



SANGOMA TECHNOLOGIES CORPORATION

**Condensed consolidated interim financial statements for
the three months ended September 30, 2018
(Unaudited in Canadian Dollars)**

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

Sangoma Technologies Corporation

September 30, 2018

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Sangoma Technologies Corporation

Condensed consolidated interim statements of financial position as at September 30, 2018 and June 30, 2018

(Unaudited in Canadian dollars)

	September 30, 2018	June 30, 2018
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 13)	5,008,397	15,778,191
Trade receivables (Note 13)	10,807,017	7,225,374
Inventories (Note 4)	10,369,478	6,726,203
Other current assets	1,894,435	1,853,984
	28,079,327	31,583,752
Non-current assets		
Property and equipment (Note 5)	2,518,227	859,691
Intangible assets (Note 6)	35,713,036	10,548,450
Development costs (Note 7)	2,617,877	2,538,988
Deferred income tax assets (Note 10)	925,595	855,140
Goodwill (Note 8)	22,795,561	5,174,981
	92,649,623	51,561,002
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	12,531,808	7,919,096
Provisions (Note 16)	556,017	279,690
Sales tax payable	-	21,404
Income tax payable	428,424	405,503
Operating facility and loan - current (Note 9)	3,403,410	1,076,272
Deferred revenue	11,051,107	2,756,899
	27,970,766	12,458,864
Long term liabilities		
Operating facility and loan - long term (Note 9)	21,509,242	3,473,662
Deferred revenue	4,003,944	283,870
	53,483,952	16,216,396
Shareholders' equity		
Share capital	34,652,463	29,830,474
Contributed surplus	2,356,226	2,324,176
Warrant reserve (Note 11(i))	147,363	186,700
Accumulated other comprehensive income	64,829	61,732
Retained earnings	1,944,790	2,941,524
	39,165,671	35,344,606
	92,649,623	51,561,002

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, 2018 and 2017

(Unaudited in Canadian dollars)

	September 30, 2018	September 30, 2017
	\$	\$
Revenue (Note 17)	21,439,335	11,845,606
Cost of sales	8,994,465	5,725,525
Gross profit	12,444,870	6,120,081
Expenses		
Sales and marketing	2,992,074	1,803,896
Research and development	3,509,407	1,405,230
General and administration	4,023,075	2,238,687
Foreign currency exchange gain	111,272	(73,358)
	10,635,828	5,374,455
Income before interest, income taxes, and business acquisition costs	1,809,042	745,626
Interest income (Note 13)	(3,714)	(176)
Interest expense (Notes 9 & 13)	186,840	41,978
Business acquisition costs (Note 18)	2,100,375	100,058
	2,283,501	141,860
Income before income taxes	(474,459)	603,766
Provision for income taxes		
Current (Note 10)	522,273	213,311
Net income	(96,732)	390,455
Other comprehensive income		
Items to be reclassified to net income		
Foreign currency translation adjustment	(3,097)	33,392
Comprehensive income	(993,635)	357,063
Earnings per share		
Basic (Note 11(iii))	(0.021)	0.012
Diluted (Note 11(iii))	(0.019)	0.011
Weighted average number of shares outstanding (Note 11(iii))		
Basic	48,573,557	33,553,589
Diluted	52,515,488	36,536,387

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, 2018 and the year ended June 30, 2018

(Unaudited in Canadian dollars)

	Number of common shares	Share capital	Contributed surplus	Warrant reserve	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total Shareholders' equity
	#	\$	\$	\$	\$	\$	\$
Balance, June 30, 2017	32,519,962	16,521,072	2,285,243	-	41,043	488,029	19,335,387
Net income	-	-	-	-	-	2,453,495	2,453,495
Other comprehensive income	-	-	-	-	20,689	-	20,689
Common shares issued through							
private placement, net of costs (Note 11(i))	13,138,000	12,140,963	-	-	-	-	12,140,963
Common shares issued for business combination (Note 11(i))	993,627	824,710	-	-	-	-	824,710
Common shares issued for options exercised (Note 11(i))	809,368	530,429	(135,204)	-	-	-	395,225
Broker warrants issued through private placement (Note 11(i))	-	(186,700)	-	186,700	-	-	-
Share-based compensation expense (Note 11(ii))	-	-	174,137	-	-	-	174,137
Balance, June 30, 2018	47,460,957	29,830,474	2,324,176	186,700	61,732	2,941,524	35,344,606
Net income	-	-	-	-	-	(996,734)	(996,734)
Other comprehensive income	-	-	-	-	3,097	-	3,097
Common shares issued for business combination (Note 11(i))	3,943,041	4,779,290	-	-	-	-	4,779,290
Common shares issued for options exercised (Note 11(i))	7,000	3,362	-	-	-	-	3,362
Broker warrants redemption (Note 11(i))	39,337	39,337	-	(39,337)	-	-	-
Share-based compensation expense (Note 11(ii))	-	-	32,050	-	-	-	32,050
Balance, September 30, 2018	51,450,335	34,652,463	2,356,226	147,363	64,829	1,944,790	39,165,671

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

	September 30, 2018	September 30, 2017
	\$	\$
Operating activities		
Net income	(996,732)	390,455
Adjustments for		
Depreciation of property and equipment (Note 5)	84,264	35,081
Amortization of intangible assets (Note 6)	587,815	287,914
Amortization of capitalized development costs (Note 7)	462,748	418,830
Income tax expense	522,273	213,311
Income tax paid	(594,830)	(233,053)
Share-based compensation expense (Note 10(ii))	32,050	34,154
Accretion expense	-	14,193
Changes in item of working capital		
Trade receivables	(1,228,643)	767,413
Inventories	(309,275)	166,499
Other current assets	936,549	27,019
Sales tax payable	121,596	82,992
Accounts payable and accrued liabilities	598,712	217,335
Provisions (Note 17)	276,327	5,000
Income tax payable	22,921	(53,112)
Deferred revenue	(490,718)	(181,380)
Investment tax credits receivables	-	37,957
	25,057	2,230,608
Investing activities		
Purchase of property and equipment (Note 5)	(235,252)	(92,513)
Development costs (Note 7)	(616,638)	(481,841)
Business combinations, net of cash and cash equivalents acquired (Note 18)	(35,306,128)	(4,531,188)
	(36,158,018)	(5,105,542)
Financing activities		
Operating facility and loan (Note 18)	20,712,718	(1,600,775)
Repayment of operating facility and loan	(185,596)	-
Issuance of common shares from treasury	4,821,989	740,858
	25,349,111	(859,917)
Effect of foreign exchange rate changes on cash and cash equivalents	14,056	(27,843)
Decrease in cash and cash equivalents	(10,769,794)	(3,762,694)
Cash and cash equivalents, beginning of period	15,778,191	6,758,888
Cash and cash equivalents, end of period	5,008,397	2,996,194

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, 2018 and 2017

(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 for fiscal 2019 are Sangoma Technologies Inc., Sangoma US Inc., Digium Inc. and VoIP Supply Inc.

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 is 100 Renfrew Dr., Suite 100, Markham, Ontario, L3R 9R6 and the Company operates in multiple jurisdictions.

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, 2018.

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 22, 2018.

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, 2018 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, 2018

4. Inventories

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

	September 30, 2018	June 30, 2018
	\$	\$
Finished goods	6,771,670	4,307,048
Parts	3,776,102	2,597,449
	10,547,772	6,904,497
Provision for obsolescence	(178,294)	(178,294)
Net inventory carrying value	10,369,478	6,726,203

During the three month period ended September 30, 2018 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, 2018 and 2017

(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 at June 30, 2017	1,140,782	257,005	162,873	64,338	135,557	1,760,555
Acquisitions	293,008	39	12,312	-	-	305,358
Additions	126,044	8,580	-	-	26,480	161,104
Effects of movements in exchange rates	16,399	1,235	1,297	-	1,609	20,540
Balance at June 30, 2018	1,576,233	266,859	176,482	64,338	163,646	2,247,558
Acquisitions	154,711	-	1,381,035	-	138,687	1,674,434
Additions	56,127	7,584	4,656	-	-	68,367
Effects of movements in exchange rates	-	-	-	-	-	-
Balance at September 30, 2018	1,787,071	274,443	1,562,173	64,338	302,333	3,990,359
Accumulated depreciation						-
Balance at June 30, 2017	782,407	175,748	103,234	43,666	84,075	1,189,130
Depreciation expense	139,854	16,549	13,975	3,929	22,008	196,315
Effects of movements in exchange rates	682	154	921	65	600	2,422
Balance at June 30, 2018	922,943	192,451	118,130	47,660	106,683	1,387,867
Depreciation expense	45,964	11,089	21,409	834	4,970	84,266
Effect of movements in exchange rates	-	-	-	-	-	-
Balance at September 30, 2018	968,907	203,540	139,539	48,494	111,653	1,472,132
Net book value as at:						
June 30, 2017	653,291	74,408	58,351	16,678	56,963	859,691
September 30, 2018	818,166	70,903	1,422,634	15,844	190,680	2,518,227

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, 2018 and 2017

(Unaudited in Canadian dollars)

6. Intangible assets

	Copyright to software	Purchased technology	Website	Customer relationship	Brand	Other purchased intangibles	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, June 30, 2017	2,948,461	3,197,760	18,362	3,175,544	770,920	243,731	10,354,778
Additions	-	-	-	-	-	-	-
Business combinations (Note 18)	-	880,001	207,632	3,815,332	1,472,585	209,999	6,585,549
Effects of movements on exchange rates	-	32,962	3,056	152,995	56,717	4,653	250,383
Balance, June 30, 2018	2,948,461	4,110,723	229,050	7,143,871	2,300,222	458,384	17,190,710
Business combinations (Note 18)	-	25,890,000	-	-	-	-	25,890,000
Effects of movements on exchange rates	-	47,652	1,401	64,057	21,658	2,831	137,599
Balance, September 30, 2018	2,948,461	29,953,071	227,649	7,079,814	2,278,564	455,552	42,943,111
Accumulated amortization and impairment							
Balance, June 30, 2017	2,825,988	1,064,126	3,071	702,486	185,469	38,857	4,819,997
Amortization expense	83,628	390,955	205,031	883,416	85,398	123,123	1,771,551
Effects of movements on exchange rates	-	11,746	6,160	26,541	2,566	3,699	50,712
Balance, June 30, 2018	2,909,616	1,466,827	214,262	1,612,443	273,433	165,680	6,642,260
Amortization expense	20,907	226,037	67,886	220,854	21,350	30,781	587,815
Effects of movements on exchange rates	-	-	-	-	-	-	-
Balance, September 30, 2018	2,930,523	1,692,864	282,148	1,833,297	294,783	196,460	7,230,075
Carrying amount							
Balance, June 30, 2017	38,845	2,643,896	14,788	5,531,428	2,026,789	292,704	10,548,450
Balance, September 30, 2018	17,938	28,260,207	54,499	5,246,517	1,983,781	259,092	35,713,036

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, 2018 and 2017

(Unaudited in Canadian dollars)

7. Development costs

	\$	
Development costs		
Balance, June 30, 2017	18,782,853	
Additions	1,776,154	
Investment tax credits	(303,669)	
Balance, June 30, 2018	20,255,338	
Additions	616,638	
Investment tax credits	(75,000)	
Balance, September 30, 2018	20,796,976	
Accumulated amortization		
Balance, June 30, 2017	(16,019,189)	
Amortization	(1,697,161)	
Balance, June 30, 2018	(17,716,350)	
Amortization	(462,748)	
Balance, September 30, 2018	(18,179,098)	
	September 30, 2018	June 30, 2018
	\$	\$
Net capitalized development costs	2,617,877	2,538,988

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized \$3,046,659 of engineering expenditures as an expense during the quarter ended September 30, 2018 (September 30, 2017 - \$986,400).

8. Goodwill

The carrying amount and movements of goodwill as follows:

	\$
Balance as at June 30, 2018	5,174,981
Additions through business combinations (Note 18)	17,620,580
Effect of movements in exchange rates	-
Balance as at September 30, 2018	22,795,561

The value assigned to goodwill for the purchase of Digium Inc. is a management estimate which is subject to change following completion of the independent valuation report.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

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(Unaudited in Canadian dollars)

9. Operating facility and loan

As at September 30, 2018, the following borrowing facilities are effective:

- (i) A Demand Operating Line of Credit of 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 Demand Operating Line of Credit for the acquisition of Converged Communications Division of Dialogic Corporation ("CCD") was fully repaid such that the closing balance on September 30, 2018 was \$nil (June 30, 2018 - \$nil). The Demand Operating Line of Credit carries an interest rate of prime plus 0.80%. As at September 30, 2018, the full value of the \$3,500,000 is available.
- (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. The Term Loan Facility has a maturity date of June 2022 and carries an interest rate of prime plus 1.25%. The balance drawn against this Term Loan Facility as of September 30, 2018 was \$728,156 (June 30, 2018 - \$773,620). As at September 30, 2018, \$194,175 (June 30, 2018 - \$296,280) in Term Loan Facility is classified as current and \$533,981 (June 30, 2018 - \$533,981) as long-term in the consolidated statements of financial position.
- (iii) A second Term Loan Facility of up to \$4,128,640 (\$3,200,000 USD) which was used to finance the acquisition of the CCD. This facility is governed by the General Security Agreement and standard operating covenants. This Term Loan Facility has a maturity date of January 2023 and carries a fixed interest rate of 5.38%. The balance drawn against this Term Loan facility as of September 30, 2018 was \$3,650,573 (June 30, 2018 - \$3,776,314). As at September 30, 2018, \$767,801 (June 30, 2018 - \$779,992) in Term Loan Facility is classified as current and \$2,882,772 (June 30, 2018 - \$2,996,322) as long-term in the consolidated statements of financial position.
- (iv) A third Term Loan Facility of up to \$5,178,000 (\$4,000,000 USD) which was used to finance the acquisition of Digium Inc. This facility is governed by the General Security Agreement and standard operating covenants. This Term Loan Facility has a maturity date of August 2023 and carries a fixed interest rate of 6.25%. The balance drawn against this Term Loan facility as of September 30, 2018 was \$5,178,000 (June 30, 2018 - \$nil). As at September 30, 2018, \$600,834 (June 30, 2018, \$nil) in Term Loan Facility is classified as current and \$4,577,166 (June 30, 2018 - \$nil) as long-term in the consolidated statements of financial position.
- (v) A fourth Term Loan Facility of up to \$15,534,000 (\$12,000,000 USD) which was used to finance the acquisition of the Digium Inc. This facility is governed by the General Security Agreement and standard operating covenant. This Term Loan Facility has a maturity date of August 2023 and carries a fixed interest rate of 6.18%. The balance drawn against this Term Loan facility as of September 30, 2018 was \$15,356,447 (June 30, 2018 - \$nil). As at September 30, 2018, \$1,840,600 (June 30, 2018, \$nil) in Term Loan Facility is classified as current and \$13,515,323 (June 30, 2018 - \$nil) as long-term in the consolidated statements of financial position.

For the quarter ended September 30, 2018, the Company incurred interest costs to service the borrowing facilities in the amount of \$186,840 (September 30, 2017 - \$41,978).

Under its credit agreements with its lenders, the Company must satisfy certain financial covenants, principally in respect of total funded debt to earnings before interest, taxes and amortization ("EBITDA"), and debt service coverage ratio.

As at September 30, 2018, the Company was in compliance with all covenants related to its credit agreements.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2018 and 2017

(Unaudited in Canadian dollars)

10. Income tax

The Company income tax expense is determined as follows:

	September 30, 2018	September 30, 2017
Statutory income tax rate	26.50%	26.50%
	\$	\$
Net income (loss) before income taxes	(474,459)	603,733
Expected income tax expense (recovery)	(125,732)	159,998
Difference in foreign tax rates	74,438	39,430
Business acquisition costs	556,599	-
Tax effect on non-deductible expenses	16,968	13,883
Income tax expense	522,273	213,311

The Company's income tax expense is allocated as follows: \$ \$

Current tax expense	522,273	213,311
Income tax expense	522,273	213,311

The following table summarizes the components of deferred tax asset:

	September 30, 2018	June 30, 2018
	\$	\$
Deferred income tax assets (liabilities)		
Non-deductible reserves - Canadian	126,033	117,540
Non-deductible reserves - US	188,329	183,250
SR&ED investment tax credits, net of 12(1)(x)	1,839,750	1,839,750
Property and equipment - Canadian	(514,157)	(496,040)
Property and equipment - US	(114,540)	(114,540)
Deferred development costs	(762,300)	(837,300)
Intangible assets including goodwill - Canadian	(64,290)	(64,290)
Intangible assets including goodwill - US	226,770	226,770
Net deferred income tax assets	925,595	855,140

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For the three months ended September 30, 2018 and 2017

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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 net 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
	\$	\$
2032	239,832	-
2033	651,641	-
2034	347,033	-
2035	288,821	-
2036	334,585	61,545
2037	300,386	68,347
2038	227,467	50,936
	2,389,765	180,828

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 is reviewing the Net Operating Losses incurred by Digium Inc. in prior years and is assessing the value of these to Sangoma.

11. Shareholders' equity

(i) Share capital

Issued and outstanding common shares consist of the following:

	September 30, 2018	June 30, 2018
	#	#
Shares issued and outstanding:		
Outstanding, beginning of the year	47,460,957	32,519,962
Shares issued for business combinations	3,943,041	993,627
Shares issued through private placement	-	13,138,000
Shares issued through redemption of broker warrants	39,337	13,138,000
Shares issued upon exercise of options	7,000	809,368
Shares issued and outstanding, end of period	51,450,335	60,598,957

As described in Note 18, the Company issued 3,943,041 common shares valued at \$4,779,290 as part of the consideration for the acquisition of Digium Inc.

In March 2018, the Company completed a private placement of 13,138,000 common shares at a price of \$1.00 per share for total gross proceeds of \$13,138,000. As part of the private placement, the Company issued 394,140 broker warrants, which are exercisable at \$1.00 per common share from the date of issuance for a period of 18 months from the date of closing. During the quarter 39,337 of the broker warrants were redeemed for 39,337 common shares.

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(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. 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:

Measurement date	Number of options #	Weighted average exercise price
		\$
Balance, June 30, 2017	5,892,380	0.31
Granted	401,000	0.69
Exercised	(809,368)	(0.48)
Expired	(17,000)	(0.17)
Forfeited	(8,438)	(0.31)
Balance, June 30, 2018	5,458,574	0.47
Exercised	(7,000)	(0.48)
Balance, September 30, 2018	5,451,574	0.47

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The Company uses the fair value method to account for all share-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 year:

Exercise price	September 30, 2018		June 30, 2018	
	Number of stock options outstanding and exercisable	Weighted average remaining contractual life	Number of stock options outstanding and exercisable	Weighted average remaining contractual life
\$0.26 - \$0.50	5,050,326	1.93	5,057,574	2.18
\$0.51 - \$0.75	401,000	4.25	401,000	4.50
Total	5,451,326	2.10	5,458,574	2.35

The Company recognized share-based compensation expense in the amount of \$32,050 for the quarter ended September 30, 2018 (September 30, 2017 - \$34,154).

(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.

	September 30, 2018	September 30, 2017
Number of shares:		
Weighted average number of shares used in basic earnings per share	48,573,557	33,553,589
Shares deemed to be issued in respect of options and warrants	3,941,931	2,982,798
Weighted average number of shares used in diluted earnings per share	52,515,488	36,536,387
Net income for the year	(\$993,635)	\$390,455
Earnings per share:		
Basic earnings per share	(\$0.021)	\$0.012
Diluted earnings per share	(\$0.019)	\$0.011

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12. Related parties

The Company's related parties include key management personnel and directors. Unless otherwise stated, none of the transactions incorporated 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:

Related parties	September 30, 2018	September 30, 2017
	\$	\$
Accounts payable and accrued liabilities	37,500	37,500

13. Financial instruments

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

Cash and cash equivalents are comprised of:

	September 30, 2018	June 30, 2018
	\$	\$
Cash at bank and on hand	5,008,397	15,778,191
	5,008,397	15,778,191

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. As at September 30, 2018 (and June 30, 2018), the Company had no cash equivalents.

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, 2018	September 30, 2017
	\$	\$
Interest income	(3,714)	(176)
Interest expense (Note 9)	186,840	41,978
Net interest expense	183,126	41,802

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.

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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, 2018	June 30, 2018
	\$	\$
Trade receivables aging:		
0-30 days	9,113,248	6,710,565
31-90 days	1,744,900	822,994
Greater than 90 days	622,467	289,949
	11,480,615	7,823,508
Provision for doubtful accounts	(673,598)	(598,134)
Net trade receivables	10,807,017	7,225,374

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

	September 30, 2018	June 30, 2018
	\$	\$
Provision for doubtful accounts:		
Allowance for doubtful accounts, beginning balance	(598,134)	(37,138)
Net allowance used (recorded) during the year	(75,464)	(560,996)
Allowance for doubtful accounts, ending balance	(673,598)	(598,134)

All of the Company's cash and cash equivalents are held with a major Canadian financial institution and thus the exposure to credit risk is considered insignificant. Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to trade receivables.

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:

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	September 30, 2018	June 30, 2018
	\$	\$
Accounts payable and accrued liabilities	12,531,808	7,919,096
Operating facility and loan	3,403,410	1,076,272
	15,935,218	8,995,368

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, 2018, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate \$308,361 (June 30, 2018 - \$156,737) decrease or increase, respectively, in total comprehensive income (loss).

Interest rate risk

The Company has no significant exposure at September 30, 2018 to interest rate risk through its financial instruments as the operating facility and loan which are due after twelve months from the reporting date are at fixed rates of interest that do not fluctuate during the remaining term.

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.

15. Commitments

The future minimum lease payments for office space as at September 30, 2018 are as follows:

	\$
Not later than one year	2,804,145
Later than one year	15,325,595
	18,129,740

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16. Provisions

	Warranty provision	Sales returns and allowances provision	Stock rotation provision	Total
	\$	\$	\$	\$
Balance at June 30, 2018	165,094	34,596	80,000	279,690
Additional provision recognized	271,327	5,000	-	276,327
Balance at September 30, 2018	436,421	39,596	80,000	556,017

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 represent 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.

17. 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: United States of America ("USA"), 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 can be summarized for the quarter ended September 30:

	September 30, 2018	September 30, 2017
	\$	\$
Products	15,228,576	9,046,292
Services	6,210,759	2,799,314
	21,439,335	11,845,606

The sales, in Canadian dollars, in each of these geographic locations for the quarter ended September 30:

	September 30, 2018	September 30, 2017
	\$	\$
USA	14,678,599	9,257,640
Canada	1,159,576	698,352
All other countries	5,601,160	1,889,614
	21,439,335	11,845,606

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18. Business combinations

- a) 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 \$4,687,543 (\$3,612,193 USD). The Company paid \$3,374,379 (\$2,600,276 USD) in cash at closing and issued 993,627 common shares valued at \$824,710 (\$635,517 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 acquired VoIP Supply LLC to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies. The carrying value of the trade receivables acquired approximated fair value. The allowance for doubtful accounts at the acquisition date was \$32,443 (\$25,000 USD). The Company incurred \$100,058 in business acquisition costs, 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	635,517	824,710
Contingent consideration ¹	376,400	488,454
	<u>\$ 3,612,193</u>	<u>\$ 4,687,543</u>

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	999,412	1,296,937
	<u>\$ 3,612,193</u>	<u>\$ 4,687,543</u>

- b) Effective January 9, 2018, Sangoma Technologies Inc., acquired all the key assets of the Converged Communications Division ("CCD") from Dialogic Corporation for total consideration of \$5,683,038 (\$4,516,190 USD) of which \$568,304 was held in escrow pending finalization of Working Capital and completion of certain transition plans. The amounts held in escrow was discounted to \$561,414 using a 5.0% discount rate. The Company acquired CCD to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies. The carrying value of the trade receivables acquired approximated fair value. The allowance for doubtful accounts at the acquisition date was \$698,098 (\$554,764 USD). The Company incurred \$372,873 in business acquisition costs to close the transaction 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:

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Consideration		USD		CAD
Cash consideration	\$	4,064,571	\$	5,114,734
Amounts held in escrow and paid on May 9, 2018		446,144		561,414
	\$	4,510,715	\$	5,676,148

Purchase price allocation		USD		CAD
Working capital deficiency assumed	\$	(159,349)	\$	(200,520)
Property and equipment		200,000		251,674
Customer relationships		1,835,708		2,310,000
Technology		699,318		880,001
Brand		87,415		110,000
Other purchased intangibles		161,407		203,109
Goodwill		1,686,216		2,121,884
	\$	4,510,715	\$	5,676,148

- c) On September 5, 2018, Sangoma Technologies US Inc. a wholly owned subsidiary of Sangoma Technologies Inc., merged with Digium Inc., a US based company. The total consideration for the acquisition was \$35,725,829 (\$27,550,246) including customary working capital adjustments. The purchase price consisted of \$30,927,847 (\$23,850,246) in cash and 3,943,041 Sangoma common shares valued at \$4,731,649 (\$3,648,848 USD) based on a share price of \$1.20 per common share. The Company acquired Digium Inc. to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies. The total transaction costs are currently estimated to be \$2,100,375 which have 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. The valuation of the intangible assets is still in progress and for the first quarter results a high level estimate has been made which could change materially once the valuation report has been completed and audited. This is expected during the second quarter and the purchase price allocation shown below is thus subject to change:

Consideration	USD	CAD
Initial cash consideration	\$23,850,246	\$30,874,143
Share consideration (3,943,041 shares)	3,700,000	4,779,290
Current working capital adjustment estimate	(492,627)	(627,345)
	\$27,057,619	\$35,026,088

Purchase price allocation	USD	CAD
Working capital	\$2,157,619	\$2,794,332
Property and equipment	1,164,579	1,507,548
Deferred Revenue	(9,705,513)	(12,505,192)
Deferred tax	(217,211)	(281,180)
Intangible assets estimate	20,000,000	25,890,000
Goodwill	13,658,145	17,620,580
	\$27,057,619	\$35,026,088

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19. Subsequent events

There were no post-closing and subsequent events.

20. Authorization of the consolidated financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on November 22, 2018.