

***SANGOMA TECHNOLOGIES CORPORATION***  
***MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL***  
***CONDITION AND RESULTS OF OPERATIONS***  
***THIRD QUARTER FISCAL 2016 ENDED MARCH 31, 2016***

May 25, 2016

## **INTRODUCTION**

The Management Discussion and Analysis (“MD&A”) provides a detailed analysis of the financial condition and results of operations of Sangoma Technologies Corporation (hereinafter referred to as “Sangoma” or the “Company”). The MD&A compares the financial results for the fiscal third quarter of 2016 with those of the same quarter in the previous year. This MD&A should be read in conjunction with Sangoma’s audited annual financial statements and related notes for the year ended June 30, 2015 (“Financial Statements”) which are available at [www.sedar.com](http://www.sedar.com). All amounts are in Canadian Dollars unless otherwise noted.

## **BASIS OF PRESENTATION**

The Company reports in accordance with International Financial Reporting Standards (“IFRS”).

## **NON-IFRS MEASURES**

This MD&A contains references to certain non-IFRS financial measures such as Operating Income and EBITDA. Non-IFRS financial measures are used by management to evaluate the performance of the Company and do not have any meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Non-IFRS financial measures used herein have been applied on a consistent basis. “Operating Income (Loss) before undernoted” means gross margin less expenses before financing costs and one-time charges. “EBITDA” means earnings before interest, income taxes, depreciation, amortization and one-time charges. EBITDA is a measure used by many investors to compare issuers on the basis of their ability to generate cash from operations. We believe that Operating Income and EBITDA are useful supplemental information as they provide an indication of the results generated by the Company's main business activities before taking into consideration how they are financed or taxed. Investors are cautioned that non-IFRS measures, such as those presented herein, should not be construed as an alternative to net income or cash flow determined in accordance with IFRS.

## **FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements, including statements regarding the future success of our business, development strategies and future opportunities.

Forward-looking statements include, but are not limited to, statements concerning estimates of expected expenditures, expected future product development, expected future production, anticipated cash flows, and other statements which are not historical facts. When used in this document, the words such as “could”, “plan”, “estimate”, “expect”, “intend”, “may”, “potential”, “should” and similar expressions indicate forward-looking statements.

Although Sangoma believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Forward-looking statements are based on the opinions and estimates of management at the date that the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in forward-looking statements. Except as required by law, Sangoma undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other events contemplated by the forward-looking statements will not occur. Although Sangoma believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct as these expectations are inherently subject to business, economic and competitive uncertainties. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in the management's discussion and analysis include, but are not limited to changes in exchange rate between the Canadian dollar and other currencies, changes in technology, changes in the business climate, changes in the regulatory environment, the decline in the importance of the PSTN (see glossary below), impairment of goodwill and new competitive pressures. The forward-looking statements contained in the management's discussion and analysis are expressly qualified by this cautionary statement.

# DESCRIPTION OF THE BUSINESS

## *General (please also refer to the Glossary of Terms at the end of this document)*

The communications landscape continues to grow in complexity, with more devices, networks, clouds, and systems needing to interoperate. Sangoma's portfolio of products enables service providers, carriers, enterprises, small and medium-sized businesses (SMBs), and original equipment manufacturers (OEMs) alike to leverage their existing infrastructure for maximum financial return, while still delivering the most advanced applications and services from the latest technologies available.

Sangoma's latest innovations and expanded product portfolio include technology and appliances such as session border controllers (SBCs), a suite of Microsoft® Skype for Business-certified products (including the market-leading Express for Lync / Express for Skype for Business gateways), IP-PBXs based on FreePBX, a range of IP-phones customized for one stop install and management, VoIP gateways, SIP trunking service, fax-over-IP services, call tapping, call center software, and signaling gateways for enterprise, SMB, carrier, and OEM applications. Sangoma continues to invest and lead the market in VoIP-to-PSTN interface boards.

## *Session Border Controllers*

Anytime two VoIP networks interconnect, issues of security and interoperability arise. SBCs can manage these issues, including provider-to-provider connections, provider-to-enterprise connections, and enterprise-to-enterprise connections. Sangoma's SBCs are available as hardware appliances, as software-only solutions running on a virtual machine in hosted environments, or as a hybrid of both. The hybrid solution is unique to Sangoma and provides all the flexibility expected from virtual machine capability coupled with the scalability that is found in hardware-based solutions.

## *Products for Microsoft Skype for Business*

### **Express for Skype for Business / Express for Lync**

Microsoft Skype for Business is gaining traction not only as a unified communications (UC) platform, but also as a complete Legacy PBX replacement. Skype for Business deployments are complex and further complicated by integration with the PSTN or with a SIP trunk. To help customers manage this complexity, Sangoma has created Express for Skype for Business (ESfB) an all-in-one Skype for Business appliance with a built-in VoIP gateway and SBC. The appliance is "right-sized" to support installations from SMBs to mid-sized enterprises, with all the required software pre-loaded onto the appliance. ESfB can also be used for a variety of applications beyond the outright replacement of a PBX, such as providing local and failover support of hosted Skype for Business (Office 365) implementations, and as part of a migration plan for multi-site company transitions to an end-to-end Skype for Business solution.

### **Session Border Controllers for Skype for Business**

SBCs are necessary when connecting any Skype for Business implementation to a standard SIP trunk. Sangoma is one of the few vendors certified by Microsoft for interoperability with Skype for Business Server 2015 and Lync Server 2013.

## **VoIP Gateways for Skype for Business**

VoIP Gateways are also necessary to connect any Skype for Business Lync installation to the PSTN. Sangoma's NetBorder Express Gateway software as well as the entire Vega series of Voip gateways are certified by Microsoft for interoperability with Skype for Business Server 2015 and Lync Server 2013.

## ***IP-PBXs***

A Private Branch Exchange (PBX) is an enterprise communication system. An IP-PBX is a VoIP-based PBX that uses Internet Protocol. Sangoma offers a feature rich IP-PBX called FreePBX, one of the most widely used software-based PBXs in the world. FreePBX is available free of charge as an open source software download, or in two commercial variants that come pre-loaded on a Sangoma telecom appliance. The first is the FreePBX phone system, which can be enhanced a la carte with the purchase of individual add-on commercial modules (such as call center builder, high-availability, phone configuration management, enhanced reporting, etc.). The second is Sangoma's PBXAct UC system, which comes pre-packaged with add-on functionality, tighter release and revision control, and service contracts. Usage of FreePBX by customers also pulls through complementary products such as PSTN interface cards, VoIP gateways, or SBCs.

## ***IP-Phones***

Sangoma's recently launched range of IP-Phones are customized to seamlessly integrate with all FreePBX systems to provide zero touch installation, simplified system management and instant access to a wide range of features.

## ***VOIP Gateways***

VoIP gateways are needed any time voice traffic moves from a VoIP network to a traditional PSTN telephone network. As the traffic traverses these networks there are issues that need to be resolved regarding both the media (the sound of the caller's voice) and the signaling (the method used to control the media traveling over that connection).

Vega Enterprise Gateways are used by businesses that want to connect their traditional phone systems (PBX or key system) to a VoIP provider. These types of connections are referred to as SIP trunks, and Sangoma's gateways enable users to take advantage of the cost savings and flexibility of SIP trunks, without having to upgrade their entire phone system.

These same gateways can also be used to connect a newer IP-PBX to the PSTN. In addition to providing a backup to the service provided by their VoIP Provider, companies can use VoIP gateways for multi-site transitions from older phone systems to new IP-PBX phone systems.

VoIP Gateways are also needed to connect traditional telephones to an IP-PBX. For large companies, the cost of new IP phones can be higher than replacing the core system, so they keep the older phones and connect them to the new IP-PBX. This allows them to phase in the new phones over time without disrupting normal business operations. There may also be specialized telephones (elevator phones, door entry phones, ruggedized phones for use in hard industrial or outdoor conditions) for which there are no IP replacements. These phones can also be connected to the IP-PBX with a Vega gateway.

In a service provider or carrier network, much larger gateways perform these same tasks. In addition, there are signaling protocols that are only used when carrier networks communicate with other carrier networks that are not included in the enterprise product line. The NetBorder SS7 VoIP Gateway is a carrier-specific product that enables a VoIP carrier to connect their network to the SS7 network.

## ***SIPStation***

SIPStation is a hosted, SIP trunking service targeted to users of FreePBX systems. SIP trunking is fast becoming the technology of choice to interconnect an IP-PBX system to a telephone company (in this case an IP telephony service provider or ITSP). The main drivers are cost efficiencies (over fixed lines such as ISDN or analog lines from incumbent telcos) and newer UC features/transparency. Cost efficiencies are realized because SIP Trunking uses already-available broadband connections at customer premises. SIPStation is tightly integrated into the Sangoma FreePBX graphical user interface (GUI); and customers can purchase and enable the service directly from that GUI.

## ***FoIP***

Faxing remains an important communications tool. Yet VoIP networks are sometimes unable to send faxes reliably because fax standards are based on very specific timing that can be interrupted in VoIP systems, especially where there is substantial latency. Sangoma's FoIP (Fax over Internet Protocol) service is a hosted service to remedy this problem. It features a telecom appliance with up to four analog connections for fax machines, and operates in concert with Sangoma's fax server data center to encrypt and package the fax communication to make it fail safe. This is particularly useful for small businesses that rely on fax communications but also for industries with challenging network conditions such as mining, oil rigs, ship-to-shore over satellite.

## ***Call Center Software***

Sangoma currently supports two different products used by outbound call centers for call progress analysis (CPA). The NetBorder Call Analyser is targeted at very large call centers and is usually delivered under an OEM arrangement with the company providing the call center solution. Lyra is a "lighter weight" version of the software that has been optimized to work with contact centers that are built on the Asterisk platform.

Sangoma's CPA is based on a proprietary artificial intelligence model that is currently considered to be the most accurate system available, with an accuracy of approximately 95%. CPA customers include many large businesses and Fortune 500 companies. CPA is sold largely through recommendations made by partners such as Genesys, a major supplier of call center applications. Work continues on streamlining the implementation of CPA, with the goal of simplifying the tasks performed by these partners. Sangoma is actively seeking new partners in the call center business to help market and implement the product.

## ***Other Connectivity and Media Processing Products***

### **Tapping Boards**

Recording calls has long been a requirement for call-center training purposes, for validating over-the-phone transactions such as stock orders placed with a broker, and a variety of other scenarios. The Sangoma T116 is a specialized, high-density board that can be used as part of large call recording platforms.

### **Transcoding Boards and Gateways**

One of the things that makes VoIP telephony different from traditional telephony is the way in which sound (media) is encoded for transmission. In the traditional telephony network, there is a universally agreed upon standard that has been in place for nearly 100 years. This means that the media can easily be moved across any number of networks or devices. However, there are a variety of methods that can be used to encode media for transmission over a VoIP Network. Transcoding boards and gateways are specially designed to translate media encoded by one method into another. This allows calls to pass between networks, even if they use different methods of encoding the media. Sangoma offers both board and appliance-based products to offer network providers the maximum flexibility when deploying a solution.

### **Multiplexers**

Different standards are used to move information over the physical wires of a network. A multiplexer is a device that works at the physical layer of a network, and is used to translate these standards. For example, the Sangoma STM1Fiber multiplexer can consolidate up to 83 T1s running over copper wire into a single OC-3 fiber connection. Sangoma provides a variety of multiplexers for connecting different types of physical networks.

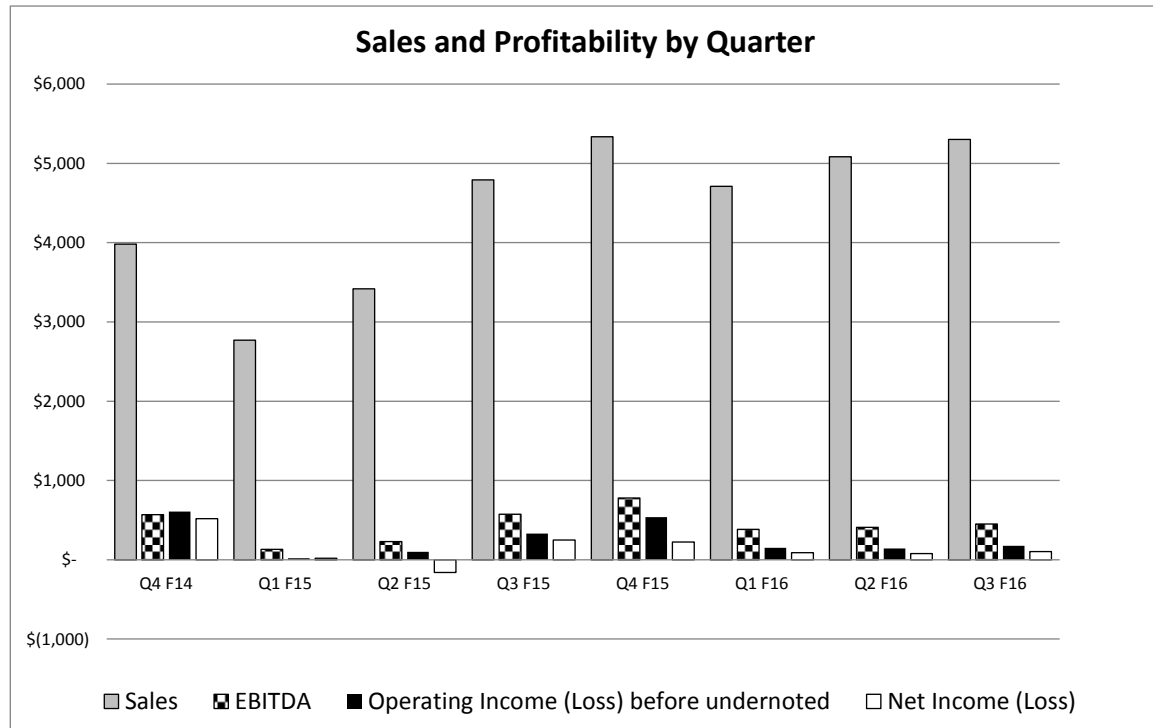
## ***PSTN Interface Boards***

This product category is the one responsible for Sangoma's initial rise in market leadership. Sangoma continues to invest in this area and has maintained a leadership position with the sixteen-span board, the highest density TDM interface board on the market. This board can manage up to 480 calls using a single expansion slot in a server. Sangoma also has a complete line of boards that can interface a VoIP system with nearly every kind of telephony network on earth, including digital PRI/PRI, analog and GSM (cellular networks).

The above boards are primarily used in PC-Based VoIP telecommunications systems that connect to the PSTN and perform a very similar task to VoIP gateways, but are installed inside the server rather than being stand-alone devices. By providing customers with the option of using a PSTN interface board or a VoIP gateway, Sangoma maximizes flexibility based on installation requirements – particularly when space and power are at a premium. They may also be used in harsh conditions that require ruggedized servers.

# OVERALL PERFORMANCE

## Financial



<sup>1</sup> Operating Income (Loss) before undernoted and EBITDA are metrics used by the Company to monitor its performance and the definitions may be found in the accompanying Financial Statements and MD&A posted today at [www.sedar.com](http://www.sedar.com).

Sales for the third quarter of fiscal 2016 were \$5.30 million, 11% higher than the \$4.79 million in the third quarter of fiscal 2015 and 4% above the immediately preceding quarter.

Gross profit was \$3.63 million for the quarter, up 7% from last year and gross margin at 69% of sales was in line with expectations.

Operating expense for the third quarter was \$3.46 million, 12% higher than the same quarter in fiscal 2015 and similar to last quarter. The change year over year results from a mix of foreign exchange impact and an increase in resources for the launch of the company's new IP phone business.

EBITDA was \$0.45 million for the third quarter of fiscal 2016, down from \$0.57 million in the same period last year, with revenue growing but operating expenses increasing to offset that for the reasons explained above. Operating income in the third quarter was \$0.18 million, down from \$0.33 million in the third quarter of fiscal 2015, for the same reasons.

Net income for the third quarter ended March 31, 2016 was \$0.10 million (\$0.003 per share fully diluted), compared to a net income of \$0.25 million (\$0.008 per share fully diluted) for the quarter ended March 31, 2015.

Sangoma had working capital of \$6.51 million on March 31, 2016 up from the \$6.36 million on June 30, 2015. The company generated positive cash flow from operations of \$0.40 million during the third quarter, after accounting for the earn out payments as part of the two acquisitions closed in January 2015. This resulted in a closing cash balance of \$1.45 million.

## **Operational**

Sangoma is a leading provider of hardware and software components that enable or enhance IP communications systems for both telecom and datacom applications. Enterprises, SMBs and carriers in more than 100 countries rely on Sangoma's technology as part of their mission-critical infrastructures. Through a worldwide network of distribution partners, Sangoma delivers high-quality products, some of which carry the industry's first lifetime warranty.

The Company has been a major player in the open source telephony ("OST") business for many years, is a respected contributor to open source telephony solutions, and contributes back to the OST community regularly. Sangoma has been involved in multiple OST projects (including two of the most common, Asterisk and Freeswitch) and, on January 1, 2015, extended its engagement through the acquisition of Schmooze Com Inc. This resulted in Sangoma taking over the management of the FreePBX project, which supports more than two million installs worldwide.

To protect its future, Sangoma has recognized the critical need to evolve the Company beyond its reliance on PSTN-based products. This started with an operational rebuild, the acquisition of VegaStream, an internal build out of the product portfolio, and competing in new market and customer segments such as Lync gateways and SBCs. The acquisitions on January 1, 2015 have added a core PBX product and introduced Sangoma to the service business through SIPStation and FoIP offerings. Sangoma added its portfolio to provide full solutions through the March launch of Sangoma branded IP phones.

Sangoma is now a stronger competitor in the larger, more typical telecom equipment market, which is not generally OST based. With its PSTN interface boards, Vega gateway products, Microsoft Lync certified products, SBCs, Free PBX, various Support Services and others, Sangoma now sells to carriers, service providers, enterprises, SMBs, and OEM customers with several third-party application providers using Sangoma products.



## **Innovation**

As noted above, Sangoma invests in Research and Development (“R&D”) to develop new products and to improve existing offerings. Since July 1, 2011 Sangoma has released a series of new products to the market that include:

- T3 Mux Appliance
- Version 4 of NetBorder SS7 Media Gateway
- Vega 50, 400 and 5000 series Gateways
- NetBorder Express Microsoft Lync Certification
- NetBorder SS7 VoIP Gateway Appliance
- W400 GSM Board
- Vega 100 and 200 Gateways
- NetBorder Transcoding Gateway
- NetBorder Lync Express Appliance
- Vega 400 Session Border Controller
- A116 16-Span Digital Telephony Interface Board
- B500 BRI Board
- STM1 Mux Appliance
- Call Progress Analysis for Asterisk Systems
- NetBorder SS7 Gateway Release 5.0
- Full line of Session Border Controllers
- T116 16-Span Tapping Board
- NetBorder VOIP Gateway
- Lync Express 2.0
- SBC 2.0
- Video Multipoint Control Unit (MCU)
- FreePBX
- SIP trunks for FreePBX users through SIPStation
- FoIP service
- Sangoma’s commercial IP-PBX range called PBXact
- 3 IP-phones with instant connect to FreePBX and PBXact

## **Sales and Marketing**

Over the last few years the Company has steadily increased its investment in, and focus on, sales. Sangoma has professional sales teams across all key geographic regions to identify and engage local distributors and resellers to address opportunities with larger customers such as carriers and OEMs. Sangoma continues to use a dual sales path to customers: direct sales to large customers (typically OEMs and carriers) and distribution to others.

Carriers are typically telcos, ISPs, ITSPs, wireless/mobile operators, and service providers who resell services using either their own networks or those of others. All of these organizations are potential customers for Sangoma.

OEM partners are companies that “design in” Sangoma products as a component of their solutions. OEM customers tend to be committed participants in their given markets, and have longer-term focus. It is important to reach these potential customers in the early days of any project to secure design wins and to have sales and marketing programs that will ensure close collaboration during product and sales development cycles that may last as long as three years.

In other cases, Sangoma utilizes an indirect distribution model to reach the full breadth of customers in markets where such partners have established relationships. For enterprise and SMBs, the Company has built a network of distributors and resellers. Distributors typically sell to resellers. These resellers then sell, install, and support end users. Using regional distributors and resellers supported by Sangoma’s sales and marketing efforts has proven very successful. The impact of lower margins from a two-tier distribution model is offset by the net new growth of sales that distributors bring to Sangoma, as well as the cost reduction of handling relatively small orders. Distribution channels require frequent attention to keep Sangoma as the premier supplier in a crowded product marketplace. Sangoma has implemented several incentive programs with its resellers and distributors and has developed a comprehensive set of channel promotion programs to incent and reward its channel partners for performance and behaviours that Sangoma believes will grow its revenues. In the last few months, Sangoma has added some master resellers from the Microsoft community to provide a completely new channel to Lync customers.

Sangoma continues to increase its focus on, and investment in, marketing. The Company has assembled corporate marketing programs to promote its brand and products more aggressively and to convey the message about Sangoma’s Everything Connects campaign. Sangoma is now using various marketing techniques typical of technology firms to generate greater awareness of the Company and its new products. This includes participation in tradeshow, speaking at selected industry events, attending specialized seminars run by Sangoma’s distribution channel and other partners, investing in electronic marketing strategies (e.g. web presence, social media and blogging, online advertising, search engine campaigns, etc.), conducting lead generation campaigns, and creating thought leadership pieces. The Sangoma partner portal is evolving to become a destination for approved application partners, distributors and resellers to access product information, online pricing/purchasing, co-marketing material, sales tools and other privileged partner information.

# **RESULTS OF OPERATIONS**

## **SUMMARY OF RESULTS FOR THE THIRD QUARTER OF FISCAL 2016**

### **Sales**

Sales for the quarter ended March 31, 2016 were \$5.30 million, up 11% from the \$4.79 million in the third quarter of fiscal 2015 ended March 31, 2015 with new product sales and a stronger US dollar more than offsetting the gradual decline in the legacy business.

### **Cost of Sales and Gross Margin**

The cost of sales for the quarter ended March 31, 2016 was \$1.67 million compared to \$1.39 million for the quarter ended March 31, 2015. Gross margin for the third quarter ended March 31, 2016 was 69% of revenue, 2% lower than that recorded in the same period of fiscal 2015. Gross profit for the third fiscal quarter of 2016 was \$3.63 million, 7% higher than the \$3.41 million realized in the third quarter of fiscal 2015, driven by the higher revenue above.

### **Operational expense**

Under IFRS costs are allocated to the respective departments except for the impact of foreign exchange which can result in material swings between time periods.

#### Selling and Marketing

Selling and marketing expenses were \$0.97 million for the quarter ended March 31, 2016, 14% lower than for the same quarter last year (\$1.13 million). Investment in sales and marketing remains focused on leveraging the newly integrated portfolio of products and continuing to launch new products.

#### Research and Development

Certain development costs are capitalized each period and amortized on a straight-line basis over three years (see the Notes to the 2015 Annual Audited Consolidated Financial Statements available at [www.sedar.com](http://www.sedar.com)). The engineering expense incurred and the development costs amortized during the quarter ended March 31, 2016 were \$1.13 million, 15% higher than in the same quarter last year (\$0.98 million) reflecting extra spending on Sangoma's new IP phones, and the addition of technical resources in pre-sales engineering, customer support and technical staff to support the end to end solutions the company now offers.

#### General and Administration

General and Administration expenses were \$1.27 million for the quarter ended March 31, 2016, an increase of 15% over the same period ended March 31, 2015 (\$1.11 million) but in line with the prior quarter.

#### Foreign Exchange

For the quarter ended March 31, 2016, there was a foreign exchange loss of \$0.09 million as the United States dollar weakened against the Canadian dollar. In the third quarter of fiscal 2015 there was a foreign exchange gain of \$0.14 million for a total swing of \$0.23 million.

#### Total operational expense

Operating expense for the third quarter was \$3.46 million, a 12% increase over the same period

last year mostly as a result of the exchange rate impact.

**Operating Income (before interest, taxes, financing and one-time acquisition expense)**

Operating income for the quarter ended March 31, 2016 was \$0.18 million versus an operating income of \$0.33 million in the same quarter ended March 31, 2015.

**Net Income and Comprehensive Income**

Net income and total comprehensive income for the quarter ended March 31, 2016 was \$0.10 million (\$0.003 per share fully diluted) compared to a net income and total comprehensive income of \$0.25 million (\$0.008 per share fully diluted) for the same quarter ended March 31, 2015.

**Earnings before Interest, Taxes, Depreciation, Impairment and Amortization (“EBITDA”)**

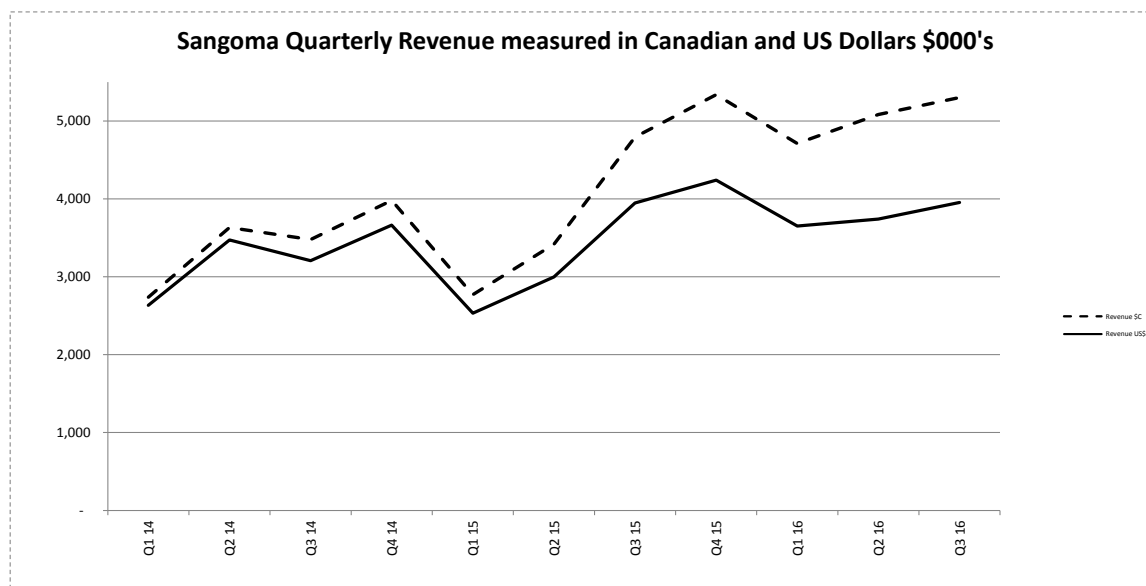
EBITDA for the quarter ended March 31, 2016 was a profit of \$0.45 million versus a profit of \$0.57 million for the third quarter ended March 31, 2015.

| \$C Thousands                                 | Three months ended |              |
|---|--------------------|--------------|
|   | Mar 31, 2016       | Mar 31, 2015 |
| Net Income                                    | 104                | 248          |
| Tax   | 46                 | 68           |
| Interest                                      | (1)                | (8)          |
| Interest on Operating Line                    | 27                 | 22           |
| Stock Based Compensation                      | 55                 | 32           |
| Amortization of Property, Plant and Equipment | 30                 | 28           |
| Amortization of Intangibles                   | 189                | 183          |
| One time acquisition fees                     | 0                  | 0            |
|   | <hr/>              | <hr/>        |
| EBITDA  | 450                | 573          |

The above table shows the reconciliation of net income (loss) and total comprehensive income (loss) to EBITDA.

# QUARTERLY RESULTS TRENDS

## Revenue Trend by quarter



When measured in source currency (predominantly US\$), sales in the quarter ended March 31, 2016 were in line with those of the same quarter in the previous year.

## Sales and Net Income by Quarter

| C\$ thousands                             | Fourth quarter<br>2013-2014 | First quarter<br>2014-2015 | Second quarter<br>2014-2015 | Third quarter<br>2014-2015 | Fourth quarter<br>2014-2015 | First quarter<br>2015-2016 | Second quarter<br>2015-2016 | Third quarter<br>2015-2016 |
|---|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| Sales                                     | \$ 3,980                    | \$ 2,770                   | \$ 3,418                    | \$ 4,793                   | \$ 5,336                    | \$ 4,712                   | \$ 5,082                    | \$ 5,301                   |
| Gross Margin                              | \$ 2,649                    | \$ 1,830                   | \$ 2,158                    | \$ 3,407                   | \$ 3,570                    | \$ 3,353                   | \$ 3,669                    | \$ 3,634                   |
| Operating Expense                         | \$ 2,040                    | \$ 1,810                   | \$ 2,057                    | \$ 3,077                   | \$ 2,990                    | \$ 3,203                   | \$ 3,527                    | \$ 3,459                   |
| Operating Income (Loss) before undernoted | \$ 609                      | \$ 20                      | \$ 101                      | \$ 330                     | \$ 537                      | \$ 150                     | \$ 142                      | \$ 175                     |
| Net Income (Loss)                         | \$ 517                      | \$ 18                      | \$ (160)                    | \$ 248                     | \$ 225                      | \$ 88                      | \$ 78                       | \$ 104                     |
| Net Earnings per Share                    |                             |                            |                             |                            |                             |                            |                             |                            |
| Non-diluted basis                         | \$0.018                     | \$0.001                    | (\$0.006)                   | \$0.008                    | \$0.007                     | \$0.003                    | \$0.002                     | \$0.003                    |
| Fully diluted basis                       | \$0.018                     | \$0.001                    | (\$0.006)                   | \$0.008                    | \$0.007                     | \$0.003                    | \$0.002                     | \$0.003                    |
| EBITDA                                    | \$ 570                      | \$ 131                     | \$ 229                      | \$ 574                     | \$ 778                      | \$ 383                     | \$ 408                      | \$ 450                     |

<sup>1</sup> Operating Income (Loss) before undernoted and EBITDA are metrics used by the Company to monitor its performance and the definition may be found in the accompanying Financial Statements and MD&A posted today at [www.sedar.com](http://www.sedar.com).

## **SUMMARY OF RESULTS FOR THE YEAR TO DATE FISCAL 2016**

### **Sales**

Sales for the nine months ended March 31, 2016 were \$15.09 million, up 37% from the nine months ended March 31, 2015 as a result of two new businesses, acquired on January 1, 2015, a stronger US dollar and new product sales more than offsetting the gradual ongoing decline in the legacy business.

### **Cost of Sales and Gross Margin**

The cost of sales for the nine months ended March 31, 2016 was \$4.44 million compared to \$3.59 million for the nine months ended March 31, 2015. Gross margin for the nine months ended March 31, 2016 was 71% of revenue, 4% higher than that recorded in the same period of fiscal 2015. Gross profit for the nine months ended March 31, 2016 was \$10.66 million, 44% higher than the \$7.40 million realized in the same nine month period of fiscal 2015, driven by higher revenue and higher gross margin as a percentage of sales.

### **Operational expense**

Under IFRS costs are allocated to the respective departments except for the impact of foreign exchange which can result in material swings between time periods.

#### Selling and Marketing

Selling and marketing expenses were \$3.36 million for the nine months ended March 31, 2016, 28% higher than for the period last year (\$2.61 million). Investment in sales and marketing is focused on leveraging the newly integrated portfolio of products and continuing to launch new products.

#### Research and Development

Certain development costs are capitalized each period and amortized on a straight-line basis over three years (see the Notes to the 2015 Annual Audited Consolidated Financial Statements available at [www.sedar.com](http://www.sedar.com)). The engineering expense incurred and the development costs amortized during the nine months ended March 31, 2016 were \$3.40 million, 42% higher than in the same period last year (\$2.40 million) reflecting extra spending on Sangoma's new IP phones, and the combining of technical resources in pre-sales engineering, customer support and technical staff across the companies.

#### General and Administration

General and Administration expenses were \$3.57 million for the nine months ended March 31, 2016 an increase of 59% over the same period ended March 31, 2015 (\$2.24 million). The increase is from the addition of staff and other miscellaneous operating expense in the new businesses and the amortization of the Intangible Assets acquired.

#### Foreign Exchange

For the nine months ended March 31, 2016, there was a foreign exchange gain of \$0.14 million compared to the gain of \$0.31 million during the same period in fiscal 2015.

#### Total operational expense

Operating expense for the first nine months of fiscal 2016 was \$10.19 million, a 47% increase over the same period last year.

**Operating Income (before interest, taxes, financing and one-time acquisition expense)**

Operating income for the nine months ended March 31, 2016 was \$0.47 million versus an operating income of \$0.45 million in the same period ended March 31, 2015.

**Net Income and Comprehensive Income**

Net income and total comprehensive income for the nine months ended March 31, 2016 was \$0.27 million (\$0.008 per share fully diluted) compared to a net income and total comprehensive income of \$0.11 million (\$0.004 per share fully diluted) for the same period ended March 31, 2015.

**Earnings before Interest, Taxes, Depreciation, Impairment and Amortization (“EBITDA”)**

EBITDA for the nine months ended March 31, 2016 was a profit of \$1.24 million versus profit of \$0.91 million for the same period of fiscal 2015.

| \$C Thousands                                 | Nine months ended |              |
|---|-------------------|--------------|
|   | Mar 31, 2016      | Mar 31, 2015 |
| Net Income                                    | 270               | 106          |
| Tax   | 117               | 47           |
| Interest                                      | (3)               | (14)         |
| Interest on Operating Line                    | 83                | 22           |
| Stock Based Compensation                      | 121               | 120          |
| Amortization of Property, Plant and Equipment | 89                | 68           |
| Amortization of Intangibles                   | 565               | 270          |
| One time acquisition fees                     | 0                 | 0            |
|   | 1,242             | 909          |
| EBITDA  | 1,242             | 909          |

The above table shows the reconciliation of net income (loss) and total comprehensive income (loss) to EBITDA.

## **LIQUIDITY**

As of March 31, 2016 Sangoma had current assets of \$10.30 million and current liabilities of \$3.79 million, resulting in working capital of \$6.51 million, as compared to \$6.36 million on June 30, 2015. At the beginning of the quarter Sangoma paid out the final installments associated with the two acquisitions in 2015 and generated a cash inflow from operations of \$0.40 million reflecting operating profitability, lower accounts receivable and inventories partially offset by advance payments for upcoming production runs. Sangoma had cash and equivalents of \$1.45 million on March 31, 2016, as compared to \$2.52 million as at June 30, 2015. Accounts Receivable of \$4.52 million were down from the \$5.27 million on June 30, 2015. Inventories were \$3.67 million on March 31, 2016, down from \$3.98 million on June 30, 2015.

There are no existing or anticipated defaults or arrears on lease payments or interest payments and Sangoma is in full compliance with all debt covenants. Management of the Company believes that the current working capital, bank operating line and expected funds generated from operations will be sufficient to meet the operating expenses, earn out payments and planned capital expenditures of the Company for the foreseeable future.

## **CAPITAL RESOURCES**

There are no commitments for capital expenditures at this time.

## **OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of Sangoma.

## **RELATED PARTY TRANSACTIONS**

Except as disclosed, the Company is not party to any material transactions with related parties. The Chairman of the Board of Directors, who is also a significant shareholder of the Company, has a contract through Entropy Control Ltd. to provide certain services to Sangoma including input to the preparation of the Company's Scientific Research and Experimental Development tax claim.

## **PROPOSED TRANSACTIONS**

None



## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

Sangoma has determined the estimated fair value of its financial assets and liabilities based on generally accepted valuation methods.

### **Short-term financial instruments**

Cash and equivalents, trade receivables, sales tax receivables, investment tax credits receivable, accounts payable and accrued liabilities and term loan are short-term financial instruments whose fair value approximates their carrying amount on the balance sheet due to their near-term maturities. On December 30, 2014 Sangoma established an operating line of credit for up to \$2.5 million to satisfy any short term cash requirements. As of March 31, 2016 \$1.34 million of this had been drawn down to help fund the two acquisitions.

### **Foreign Exchange**

As of May 25, 2016 the Company held forward contracts for the conversion of \$4.0 million USD to Canadian dollars at an average rate of \$1.3199 for settlement between June 30 2016 and September 30, 2016.

## **OUTSTANDING SHARE DATA**

As of May 25, 2016 there were 32,479,809 issued and outstanding common shares of Sangoma and as of May 25, 2016 Sangoma has outstanding option grants to acquire 4,480,160 common shares.

## **SIGNIFICANT EVENTS**

None

## **POST REPORTING EVENTS**

- (i) On March 30, 2016 Sangoma became the defendant in a patent infringement claim filed in Texas against Sangoma and several other industry players. Management reviewed the claim with the Board of Directors on May 25, 2016 and having considered it to be without merit no provision has been made in these financials statements.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is filed electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

## **GLOSSARY OF TERMS**

### Analog

Analog telephony is the telephone system that dates back to the original experiments by Alexander Graham Bell. The voice signal is picked up by a microphone and transmitted to the central office. Voice signals from the central office consist of voltages that drive a headset to produce sound. Analog means that the voice pressure signals are represented by voltages levels on the line.

### API

Application Program Interface: An API is a purpose-built interface that allows fourth party software to interact with a particular application. A typical API is the user interface for Windows that allow programmers to write programs for Windows that use all its built-in utilities. APIs do not depend on revealing source code, in general. They are usually well documented and include sample programs that make development easy.

### Codec

In the telephony context a codec is a mechanism of digitally encoding voice. On the PSTN a voice channel takes up 64kbps in a codec standard called G.711. Cell phones use a codec called GSM that compress the voice further so that a GSM call consumes about 24kbps. Other compressed codecs are used in VoIP to conserve bandwidth. These include standards such as G.729, G.723. Most audio codecs are lossy, in that some of the voice quality is degraded by the compression. On the other hand, as bandwidth becomes cheaper, VoIP allows one to use other codecs that in fact use more bandwidth than the PSTN, the so-called broadband codecs that have DVD-like voice quality.

### Digital telephony

In the modern PSTN only the “last mile” line to the customer is still analog, all other internal parts of the network are digital. Digital in this case means that at the central office the analog signal from the subscriber’s telephone is sampled digitally, converting the line voltages to a series of numbers that can be easily transmitted error free over long distances. See T1, E1 below.

### Gateway

In the telephony context this is typically a separate unit with its own case and power supply that provides VoIP-to-PSTN services for a VoIP network. Almost all gateway devices use SIP interfaces to the VoIP system over Ethernet and have analog or digital telephony interfaces that connect to the PSTN. VoIP gateways are available from many manufacturers including Audiocodes, Cisco, Grandstream, Patton Electronics and many others.

### ISDN

Integrated Services Digital Network (“ISDN”) is a set of communications standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits of the public switched telephone network. Of the many variations of ISDN, Sangoma supports BRI (Basic Rate Interface) which is essentially an all-digital replacement for ordinary analog lines and PRI (Primary Rate Interface) which is used over T1 and E1 lines. BRI is very popular outside of North America. PRI is used worldwide.

### IP

The Internet Protocol (“IP”) is the primary protocol in the internet layer of the Internet protocol suite, and delivers data packets from the source host to the destination host solely based on the IP address.

### ISP

Internet Service Provider

### ITSP

Internet Telephony Service Provider who offer telecommunications service including voice over internet type connections.

### IVR

Interactive Voice Response: IVR systems use the phone to navigate a menu, for example those used by banks to allow access to customer’s account information. IVR systems have typically been driven by dial tones as the buttons on your phone are pressed, but increasingly they are using voice recognition for navigation.

### Open Source

Open Source software is distributed free subject to certain conditions. Open Source licenses usually stipulate that source code must always be distributed or made available, and any improvements in the code have to be donated back to the community. It is possible to have dual licensing: Open Source to the community and also a closed, commercial license of the same or similar software.

### NetBorder

This is the trade name of a Sangoma SIP to PSTN gateway product. It includes several other functions in addition to the PSTN gateway function. The mass marketed version is known as NetBorder Express or NBE.

### PBX

Private branch exchange. A PBX is a premised basis device to deliver calls from the PSTN or VOIP network to phones in a single or multiple locations.

### PSTN

Public Switched Telephone Network: This is the standard telephone network that has been in operation for many decades. A telephone or FAX or PBX or other telephony device is generally connected to an analog line at a wall plug, which is connected by “last mile” cabling to the central office. The analog signal from the device is converted to a digital signal at the Telco central office and is multiplexed, 24 simultaneous voice channels per line (in North America) onto a T1 for onward transmission. At the other end of the line the digital channel is reconverted to analog for transmission over the “last mile” to the receiving phone or other device.

### SBC

A Session Border Controller (“SBC”) is a device deployed in Voice over Internet Protocol (“VoIP”) networks to exert control over the signaling and usually also the media streams involved in setting up, conducting, and tearing down telephone calls or other interactive media communications. SBCs are deployed as demarcation points between enterprises and service providers and between service provider networks.

### Signalling

Call setup and tear down is remarkably complicated, involving such things as responding to the different tones as well as generating them, caller identification and handling the different features like hook-flash and voicemail properly. There are different signalling mechanisms for different types of circuits. Analog circuits use tones such as out-of-order, busy, ringing as well as the dialling tones. T1 lines often use a data protocol called ISDN PRI, where packets of control data are exchanged on a separate data channel. ISDN PRI is a simplification of the general signalling protocol used internally by the telecommunications networks known as SS7. In all cases signalling has to be exactly compatible with what the Telco expects, so interoperability and standards are important.

### SIP

Session Initiation Protocol: SIP is the emerging standard signalling protocol for VoIP, though it has much broader applications. SIP is responsible for setting up and teardown of two party and multiparty calls, as well as a host of management features. To a great and increasing extent, VoIP calls are SIP based. The term SIP Trunk is used to describe the provision of a SIP line to an end customer.

### T1, E1

A T1 line is a circuit that carries 24 digital telephone calls simultaneously. At higher densities, 28 T1s are aggregated into a T3 line carrying 672 calls. Larger offices can also connect to the central office via T1 directly, so as to have only one circuit for up to 24 calls. T1 is standard in North America and Japan while E1 is the standard in the rest of the world. E1 carries 30 channels of digitized voice per line.

### TDM

Time Division Multiplexing (“TDM”) is used in circuit switched networks to increase the number of calls carried simultaneously on any one circuit and formed the basis for the seconddigital telephony networks.

### Unified Communications

Unified communications is a concept in which voice, email, messaging, video and any other type of communication are all considered forms of data that can be combined, manipulated and used in intelligent applications in a seamless way.

### VoIP

Voice over IP: The transfer of voice traffic over the Internet Protocol. IP is used universally for all networking including local area networks and private networks, not just the Internet. So VoIP is not necessarily voice over the Internet, but voice over general data networks.