



**SANGOMA TECHNOLOGIES CORPORATION**

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**Consolidated Financial Statements for  
Year ended June 30, 2020 and 2019**

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

# Sangoma Technologies Corporation

June 30, 2020 and 2019

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## **Independent Auditor's Report**

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To the Shareholders of Sangoma Technologies Corporation:

### **Opinion**

We have audited the consolidated financial statements of Sangoma Technologies Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2020 and June 30, 2019, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and 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 Company as at June 30, 2020 and June 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

We conducted our audits 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 Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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 audits 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 audits 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 on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **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 International Financial Reporting Standards 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 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 Company'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 entity'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 Company 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.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ajmer Singh Sran.

*MNP* LLP

Toronto, Ontario  
October 20, 2020

Chartered Professional Accountants  
Licensed Public Accountants

# Sangoma Technologies Corporation

## Consolidated statements of financial position

As at June 30, 2020 and 2019

(in Canadian dollars)

	2020	2019
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 13)	27,249,863	11,724,844
Trade receivables (Note 13)	11,234,541	11,254,694
Inventories (Note 4)	12,643,738	11,114,143
Contract assets (Note 2(v))	1,082,051	789,643
Other current assets	2,383,857	1,947,620
	<b>54,594,050</b>	<b>36,830,944</b>
Non-current assets		
Property and equipment (Note 5)	3,001,687	2,423,529
Right-of-use assets (Note 15)	16,178,520	-
Intangible assets (Note 6)	50,206,378	29,453,546
Development costs (Note 7)	2,452,718	2,124,503
Deferred income tax assets (Note 10)	5,287,207	4,176,043
Goodwill (Note 8)	44,012,418	21,405,420
	<b>175,732,978</b>	<b>96,413,985</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	14,185,737	14,626,815
Provisions (Note 16)	662,942	557,005
Sales tax payable	808,074	259,423
Income tax payable	2,636,159	1,422,514
Operating facility and loans - current (Note 9)	16,898,720	3,923,775
Contract liabilities - current (Note 2(v))	10,772,900	10,724,357
Derivative liability (Note 9)	797,380	-
Lease obligations on right-of-use assets - current (Note 15)	2,951,616	-
	<b>49,713,528</b>	<b>31,513,889</b>
Long term liabilities		
Operating facility and loans - long term (Note 9)	33,593,020	18,806,583
Contract liabilities - long term (Note 2(v))	3,972,730	4,264,047
Non-current lease obligation on right-of-use assets (Note 15)	13,671,174	-
	<b>100,950,452</b>	<b>54,584,519</b>
<b>Shareholders' equity</b>		
Share capital	64,628,552	34,860,468
Contributed surplus	2,437,227	2,514,154
Warrant reserve (Note 11(i))	-	29,348
Accumulated other comprehensive loss	(691,896)	(54,169)
Retained earnings	8,408,643	4,479,665
	<b>74,782,526</b>	<b>41,829,466</b>
	<b>175,732,978</b>	<b>96,413,985</b>
Approved by the Board		
(Signed) <u>Al Guarino</u>		Director
(Signed) <u>Yves Laliberte</u>		Director

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

# Sangoma Technologies Corporation

## Consolidated statements of income and comprehensive income

For the years ended June 30, 2020 and 2019

(in Canadian dollars)

	2020	2019
	\$	\$
<b>Revenue (Note 17)</b>	<b>131,417,706</b>	109,647,502
Cost of sales	<b>46,509,149</b>	42,819,528
<b>Gross profit</b>	<b>84,908,557</b>	66,827,974
<b>Expenses</b>		
Sales and marketing	<b>20,556,128</b>	16,914,559
Research and development	<b>23,913,068</b>	20,748,282
General and administration	<b>30,249,635</b>	21,847,317
Foreign currency exchange loss	<b>54,142</b>	274,324
	<b>74,772,973</b>	59,784,482
Income before interest, income taxes, business integration and acquisition costs	<b>10,135,584</b>	7,043,492
Interest income (Note 13)	<b>(53,170)</b>	(13,763)
Interest expense (Notes 9, 13, 15)	<b>2,530,537</b>	1,384,706
Business integration costs	-	528,828
Business acquisition costs (Note 18)	<b>2,581,854</b>	2,265,770
	<b>5,059,221</b>	4,165,541
Income before income tax	<b>5,076,363</b>	2,877,951
Provision for income taxes		
Current (Note 10)	<b>1,651,676</b>	2,182,514
Deferred (Note 10)	<b>(479,929)</b>	(842,704)
<b>Net income</b>	<b>3,904,616</b>	1,538,141
<b>Other comprehensive (loss) income</b>		
Items to be reclassified to net income		
Change in fair value of interest rate swaps, net of tax (Note 9)	<b>(797,380)</b>	-
Foreign currency translation income (loss)	<b>159,653</b>	(115,901)
<b>Comprehensive income</b>	<b>3,266,889</b>	1,422,240
<b>Earnings per share</b>		
Basic (Note 11(iii))	<b>0.055</b>	0.030
Diluted (Note 11(iii))	<b>0.054</b>	0.028
<b>Weighted average number of shares outstanding (Note 11(iii))</b>		
Basic	<b>71,382,799</b>	50,943,244
Diluted	<b>72,595,302</b>	54,018,676

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

**Sangoma Technologies Corporation**  
Consolidated statements of changes in shareholders' equity  
For the years ended June, 2020 and 2019  
(in Canadian dollars)

	Number of common shares	Share capital \$	Contributed surplus \$	Warrant reserve \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	Total shareholders' equity \$
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	-	-	-	-	-	1,538,141	1,538,141
Other comprehensive loss	-	-	-	-	(115,901)	-	(115,901)
Common shares issued for business combination (Note 11(i))	3,668,259	3,805,709	-	-	-	-	3,805,709
Common shares issued for options exercised (Note 11(i))	1,500,691	734,750	(217,698)	-	-	-	517,052
Common shares issued for broker warrants exercised (Note 11(i))	332,183	489,535	-	(157,352)	-	-	332,183
Share-based compensation expense (Note 11(ii))	-	-	407,676	-	-	-	407,676
Balance, June 30, 2019	52,962,090	34,860,468	2,514,154	29,348	(54,169)	4,479,665	41,829,466
Net Income	-	-	-	-	-	3,904,616	3,904,616
Other comprehensive income	-	-	-	-	159,653	-	159,653
Change in fair value of interest rate swaps, net of tax (Note 9)	-	-	-	-	(797,380)	-	(797,380)
Common shares issued for business combination (Note 11(i))	5,500,417	6,553,938	-	-	-	-	6,553,938
Common shares issued through short form prospectus (Note 11(i))	14,846,500	21,319,720	-	-	-	-	21,319,720
Deferred tax benefit on share issuance costs (Note 10)	-	432,590	-	-	-	-	432,590
Common shares released from escrow and cancelled (Note 11(i))	(21,673)	(24,362)	-	-	-	24,362	-
Common shares issued for options exercised (Note 11(i))	2,738,444	1,394,893	(478,904)	-	-	-	915,989
Common shares issued for broker warrants exercised (Note 11(i))	61,957	91,305	-	(29,348)	-	-	61,957
Share-based compensation expense (Note 11(ii))	-	-	401,977	-	-	-	401,977
<b>Balance, June 30, 2020</b>	<b>76,087,735</b>	<b>64,628,552</b>	<b>2,437,227</b>	<b>-</b>	<b>(691,896)</b>	<b>8,408,643</b>	<b>74,782,526</b>

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

# Sangoma Technologies Corporation

## Consolidated statements of cash flows

For the years ended June 30, 2020 and 2019

(in Canadian dollars)

	2020	2019
	\$	\$
<b>Operating activities</b>		
Net income	3,904,616	1,538,141
Adjustments for:		
Depreciation of property and equipment (Note 5)	700,950	431,545
Depreciation of right-of-use assets (Note 15)	3,366,767	-
Amortization of intangible assets (Note 6)	6,948,436	4,413,582
Amortization of development costs (Note 7)	1,499,753	1,886,593
Accrued interest	-	115,347
Deferred income tax recovery (Note 10)	(479,929)	(842,704)
Income tax paid	(136,951)	(929,338)
Income tax refunds	18,067	128,068
Share-based compensation expense (Note 11(ii))	401,977	407,676
Interest on obligation on right-of-use assets (Note 15)	481,697	-
Unrealized foreign exchange (gain) loss	(1,731,625)	4,987
Changes in working capital		
Trade receivables	1,155,710	(2,425,059)
Inventories	(931,226)	(927,180)
Contract assets	(255,934)	(205,992)
Other current assets	32,000	1,124,856
Sales tax payable	522,295	120,748
Accounts payable and accrued liabilities	(3,111,187)	3,151,685
Provisions	84,717	281,942
Income tax payable	1,136,217	3,161,381
Contract liabilities	(1,693,851)	22,770
<b>Net cash flows from operating activities</b>	<b>11,912,499</b>	<b>11,459,048</b>
<b>Investing activities</b>		
Purchase of property and equipment (Note 5)	(631,338)	(313,168)
Development costs (Note 7)	(1,964,684)	(2,143,033)
Business combinations, net of cash and cash equivalents acquired (Note 18)	(39,288,136)	(31,351,318)
Payment of contingent consideration	-	(547,240)
<b>Net cash flows used in investing activities</b>	<b>(41,884,158)</b>	<b>(34,354,759)</b>
<b>Financing activities</b>		
Proceeds from operating facility and loan (Note 9)	54,977,430	21,096,000
Repayments of operating facility and loan (Note 9)	(28,810,943)	(2,906,694)
Repayment of right-of-use lease obligation (Note 15)	(3,285,223)	-
Issuance of common shares through private placement, net (Note 11(i))	21,319,720	-
Issuance of common shares for broker warrants exercised (Note 11(i))	61,957	332,183
Issuance of common shares for stock option exercised (Note 11(i))	915,989	517,052
<b>Net cash flows from financing activities</b>	<b>45,178,930</b>	<b>19,038,541</b>
Effect of foreign exchange rate changes on cash and cash equivalents	317,748	(196,177)
Increase in cash and cash equivalents	15,525,019	(4,053,347)
Cash and cash equivalents, beginning of year	11,724,844	15,778,191
<b>Cash and cash equivalents, end of year</b>	<b>27,249,863</b>	<b>11,724,844</b>

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

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 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 2020 are Sangoma Technologies Inc., Sangoma US Inc., VoIP Supply LLC, Digium Inc., VoIP Innovations LLC and .e4 LLC.

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

#### (i) Statement of compliance and basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These audited consolidated 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, 2019, except for the adoption of *IFRS 16 Leases* which has been applied as of July 1, 2019,

The changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended June 30, 2019 are described below.

#### (ii) Accounting standards implemented as of July 1, 2019

Effective July 1, 2019, the Company adopted IFRS 16: Leases (“IFRS 16”) which stipulates how to recognize, measure, present and disclose leases. This new standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. The purpose of IFRS 16 is to help users of financial statements to assess the effect of leases on the financial position, financial performance and cash flows of an entity.

The Company has adopted IFRS 16 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to opening deficit at the date of initial application.

On transition to IFRS 16, the Company recognized \$17,241,779 as right-of-use assets and \$17,123,225 as lease liabilities. The incremental borrowing rate applied ranged from 2.50% to 8.00%.

Refer to Note 15 for further details on the adoption of IFRS 16 which shows the impact on the right of use assets and lease liabilities during the year ended June 30, 2020.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (iii) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Sangoma Technologies Inc. (Canada), Sangoma US Inc. (United States), Sangoma Technologies US Inc. (United States), VoIP Supply LLC (United States), Digium Inc. (United States), Digium Cloud Services LLC (United States), Sangoma Technologies Ltd. (Ireland), Sangoma HK Ltd. (Hong Kong), Sangoma Technologies Private Limited (India), VoIP Innovations LLC (United States), Vocally LLC (United States), Trybe Labs LLC (United States) and .e4 LLC (United States).

Subsidiaries are entities controlled by the Company where control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. All intercompany balances, transactions, income and expenses have been eliminated on consolidation.

#### (iv) Inventories

Parts and finished goods are stated at the lower of cost and net realizable value. Inventory cost includes all expenses directly attributable to the manufacturing process, which include the cost of materials and labor, as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinary interchangeable items are assigned using weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

#### (v) Revenue

The Company determines revenue recognition through the following steps: a) identification of the contract with a customer; b) identification of the performance obligations in the contract; c) determination of the transaction price; d) allocation of the transaction price for the performance obligations in the contract; and e) recognition of revenue when the Company satisfies a performance obligation.

Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration receivable in exchange for those goods or services, net of discounts and sales taxes.

##### *Contracts with multiple products or services*

Typically, the Company enters into contracts that contain multiple products and services such as right to use and right to access software licenses, hosted software-as-a-service, maintenance and support, and professional services. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer.

Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

Where a contract consists of more than one performance obligation, revenue is allocated to each performance obligation based on their estimated standalone selling price ("SSP").

The Company recognizes revenue when the transfer of control of the promised products or services has occurred to customers in exchange for consideration the Company expects to receive, net of discounts and taxes. Revenue from the sale of software products is recognized when the product is shipped and received by the customer, and depending on the delivery conditions, title and risk have passed to the customer. Revenues from installation and training relating to the sale of software products are recognized as the services are performed. Software support and maintenance

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

(v) *Revenue (continued)*

revenue is recognized over the term of the maintenance agreement. Revenue from the Company's hosted software-as-a-service ("SaaS") application are recognized as services are provided. The Company defers revenues that have been billed but which do not meet the revenue recognition criteria. Cash received in advance of revenue being recognized is classified as contract liabilities (unearned revenues). As at June 30, 2020, the Company has \$10,772,900 (2019 - \$10,724,357) as current contract liabilities and \$3,972,730 (2019 - \$4,264,047) as long term contract liabilities on the consolidated statements of financial position.

The Company recognizes an asset (contract assets) for the incremental costs of obtaining a contract with a customer if it expects the costs to be recoverable and has determined that such costs meet the requirements to be capitalized. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer to the customer for the goods and services to which the asset relates. The amortization period includes specifically identifiable contract renewals where there is no substantive commission paid on renewals. The expected customer renewal period is estimated based over the life of the intellectual property, including expected software upgrades by the customer. The Company does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less. As at June 30, 2020, the Company has \$1,082,051 (2019 - \$789,643) as contract assets.

(vi) *Cost of sales*

Cost of product sales includes the cost of finished goods inventory and costs related to shipping and handling.

(vii) *Foreign currency*

The financial statements are presented in Canadian dollars. The functional currency of Sangoma Technologies Corporation and Sangoma Technologies Inc. is Canadian dollars, the functional currency of Sangoma US Inc., Sangoma Technologies US Inc., VoIP Supply LLC, Digium Inc., Digium Cloud Services LLC, VoIP Innovations LLC, Vocally LLC, Trybe Labs LLC, .e4 LLC, and Sangoma HK Ltd. is US dollars, the functional currency of Sangoma Technologies Limited is Euros and the functional currency of Sangoma Technologies Private Limited is Indian Rupees (INR).

Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the rate of exchange at the reporting period end date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in the accumulated other comprehensive income (loss) included in shareholders' equity. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the reporting period date. Gains and losses on translation of monetary items are recognized in the statements of income and comprehensive income.

(viii) *Interest income*

Interest income from financial assets is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on the basis of time that has passed, by reference to the principal outstanding and at the effective interest rate applicable.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (ix) *Share-based payments*

The Company grants stock options to its employees. Stock options vest over and expire after various periods of time. The vesting policy is 25% of the options vest on the first anniversary of the grant and the remainder vest in equal amounts every 3 months thereafter until the fifth anniversary of the commencement date. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in Note 11(ii).

Share-based compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

#### (x) *Income taxes and deferred taxes*

The income tax provision comprises current and deferred tax. Income tax is recognized in the statements of income and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current 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 period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the asset is realized, or liability is settled. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions to the extent that it is probable the Company will have taxable income against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized. The extent to which deductible temporary differences, unused tax losses and other income tax deductions are expected to be realized is reassessed at the end of each reporting period.

In a business combination, temporary differences arise as a result of differences in the fair values of identifiable assets and liabilities acquired and their respective tax bases. Deferred tax assets and liabilities are recognized for the tax effects of these differences. Deferred tax assets and liabilities are not recognized for temporary differences arising from goodwill or from the initial recognition of assets and liabilities acquired in a transaction other than a business combination which do not affect either accounting or taxable income or loss.

#### (xi) *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or 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. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statements of income and comprehensive income during the period in which they are incurred.

Depreciation is calculated at 20% of the declining balance for all classes of property and equipment. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted, if required.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (xi) *Property and equipment (continued)*

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statements of income and comprehensive income.

#### (xii) *Leases*

At commencement of the contract, the Company evaluates if the contract is a lease based on whether the contract conveys the right to control the use of a specific asset for a period of time in exchange for a consideration. To determine whether the contract results in right of control, the Company assesses whether it has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

Once the Company has determined that the contract conveys the right to control the use of the asset, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The asset is initially measured at cost which comprises of the lease liability, lease payments made at or before the commencement date less any lease incentives. Subsequently the asset is measured at net carrying value, which is cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the future lease payments discounted using the Company's incremental borrowing rate as the discount rate. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company applies recognition exemptions for short-term leases (leases with term less than 12 months) and low-dollar value leases.

The Company leases properties which make up the entire right-of-use asset and lease liability balances.

#### (xiii) *Intangible assets*

Intangible assets with finite lives that are acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, such intangible assets are carried at cost less any accumulated amortization on a straight-line basis over the following periods:

Copyright to software	10 years
Purchased technology	6 - 10 years
Website	1 year
Customer relationship	3 - 10 years
Brand	6 - 10 years
Other purchased intangibles	3 - 10 years

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

The estimated useful life and amortization method are reviewed annually, with the effect of any change in estimate being accounted for on a prospective basis. These assets are subject to impairment testing as described below in Note 2(xvii).

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (xiv) *Research and development expenditures*

The Company qualifies for certain investment tax credits related to its research and development activities in Canada. Research costs are expensed as incurred and are reduced by related investment tax credits, which are recognized when it is probable that they will be realized.

Costs that are directly attributable to the development phase of identified new products are recognized as intangible assets and amortized over a useful life of three years provided they meet the following recognition requirements:

- Completion of the intangible asset is technically feasible so that it will be available for use or sale.
- The Company intends to complete the intangible asset and use or sell it and also has the ability to use or sell it.
- The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits.
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalization are expensed as incurred.

Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs (if any). Internally generated software development costs recognized as intangible assets are subject to the same subsequent measurement method as externally acquired software licenses. These assets are subject to impairment testing as described below in Note 2(xvii).

Any gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss within "other income" or "other expenses".

#### (xv) *Foreign currency hedging*

The Company enters into forward foreign currency exchange contracts to hedge the cash flow risk associated with forecasted transactions in foreign currencies and foreign-currency denominated balances. The Company does not enter into derivative contracts for speculative purposes. The contracts, which have not been designated as hedges for accounting purposes, are marked to market each period. The resulting gain or loss is recorded as foreign currency exchange (gain) loss on the consolidated statements of income and comprehensive income. The Company does not hold any forward foreign currency exchange contracts as at June 30, 2020.

#### (xvi) *Goodwill*

Goodwill represents the excess of the acquisition cost in a business combination over the fair value of the Company's share of the identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

#### *(xvii) Impairment testing of goodwill and long-lived assets*

For purposes of assessing impairment under IFRS, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating unit). The Company has a single cash generating unit and intangible assets not yet available for use are tested for impairment at least annually. All other long-lived assets and finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell or value-in-use. To determine the value-in-use, management estimates expected future cash flows from the cash-generating unit and determines a suitable pre-tax discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors have been determined for the cash-generating unit and reflect its risk profile as assessed by management.

Impairment losses for the cash-generating unit reduce first the carrying amount of any goodwill allocated to that cash-generating unit, with any remaining impairment loss charged pro rata to the other assets in the cash-generating unit. In allocating an impairment loss, the Company does not reduce the carrying amount of an asset below the highest of its fair value less costs of disposal or its value in use and zero. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the assets' recoverable amount exceeds its carrying amount only to the extent of the new carrying amount does not exceed the carrying value of the asset had it not originally been impaired.

#### *(xviii) Financial instruments*

##### *Non-Derivative Financial assets*

##### Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

##### Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (xviii) Financial instruments

##### *Non-Derivative Financial assets (continued)*

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash and cash equivalents, trade receivables, and contract assets.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets mandatorily measured at fair value through profit or loss.
- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

##### Classification and subsequent measurement

The Company measures all equity investments at fair value. Changes in fair value are recorded in profit or loss.

##### Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives.

##### Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

#### *(xviii) Financial instruments*

##### *Non-Derivative Financial assets (continued)*

##### Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions. The Company applies the simplified approach for trade receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the consolidated statements of financial position as a deduction from the gross carrying amount of the financial asset. Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

##### Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

##### *Non-Derivative Financial liabilities*

##### Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

##### Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

##### Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

#### (xviii) *Financial instruments (continued)*

##### *Derivative Financial liabilities*

The Company holds interest rate swaps to hedge its interest rate risk exposures on the variable-interest credit arrangement. At the inception of the hedging relationship, there is formal designation and documentation prepared by the Company of the hedging relationship between the hedging instruments and hedged items and the risk management objective and strategy for undertaking the hedge including how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements. The Company assesses at the inception of the hedging relationship, and on ongoing basis, whether the hedging relationship meets the hedge effectiveness requirements.

##### Recognition and initial measurement

The Company recognizes interest rate swaps at fair value initially; attributable transaction costs are recognized in comprehensive income as incurred.

##### Classification and subsequent measurement

Subsequent to initial recognition, interest rate swaps are measured at fair value and the effective portion of changes in fair value of the derivative that is designated and meets the definition of the hedge is recognized in accumulated other comprehensive income. The amount recognized in other comprehensive income is removed and included in earnings in the same period as the hedged cash flows affect earnings under the same line item in the consolidated statements of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in earnings.

#### (xix) *Provisions*

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Where material, provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### (xx) *Earnings per share*

Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similarly to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The average number of shares is calculated by assuming that outstanding conversions were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

#### (xxi) *Business combinations*

On the acquisition of a business, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets and liabilities on the basis of fair value of the date of acquisition. Provisional fair values allocated at a reporting date are finalized as soon as the relevant information is available, within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date. Incremental costs related to acquisitions are expensed as incurred. When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 2. Significant accounting policies (continued)

#### *(xxi) Business combinations (continued)*

transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

#### *(xxii) Investment tax credits*

Investment tax credits (“ITCs”) are recognized where there is reasonable assurance that the ITCs will be received, and all attached conditions will be complied with. When the ITCs relates to an expense item, it is netted against the related expense. Where the ITCs relates to an asset, it reduces the carrying amount of the asset. The ITCs is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. The Company is actively engaged in scientific research and development (“R&D”) and, accordingly, has previously filed for ITC refunds under both the Canadian federal and Ontario provincial Scientific Research and Experimental Development (“SR&ED”) tax incentive programs. The ITCs recorded in the accounts are based on management’s interpretation of the Income Tax Act of Canada, provisions which govern the eligibility of R&D costs. The claims are subject to review by the Canada Revenue Agency and the Minister of Revenue for Ontario before the refunds can be released.

#### *(xxiii) Standards, amendments and interpretations issued and not yet effective and have not been adopted by the Company*

The International Accounting Standards Board has issued several new standards and amendments that will be effective on various dates. The listing below is of standards, interpretation and amendments issued which will be effective for periods beginning on or after January 1, 2020. The Company intends to adopt these standards when they become effective. They are not expected to have a material impact on the Company’s consolidated financial statements.

*Amendments to References to the Conceptual Framework in IFRS standard*

*Amendments to IFRS 3 (Business Combinations) regarding: Definition of a Business*

*Amendments to IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) regarding: Definition of Material*

### 3. Significant accounting judgments, estimates and uncertainties

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes to the consolidated financial statements. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimates are revised.

In December 2019, there was a global outbreak of coronavirus, identified as “COVID-19”, which has had a significant impact on businesses through the restrictions put in place by the national, provincial and municipal governments around the world regarding travel, business operations and isolation and quarantine orders. At the commencement of the COVID-19 outbreak, the Company was designated as an

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 3. Significant accounting judgments, estimates and uncertainties (continued)

essential business in many of the jurisdictions in which it operates and continued to receive factory shipments and make deliveries to customers around the world throughout fiscal year 2020. There continues to be uncertainty regarding the full impact, duration and pace of recovery from the COVID-19 pandemic on the Company's operations and markets, due to the evolving nature of the virus and the global economic slowdown (including varied governmental responses which may affect the Company's business and prospects). Despite these uncertainties, the Company believes it is well equipped to handle the uncertainty and has taken several proactive steps in an attempt to better manage the challenges of the COVID-19 pandemic including potential future impact on the Company's assets, cash flow and liquidity, operations and financial reporting.

Significant areas requiring the Company to make estimates include goodwill impairment testing and recoverability of long-lived assets, business combinations, income taxes, estimated useful life of long-lived assets, internally generated development costs, the fair value of share-based payments, provision for expected credit losses, inventory obsolescence, investment tax credits receivable, warranty provision, sales returns and allowances provision, and stock rotation provision. These estimates and judgments are further discussed below:

#### (i) *Goodwill impairment testing and recoverability of long-lived assets*

Goodwill and long-lived assets are reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. The recoverable amount of the cash-generating unit was estimated based on an assessment of value in use using a discounted cash flow approach. The approach uses cash flow projections based upon a financial forecast approved by management, covering a five-year period. Cash flows for the years thereafter are extrapolated using the estimated terminal growth rate. 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.

#### (ii) *Business combinations*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. All acquisitions have been accounted for using the acquisition method.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

#### (iii) *Income taxes*

At the end of each reporting period, the Company assesses whether the realization of deferred tax benefits is sufficiently probable to recognize deferred tax assets. This assessment requires the exercise of judgment on the part of management with respect to, among other things, benefits that could be realized from available income tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets could be reduced if estimates of projected future taxable income and benefits from available income tax strategies

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 3. Significant accounting judgments, estimates and uncertainties (continued)

(iii) *Income taxes (continued)*

are lowered, or if changes in current income tax regulations are enacted that impose restrictions on the timing or extent of the Company's ability to utilize deferred tax benefits.

The Company's effective income tax rate can vary significantly quarter-to-quarter for various reasons, including the mix and volume of business in lower income tax jurisdictions and in jurisdictions for which no deferred income tax assets have been recognized because management believed it was not probable that future taxable profit would be available against which income tax losses and deductible temporary differences could be utilized. The Company's effective income tax rate can also vary due to the impact of foreign exchange fluctuations.

(iv) *Estimated useful lives of long-lived assets*

Management reviews useful lives of depreciable assets at each reporting date. Management assesses that the useful lives represent the expected utilization in terms of duration of the assets to the Company. Actual utilization, however, may vary due to technical obsolescence, particularly relating to software and information technology equipment.

(v) *Internally generated development costs*

Management monitors the progress of internal research and development projects and uses judgment to distinguish research from the development phase. Expenditures during the research phase are expensed as incurred. Development costs are recognized as an intangible asset when the Company can demonstrate certain criteria listed in Note 2(xiv). Otherwise, they are expensed as incurred.

(vi) *Fair value of share-based payments*

The fair value of all share-based payments granted are determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of the options. The Company has a significant number of options outstanding and expects to continue to make grants.

(vii) *Provision for expected credit losses ("ECLs")*

The Company is exposed to credit risk associated with its trade receivables. This risk is reduced by having customers' trade receivables insured by Export Development Canada ("EDC") wherever possible. Management reviews the trade receivables at each reporting date in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs.

The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences adjusted for forward-looking estimates. The historical results and the forward-looking estimates are used to calculate the run rates of default which are then applied over the expected life of the trade receivables.

(viii) *Inventory obsolescence*

Inventory consists of parts and finished goods recorded at the lower of cost and net realizable value. Inventory represents a significant portion of the asset base of the Company and its value is reviewed at each reporting period. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or slow moving. Actual net realizable value can vary from the estimated provision.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 3. Significant accounting judgments, estimates and uncertainties (continued)

(ix) *Investment tax credits receivable*

Investment tax credits are recorded based on management's estimate that all conditions attached to its receipt have been met. The Company has significant investment tax credits receivable and expects to continue to apply for future tax credits as their research and development activities

remain applicable. Therefore, the estimates related to the recoverability of these investment tax credits are important to the Company's financial position.

(x) *Warranty provision*

The warranty provision represents management's best estimate of costs of product warranties at the time the product is installed or delivered. Therefore, the estimates and assumptions related to costs of repairs and/or replacement costs to correct product failures impact the Company's financial position.

(xi) *Sales returns and allowances provision*

The sales returns and allowances provision represent management's best estimate of the value of the products sold in the current financial year that may be returned in a future year.

(xii) *Stock rotation provision*

The stock rotation provision represents management's best estimate of the value of the products sold in the current financial year that may be rotated in a future year.

(xiii) *Fair value of interest rate swaps*

The estimated fair values of derivative instruments resulting in financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company determines the fair value of interest rate swaps based on the present value of projected future cash flows using the implied zero-coupon forward swap yield curve. The change in the difference between the discounted cash flow streams for the hedged item and the hedging item is deemed to be hedge ineffectiveness and is recorded in the consolidated statements of income and comprehensive income. The fair value of the interest rate swap is based on forward yield curves, which are observable inputs provided by banks and available in other public data sources and are classified within Level 2.

### 4. Inventories

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

	June 30, 2020	June 30, 2019
	\$	\$
Finished goods	8,381,484	7,946,691
Parts	4,604,963	3,323,207
	12,986,447	11,269,898
Provision for obsolescence	(342,709)	(155,755)
Net inventory carrying value	12,643,738	11,114,143

During the year ended June 30, 2020, inventories in the amount of \$39,711,850 (2019 - \$40,206,444) were included in cost of sales.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 5. Property and equipment

	Office furniture and computer equipment	Software and books	Stockroom and production equipment	Tradeshaw equipment	Leasehold improvements	Total
<b>Cost</b>	\$	\$	\$	\$	\$	\$
Balance at June 30, 2018	1,576,233	266,859	176,482	64,338	163,646	2,247,558
Additions through business combinations (Note 18)	186,072	-	1,381,034	-	138,688	1,705,794
Additions	144,855	20,495	95,712	-	52,106	313,168
Disposals	(25,487)	-	-	-	-	(25,487)
Effects of movements in exchange rates	(6,085)	(2,105)	(10,319)	-	(1,288)	(19,797)
Balance at June 30, 2019	1,875,588	285,249	1,642,909	64,338	353,152	4,221,236
Additions through business combination (Note 18)	307,553	249,585	-	-	-	557,138
Additions	493,749	3,383	59,469	-	74,737	631,338
Effects of movements in exchange rates	34,450	24,300	61,876	-	10,642	131,268
<b>Balance at June 30, 2020</b>	<b>2,711,340</b>	<b>562,517</b>	<b>1,764,254</b>	<b>64,338</b>	<b>438,531</b>	<b>5,540,980</b>
<b>Accumulated depreciation</b>						
Balance at June 30, 2018	922,943	192,451	118,130	47,660	106,683	1,387,867
Depreciation expense	150,663	13,021	247,489	3,094	17,278	431,545
Disposals	(13,414)	-	-	-	-	(13,414)
Effect of movements in exchange rates	(3,254)	(2,105)	(2,736)	-	(196)	(8,291)
Balance at June 30, 2019	1,056,938	203,367	362,883	50,754	123,765	1,797,707
Depreciation expense	284,223	92,569	286,993	2,455	34,710	700,950
Effects of movements in exchange rates	21,263	8,219	21,177	26	(10,049)	40,636
<b>Balance at June 30, 2020</b>	<b>1,362,424</b>	<b>304,155</b>	<b>671,053</b>	<b>53,235</b>	<b>148,426</b>	<b>2,539,293</b>
<b>Net book value as at:</b>						
<b>June 30, 2019</b>	818,650	81,882	1,280,026	13,584	229,387	2,423,529
<b>June 30, 2020</b>	<b>1,348,916</b>	<b>258,362</b>	<b>1,093,201</b>	<b>11,103</b>	<b>290,105</b>	<b>3,001,687</b>

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

# Sangoma Technologies Corporation

Notes to the consolidated financial statements

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(In Canadian dollars)

## 6. Intangible assets

	Copyright to software	Purchased technology	Website	Customer relationship	Brand	Other purchased intangibles*	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance at June 30, 2018	2,948,461	4,110,723	229,050	7,143,871	2,300,222	458,384	17,190,711
Business combinations (Note 18)	-	3,744,540	-	12,169,755	5,748,660	1,832,715	23,495,670
Effects of movements on exchange rates	-	(34,259)	(1,348)	(134,480)	(52,195)	(16,432)	(238,714)
Balance at June 30, 2019	2,948,461	7,821,004	227,702	19,179,146	7,996,687	2,274,667	40,447,667
Business combinations (Note 18)	-	3,466,848	-	19,965,689	919,240	1,326,332	25,678,109
Effects of movements on exchange rates	-	327,516	9,003	1,542,265	333,829	144,066	2,356,679
<b>Balance at June 30, 2020</b>	<b>2,948,461</b>	<b>11,615,368</b>	<b>236,705</b>	<b>40,687,100</b>	<b>9,249,756</b>	<b>3,745,065</b>	<b>68,482,455</b>
<b>Accumulated amortization</b>							
Balance at June 30, 2018	2,909,616	1,466,827	214,262	1,612,443	273,433	165,680	6,642,261
Amortization expense	6,971	1,287,360	-	1,829,798	776,453	513,000	4,413,582
Effects of movements on exchange rates	-	(10,837)	(1,305)	(33,869)	(8,895)	(6,816)	(61,722)
Balance at June 30, 2019	2,916,587	2,743,350	212,957	3,408,372	1,040,991	671,864	10,994,121
Amortization expense	31,874	1,358,513	14,927	3,794,315	890,253	858,554	6,948,436
Effects of movements on exchange rates	-	33,779	8,821	206,455	43,525	40,940	333,520
<b>Balance at June 30, 2020</b>	<b>2,948,461</b>	<b>4,135,642</b>	<b>236,705</b>	<b>7,409,142</b>	<b>1,974,769</b>	<b>1,571,358</b>	<b>18,276,077</b>
<b>Net book value as at:</b>							
Balance at June 30, 2019	31,874	5,077,654	14,745	15,770,774	6,955,696	1,602,803	29,453,546
<b>Balance at June 30, 2020</b>	<b>-</b>	<b>7,479,726</b>	<b>-</b>	<b>33,277,958</b>	<b>7,274,987</b>	<b>2,173,707</b>	<b>50,206,378</b>

\* Other purchase intangibles include non-compete agreements and backlog.

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

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 7. Development costs

	\$	
<b>Cost</b>		
Balance at June 30, 2018	20,255,338	
Additions	2,143,033	
Investment tax credits	(670,925)	
Balance at June 30, 2019	21,727,446	
Additions	1,964,684	
Investment tax credits	(136,716)	
<b>Balance at June 30, 2020</b>	<b>23,555,414</b>	
<b>Accumulated amortization</b>		
Balance at June 30, 2018	(17,716,350)	
Amortization	(1,886,593)	
Balance at June 30, 2019	(19,602,943)	
Amortization	(1,499,753)	
<b>Balance at June 30, 2020</b>	<b>(21,102,696)</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Net capitalized development costs	<b>2,452,718</b>	2,124,503

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized \$22,413,315 of engineering expenditures as an expense during the year ended June 30, 2020 (2019 - \$18,861,689).

### 8. Goodwill

The carrying amount and movements of goodwill was as follows:

	\$
Balance at June 30, 2018	5,174,981
Addition through business combinations (Note 18)	16,373,896
Effect of movements in exchange rates	(143,457)
Balance at June 30, 2019	21,405,420
Addition through business combinations (Note 18)	21,025,465
Effect of movements in exchange rates	1,581,533
<b>Balance at June 30, 2020</b>	<b>44,012,418</b>

The addition to goodwill for the year ended June 30, 2020 is from the acquisition of VoIP Innovations LLC on October 18, 2019 and .e4 LLC on February 29, 2020 (Note 18).

The recoverable amount of the Company's CGU was determined based on a value in use calculation which uses cash flow projections based on financial budgets covering a five-year period with growth rates of 3.0% - 10.3% and an after-tax discount rate of 17.0% (pre-tax – 22.4%) per annum. The cash flows beyond the five-year period have been extrapolated using a steady 2.0% per annum growth rate.

The cash flow projections used in estimating the recoverable amounts are generally consistent with results achieved historically adjusted for anticipated growth. The Company believes that any reasonably possible change in key assumptions on which the recoverable amounts were based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 9. Operating facility and loan and derivative liability

(a) *Operating facility and loans*

- (i) A demand operating line of credit of up to \$3,500,000 to ensure sufficient cash for operations. This facility was governed by a general security agreement and standard operating covenants. The demand operating line of credit carried an interest rate of prime plus 0.80%. This operating line credit was cancelled as part of the new debt agreement effective October 18, 2019. As at June 30, 2019, the full value of the \$3,500,000 was available.
- (ii) A term loan facility of up to \$1,297,700 (\$1,000,000 USD) which was used to finance the acquisition of VoIP Supply LLC. This facility was governed by the general security agreement and standard operating covenants. The term loan facility had a maturity date of June 2022 and carried an interest rate of 6.75%, consisting of base rate of 5.50% and a loan spread of 1.25%. This term loan was fully paid off and cancelled as part of the new debt agreement effective October 18, 2019. The balance drawn against this term loan facility as of June 30, 2019 was \$588,915. As at June 30, 2019, term loan facility balance of \$196,305 was classified as current and \$392,610 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 Converged Communications Division ("CCD") from Dialogic Corporation. This facility was governed by a general security agreement and standard operating covenants. This term loan facility had a maturity date of January 2023 and carried a fixed interest rate of 5.38% as at June 30, 2019. This term loan was fully paid off and cancelled as part of the new debt agreement effective October 18, 2019. The balance drawn against this term loan facility as of June 30, 2019 was \$3,112,086. As at June 30, 2019, term loan facility balance of \$808,082 was classified as current and \$2,304,004 as long-term in the consolidated statements of financial position.
- (iv) A third term loan facility of up to \$5,274,000 (\$4,000,000 USD) which was used to finance the acquisition of Digium Inc. This facility was governed by a general security agreement and standard operating covenants. This term loan facility had a maturity date of August 2023 and carried an interest rate of 6.75% as at June 30, 2019, consisting of base rate of 5.50% and a loan spread of 1.25%). This term loan was fully paid off and cancelled as part of the new debt agreement effective October 18, 2019. The balance drawn against this term loan facility as of June 30, 2019 was \$4,701,895. As at June 30, 2019, term loan facility balance of \$814,995 was classified as current and \$3,886,900 as long-term in the consolidated statements of financial position.
- (v) A fourth term loan facility of up to \$15,822,000 (\$12,000,000 USD) which was used to finance the acquisition of the Digium Inc. This facility was governed by a general security agreement and standard operating covenants. This term loan facility had a maturity date of August 2023 and carried a fixed interest rate of 6.18% as at June 30, 2019. This term loan was fully paid off and cancelled as part of the new debt agreement effective October 18, 2019. The balance drawn against this term loan facility as of June 30, 2019 was \$14,327,462. As at June 30, 2019, term loan facility balance of \$2,104,393 is classified as current and \$12,223,069 as long-term in the consolidated statements of financial position.
- (vi) The Company entered into a new loan facility with two banks and drew down the first tranche of \$45,699,360 (\$34,800,000 USD) on October 18, 2019. This new loan facility was used to pay down and close all existing loans and to fund part of the purchase of VoIP Innovations LLC. A further \$7,879,200 (\$6,000,000 USD) is available and may be drawn in a second tranche to pay any contingent consideration arising from the VoIP Innovations transaction at the end of the one-year assessment period. These term facilities are repaid over six years on a straight-line basis. The interest rates charged are based on Prime rate, US Base rate, LIBOR or CDOR plus the applicable margin. Under the terms of these term facilities, the Company may convert the loans from variable to a fixed loan. The Company was required to lock in the interest rate on one

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 9. Operating facility and loan and derivative liability (continued)

half of the term loan within three months of each draw down. On January 21, 2020, the Company converted its US Base Rate loan to a one-month LIBOR loan plus the credit spread based on the syndicated loan agreement entered on October 18, 2019. Separately, as required under the agreement, the Company locked in half of the original loan amount by entering a 5-year interest rate credit swap with the two banks for \$8,700,000 USD million each. The swaps together with protection against the 0% LIBOR floor have effectively converted one half of the variable LIBOR rate to a fixed loan of approximately 4.2% for five years of the six-year remaining balance on the loan. The repayment schedule for the loan has not been impacted by either of these changes. The balance drawn against this term loan facility as of June 30, 2020 is \$41,497,260 (\$30,450,000 USD). As at June 30, 2020, term loan facility balance of \$7,904,240 is classified as current and \$33,593,020 as long-term in the consolidated statements of financial position.

- (vii) The Company also has revolving credit facilities which includes a committed revolving credit facility for up to \$8,000,000 and a committed swingline credit facility for up to \$2,000,000 both of which may be used for general business purposes. On April 3, 2020, Sangoma US Inc. drew down \$1,838,460 (\$1,300,000 USD) on the swingline credit facility available under the Credit Agreement. On April 13, 2020, the Company reallocated the \$8,000,000 revolver facility available to it under a syndicated loan agreement it entered into on October 17, 2019 (the "Credit Agreement") to Sangoma US Inc. and on April 17, 2020, Sangoma US Inc. drew down \$7,439,610 (\$5,300,000 USD) from this facility. The Company drew down the credit facility to maximize its cash balance in order to take advantage of opportunities that may arise, as well as to fully prepare itself for any further uncertainties during the COVID-19 pandemic. As at June 30, 2020, the swingline credit facility has a balance of \$1,771,640 and revolver facility has a balance of \$7,222,840. Both these amounts drawn down have been classified as current in the consolidated statements of financial position.

For the year ended June 30, 2020, the Company incurred interest costs to service the borrowing facilities in the amount of \$2,048,840 (2019 - \$1,384,706). During the year ended June 30, 2020, the Company borrowed \$54,977,430 (2019 - \$21,096,000) in operating facility and loans and repaid \$28,810,943 (2019 - \$2,906,694).

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 June 30, 2020 and June 30, 2019, the Company was in compliance with all covenants related to its credit agreements.

#### *(b) Derivative liability*

The Company use derivative financial instruments to hedge its exposure to interest rate risks. All derivative financial instruments are recognized as either assets or liabilities at fair value on the consolidated statements of financial position. Upon entering into a hedging arrangement with an intent to apply hedge accounting, the Company formally document the hedge relationship and designate the instrument for financial reporting purposes as a fair value hedge, a cash flow hedge, or a net investment hedge. When the Company determines that a derivative financial instrument qualifies as a cash flow hedge and is effective, the changes in fair value of the instrument are recorded in accumulated other comprehensive income, net of tax in the consolidated statements of financial position and will be reclassified to earnings when the hedged item affects earnings.

On January 21, 2020, the Company converted its US Base Rate loan to a one-month LIBOR loan plus the credit spread based on the syndicated loan agreement entered into on October 18, 2019. Separately, as required under the agreement, the Company locked in half of the original loan amount by entering into a 5-year interest rate credit swap with the two banks for \$8,700,000 USD each to manage its exposure to changes in LIBOR-based interest rates. The interest rate swap hedges the variable cash flows associated with the borrowings under the loan facility, effectively providing a fixed rate of interest for five years of the six-year loan term.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 9. Operating facility and loan and derivative liability (continued)

The interest rate swap arrangement with two banks became effective on January 31, 2020, with a maturity date of December 31, 2024. The notional amount of the swap agreement at inception was \$17,400,000 USD and decreases in line with the term of the loan facility. As of June 30, 2020, the notional amount of the interest rate swap was \$15,886,958 USD. The interest rate swap has a weighted average fixed rate of 1.65% and has been designated as an effective cash flow hedge and therefore qualifies for hedge accounting. As of June 30, 2020, the fair value of the interest rate swap liability was valued at \$797,380 and was recorded as derivative liability in the consolidated statements of financial position. As of June 30, 2020, the change in fair value of the interest rate swaps, net of tax, in the amount of \$797,380 is recorded in accumulated other comprehensive income (loss) in the consolidated statements of income and comprehensive income. The fair value of interest rate swap is determined based on the market conditions and the terms of the interest rate swap agreement using the discounted cash flow methodology. Any differences between the hedged LIBOR rate and the fixed rate are recorded as interest expense on the same period that the related interest is recorded for the loan facility based on the LIBOR rate.

### 10. Income tax

The Company income tax expense is determined as follows:

	2020	2019
Statutory income tax rate	26.30%	26.50%
	\$	\$
Net income before income taxes	5,076,363	2,877,951
Expected income tax expense	1,335,083	737,660
Tax rate changes and other adjustments	248,248	(152,991)
Share based compensation and non-deductible expenses	178,448	238,539
True-up of prior years	(482,730)	(123,691)
Scientific Research and Experimental Development (SR&ED)	(259,873)	329,135
Business acquisition costs	-	311,158
Sec 481(a) adjustment	184,271	-
Difference in foreign tax rates	(83,649)	-
Changes in tax benefits not recognized	51,949	-
<b>Income tax expense</b>	<b>1,171,747</b>	<b>1,339,810</b>
The Company's income tax expense	\$	\$
is allocated as follows:		
Current tax expense	1,651,676	2,182,514
Deferred income tax recovery	(479,929)	(842,704)
<b>Income tax expense</b>	<b>1,171,747</b>	<b>1,339,810</b>

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 10. Income tax (continued)

The following table summarizes the components of deferred tax assets:

	June 30 2020	June 30, 2019
	\$	\$
<b>Deferred income tax assets (liabilities)</b>		
Non-deductible reserves - Canadian	106,857	115,573
Non-deductible reserves - USA	2,568,308	1,501,338
SR&ED investment tax credits, net of 12(1)(x)	1,988,657	1,757,926
Property and equipment - Canadian	(310,810)	(388,859)
Property and equipment - USA	(679,817)	(458,970)
Deferred development costs	(1,001,984)	(854,549)
Intangible assets including goodwill - Canadian	(89,607)	(75,066)
Intangible assets including goodwill - USA	(3,812,802)	(4,759,331)
Non-capital losses carried forward - USA	5,551,484	7,208,503
Capital losses carried forward and other - Canadian	370,626	129,478
Non-capital losses carried forward - Canadian	127,473	-
Right of use assets net of obligations - Canadian	7,833	-
Right of use assets net of obligations - USA	103,662	-
Share issuance costs - Canadian	357,327	-
<b>Net deferred income tax assets</b>	<b>5,287,207</b>	<b>4,176,043</b>

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. The following table shows the movement in net deferred tax assets:

	2020	2019
	\$	\$
Balance at the beginning of the year	4,176,043	855,140
Recognized in profit/loss	479,929	842,704
Recognized in goodwill	-	2,461,682
Recognized in equity	432,590	-
Other foreign exchange movement	198,645	16,517
<b>Balance at the end of the year</b>	<b>5,287,207</b>	<b>4,176,043</b>

The Company has deducted available scientific research and experimental development ("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:

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 10. Income tax (continued)

Year of expiration	Federal tax credits carry forward	Ontario tax credits carry forward
	\$	\$
2033	317,501	-
2034	347,033	-
2035	288,821	-
2036	334,585	17,038
2037	300,386	68,347
2038	227,599	50,686
2039	325,909	49,211
2040	334,069	50,401
	2,475,903	235,683

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.

### 11. Shareholders' equity

#### (i) Share capital

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at June 30, 2020, the Company's issued and outstanding common shares consist of the following:

	June 30, 2020	June 30, 2019
	#	#
Shares issued and outstanding:		
Outstanding, beginning of the year	<b>52,962,090</b>	47,460,957
Shares issued for business combinations (Note 18)	<b>5,500,417</b>	3,668,259
Shares issued through short form prospectus	<b>14,846,500</b>	-
Shares returned from escrow	<b>(21,673)</b>	-
Shares issued upon exercise of options	<b>2,738,444</b>	1,500,691
Shares issued upon exercise of broker warrants	<b>61,957</b>	332,183
<b>Shares issued and outstanding, end of the year</b>	<b>76,087,735</b>	52,962,090

During the year ended June 30, 2020, the Company acquired VoIP Innovations LLC and issued 5,500,417 shares for \$6,553,938 as part of the consideration (Note 18). During the year ended June 30, 2019, the Company issued 3,668,259 common shares for \$3,805,709 as part of the consideration for the acquisition of Digium Inc. (Note 18).

During the year ended June 30, 2020, the Company closed a short-form bought deal prospectus offering of 14,846,500 common shares, including 1,936,500 common shares issued upon the exercise in full of the overallotment option granted to the Underwriters, at a price of \$1.55 per common share for aggregate gross proceeds of \$23,012,075 and net proceeds of \$21,319,720.

During the year ended June 30, 2020, 21,673 shares were returned and cancelled, which were held in escrow for working capital adjustment purposes for Digium acquisition (Note 18). As a result of cancellation of common shares, an amount of \$24,362 was reclassified from share capital to retained earnings.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 11. Shareholders' equity (continued)

#### (i) Share capital (continued)

During the year ended June 30, 2020, a total of 2,738,444 (2019 – 1,500,691) options were exercised for cash consideration of \$915,989 (2019 - \$517,052), and the Company recorded a charge of \$478,904 (2019 – \$217,698) from contributed surplus to share capital.

During the year ended June 30, 2020, a total of 61,957 (2019 – 332,183) broker warrants were exercised for cash consideration of \$61,957 (2019 - \$332,183), and the Company recorded a charge of \$29,348 (2019 – \$157,352) from warrant reserve to share capital. As at June 30, 2020, nil (2019 – 61,957) broker warrants were outstanding with an exercise price of \$1.00 per share.

#### (ii) Stock options

During the year ended June 30, 2020, the shareholders of the Company amended the stock option plan (the "plan") for 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 10% of the outstanding common shares of the corporation 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 are terminated, cancelled, exercised, expired or surrendered will be available for a subsequent grant under the plan, subject to 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 price
	#	\$
Balance, June 30, 2018	5,458,574	0.47
Granted	1,668,000	1.22
Exercised	(1,500,691)	(0.34)
Forfeited	(386,541)	(0.67)
Balance, June 30, 2019	5,239,342	0.58
Granted	2,381,000	2.20
Exercised	(2,738,444)	(0.33)
Expired	(16,190)	(0.88)
Forfeited	(367,505)	(1.09)
<b>Balance, June 30, 2020</b>	<b>4,498,203</b>	<b>1.55</b>

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 11. Shareholders' equity (continued)

#### (ii) Stock options (continued)

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.

	2020	2019
Share price	\$2.20	\$1.10 - \$1.60
Exercise price	\$2.20	\$1.16 - \$1.60
Expected volatility	61.96%	60.79% - 63.73%
Expected option life	5 years	5 years
Risk-free interest rate	0.39%	1.48% - 1.93%

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

Exercise price	June 30, 2020		June 30, 2019	
	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	368,833	0.98	2,238,656	1.53
\$0.51 - \$0.75	112,448	2.50	160,759	3.50
\$1.01 - \$1.25	285,163	3.49	-	-
\$1.51 - \$1.75	50,000	3.92	-	-
	<b>816,444</b>	<b>2.25</b>	2,399,415	1.66

For the year ended June 30, 2020, the Company recognized share-based compensation expense in the amount of \$401,977 (2019 - \$407,676).

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 11. Shareholders' equity (continued)

#### (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.

	2020	2019
<b>Number of shares:</b>		
Weighted average number of shares used in basic earnings per share	71,382,799	50,943,244
Shares deemed to be issued in respect of options and warrants	1,212,503	3,075,432
<b>Weighted average number of shares used in diluted earnings per share</b>	<b>72,595,302</b>	<b>54,018,676</b>
<b>Net income for the year</b>	<b>\$ 3,904,616</b>	<b>\$ 1,538,141</b>
<b>Earnings per share:</b>		
Basic earnings per share	\$ 0.055	\$ 0.030
Diluted earnings per share	\$ 0.054	\$ 0.028

### 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 excluding key management compensation:

	2020	2019
	\$	\$
Total transactions during the year:		
General and administrative expenses	10,000	10,000
Outstanding balances as at June 30:		
Accounts payable and accrued liabilities	5,000	5,000

#### Compensation of key management personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the members of the Board of Directors and three officers.

The remuneration of directors and other members of key management personnel during the fiscal year ended June 30, 2020 and 2019 were as follows:

	2020	2019
	\$	\$
Short-term benefits	1,762,752	2,212,430
Long-term benefits	20,000	42,371
Share-based compensation	114,031	119,444
	<b>1,896,783</b>	<b>2,374,245</b>

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 13. Financial instruments

The fair values of the cash and cash equivalents, trade receivables, contract assets, accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term nature of these financial instruments and fair values of operating facility and loans approximate their carrying values due to variable interest loans or fixed rate loan, which represent market rate.

Cash and cash equivalents are comprised of:

	2020	2019
	\$	\$
Cash at bank and on hand	27,249,863	11,724,844
	<b>27,249,863</b>	<b>11,724,844</b>

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 June 30, 2020 and 2019, 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:

	2020	2019
	\$	\$
Interest income	(53,170)	(13,763)
Interest expense (Notes 9, 15)	2,530,537	1,384,706
Net interest expense	<b>2,477,367</b>	<b>1,370,943</b>

The Company 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:

	June 30, 2020	June 30, 2019
	\$	\$
Trade receivables aging:		
0-30 days	9,312,820	9,082,221
31-90 days	1,838,303	1,787,297
Greater than 90 days	671,596	672,548
	<b>11,822,719</b>	<b>11,542,066</b>
Expected credit loss provision	(588,178)	(287,372)
Net trade receivables	<b>11,234,541</b>	<b>11,254,694</b>

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 13. Financial instruments (continued)

The movement in the provision for expected credit losses can be reconciled as follows:

	June 30, 2020	June 30, 2019
	\$	\$
Expected credit loss provision:		
Expected credit loss provision, beginning balance	(287,372)	(598,134)
Net change in expected credit loss provision during the year	(300,806)	310,762
Expected credit loss provision, ending balance	(588,178)	(287,372)

The Company applies the simplified approach to provide for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The expected credit loss provision is based on the Company's historical collections and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate for each aging category of trade receivables.

		June 30, 2020			
		Total	Up to 30 days past due	Over 30 days past due	Over 90 days past due
Default rates			1.68%	5.39%	49.58%
Trade receivables	\$ 11,822,719	\$ 9,312,820	\$ 1,838,303	\$ 671,596	
Expected credit loss provision	\$ 588,178	\$ 156,043	\$ 99,164	\$ 332,971	

  

		June 30, 2019			
		Total	Up to 30 days past due	Over 30 days past due	Over 90 days past due
Default rates			0.69%	0.96%	30.83%
Trade receivables	\$ 11,542,066	\$ 9,082,221	\$ 1,787,297	\$ 672,548	
Expected credit loss provision	\$ 287,372	\$ 62,891	\$ 17,158	\$ 207,323	

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:

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 13. Financial instruments (continued)

	2020	2019
	\$	\$
Accounts payable and accrued liabilities	14,185,583	14,626,815
Operating facility and loans	16,898,720	3,923,775
Lease obligations on right-of-use assets	2,951,616	-
	<b>34,035,919</b>	18,550,590

#### *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 foreign denominated cash, trade receivables, accounts payable and operating facility and loans. As at June 30, 2020, a 10% depreciation or appreciation of the U.S. dollar, Euro, and GBP against the Canadian dollar would have resulted in an approximate \$1,063,592 (2019 - \$1,286,241) increase or decrease, respectively, in total comprehensive income (loss).

#### *Interest rate risk*

The Company's exposure to interest rate fluctuations is with its credit facility (Note 9) which bears interest at a floating rate. As at June 30, 2020, a change in the interest rate of 1% per annum would have an impact of approximately \$293,044 (2019 - \$48,000) per annum in finance costs. The Company also entered into an interest rate swap arrangement for its loan facility (Note 9) to manage the exposure to changes in LIBOR-rate based interest rate. The fair value of the interest rate swaps was estimated based on the present value of projected future cash flows using the LIBOR forward rate curve. The model used to value the interest rate swaps included inputs of readily observable market data, a Level 2 input. As described in detail in Note 9, the fair value of the interest rate swaps was a \$797,380 liability at June 30, 2020.

### 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 and operating facilities and loans. Working capital is optimized via stringent cash flow policies surrounding disbursement, foreign currency exchange and investment decision-making. There have been 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. Leases: Right-of-use assets and lease obligations

The Company adopted IFRS 16 effective July 1, 2019 and on initial application, the Company elected to record right-of-use assets based on the corresponding lease liability. When measuring lease liabilities, the Company discounted lease payments using the Company's incremental borrowing rates for similar assets. The Company's incremental borrowing rate varies by country and term of the lease and ranges from 2.50% - 8.00%. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after July 1, 2019.

The following table reconciles the Company's operating lease obligations to the lease obligations recognized on initial application of IFRS 16 at July 1, 2019.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 15. Leases: Right-of-use assets and liabilities (continued)

	Right-of-use assets	Lease Obligations
	\$	\$
<b>Present value of leases</b>		
Balance at June 30, 2019	-	-
Aggregate lease commitments (1)	19,608,874	19,489,786
Less: impact of present value	(2,367,095)	(2,366,561)
Opening IFRS 16 lease value as at July 1, 2019 (2)	17,241,779	17,123,225
Additions	1,620,892	1,620,892
Effects of movements on exchange rates	697,732	694,785
<b>Balance at June 30, 2020</b>	<b>19,560,403</b>	<b>19,438,902</b>
<b>Accumulated depreciation and repayments</b>		
Depreciation expense	3,366,767	-
Repayments	-	3,285,223
Interest expense	-	(481,697)
Effects of movements on exchange rates	15,116	12,586
<b>Balance at June 30, 2020</b>	<b>3,381,883</b>	<b>2,816,112</b>
<b>Net book value as at:</b>		
June 30, 2019	-	-
<b>June 30, 2020</b>	<b>16,178,521</b>	<b>16,622,790</b>
<b>Lease Obligations - Current</b>		<b>2,951,616</b>
<b>Lease Obligations - Non-current</b>		<b>13,671,174</b>
		<b>16,622,790</b>
(1) Includes the impact of recognition exemptions including those for short-term and low-dollar value leases; includes the impact of judgment applied with regard to renewal options in the lease terms in which the Company is a lessee.		
(2) Right-of-use assets opening balance includes the impact of estimated restoration costs.		
<b>Amounts recognized in consolidated statements of income and comprehensive income</b>		
		<b>\$</b>
Depreciation charge on right-of-use assets		3,366,767
Interest expense on lease obligations		481,697
Income from sub-leasing right-of-use assets		(56,393)
Expenses relating to leases of low-value assets		309,567
<b>Maturity Analysis - contractual undiscounted cash flows</b>		
		<b>\$</b>
Not later than one year		3,377,395
Greater than one year and less than five years		6,967,623
Greater than five years		8,364,668
<b>Total undiscounted lease obligations at June 30, 2020</b>		<b>18,709,686</b>

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 16. Provisions

	Warranty provision	Sales returns & allowances provision	Stock rotation provision	Total
	\$	\$	\$	\$
Balance at June 30, 2018	165,094	34,596	80,000	279,690
Additional provision recognized	43,387	13,634	220,294	277,315
Balance at June 30, 2019	208,481	48,230	300,294	557,005
Additional provision recognized	5,676	46,227	54,034	105,937
<b>Balance at June 30, 2020</b>	<b>214,157</b>	<b>94,457</b>	<b>354,328</b>	<b>662,942</b>

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 period that may be returned in a future period. The stock rotation provision represents the Company's best estimate of the value of the products sold in the current financial period that may be exchanged for alternative products in a future period. 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 operating 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 of America ("USA"). 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 year ended June 30, 2020 and 2019 as follows:

	2020	2019
	\$	\$
Products	66,496,760	73,711,251
Services	64,920,946	35,936,251
<b>Total revenues</b>	<b>131,417,706</b>	<b>109,647,502</b>

The sales, in Canadian dollars, in each of these geographic locations for the year ended June 30, 2020 and 2019 as follows:

	2020	2019
	\$	\$
USA	102,837,194	76,493,837
Canada	4,369,137	8,651,791
All other countries	24,211,375	24,501,874
<b>Total revenues</b>	<b>131,417,706</b>	<b>109,647,502</b>

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 17. Segment disclosures (continued)

The non-current assets, in Canadian dollars, in each of the geographic locations as at June 30, 2020 and 2019 are below:

	2020	2019
	\$	\$
Canada	7,516,113	6,638,535
USA	113,622,815	52,944,506
<b>Total non-current assets</b>	<b>121,138,928</b>	<b>59,583,041</b>

### 18. Business combinations

- a) On September 5, 2018, Sangoma Technologies US Inc., a wholly owned subsidiary of Sangoma Technologies Inc., merged with Digium Inc., a US based company and its wholly owned subsidiary Digium Cloud Services LLC. The total non-discounted agreed upon consideration for the acquisition was \$36,297,239 (\$27,529,191 USD). The purchase price consisted of \$31,446,549 (\$23,850,246 USD) in cash paid on closing and issuance of 262,468 common shares valued at \$325,460 (\$246,841 USD) based on a share price of \$1.24 (\$0.94 USD) per common share on closing. In addition, the Company issued \$128,365 (\$97,357 USD) and \$173,683 (\$131,728 USD) in cash, which was held in escrow for working capital and indemnification adjustments, respectively.

The cash held in escrow for working capital and indemnification adjustments was discounted using a 5.0% discount for a period of three and sixteen months, respectively for an amount of \$126,809 (\$96,177 USD) and \$162,744 (\$123,431 USD). The Company also issued 1,454,964 and 1,950,827 common shares, which were held in escrow for working capital and indemnification purposes. The fair value of the 1,454,964 common shares, which were held in escrow for working capital adjustments was determined to be \$1,635,462 (\$1,240,396 USD). The discount related to the fair value of the shares held in escrow for working capital adjustments was determined using Black Scholes Option Pricing model with the following assumptions: share price of \$0.941 USD, exercise price of \$0.941 USD, expected life of 0.25 years, volatility of 48.0%, risk free rate of 1.49% and dividend yield of nil. The fair value of the 1,950,827 common shares, which were held in escrow for indemnification adjustments was determined to be \$1,844,787 (\$1,399,156 USD). The discount related to the fair value of the shares held in escrow for indemnification adjustments was determined using Black Scholes Option Pricing model with the following assumptions: share price of \$0.941 USD, exercise price of \$0.941 USD, expected life of 1.33 years, volatility of 56.0%, risk free rate of 1.995% and dividend yield of nil. 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 were \$2,265,770 which have been expensed and included in the consolidated statements of income and comprehensive income. The acquisition has been accounted for using the acquisition method under IFRS 3, Business Combinations.

During the year ended June 30, 2020, 21,673 shares were returned and cancelled, which were held in escrow for working capital adjustment purposes for Digium acquisition.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 18. Business combinations (continued)

<b>Consideration</b>	<b>USD</b>	<b>CAD</b>
Cash consideration on closing	\$23,850,246	\$31,446,549
Cash held in escrow for working capital	\$96,177	\$126,809
Cash held in escrow for indemnification	\$123,431	\$162,744
Common shares issued on closing	\$246,841	\$325,460
Common shares held in escrow for working capital	\$1,240,396	\$1,635,462
Common shares held in escrow for indemnification	\$1,399,156	\$1,844,787
	<b>\$26,956,247</b>	<b>\$35,541,811</b>

<b>Purchase price allocation</b>	<b>USD</b>	<b>CAD</b>
Cash	\$291,835	\$384,784
Accounts receivable	\$1,248,095	\$1,645,614
Inventory	\$2,574,131	\$3,393,992
Prepays and other deposits	\$1,380,647	\$1,820,383
Property and equipment	\$1,293,738	\$1,705,794
Deferred tax asset	\$1,881,013	\$2,480,116
Accounts payable and accrued liabilities	(\$2,812,511)	(\$3,708,296)
Other liabilities	(\$12,393)	(\$16,341)
Contract Liabilities	(\$9,126,887)	(\$12,033,801)
Customer relationships	\$9,230,000	\$12,169,755
Backlog	\$1,220,000	\$1,608,570
Technology	\$2,840,000	\$3,744,540
Brand	\$4,360,000	\$5,748,660
Non-compete	\$170,000	\$224,145
Goodwill	\$12,418,579	\$16,373,896
	<b>\$26,956,247</b>	<b>\$35,541,811</b>

- b) On October 18, 2019, Sangoma Technologies US Inc., a wholly owned subsidiary of Sangoma Technologies Inc., acquired all the membership interest of VoIP Innovations LLC, a US based company. The total discounted consideration for the acquisition was \$46,028,032 (\$35,050,283 USD). The discounted purchase price consisted of \$39,171,420 (\$29,828,982 USD) in cash paid on closing and the issuance of 5,500,417 common shares valued at \$6,553,938 (\$4,990,815 USD) based on a share price of \$1.40 (\$1.066 USD) per common share on closing and a discount of 14.9% to reflect the 12-month lock up. In addition, the Company is required to pay additional consideration of up to \$7,879,200 (\$6,000,000 USD) if certain performance criteria are met for the twelve month period from the date of acquisition. The Company expects this potential payment to be \$nil and the working capital adjustment was finalized at \$302,674 (\$230,486 USD). Of the cash consideration paid to the vendors, \$4,281,032 (\$3,260,000 USD) was paid to an escrow agent to be held for periods ranging from 4 months to 2 years to cover potential working capital, indemnification and USF special indemnity adjustments. The cash held in escrow for working capital and indemnification purposes was discounted using a 5.0% discount for a period of four to twelve months, respectively for an amount of \$1,163,074 (\$885,679 USD) and \$450,240 (\$342,857 USD). The cash held in escrow for USF Special Indemnity purposes was discounted using a 1.72% and 1.64% discount for a period of one and two years, respectively for an amount of \$2,194,691 (\$1,671,254 USD) and \$381,349 (\$290,397 USD). The Company acquired VoIP Innovations LLC to expand its suite of service offerings and increase recurring revenue.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

### 18. Business combinations (continued)

The Company incurred transaction costs in the amount of \$2,581,854 which have been expensed and included in the consolidated statements of income and comprehensive income. The acquisition has been accounted for using the acquisition method under IFRS 3, Business Combinations.

<b>Consideration</b>	<b>USD</b>	<b>CAD</b>
Cash consideration on closing	\$26,638,795	\$34,982,066
Net working capital adjustment	\$230,486	\$302,674
Cash held in escrow for working capital	\$885,679	\$1,163,074
Cash held in escrow for indemnification	\$342,857	\$450,240
Cash held in escrow for USF Special Indemnity (1 year)	\$1,671,254	\$2,194,691
Cash held in escrow for USF Special Indemnity (2 year)	\$290,397	\$381,349
Common shares	\$4,990,815	\$6,553,938
	<b>\$35,050,283</b>	<b>\$46,028,032</b>

<b>Purchase price allocation</b>	<b>USD</b>	<b>CAD</b>
Cash	\$1,513,854	\$1,987,993
Accounts receivable	\$582,676	\$765,170
Prepays and other deposits	\$294,739	\$387,051
Property and equipment	\$424,260	\$557,138
Right-of-use assets	\$516,648	\$678,462
Accounts payable and accrued liabilities	(\$561,890)	(\$737,874)
Other liabilities	(\$978,715)	(\$1,285,249)
Contract Liabilities	(\$628,728)	(\$825,646)
Lease obligations on right-of-use assets	(\$516,648)	(\$678,462)
Customer relationships	\$15,030,000	\$19,737,396
Technology	\$2,640,000	\$3,466,848
Brand	\$700,000	\$919,240
Non-compete	\$1,010,000	\$1,326,332
Goodwill	\$15,024,087	\$19,729,633
	<b>\$35,050,283</b>	<b>\$46,028,032</b>

- c) On February 29, 2020, the Company acquired .e4 LLC in order to strengthen its sales capabilities in its FreePBX® ecosystem. Given the relative size of this transaction, no financial details were publicly disclosed.

Goodwill arises primarily from the ability to benefit from the assembled workforce, future growth and potential synergies in the form of cost savings.

# Sangoma Technologies Corporation

## Notes to the consolidated financial statements

For the years ended June 30, 2020 and 2019

(In Canadian dollars)

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### 19. Subsequent events

On July 30, 2020, the Company closed its equity offering with 35,006,000 common shares being issued at a price of \$2.30 per common share including 4,566,000 common shares sold pursuant to the exercise in full of the over-allotment option grant to the Underwriter for aggregate gross proceeds of \$80,513,800 and net proceeds of \$75,563,135. The Company intends to use the net proceeds of the offering to fund any future acquisitions, for debt repayment, and for general corporate purposes.

During August 2020, Sangoma US Inc. paid back the outstanding amounts of \$1,723,020 (\$1,300,000 USD) on the swingline facility and \$6,993,350 (\$5,300,000 USD) on the revolver facility. Both of these facilities remain fully available to the Company.

On October 7, 2020, \$449,256 USD was released to the Company from the funds held in escrow in connection with the VoIP Innovations LLC acquisition. This amount represented the amount owing by VoIP Innovations LLC under the Universal Service Fund as at the closing of the VoIP Innovations LLC acquisition and was released in accordance with the terms of the VoIP Innovations LLC acquisition agreement and the escrow agreement entered into in connection with the transaction.

### 20. Authorization of the consolidated financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on October 20, 2020.