

Consolidated financial statements of

Sangoma Technologies Corporation

June 30, 2016 and 2015

Sangoma Technologies Corporation

June 30, 2016 and 2015

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To the Shareholders of Sangoma Technologies Corporation:

We have audited the accompanying consolidated financial statements of Sangoma Technologies Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2016 and 2015, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sangoma Technologies Corporation and its subsidiaries, as at June 30, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

Toronto, Ontario
October 20, 2016

Chartered Professional Accountants
Licensed Public Accountants

Sangoma Technologies Corporation

Consolidated statements of financial position

as at June 30, 2016 and 2015

(In Canadian dollars)

| | 2016 | 2015 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (Note 8) | 2,086,932 | 2,518,156 |
| Trade receivables (Note 9) | 4,214,079 | 5,267,027 |
| Inventories (Note 4) | 3,887,233 | 3,975,892 |
| Investment tax credits receivable | 374,115 | 364,797 |
| Other current assets | 448,939 | 205,532 |
| | 11,011,298 | 12,331,404 |
| Non-current assets | | |
| Property and equipment (Note 5) | 597,103 | 494,945 |
| Intangible assets (Note 6) | 5,480,583 | 5,938,508 |
| Development costs (Note 7) | 2,506,452 | 2,173,284 |
| Deferred income tax assets (Note 11) | 1,520,472 | 1,231,340 |
| Goodwill (Note 16) | 1,638,546 | 1,750,066 |
| | 22,754,454 | 23,919,547 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 9) | 2,435,687 | 4,067,014 |
| Provisions (Note 17) | 103,318 | 83,318 |
| Sales tax payable | 113,735 | - |
| Income tax payable | 117,187 | 116,000 |
| Operating line (Note 18) | 1,340,603 | 1,340,603 |
| Deferred revenue | 417,369 | 359,868 |
| | 4,527,899 | 5,966,803 |
| Shareholders' equity | | |
| Share capital (Note 14) | 16,497,326 | 16,497,326 |
| Contributed surplus (Note 14) | 2,060,557 | 1,882,017 |
| Accumulated other comprehensive loss | (19,162) | - |
| Deficit | (312,166) | (426,599) |
| | 18,226,555 | 17,952,744 |
| | 22,754,454 | 23,919,547 |

Approved by the Board

(Signed) Al Guarino Director

(Signed) Yves Laliberte Director

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

Sangoma Technologies Corporation

Consolidated statements of income and comprehensive income years ended June 30, 2016 and 2015

(In Canadian dollars)

| | 2016 | 2015 |
|--|-------------------|------------|
| | \$ | \$ |
| Revenue (Note 13) | 21,193,272 | 16,318,046 |
| Cost of sales | 6,785,161 | 5,351,335 |
| Gross profit | 14,408,111 | 10,966,711 |
| Expenses | | |
| Sales and marketing | 4,401,707 | 3,596,652 |
| Research and development | 4,608,540 | 3,437,852 |
| General and administration | 4,958,014 | 3,269,863 |
| Foreign currency exchange (gain) loss | 50,391 | (268,071) |
| | 14,018,652 | 10,036,296 |
| Income before interest, income taxes, and business acquisition costs | 389,459 | 930,415 |
| Interest income (Note 8) | (2,694) | (17,992) |
| Interest expense (Note 8) | 108,761 | 46,282 |
| Business acquisition costs (Note 16) | - | 297,145 |
| | 106,067 | 325,435 |
| Income before income tax | 283,392 | 604,980 |
| Provision for income taxes | | |
| Current (Note 11) | 224,172 | 248,533 |
| Deferred (Note 11) | (55,213) | 103,569 |
| Net income | 114,433 | 252,878 |
| Other comprehensive loss | | |
| Foreign currency translation adjustment | 19,162 | - |
| Comprehensive income | 95,271 | 252,878 |
| Earnings per share | | |
| Basic (Note 10(iii)) | 0.004 | 0.008 |
| Diluted (Note 10(iii)) | 0.004 | 0.008 |
| Weighted average number of shares outstanding (Note 10(iii)) | | |
| Basic | 32,479,809 | 30,629,809 |
| Diluted | 32,479,809 | 30,629,809 |

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

Sangoma Technologies Corporation

Consolidated statements of changes in shareholders' equity
years ended June 30, 2016 and 2015

(In Canadian dollars)

| | Number of common shares | Share capital \$ | Contributed surplus \$ | Accumulated other comprehensive loss \$ | Deficit \$ | Total Shareholders' equity \$ |
|--|-------------------------------|------------------------|------------------------------|--|------------------|--|
| Balance, June 30, 2014 | 28,829,809 | 15,333,326 | 1,730,025 | - | (679,477) | 16,383,874 |
| Net income | - | - | - | - | 252,878 | 252,878 |
| Share-based compensation expense (Note 10(ii)) | - | - | 151,992 | - | - | 151,992 |
| Common shares issued (Note 10(i)) | 3,650,000 | 1,164,000 | - | - | - | 1,164,000 |
| Balance, June 30, 2015 | 32,479,809 | 16,497,326 | 1,882,017 | - | (426,599) | 17,952,744 |
| Net income | - | - | - | - | 114,433 | 114,433 |
| Other comprehensive loss | - | - | - | (19,162) | - | (19,162) |
| Share-based compensation expense (Note 10(ii)) | - | - | 178,540 | - | - | 178,540 |
| Balance, June 30, 2016 | 32,479,809 | 16,497,326 | 2,060,557 | (19,162) | (312,166) | 18,226,555 |

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

Sangoma Technologies Corporation

Consolidated statements of cash flows

years ended June 30, 2016 and 2015

(In Canadian dollars)

| | 2016 | 2015 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Operating activities | | |
| Net income | 114,433 | 252,878 |
| Adjustments for | | |
| Depreciation of property and equipment (Note 5) | 121,648 | 102,825 |
| Amortization of intangible assets (Note 6) | 742,950 | 452,006 |
| Amortization of capitalized development costs (Note 7) | 1,525,977 | 1,750,466 |
| Unrealized foreign exchange gain | (132,240) | - |
| Income tax expense | 168,959 | 352,102 |
| Income tax paid | (37,449) | (14,245) |
| Income tax refunds | 208,075 | 760,638 |
| Share-based compensation expense (Note 10(ii)) | 178,540 | 151,992 |
| Investment in Vegastream Private Networks Limited | - | 10,665 |
| Accretion expense | 12,825 | 15,843 |
| Changes in item of working capital | | |
| Trade receivables | 1,060,308 | 42,701 |
| Inventories | 88,659 | (1,388,258) |
| Other current assets | (244,564) | (90,184) |
| Sales tax receivables | - | 44,422 |
| Sales tax payable | 113,735 | - |
| Accounts payable and accrued liabilities | 249,995 | 693,977 |
| Provisions (Note 17) | 20,000 | 40,000 |
| Income tax payable | (8,510) | 94,402 |
| Deferred revenue | 53,930 | 59,642 |
| Investment tax credits receivables | (9,318) | 3,077 |
| | 4,227,953 | 3,334,949 |
| Investing activities | | |
| Purchase of property and equipment (Note 5) | (214,456) | (248,217) |
| Development costs (Note 7) | (2,562,936) | (2,234,750) |
| Acquisition of Schmooze and Rockboch (Note 16) | - | (4,656,000) |
| Payment of contingent consideration (Note 9) | (1,868,400) | - |
| | (4,645,792) | (7,138,967) |
| Financing activities | | |
| Operating line (Note 18) | - | 1,340,603 |
| | - | 1,340,603 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (13,385) | - |
| Decrease in cash and cash equivalents | (431,224) | (2,463,415) |
| Cash and cash equivalents, beginning of year | 2,518,156 | 4,981,571 |
| Cash and cash equivalents, end of year | 2,086,932 | 2,518,156 |

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

1. General information

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

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

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

2. Significant accounting policies

(i) Statement of compliance

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

(ii) Basis of preparation

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention except for the revaluation of certain financial assets and liabilities to fair value. All financial information is presented in Canadian dollars, except per share amounts or as otherwise noted.

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

(iii) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Sangoma Technologies Inc., Sangoma US Inc., and Sangoma Technologies Private Limited.

Subsidiaries are entities controlled by the Company. 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 the first in, first out method. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(v) Revenue

Revenue comprises revenue from the sale of goods and the rendering of services. Revenue is measured at the fair value of the consideration received or receivable for the gross inflow of economic benefits during the period, arising in the ordinary course of the Company’s activities. Revenue is recognized when it is probable that the economic benefits will flow to the Company.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

2. Significant accounting policies (continued)

(v) *Revenue (continued)*

Sale of goods (hardware and software)

For sale of goods, the recognition criteria are generally met at the time the product is shipped to the customer, title and risks have passed to the customer, and acceptance of the product has been obtained, either via formal acceptance by the customer or lapse of rejection period.

Revenue that consists of license fees relating to software licenses that do not require significant modification or customization of software or where services are not essential to the functionality of the software are recognized when a contract with a customer has been executed, delivery and acceptance of the software have occurred, the license fee is fixed and determinable, and collection of the related receivable is deemed probable by management.

Rendering of services

Services comprise after-sales service and maintenance and consulting. The Company provides support to its customers and the amount of the selling price associated with the servicing agreement is deferred and recognized as revenue over the period during which the service is performed. This deferred revenue is included in current liabilities. Revenues relating to engineering services are recognized as the services are rendered. Cash received in advance of revenue being recognized is classified as deferred revenue.

The Company also enters into transactions that represent multiple-element arrangements, which may include any combination of goods and services. These multiple element arrangements are assessed to determine whether they consist of elements that can be sold separately in order to determine whether they can be treated as more than one unit of accounting or element for the purpose of revenue recognition. When there are multiple elements or units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements on a relative fair value basis. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered. The revenue recognition policy described above is then applied to each unit of accounting.

(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, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

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 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 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 statement of income and comprehensive income.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

2. Significant accounting policies (continued)

(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.

(ix) *Share-based payments*

The Company grants stock options to certain employees. Stock options vest over and expire after various periods of time. Usually 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 10(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 statement 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 statement of income and comprehensive income during the period in which they are incurred.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

2. Significant accounting policies (continued)

(xi) Property and equipment (continued)

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.

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 statement of income and comprehensive income.

(xii) 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 10 years for copyright to software, purchased technology and purchased intangibles. Amortization expense is included in the statement 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(xvi).

(xiii) Research and development expenditures

The Company qualifies for certain investment tax credits related to its research and development activities. 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 new products are recognized as intangible assets and amortized over 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.
- The Company has the ability to use or sell the intangible asset.
- 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(xvi).

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".

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

2. Significant accounting policies (continued)

(xiv) 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 statement of income and comprehensive income.

(xv) 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. As of June 30, 2016, the Company had \$1,638,546 of goodwill from the two acquisitions made on January 1, 2015.

(xvi) Impairment testing of goodwill, other intangible assets and property and equipment

For purposes of assessing impairment under IFRS, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). The Company has multiple cash generating units 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 units and reflect its risk profile as assessed by management.

Impairment losses for the cash-generating units 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.

(xvii) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

2. Significant accounting policies (continued)

(xvii) Financial instruments (continued)

(i) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income and comprehensive income. Gains and losses arising from changes in fair value are presented in the statement of income and comprehensive income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the end of the reporting period, which are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade receivables, investment tax credits receivable, and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities, and operating line. Financial liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Company has classified its financial instruments as follows:

| Asset/liability | Classification | Measurement |
|--|-----------------------|----------------|
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Trade receivables | Loans and receivables | Amortized cost |
| Investment tax credits receivable | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Operating line | Other liabilities | Amortized cost |

(xviii) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

2. Significant accounting policies (continued)

(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 (loss) 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, 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 combination

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 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 IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

2. Significant accounting policies (continued)

(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

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations have been issued but are not yet effective, and have not been adopted early by the Company.

IFRS 9, Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace *IAS 39 - Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is currently assessing the impact of this pronouncement.

IFRS 15, “Revenue from contracts and customers” (“IFRS 15”) was issued by the IASB on May 28, 2014, and will replace *IAS 18, Revenue*, *IAS 11, Construction contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this pronouncement.

In January 2016, the IASB issued *IFRS 16, Leases* (“IFRS 16”). IFRS 16 is effective for periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-statement of financial position finance leases and off-statement of financial position operating leases. Instead, there is a single, on-statement of financial position accounting model that is similar to current finance lease accounting. The Company is currently assessing the impact of this pronouncement.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

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. Significant areas requiring the Company to make estimates include goodwill impairment testing and recoverability of assets, business combinations, income taxes, estimated useful life of long-lived assets, internally generated development costs, the fair value of share-based payments, allowance for doubtful accounts, inventory obsolescence, and warranty provision. These estimates and judgments are further discussed below:

(i) *Intangible asset impairment testing and recoverability of assets*

The Company has multiple cash-generating units and reviews the value in use versus the carrying value both in total and for each of the individual assets. The recoverable amount of the cash-generating units were 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 and the Board of Directors, 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.

The following are the key assumptions upon which management based its determination of the recoverable amount of goodwill.

Cash flow projections have been discounted using a discount rate derived from the Company's after-tax weighted average cost of capital adjusted for specific risks relating to the cash generating units. At June 30, 2016, the after-tax discount rate used in the recoverable amount calculation was 17.0% (2015 – 17.0%). The cash flow forecasts were extrapolated beyond the five year period using an estimated long term growth rate of 2.0% (2015 - 2.0%).

(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. However, the measurement period will last for one year from the acquisition date.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

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

(iii) *Income taxes*

The Company operates and earns income in Canada, the United States of America, India and the United Kingdom and is subject to changing income tax laws within these countries. Significant judgments are necessary in determining worldwide income tax liabilities.

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 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(xiii). Otherwise, they are expensed as incurred.

(vi) *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) *Allowance for doubtful accounts*

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 and assesses and makes an allowance for doubtful accounts when the expected recovery could be less than the actual trade receivable. The expected recovery amount can vary from the actual cash received.

(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

June 30, 2016 and 2015

(In Canadian dollars)

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

(ix) *Functional currency*

The functional currency of the Company has been assessed by management based on consideration of the currency and economic factors that mainly influence operating costs, financing and related transactions. Changes to these factors may have an impact on the judgment applied in the future determination of the Company's functional currency.

(x) *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.

(xi) *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.

(xii) *Sales returns and allowances provision*

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

(xiii) *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.

4. Inventories

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

| | 2016 | 2015 |
|------------------------------|------------------|-----------|
| | \$ | \$ |
| Finished goods | 1,988,821 | 2,209,867 |
| Parts | 1,952,488 | 1,820,101 |
| | 3,941,309 | 4,029,968 |
| Provision for obsolescence | (54,076) | (54,076) |
| Net inventory carrying value | 3,887,233 | 3,975,892 |

During the year ended June 30, 2016, inventories in the amount of \$6,403,833 (2015 - \$4,927,944) were included in cost of sales.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

5. Property and equipment

| | Office furniture and computer equipment | Software and books | Stockroom and production equipment | Tradeshaw equipment | Leasehold improvement | Total |
|---------------------------------------|---|--------------------------|---|------------------------|--------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | | |
| Balance, June 30, 2014 | 725,179 | 212,514 | 105,701 | 41,631 | 97,733 | 1,182,758 |
| Additions | 43,775 | 4,223 | - | 22,707 | 632 | 71,337 |
| Business combination | 176,880 | - | - | - | - | 176,880 |
| Balance, June 30, 2015 | 945,834 | 216,737 | 105,701 | 64,338 | 98,365 | 1,430,975 |
| Additions | 124,080 | - | 54,756 | - | 35,620 | 214,456 |
| Effect of movements in exchange rates | 6,654 | - | 2,416 | - | 1,572 | 10,642 |
| Balance, June 30, 2016 | 1,076,568 | 216,737 | 162,873 | 64,338 | 135,557 | 1,656,073 |
| Accumulated depreciation | | | | | | |
| Balance, June 30, 2014 | 540,914 | 137,041 | 71,056 | 26,680 | 57,514 | 833,205 |
| Depreciation expense | 74,100 | 11,484 | 4,241 | 5,694 | 7,306 | 102,825 |
| Balance, June 30, 2015 | 615,014 | 148,525 | 75,297 | 32,374 | 64,820 | 936,030 |
| Depreciation expense | 81,737 | 13,004 | 13,242 | 6,084 | 7,581 | 121,648 |
| Effect of movements in exchange rates | 1,006 | - | 206 | - | 80 | 1,292 |
| Balance, June 30, 2016 | 697,757 | 161,529 | 88,745 | 38,458 | 72,481 | 1,058,970 |
| Carrying amount | | | | | | |
| Balance, June 30, 2015 | 330,820 | 68,212 | 30,404 | 31,964 | 33,545 | 494,945 |
| Balance, June 30, 2016 | 378,811 | 55,208 | 74,128 | 25,880 | 63,076 | 597,103 |

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

6. Intangible assets

| | Copyright to software | Purchased technology | Purchased intangibles | Total |
|---------------------------------------|--------------------------|-------------------------|--------------------------|------------------|
| | \$ | \$ | \$ | \$ |
| Cost | | | | |
| Balance, June 30, 2014 | 2,948,461 | 905,000 | - | 3,853,461 |
| Business combination (Note 16) | - | 2,920,000 | 2,472,000 | 5,392,000 |
| Balance, June 30, 2015 | 2,948,461 | 3,825,000 | 2,472,000 | 9,245,461 |
| Effect of movements on exchange rates | - | - | 290,736 | 290,736 |
| Balance, June 30, 2016 | 2,948,461 | 3,825,000 | 2,762,736 | 9,536,197 |
| Accumulated amortization | | | | |
| Balance, June 30, 2014 | 2,613,947 | 241,000 | - | 2,854,947 |
| Amortization expense | 83,629 | 236,500 | 131,877 | 452,006 |
| Balance, June 30, 2015 | 2,697,576 | 477,500 | 131,877 | 3,306,953 |
| Amortization expense | 83,628 | 382,500 | 276,822 | 742,950 |
| Effect of movements on exchange rates | - | - | 5,711 | 5,711 |
| Balance, June 30, 2016 | 2,781,204 | 860,000 | 414,410 | 4,055,614 |
| Carrying amount | | | | |
| Balance, June 30, 2015 | 250,885 | 3,347,500 | 2,340,123 | 5,938,508 |
| Balance, June 30, 2016 | 167,257 | 2,965,000 | 2,348,326 | 5,480,583 |

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

7. Development costs

| | \$ | |
|--|---------------------|------------------|
| Development costs | | |
| Balance, June 30, 2014 | 13,776,610 | |
| Additions | 2,234,749 | |
| Investment tax credits | (1,056,227) | |
| Balance, June 30, 2015 | 14,955,132 | |
| Additions | 2,562,936 | |
| Investment tax credits | (703,824) | |
| Balance, June 30, 2016 | 16,814,244 | |
| Accumulated amortization | | |
| Balance, June 30, 2014 | (11,031,349) | |
| Amortization | (1,750,466) | |
| Balance, June 30, 2015 | (12,781,815) | |
| Amortization | (1,525,977) | |
| Balance, June 30, 2016 | (14,307,792) | |
| | 2016 | 2015 |
| | \$ | \$ |
| Net capitalized development costs | 2,506,452 | 2,173,284 |

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized \$3,082,563 of engineering expenditures as an expense during the year ended June 30, 2016 (2015 - \$1,687,386).

8. Financial instruments

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

Cash and cash equivalent is comprised of:

| | 2016 | 2015 |
|--------------------------|------------------|------------------|
| | \$ | \$ |
| Cash at bank and on hand | 2,086,932 | 1,690,786 |
| Short-term investments | - | 827,370 |
| | 2,086,932 | 2,518,156 |

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

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

8. Financial instruments (continued)

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

| | 2016 | 2015 |
|------------------------------|---------|----------|
| | \$ | \$ |
| Interest income | (2,694) | (17,992) |
| Interest expense (Note 9,18) | 108,761 | 46,282 |
| Net interest expense | 106,067 | 28,290 |

9. Financial instrument risks

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

Credit risk

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

| | 2016 | 2015 |
|---------------------------------|-----------|-----------|
| | \$ | \$ |
| Trade receivables aging | | |
| 0-30 days | 3,187,854 | 3,550,486 |
| 31-90 days | 638,705 | 499,342 |
| Greater than 90 days | 638,288 | 1,451,223 |
| | 4,464,847 | 5,501,051 |
| Provision for doubtful accounts | (250,768) | (234,024) |
| Net trade receivable | 4,214,079 | 5,267,027 |

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

| | 2016 | 2015 |
|---|-----------|-----------|
| | \$ | \$ |
| Provision for doubtful accounts | | |
| Allowance for doubtful accounts beginning balance | (234,024) | (340,956) |
| Net Allowance used (recorded) during the year | (16,744) | 106,932 |
| Allowance for doubtful accounts ending balance | (250,768) | (234,024) |

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

9. Financial instruments risks (continued)

Liquidity risk

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

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

| | 2016 | 2015 |
|--|-----------|-----------|
| | \$ | \$ |
| Accounts payable and accrued liabilities | 2,435,687 | 4,067,014 |
| Operating line | 1,340,603 | 1,340,603 |
| | 3,776,290 | 5,407,617 |

During the current year, the Company paid out a total of \$1,868,400 as contingent consideration to the selling shareholders of RockBochs Inc. (USD\$500,000 or C\$692,000) and Schmooze.Com (USD\$850,000 or C\$1,176,400), which was included in the accounts payable and accrued liabilities balance as at June 30, 2015. The contingent consideration was discounted using an effective interest rate of 1.9% and the Company recorded an accretion expense of \$12,825 for the year ended June 30, 2016 (2015 – \$15,843).

Foreign currency risk

A large portion of the Company's transactions occur in a foreign currency (mainly in US dollars) and, therefore, the Company is exposed to foreign currency risk at the end of the reporting period through its U.S. denominated trade receivables, accounts payable and cash. As at June 30, 2016, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate \$547,587 decrease or increase, respectively, in total comprehensive income (loss) and retained earnings (deficit) (2015 - \$529,275). On an ongoing basis, the Company's revenues are also impacted by the swings in the U.S. dollar and to mitigate the risk of foreign currency, the Company had two forward contracts outstanding as at June 30, 2016:

- (i) A United States dollar ("USD") forward contract for the conversion of \$1,000,000 USD to Canadian dollars at the rate of \$1.2804 to be settled on September 30, 2016.
- (ii) A United States dollar forward contract for the conversion of \$500,000 USD to Canadian dollars at the rate of \$1.3056 to be settled on September 30, 2016.

As at June 30, 2016, the fair value of the forward contracts is \$1,951,350 (June 30, 2015 - \$Nil) and the carrying value of the forward contracts is \$1,933,200 (June 30, 2015 - \$Nil).

Interest rate risk

The Company has no significant exposure at June 30, 2016 to interest rate risk through its financial instruments as the short-term investments are at fixed rates of interest that do not fluctuate during the remaining term.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

10. Shareholders' equity

(i) Share capital and contributed surplus

Issued and outstanding common shares consist of the following:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| | # | # |
| Shares issued and fully paid | | |
| Beginning balance | 32,479,809 | 28,829,809 |
| Share issued | - | 3,650,000 |
| | 32,479,809 | 32,479,809 |
| Opening balance number of stock options outstanding | 5,040,160 | 5,231,034 |
| Share-based options granted | 3,701,160 | - |
| Share-based options expired/cancelled | (3,222,160) | (190,874) |
| Number of stock options outstanding | 5,519,160 | 5,040,160 |
| | 37,998,969 | 37,519,969 |
| For each class of share capital | | |
| The number of shares authorized | Unlimited | Unlimited |
| The number of shares issued and fully paid | 32,479,809 | 32,479,809 |
| The number of shares issued but not fully paid | - | - |
| Par value per share, or that the shares have no par value | - | - |

(ii) Stock options

The Company has a stock option plan (the "plan") for directors, officers, employees and consultants of the Company. The number of common shares that may be set aside for issuance under the plan (and under all other management stock option and employee stock option plans) is limited to 5,542,160 common shares of the Company, provided that the board of directors has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company and provided that the Company complies with the provisions of policies, rules and regulations of applicable securities legislation.

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

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

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

10. Shareholders' equity (continued)

(ii) Stock options (continued)

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

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

| | Number of options | Weighted average exercise price \$ |
|------------------------|----------------------|--|
| Measurement date | | |
| Balance, June 30, 2014 | 5,231,034 | 0.44 |
| Granted | - | - |
| Exercised | - | - |
| Expired | - | - |
| Cancelled | (111,788) | 0.45 |
| Forfeited | (79,086) | 0.45 |
| Balance, June 30, 2015 | 5,040,160 | 0.44 |
| Granted | 3,701,160 | 0.29 |
| Exercised | - | - |
| Expired | (3,217,664) | 0.48 |
| Cancelled | - | - |
| Forfeited | (4,496) | 0.35 |
| Balance, June 30, 2016 | 5,519,160 | 0.31 |

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

| | 2016 \$ | 2015 \$ |
|------------------------------|--------------|------------|
| Weighted average share price | 0.31 | - |
| Exercise price | 0.38 | - |
| Expected volatility | 58.2% | - |
| Expected option life | 3.96 | - |
| Expected dividend yield | - | - |
| Expected forfeiture rate | - | - |
| Risk-free interest rate | 0.7% | - |

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

10. Shareholders' equity (continued)

(ii) Stock options (continued)

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

| | 2016 | | 2015 | |
|-----------------|---|---|---|---|
| | Number of stock options outstanding and exercisable | Weighted average remaining contractual life | Number of stock options outstanding and exercisable | Weighted average remaining contractual life |
| Exercise price | | | | |
| \$0.26 - \$0.50 | 5,519,160 | 3.96 | 3,819,498 | 2.00 |
| \$0.51 - \$0.75 | - | - | 1,220,662 | 0.56 |
| | 5,519,160 | 3.96 | 5,040,160 | 1.65 |

The Company recognized share based compensation expense in the amount of \$178,540 for the year ended June 30, 2016 (2015 - \$151,992).

(iii) Earnings per share

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

The weighted average number of outstanding shares used for basic earnings per share amounted to 32,479,809 shares for the year ended June 30, 2016 (2015 – 30,629,809).

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

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Number of shares | | |
| Weighted average number of shares used in basic earnings per share | 32,479,809 | 30,629,809 |
| Shares deemed to be issued in respect of share-based payments | - | - |
| Weighted average number of shares used in diluted earnings per share | 32,479,809 | 30,629,809 |

As of June 30, 2016, no options were in-the-money, therefore, no options were included in the weighted average number of shares for the purposes of diluted earnings per share calculation above (2015 - none). As a result, 5,519,160 options (2015 – 5,040,160) are excluded from the weighted average number of shares calculation above.

Sangoma Technologies Corporation

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(In Canadian dollars)

11. Income tax

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

| Year of expiration | Federal tax credits carry forward | Ontario tax credits carry forward | \$ |
|--------------------|-----------------------------------|-----------------------------------|----|
| 2032 | 378,348 | - | |
| 2033 | 651,641 | - | |
| 2034 | 347,033 | - | |
| 2035 | 288,821 | 74,337 | |
| 2036 | 471,143 | 149,231 | |
| | 2,136,986 | 223,568 | |

The income tax benefit of eligible SR&ED costs incurred in prior years but not utilized have been taken into account in these consolidated financial statements. The Company also has unutilized SR&ED expenditures carry forward of \$4,382,321 for federal & Ontario income tax purposes.

The Company income tax expense is determined as follows:

| | 2016 | 2015 |
|---|----------------|---------|
| Statutory income tax rate | 26.50% | 26.50% |
| Income before income taxes | 283,392 | 604,980 |
| Income before income taxes at statutory income tax rate | 75,099 | 160,320 |
| Additional taxes of foreign operations | 19,315 | 16,764 |
| Tax effect of non-deductible expenses | 74,545 | 39,890 |
| Flow-through share premium | - | 19,090 |
| Tax effect on SR&ED recapture | - | 116,038 |
| Income tax expense | 168,959 | 352,102 |

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

| | 2016 | 2015 |
|---|------------------|-----------|
| | \$ | \$ |
| Property and equipment - Canadian | (39,043) | (386,878) |
| Property and equipment - US | (74,386) | (5,152) |
| Non-deductible reserves - Canadian | 64,214 | (583) |
| Non-deductible reserves - US | 16,912 | 27,443 |
| Deferred development costs | (604,325) | (850,890) |
| Intangible assets including goodwill - Canadian | (690,520) | (41,309) |
| Intangible assets - US | 81,102 | 40,029 |
| SR&ED investment tax credits | 1,735,007 | 1,544,320 |
| Unutilized SR&ED expenditure pools | 1,031,511 | 904,360 |
| Deferred income tax assets | 1,520,472 | 1,231,340 |

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

12. Related parties

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

The Company had the following balances with related parties:

| Related parties | 2016 | 2015 |
|-------------------------------------|--------|--------|
| | \$ | \$ |
| The total of the transactions: | | |
| Expenses | 10,055 | 17,012 |
| The amount of outstanding balances: | | |
| Payable | 5,000 | 10,000 |

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 fiscal year ended June 30, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|----------------------------------|-----------|-----------|
| | \$ | \$ |
| Short-term benefits | 1,002,030 | 1,017,935 |
| Long-term benefits | 30,000 | 30,000 |
| Share-based payment transactions | 153,390 | 107,321 |
| | 1,185,420 | 1,155,256 |

13. Segment disclosures

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

Revenues for group of similar products and services can be summarized for the year ended June 30:

| | 2016 | 2015 |
|----------|------------|------------|
| | \$ | \$ |
| Products | 12,559,384 | 12,675,391 |
| Services | 8,633,888 | 3,642,655 |
| | 21,193,272 | 16,318,046 |

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Notes to the consolidated financial statements

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(In Canadian dollars)

13. Segment disclosures (continued)

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

| | 2016 | 2015 |
|---------------------|-------------------|------------|
| | \$ | \$ |
| USA | 13,849,676 | 8,140,197 |
| Canada | 488,890 | 458,621 |
| All other countries | 6,854,706 | 7,719,228 |
| | 21,193,272 | 16,318,046 |

14. Capital management

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

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

The Company manages the following capital:

| | 2016 | 2015 |
|--------------------------------------|-------------------|------------|
| | \$ | \$ |
| Share capital | 16,497,326 | 16,497,326 |
| Contributed surplus | 2,060,557 | 1,882,017 |
| Accumulated other comprehensive loss | (19,162) | - |
| Deficit | (312,166) | (426,599) |
| | 18,226,555 | 17,952,744 |

15. Commitments

The future minimum lease payments for office space as at June 30, 2016 are as follows:

| | \$ |
|---|------------------|
| Not later than one year | 375,804 |
| Later than one year and not later than five years | 1,191,993 |
| | 1,567,797 |

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Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

16. Business combination

On January 1, 2015, Sangoma US Inc., a wholly owned subsidiary of Sangoma Technologies Inc., acquired all the key assets of Schmooze.Com Inc. (including the shares of SIPStation Inc.) and all the outstanding shares of RockBochs Inc. Also on January 1, 2015 Sangoma US Inc. sold most of the intangible assets acquired to Sangoma Technologies Inc. and entered into a license agreement for the use of these assets for conducting its ongoing businesses. Both acquired businesses have been fully incorporated into the Company's operations and are managed as a single entity.

For the assets of Schmooze.Com Inc., Sangoma paid initial consideration of US\$3,000,000 (C\$3,492,000) in cash, 3,650,000 common shares of Sangoma with a value of US\$1,000,000 (C\$1,164,000) and entered into an earn-out arrangement for contingent consideration subsequently agreed to be US\$850,000 (C\$1,040,144). For the shares of RockBochs Inc. Sangoma paid initial consideration of US\$1,000,000 (C\$1,164,000) in cash and entered into an earn-out arrangement for contingent consideration of up to US\$500,000 (C\$612,919) if certain revenue targets are achieved.

In accordance with IFRS these acquisitions are accounted for as business combinations and have been accounted for accordingly.

| | Assets of Schmooze.com Inc. | Shares of RockBochs Inc. | Total |
|---|-----------------------------------|--------------------------------|------------------|
| | \$ | \$ | \$ |
| Consideration for the acquisitions | | | |
| Cash paid at closing | 3,492,000 | 1,164,000 | 4,656,000 |
| Share issuance | 1,164,000 | - | 1,164,000 |
| Contingent consideration ¹ | 1,040,144 | 612,919 | 1,653,063 |
| | <u>5,696,144</u> | <u>1,776,919</u> | <u>7,473,063</u> |

¹ Contingent consideration represents the discounted amount estimated to be paid out after the one year earn-out period and is included in accrued liabilities (Note 9).

| | Assets of Schmooze.com Inc. | Shares of RockBochs Inc. | Total |
|--|-----------------------------------|--------------------------------|------------------|
| | \$ | \$ | \$ |
| Purchase price allocation² | | | |
| Working capital | - | 174,600 | 174,600 |
| Property and equipment | 130,950 | 25,447 | 156,397 |
| Purchased technology | 2,410,000 | 510,000 | 2,920,000 |
| Purchased intangibles | 1,872,000 | 600,000 | 2,472,000 |
| Goodwill | 1,283,194 | 466,872 | 1,750,066 |
| | <u>5,696,144</u> | <u>1,776,919</u> | <u>7,473,063</u> |

² Since January 1, 2015, all revenues and costs have been incorporated into the Company's consolidated financial statements. Transaction fees of \$297,145 were recorded in fiscal 2015.

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Notes to the consolidated financial statements

June 30, 2016 and 2015

(In Canadian dollars)

17. Provisions

| | Warranty provision | Sales returns & allowances provision | Stock rotation provision | Total |
|---------------------------------|-----------------------|--|--------------------------------|----------------|
| | \$ | \$ | \$ | \$ |
| Balance at June 30, 2015 | 14,318 | 14,000 | 55,000 | 83,318 |
| Additional provision recognized | 4,404 | 5,596 | 10,000 | 20,000 |
| Balance at June 30, 2016 | 18,722 | 19,596 | 65,000 | 103,318 |

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

18. Operating Line

During December 2014, the Company established an Operating Line of Credit for up to \$2,500,000 to ensure sufficient cash for operations. This facility is governed by a General Security Agreement and standard operating covenants. The balance of the Operating Line on June 30, 2016 was \$1,340,603 (June 30, 2015 - \$1,340,603) and carries an interest rate of prime plus 0.8%. As of June 30, 2016, interest costs to service the operating line amounted to \$46,921 (2015 - \$30,439).

19. Subsequent events

Subsequent to year ended June 30, 2016, the Company entered into following foreign currency forward contracts:

- (i) United States dollar forward contract for the conversion of \$500,000 USD to Canadian dollars at the rate of \$1.3036 to be settled on December 28, 2016
- (ii) United States dollar forward contract for the conversion of \$500,000 USD to Canadian dollars at the rate of \$1.3017 to be settled on December 29, 2016.
- (iii) United States dollar forward contract for the conversion of \$500,000 USD to Canadian dollars at \$1.3139 to be settled on December 28, 2016.

20. Authorization of financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on October 20, 2016.