

Condensed consolidated interim financial statements of

**Sangoma Technologies Corporation**

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian Dollars)

# Sangoma Technologies Corporation

September 30, 2016

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

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

# Sangoma Technologies Corporation

## Condensed consolidated interim statements of financial position as at September 30, 2016 and June 30, 2016

(Unaudited in Canadian dollars)

	September 30, 2016	June 30, 2016
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 8)	2,365,107	2,086,932
Trade receivables (Note 9)	3,294,276	4,214,079
Inventories (Note 4)	3,993,363	3,887,233
Investment tax credits receivable	313,837	374,115
Other current assets	561,983	448,939
	<b>10,528,566</b>	<b>11,011,298</b>
Non-current assets		
Property and equipment (Note 5)	569,771	597,103
Intangible assets (Note 6)	5,313,905	5,480,583
Development costs (Note 7)	2,518,613	2,506,452
Deferred income tax assets (Note 11)	1,657,972	1,520,472
Goodwill	1,638,546	1,638,546
	<b>22,227,373</b>	<b>22,754,454</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	1,729,121	2,435,687
Provisions (Note 16)	108,318	103,318
Sales tax payable	60,006	113,735
Income tax payable	64,130	117,187
Operating line (Note 17)	1,340,603	1,340,603
Deferred revenue	495,284	417,369
	<b>3,797,462</b>	<b>4,527,899</b>
<b>Shareholders' equity</b>		
Share capital (Note 14)	16,497,326	16,497,326
Contributed surplus (Note 14)	2,131,991	2,060,557
Accumulated other comprehensive income / (loss)	49,218	(19,162)
Deficit	(248,624)	(312,166)
	<b>18,429,911</b>	<b>18,226,555</b>
	<b>22,227,373</b>	<b>22,754,454</b>

Approved by the Board

(Signed) Al Guarino Director

(Signed) Yves Laliberte Director

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

# Sangoma Technologies Corporation

Condensed consolidated interim statements of income and comprehensive income  
for the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

	September 30, 2016	September 30, 2015
	\$	\$
<b>Revenue (Note 13)</b>	<b>5,820,431</b>	4,711,630
Cost of sales	<b>2,054,980</b>	1,358,397
<b>Gross profit</b>	<b>3,765,451</b>	3,353,233
Expenses		
Sales and marketing	<b>1,074,293</b>	1,124,246
Research and development	<b>1,193,845</b>	1,071,616
General and administration	<b>1,351,792</b>	1,081,000
Foreign currency exchange (gain) loss	<b>15,339</b>	(73,444)
	<b>3,635,269</b>	3,203,418
<b>Income before interest, income taxes, and business acquisition costs</b>	<b>130,182</b>	149,815
Interest income (Note 8)	-	(1,856)
Interest expense (Note 8)	<b>24,565</b>	26,992
	<b>24,565</b>	25,136
<b>Income before income tax</b>	<b>105,617</b>	124,679
Provision for income taxes		
Current (Note 11)	<b>42,075</b>	36,381
<b>Net income</b>	<b>63,542</b>	88,298
Other comprehensive gain		
Items to be reclassified to net income		
Foreign currency translation adjustment (gain)	<b>(68,380)</b>	-
<b>Comprehensive income</b>	<b>131,922</b>	88,298
<b>Earnings per share</b>		
Basic (Note 10(iii))	<b>0.002</b>	0.003
Diluted (Note 10(iii))	<b>0.002</b>	0.003
<b>Weighted average number of shares outstanding (Note 10(iii))</b>		
Basic	<b>32,479,809</b>	32,479,809
Diluted	<b>33,021,912</b>	32,479,809

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

# Sangoma Technologies Corporation

Condensed consolidated interim statements of changes in shareholders' equity  
for the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

	Number of common shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive gain / (loss) \$	Deficit \$	Total Shareholders' equity \$
<b>Balance, June 30, 2016</b>	<b>32,479,809</b>	<b>16,497,326</b>	<b>2,060,557</b>	<b>(19,162)</b>	<b>(312,166)</b>	<b>18,226,555</b>
Net income	-	-	-	-	63,542	63,542
Other comprehensive gain / (loss)	-	-	-	68,380	-	68,380
Share-based compensation expense (Note 10(ii))	-	-	71,434	-	-	71,434
<b>Balance, September 30, 2016</b>	<b>32,479,809</b>	<b>16,497,326</b>	<b>2,131,991</b>	<b>49,218</b>	<b>(248,624)</b>	<b>18,429,911</b>
Balance, June 30, 2015	32,479,809	16,497,326	1,882,017	-	(426,599)	17,952,744
Net income	-	-	-	-	88,298	88,298
Share-based compensation expense (Note 10(ii))	-	-	19,726	-	-	19,726
<b>Balance, September 30, 2015</b>	<b>32,479,809</b>	<b>16,497,326</b>	<b>1,901,743</b>	<b>-</b>	<b>(338,301)</b>	<b>18,060,768</b>

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

# Sangoma Technologies Corporation

## Condensed consolidated interim statements of cash flows for the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

	September 30,	September 30,
	2016	2015
	\$	\$
<b>Operating activities</b>		
Net income	63,542	88,298
Adjustments for		
Depreciation of property and equipment (Note 5)	34,513	29,115
Amortization of intangible assets (Note 6)	185,972	185,998
Amortization of capitalized development costs (Note 7)	423,703	413,612
Unrealized foreign exchange gain	7,009	-
Income tax expense	42,075	36,381
Share-based compensation expense (Note 10(ii))	71,433	19,726
Accretion expense	-	8,589
Changes in item of working capital		
Trade receivables	919,803	(167,487)
Inventories	(106,130)	(269,454)
Other current assets	(113,045)	(227,729)
Sales tax receivables	-	(166,538)
Sales tax payable	(53,729)	-
Accounts payable and accrued liabilities	(706,566)	(115,932)
Provisions (Note 16)	5,000	-
Income tax payable	(53,054)	(13,018)
Deferred revenue	77,916	(256)
Investment tax credits receivables	60,278	-
	<b>858,720</b>	<b>(178,695)</b>
<b>Investing activities</b>		
Purchase of property and equipment (Note 5)	(7,181)	(51,796)
Development costs (Note 7)	(573,364)	(488,211)
	<b>(580,545)</b>	<b>(540,007)</b>
Increase / (decrease) in cash and cash equivalents	278,175	(718,702)
Cash and cash equivalents, beginning of the period	2,086,932	2,518,156
<b>Cash and cash equivalents, end of the period</b>	<b>2,365,107</b>	<b>1,799,454</b>

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

# Sangoma Technologies Corporation

## Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

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### 1. General information

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

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

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

### 2. Significant accounting policies

The accompanying condensed unaudited consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting*. The condensed unaudited consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended June 30, 2016.

These condensed consolidated interim financial statements were, at the recommendation of the audit committee, approved and authorized for issuance by the Company’s Board of Directors on November 17, 2016.

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

These condensed unaudited consolidated interim financial statements were prepared using the same basis of presentation, accounting policies and methods of computation as those of the audited consolidated financial statements for the year ended June 30, 2016 and which are available at [www.sedar.com](http://www.sedar.com). They the same critical estimates and judgments in applying the accounting policies as those of the audited consolidated financial statements for the year ended June 30, 2016.

### 4. Inventories

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

	September 30, 2016	June 30, 2016
	\$	\$
Finished goods	2,055,606	1,988,821
Parts	1,991,833	1,952,488
	<b>4,047,439</b>	3,941,309
Provision for obsolescence	(54,076)	(54,076)
<b>Net inventory carrying value</b>	<b>3,993,363</b>	3,887,233

During the three month period ended September 30, 2016 there were no further provisions made against inventory.

# Sangoma Technologies Corporation

## Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

### 5. Property and equipment

	Office furniture and computer equipment	Software and books	Stockroom and production equipment	Tradeshow equipment	Leasehold improvement	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance, June 30, 2016	1,076,568	216,737	162,873	64,338	135,557	1,656,073
Additions	-	-	-	-	-	-
Effect of movements in exchange rates	6,226	-	-	-	955	7,181
<b>Balance, September 30, 2016</b>	<b>1,082,794</b>	<b>216,737</b>	<b>162,873</b>	<b>64,338</b>	<b>136,512</b>	<b>1,663,254</b>
<b>Accumulated depreciation</b>						
Balance, June 30, 2016	697,757	161,529	88,745	38,458	72,481	1,058,970
Depreciation expense	22,112	4,098	3,831	1,366	3,106	34,513
Effect of movements in exchange rates	-	-	-	-	-	-
<b>Balance, September 30, 2016</b>	<b>719,869</b>	<b>165,627</b>	<b>92,576</b>	<b>39,824</b>	<b>75,587</b>	<b>1,093,483</b>
<b>Carrying amount</b>						
Balance, June 30, 2016	378,811	55,208	74,128	25,880	63,076	597,103
<b>Balance, September 30, 2016</b>	<b>362,925</b>	<b>51,110</b>	<b>70,297</b>	<b>24,514</b>	<b>60,925</b>	<b>569,771</b>

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

### 6. Intangible assets

	Copyright to software	Purchased technology	Purchased intangibles	Total
	\$	\$	\$	\$
<b>Cost</b>				
Balance, June 30, 2016	2,948,461	3,825,000	2,762,736	9,536,197
Additions	-	-	-	-
Effect of movements on exchange rates	-	-	19,294	19,294
<b>Balance, September 30, 2016</b>	<b>2,948,461</b>	<b>3,825,000</b>	<b>2,782,030</b>	<b>9,555,491</b>
<b>Accumulated amortization</b>				
Balance, June 30, 2016	2,781,204	860,000	414,410	4,055,614
Amortization expense	20,907	95,625	69,440	185,972
<b>Balance, September 30, 2016</b>	<b>2,802,111</b>	<b>955,625</b>	<b>483,850</b>	<b>4,241,586</b>
<b>Carrying amount</b>				
Balance, June 30, 2016	167,257	2,965,000	2,348,326	5,480,583
<b>Balance, September 30, 2016</b>	<b>146,350</b>	<b>2,869,375</b>	<b>2,298,180</b>	<b>5,313,905</b>

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



# Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

## 7. Development costs

		\$
<hr/>		
Development costs		
Balance, June 30, 2015		14,955,132
Additions		2,562,936
Investment tax credits		(703,824)
Balance, June 30, 2016		16,814,244
Additions		573,364
Investment tax credits		(137,500)
<b>Balance, September 30, 2016</b>		<b>17,250,108</b>
<hr/>		
Accumulated amortization		
Balance, June 30, 2015		(12,781,815)
Amortization		(1,525,977)
Balance, June 30, 2016		(14,307,792)
Amortization		(423,703)
<b>Balance, September 30, 2016</b>		<b>(14,731,495)</b>
<hr/>		
	<b>September 30,</b>	<b>June 30,</b>
	<b>2016</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Net capitalized development costs</b>	<b>2,518,613</b>	<b>2,506,452</b>

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized \$770,142 of engineering expenditures as an expense during the quarter ended September 30, 2016 (September 30, 2015 - \$658,004).

## 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:

	<b>September 30,</b>	June 30,
	<b>2016</b>	2016
	<b>\$</b>	<b>\$</b>
Cash at bank and on hand	<b>2,365,107</b>	2,086,932
	<b>2,365,107</b>	2,086,932

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

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

# Sangoma Technologies Corporation

## Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

### 8. Financial instruments (continued)

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

	<b>September 30, 2016</b>	September 30, 2015
	\$	\$
Interest income	-	(1,856)
Interest expense (Note 9,17)	<b>24,565</b>	26,991
Net interest expense	<b>24,565</b>	25,135

### 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:

	<b>September 30, 2016</b>	June 30, 2016
	\$	\$
Trade receivables aging		
0-30 days	<b>2,201,251</b>	3,187,854
31-90 days	<b>625,834</b>	638,705
Greater than 90 days	<b>717,959</b>	638,288
	<b>3,545,044</b>	4,464,847
Provision for doubtful accounts	<b>(250,768)</b>	(250,768)
Net trade receivable	<b>3,294,276</b>	4,214,079

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

	<b>September 30, 2016</b>	June 30, 2016
	\$	\$
Provision for doubtful accounts		
Allowance for doubtful accounts beginning balance	<b>(250,768)</b>	(234,024)
Net Allowance used (recorded) during the year	-	(16,744)
Allowance for doubtful accounts ending balance	<b>(250,768)</b>	(250,768)

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

# Sangoma Technologies Corporation

## Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

### 9. Financial instruments risks (continued)

#### *Liquidity risk*

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

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

	<b>September 30, 2016</b>	June 30, 2016
	\$	\$
Accounts payable and accrued liabilities	<b>1,729,121</b>	2,435,687
	<b>1,729,121</b>	2,435,687

#### *Foreign currency risk*

A large portion of the Company's transactions occur in a foreign currency (mainly in US dollars) and, therefore, the Company is exposed to foreign currency risk at the end of the reporting period through its U.S. denominated trade receivables, accounts payable and cash. As at September 30, 2016, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate \$350,667 decrease or increase, respectively, in total comprehensive income (loss) and retained earnings (deficit) (September 30, 2015 - \$462,922). 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 three forward contracts outstanding as at September 30, 2016:

- (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.

As at September 30, 2016, the fair value of the forward contracts is \$1,959,600 (June 30, 2016 - \$1,951,350) and the carrying value of the forward contracts is \$1,967,550 (June 30, 2016 - \$1,933,200).

#### *Interest rate risk*

The Company has no significant exposure at September 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 condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

## 10. Shareholders' equity

### (i) Share capital and contributed surplus

Issued and outstanding common shares consist of the following:

	September 30, 2016	June 30 2016
	#	#
Shares issued and fully paid		
Beginning balance	32,479,809	32,479,809
Share issued	-	-
	<b>32,479,809</b>	<b>32,479,809</b>
Opening balance number of stock options outstanding	5,519,160	5,519,160
Share-based options granted	-	-
Share-based options expired/cancelled	-	-
Number of stock options outstanding	5,519,160	5,519,160
	<b>37,998,969</b>	<b>37,998,969</b>
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 condensed consolidated interim financial statements

### For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

#### 10. Shareholders' equity (continued)

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

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

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

	Number of options	Weighted average exercise price \$
Measurement date		
Balance, June 30, 2016	5,519,160	0.31
Balance, September 30, 2016	<b>5,519,160</b>	0.31

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

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

	<b>September 30, 2016</b>		June 30, 2016	
	<b>Number of stock options outstanding and exercisable</b>	<b>Weighted average remaining contractual life</b>	Number of stock options outstanding and exercisable	Weighted average remaining contractual life
Exercise price				
\$0.26 - \$0.50	<b>5,519,160</b>	<b>3.71</b>	5,519,160	3.96
	<b>5,519,160</b>	<b>3.71</b>	5,519,160	3.96

The Company recognized share based compensation expense in the amount of \$71,434 for the period ended September 30, 2016 (September 30, 2015 - \$19,726).

# Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

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## 10. Shareholders' equity (continued)

### (iii) Earnings per share

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

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

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:

	<b>September 30 2016</b>	June 30, 2016
Number of shares		
Weighted average number of shares used in basic earnings per share	<b>32,479,809</b>	32,479,809
Shares deemed to be issued in respect of share-based payments	<b>542,103</b>	-
Weighted average number of shares used in diluted earnings per share	<b>33,021,912</b>	32,479,809

As of September 30, 2016, there were 542,103 options in-the-money which were included in the weighted average number of shares for the purposes of diluted earnings per share calculation above (September 30, 2015 - none).

# Sangoma Technologies Corporation

## Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited 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	
	<b>2,136,986</b>	<b>223,568</b>	

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:

	September 30, 2016	June 30, 2016
Statutory income tax rate	26.50%	26.50%
Income before income taxes	105,617	283,392
Income before income taxes at statutory income tax rate	27,988	75,099
Additional taxes of foreign operations	5,025	19,315
Tax effect of non-deductible expenses	9,062	74,545
Income tax expense	<b>42,075</b>	168,959

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

	September 30, 2016	June 30, 2016
Property and equipment - Canadian	(39,043)	(39,043)
Property and equipment - US	(74,386)	(74,386)
Non-deductible reserves - Canadian	84,862	64,214
Non-deductible reserves - US	36,719	16,912
Deferred development costs	(644,780)	(604,325)
Intangible assets including goodwill - Canadian	(690,520)	(690,520)
Intangible assets - US	81,102	81,102
SR&ED investment tax credits	1,872,507	1,735,007
Unutilized SR&ED expenditure pools	1,031,511	1,031,511
Deferred income tax assets	<b>1,657,972</b>	1,520,472

# Sangoma Technologies Corporation

## Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

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### 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	September 30, 2016	September 30, 2015
	\$	\$
The amount of outstanding balances:		
Payable	37,500	27,500

### 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.

The sales, in Canadian dollars for group of similar products and services can be summarized for the period ended September 30:

	September 30, 2016	September 30, 2015
	\$	\$
Products	3,157,821	2,821,977
Services	2,662,610	1,889,653
	5,820,431	4,711,630

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

	September 30, 2016	September 30, 2015
	\$	\$
USA	3,626,602	3,085,596
Canada	163,829	156,451
All other countries	2,030,000	1,469,583
	5,820,431	4,711,630

### 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,



# Sangoma Technologies Corporation

## Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

creditor and market confidence. The Company considers its capital structure to include its shareholders' equity. Working capital is optimized via stringent cash flow policies surrounding disbursement, foreign currency exchange and investment decision-making.

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

The Company manages the following capital:

	September 30, 2016	June 30, 2016
	\$	\$
Share capital	16,497,326	16,497,326
Contributed surplus	2,131,991	2,060,557
Accumulated other comprehensive gain /(loss)	49,218	(19,162)
Deficit	(248,624)	(312,166)
	<b>18,429,911</b>	<b>18,226,555</b>

### 15. Commitments

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

	\$
Not later than one year	375,804
Later than one year and not later than five years	1,098,042
	<b>1,473,846</b>

### 16. Provisions

	Warranty provision	Sales returns & allowances provision	Stock rotation provision	Total
	\$	\$	\$	\$
Balance at June 30, 2016	18,722	19,596	65,000	103,318
Additional provision recognized	-	-	5,000	5,000
Balance at September 30, 2016	<b>18,722</b>	<b>19,596</b>	<b>70,000</b>	<b>108,318</b>

The provision for warranty obligations represents the Company's best estimate of repair and/or replacement costs to correct product failures. The sales returns and allowances provision 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.

### 17. 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 September 30, 2016 was \$1,340,603 (June 30, 2016 - \$1,340,603) and carries an interest rate of prime plus 0.8%. As of September 30, 2016, interest costs to service the operating line amounted to \$24,565 (September 30, 2015 - \$26,992).

# Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended September 30, 2016 and 2015

(Unaudited in Canadian dollars)

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## 18. Subsequent events

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

- (i) United States dollar forward contract for the conversion of \$1,000,000 USD to Canadian dollars at the rate of \$1.3338 to be settled on March 30, 2017.
- (ii) United States dollar forward contract for the conversion of \$500,000 USD to Canadian dollars at the rate of \$1.3334 to be settled on March 28, 2017.

## 19. Authorization of financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on November 17, 2016.