets

	Copyright to software	Purchased technology	Intangibles	Website	Total
	\$	\$	\$	\$	\$
Cost					
Balance, June 30, 2016	2,948,461	3,825,000	2,762,736	-	9,536,197
Additions	-	-	-	-	-
Business combination (Note 16)	-	-	814,956	-	814,956
Effects of movements on exchange rates	-	-	3,625	-	3,625
Balance, June 30, 2017	2,948,461	3,825,000	3,581,317	-	10,354,778
Business combination (Note 16)	-	-	2,867,917	207,632	3,075,549
Effects of movements on exchange rates	-	-	-	-	-
Balance, September 30, 2017	2,948,461	3,825,000	6,449,234	207,632	13,430,327
Accumulated amortization and impairment					
Balance, June 30, 2016	2,781,204	860,000	414,410	-	4,055,614
Amortization expense	44,784	382,500	335,272	-	762,556
Effects of movements on exchange rates	-	-	1,827	-	1,827
Balance, June 30, 2017	2,825,988	1,242,500	751,509	-	4,819,997
Amortization expense	20,907	95,626	154,781	16,600	287,914
Effects of movements on exchange rates	-	-	-	-	-
Balance, September 30, 2017	2,846,895	1,338,126	906,290	16,600	5,107,911
Carrying amount					
Balance, June 30, 2017	122,473	2,582,500	2,829,808	-	5,534,781
Balance, September 30, 2017	101,566	2,486,874	5,542,944	191,032	8,322,416

Amortization expense is included in general and administration expense in the consolidated statement of income and comprehensive income.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

7. Development costs

	\$	
Development costs		
Balance, June 30, 2016	16,814,264	
Additions	2,283,712	
Investment tax credits	(315,123)	
Balance, June 30, 2017	18,782,853	
Additions	481,841	
Investment tax credits	(75,000)	
Balance, September 30, 2017	19,189,694	
Accumulated amortization		
Balance, June 30, 2016	(14,307,812)	
Amortization	(1,711,377)	
Balance, June 30, 2017	(16,019,189)	
Amortization	(418,830)	
Balance, September 30, 2017	(16,438,019)	
	September 30, 2017	June 30, 2017
	\$	\$
Net capitalized development costs	2,751,675	2,763,664

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized \$986,400 of engineering expenditures as an expense during the quarter ended September 30, 2017 (September 30, 2016 - \$770,142).

8. Financial instruments

The fair values of the cash and cash equivalents, trade receivables, accounts payable and accrued liabilities and operating facility and loan approximate their carrying values due to the relatively short-term maturity of these consolidated financial instruments.

Cash and cash equivalents are comprised of:

	September 30 2017	June 30 2017
	\$	\$
Cash at bank and on hand	2,996,194	6,758,889
	2,996,194	6,758,889

Cash includes demand deposits with financial institutions and cash equivalents consist of short-term, highly liquid investments purchased with original maturities of three months or less.

The Company's interest income on short-term investments carried at amortized cost is presented on the statement of income and comprehensive income as interest income.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

8. Financial instruments (continued)

Total interest income and interest expense for financial assets or financial liabilities that are not at fair value through profit or loss can be summarized as follows:

	September 30 2017	September 30 2016
	\$	\$
Interest income	(176)	-
Interest expense	41,978	24,565
Net interest expense	41,802	24,565

9. Financial instrument risks

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, foreign currency risk, interest rate risk and market risk.

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 obligations. Where possible, the Company uses an insurance policy with Export Development Canada ("EDC") for its trade receivables to manage this risk and minimize any exposure. The Company's maximum exposure to credit risk for its trade receivables is summarized as follows with some of the over 90 day receivable not being covered by EDC:

	September 30, 2017	June 30 2017
	\$	\$
Trade receivables aging		
0-30 days	2,481,314	2,088,000
31-90 days	673,936	660,568
Greater than 90 days	366,397	289,737
	3,521,647	3,038,305
Provision for doubtful accounts	(94,676)	(37,138)
Net trade receivable	3,426,971	3,001,167

The movement in the allowance for doubtful accounts can be reconciled as follows:

	September 30, 2017	June 30 2017
	\$	\$
Provision for doubtful accounts		
Allowance for doubtful accounts beginning balance	(37,138)	(250,768)
Net Allowance used (recorded) during the year	(57,538)	213,630
Allowance for doubtful accounts ending balance	(94,676)	(37,138)

All of the Company's cash and cash equivalents and short-term investments are held with a major Canadian financial institution and thus the exposure to credit risk is considered insignificant. The short-term investments are cashable in whole or in part, generally with interest, at any time to maturity. Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to trade receivables.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

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Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

9. Financial instruments risks (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its normal operating requirements. The Company coordinates this planning and budgeting process with its financing activities through its capital management process.

The Company holds sufficient cash and cash equivalents and working capital, maintained through stringent cash flow management, to ensure sufficient liquidity is maintained. Maturity analysis of liabilities which are due in next twelve months can be summarized as follows:

	September 30, 2017	June 30 2017
	\$	\$
Accounts payable and accrued liabilities	5,257,416	2,872,996
Operating facility and loan	2,282,658	3,883,434
	7,540,074	6,756,430

During the quarter, the Company recorded a contingent consideration of \$488,454 (\$376,400 USD) to the selling shareholders of VoIP Supply LLC which was included in the accounts payable and accrued liabilities balance as at September 30, 2017. The contingent consideration was discounted using an effective interest rate of 1.9% and the Company recorded an accretion expense of \$14,193 for the quarter.

Foreign currency risk

A large portion of the Company's transactions occur in a foreign currency (mainly in US dollars) and, therefore, the Company is exposed to foreign currency risk at the end of the reporting period through its U.S. denominated trade receivables, accounts payable and cash. As at September 30, 2017, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate \$122,036 decrease or increase, respectively, in total comprehensive income (loss) and retained earnings (deficit) (June 30, 2017 - \$480,255). On an ongoing basis, the Company's revenues are also impacted by the swings in the U.S. dollar.

Interest rate risk

The Company has no significant exposure at September 30, 2017 to interest rate risk through its financial instruments as the short-term investments are at fixed rates of interest that do not fluctuate during the remaining term.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

10. Shareholders' equity

(i) Share capital and contributed surplus

Issued and outstanding common shares consist of the following:

	September 30, 2017	June 30, 2017
	#	#
Shares issued and fully paid		
Beginning balance	32,519,962	32,479,809
Shares issued upon option exercise	1,033,627	40,153
	33,553,589	32,519,962
Number of stock options outstanding at the beginning of the year	5,892,380	5,969,160
Stock-based options exercised	(40,000)	(40,153)
Stock-based options expired/cancelled	(1,734)	(36,627)
Number of stock options outstanding at the end of the year	5,850,646	5,892,380
	39,404,235	38,412,342
For each class of share capital		
The number of shares authorized	Unlimited	Unlimited
The number of shares issued and fully paid	33,553,589	32,519,962

(ii) Stock options

The Company has a stock option plan (the "plan") for directors, officers, employees and consultants of the Company. The number of common shares that may be set aside for issuance under the plan (and under all other management stock option and employee stock option plans) is limited to 6,199,160 common shares of the Company, provided that the board of directors has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company and provided that the Company complies with the provisions of policies, rules and regulations of applicable securities legislation.

The maximum number of common shares that may be reserved for issuance to any one person under the plan is 5% of the common shares outstanding at the time of grant (calculated on a non-diluted basis) less the number of common shares reserved for issuance to such person under any stock option to purchase common shares granted as a compensation or incentive mechanism.

Any common shares subject to a stock option, which for any reason is cancelled or terminated prior to exercise, will be available for a subsequent grant under the plan, subject to applicable regulatory requirements.

The stock option price of any common shares cannot be less than the closing price or the minimum price as determined by applicable regulatory authorities of the relevant class or series of shares, on the day immediately preceding the day on which the stock option is granted. Stock options granted under the plan may be exercised during a period not exceeding five years from the date of grant, subject to earlier termination on the termination of the optionee's employment, on the optionee's ceasing to be an employee, officer or director of the Company or any of its subsidiaries, as applicable, or on the optionee's retiring, becoming permanently disabled or dying, subject to certain grace periods to allow the optionee or his or her personal representative time to exercise such stock options. The stock options are non-transferable.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

10. Shareholders' equity (continued)

(ii) Stock options (continued)

The plan contains provisions for adjustment in the number of common shares issuable thereunder in the event of the subdivision, consolidation, reclassification or change of the common shares, a merger or other relevant changes in the Company's capitalization. The board of directors may, from time to time, amend or revise the terms of the plan or may terminate the plan at any time.

The following table shows the movement in the stock option plan:

	Number of options	Weighted average exercise price \$
Measurement date		
Balance, September 30, 2017	5,519,160	0.31
Balance, September 30, 2017	5,519,160	0.31

The Company uses the fair value method to account for all stock-based awards granted to employees, officers and directors. The estimated fair value of stock options granted is determined using the Black-Scholes option pricing model and is recorded as a charge to income over the vesting period of the stock options, with a corresponding increase to contributed surplus. Stock options are granted at a price equal to or above the fair value of the common shares on the day immediately preceding the date of the grant. The consideration received on the exercise of stock options is added to stated capital at the time of exercise.

The following table summarizes information about the stock options outstanding and exercisable at the end of each period:

	September 30, 2017		June 30, 2017	
	Number of stock options outstanding and exercisable	Weighted average remaining contractual life	Number of stock options outstanding and exercisable	Weighted average remaining contractual life
Exercise price				
\$0.26 - \$0.50	5,850,646	2.83	5,892,380	3.06
	5,850,646	2.83	5,892,380	3.06

The Company recognized share based compensation expense in the amount of \$35,081 for the period ended September 30, 2017 (September 30, 2016 - \$71,434).

(iii) Earnings per share

Both the basic and diluted earnings per share have been calculated using the net income attributable to the shareholders of the Company as the numerator.

The weighted average number of outstanding shares used for basic earnings per share amounted to 33,553,589 shares for the period ended September 30, 2017, (June 30, 2017 – 32,519,962).

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

10. Shareholders' equity (continued)

(iii) Earnings per share (continued)

The weighted average number of shares for the purposes of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	September 30, 2017	June 30, 2017
Number of shares		
Weighted average number of shares used in basic earnings per share	33,553,589	32,519,962
Shares deemed to be issued in respect of share-based payments	2,982,798	2,064,785
Weighted average number of shares used in diluted earnings per share	36,536,387	34,584,747

As of September 30, 2017, 2,982,798 (June 30, 2017, 2,064,785) options were dilutive and were included in the weighted average for the purposes of diluted earnings per share calculation above.

11. Income tax

The Company has deducted available SR&ED for federal and provincial purposes and unutilized SR&ED tax credits. These consolidated financial statements take into account an income tax benefit resulting from tax credits available to the Company to reduce its income for federal and provincial income tax purposes in future years as follows:

Year of expiration	Federal tax credits carry forward	Ontario tax credits carry forward
		\$
2031	451,794	-
2032	651,641	-
2033	347,033	29,073
2034	288,821	84,077
2035	334,585	98,306
2036	300,386	68,347
	2,374,260	279,803

The income tax benefit of eligible SR&ED costs incurred in prior years but not utilized have been taken into account in these consolidated financial statements. The Company also has unutilized SR&ED expenditures carry forward of \$2,678,637 for federal & Ontario income tax purposes.

The Company income tax expense is determined as follows:

	September 30, 2017	September 30, 2016
Statutory income tax rate	26.50%	26.50%
Income before income taxes	603,766	105,617
Income taxes at statutory income tax rate	159,998	27,988
Additional taxes of foreign operations	39,430	5,025
Tax effect of non-deductible expenses	13,883	9,062
Income tax expense	213,311	42,075

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

11. Income tax (continued)

The tax effects of temporary differences and credits carry forwards that give rise to the deferred income tax assets and liabilities are summarized below:

	September 30, 2017	June 30, 2017
	\$	\$
Property and equipment - Canadian	(610,004)	(603,114)
Property and equipment - US	(100,805)	(63,800)
Non-deductible reserves - Canadian	98,609	137,400
Non-deductible reserves - US	119,219	106,204
Deferred development costs	(927,092)	(816,150)
Intangible assets including goodwill - Canadian	(49,912)	(49,912)
Intangible assets - US	318,703	138,090
SR&ED investment tax credits	2,060,934	1,985,934
Unutilized SR&ED expenditure pools	704,675	704,675
Deferred income tax assets	<u>1,614,327</u>	<u>1,539,327</u>

12. Related parties

The Company's related parties include its subsidiaries and key management personnel and their close family members. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances payable are usually settled in cash and relate to director fees.

The Company had the following balances with related parties:

	September 30, 2017	September 30, 2016
	\$	\$
Outstanding balance payable	<u>37,500</u>	<u>37,500</u>

13. Segment disclosures

The Company operates in one industry segment; development, manufacturing, distribution and support of voice and data connectivity components for software-based communication applications. The majority of the Company's assets are located in Canada and the United States ("US"). The Company sells into three major geographic centers: the United States, Canada and other foreign countries. The Company has determined that it has a single reportable segment as the Company's decision makers review information on a consolidated basis.

Revenues for group of similar products and services for the period can be summarized as:

	September 30, 2017	September 30, 2016
	\$	\$
Products	9,046,292	3,613,515
Services	2,799,314	2,206,916
	<u>11,845,606</u>	<u>5,820,431</u>

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For the three months ended September 30, 2017 and 2016

(Unaudited in Canadian dollars)

13. Segment disclosures (continued)

The sales, in Canadian dollars, in each of these geographic locations for the period can be summarized as:

	September 30, 2017	September 30, 2016
	\$	\$
USA	9,257,640	3,626,602
Canada	698,352	163,829
All other countries	1,889,614	2,030,000
	11,845,606	5,820,431

14. Capital management

The Company's objectives in managing capital are to safeguard the Company's assets, to ensure sufficient liquidity to sustain the future development of the business via advancement of its significant research and development efforts, to conservatively manage financial risk and to maximize investor, creditor and market confidence. The Company considers its capital structure to include its shareholders' equity. Working capital is optimized via stringent cash flow policies surrounding disbursement, foreign currency exchange and investment decision-making.

There were no changes in the Company's approach to capital management during the year and the Company is not subject to any capital requirements imposed by external parties.

The Company manages the following capital:

	September 30, 2017	June 30, 2017
	\$	\$
Share capital	17,261,930	16,521,072
Contributed surplus	2,319,397	2,285,243
Accumulated other comprehensive income	7,651	41,043
Retained earnings	878,484	488,029
	20,467,462	19,335,387

15. Commitments

The future minimum lease payments for office space as at September 30, 2017 are as follows:

	\$
Not later than one year	573,360
Later than one year and not later than five years	1,507,698
	2,081,058

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16. Business combination

On December 1, 2016, Sangoma US Inc., a wholly owned subsidiary of Sangoma Technologies Inc., acquired all the key assets of the Telecom business of Micro Advantage Inc. The Company acquired Micro Advantage Inc. to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies. Sangoma US Inc. paid an initial cash consideration of \$438,822 (\$350,000 USD) and entered into retention and earn-out arrangements for contingent consideration of which \$190,851 (\$144,500 USD) remains in accounts payable and accrued liabilities as at September 30, 2017. The acquisition was accounted for using the acquisition method under IFRS 3, Business Combinations and the purchase price of \$814,956 (\$650,000 USD) was allocated to purchase intangibles and is subject to adjustments within the measurement period not exceeding one year from the date of the acquisition.

Effective July 1, 2017, Sangoma US Inc., a wholly owned subsidiary of Sangoma Technologies Inc., acquired all the membership interests of VoIP Supply LLC for total consideration of \$4,584,873 (\$3,533,076 USD). The Company paid \$3,374,379 (\$2,600,276 USD) in cash at closing and issued 993,627 common shares valued at \$722,040 (\$556,400 USD). In addition, the Company has contingent consideration in the amount of \$488,454 (\$376,400 USD) payable on the first anniversary of the closing, which has been discounted using a risk free rate and is contingent upon meeting certain targets. The Company incurred a further \$100,058 in business acquisition costs for the quarter, which has been expensed and included in the consolidated statement of income and comprehensive income.

The acquisition has been accounted for using the acquisition method under IFRS 3, Business Combinations and the purchase price has been allocated to the assets and liabilities as described below:

Consideration	USD		CAD	
Cash consideration	\$	3,000,000	\$	3,893,100
Less: working capital adjustments		(399,724)		(518,721)
Share consideration		556,400		722,040
Contingent consideration ¹		376,400		488,454
	\$	3,533,076	\$	4,584,873

¹ The contingent consideration amounts represent the discounted amount estimated to be paid out in accordance with the agreement.

Purchase price allocation	USD		CAD	
Working capital	\$	201,412	\$	261,372
Capital assets		41,369		53,685
Customer relationships		1,160,000		1,505,332
Website		160,000		207,632
Brand		1,050,000		1,362,585
Goodwill		920,295		1,194,267
	\$	3,533,076	\$	4,584,873

The purchase price allocation is preliminary and is subject to adjustments within the measurement period not exceeding one year from the date of the acquisition.

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17. Provisions

	Warranty provision	Sales returns and allowances provision	Stock rotation provision	Total
	\$	\$	\$	\$
Balance at June 30, 2017	28,722	24,596	70,000	123,318
Additional provision recognized	5,000	-	-	5,000
Balance at September 30, 2017	33,722	24,596	70,000	128,318

The provision for warranty obligations represents the Company's best estimate of repair and/or replacement costs to correct product failures. The sales returns and allowances provision represents the Company's best estimate of the value of the products sold in the current financial year that may be returned in a future year. The stock rotation provision represents the Company's best estimate of the value of the products sold in the current financial year that may be exchanged for alternative products in a future year. The Company accrues for product warranties, stock rotation, and sales returns and allowances at the time the product is delivered.

18. Operating Line

As of September 30, 2017 the following borrowing facilities are effective:

- I. A Demand Operating Line of Credit to up to \$3,500,000 to ensure sufficient cash for operations. This facility is governed by a General Security Agreement and standard operating covenants. The amount drawn against the Operating Line as of September 30, 2017 was \$1,353,502 (June 30, 2017 was \$2,910,159) and carries an interest rate of prime plus 0.8%.
- II. A Term Loan Facility of up to \$1,000,000 which was used to finance the acquisition of VoIP Supply LLC. This facility is governed by the General Security Agreement and standard operating covenants and carries an interest rate of prime plus 1.25%. The balance drawn against this facility as of September 30, 2017 was \$929,156 (June 30, 2017 was \$973,275).

As of September 30, 2017, interest costs to service the operating line amounted to \$41,978 (September 30, 2016 - \$24,565).

19. Post-reporting date events

There were no post-closing events.

20. Authorization of financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on November 16, 2017.