



SANGOMA TECHNOLOGIES CORPORATION

Condensed Consolidated Interim Financial Statements

For the three and six month periods ended December 31, 2016 and 2015

(Unaudited in Canadian Dollars)

Sangoma Technologies Corporation

December 31, 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 December 31, 2016 and June 30, 2016

(Unaudited in Canadian dollars)

	December 31, 2016	June 30, 2016
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 9)	2,277,375	2,086,932
Trade receivables (Note 10)	3,312,985	4,214,079
Inventories (Note 5)	4,533,404	3,887,233
Investment tax credits receivable	313,837	374,115
Other current assets	421,018	448,939
	10,858,619	11,011,298
Non-current assets		
Property and equipment (Note 6)	564,346	597,103
Intangible assets (Note 7, 19)	6,080,249	5,480,583
Development costs (Note 8)	2,560,992	2,506,452
Deferred income tax assets (Note 12)	1,792,330	1,520,472
Goodwill	1,638,546	1,638,546
	23,495,082	22,754,454
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	2,467,695	2,435,687
Provisions (Note 17)	113,318	103,318
Sales tax payable	11,064	113,735
Income tax payable	241,507	117,187
Operating line (Note 18)	1,340,603	1,340,603
Deferred revenue	481,604	417,369
	4,655,791	4,527,899
Shareholders' equity		
Share capital (Note 15)	16,497,326	16,497,326
Contributed surplus (Note 15)	2,210,009	2,060,557
Accumulated other comprehensive income / (loss)	90,585	(19,162)
Deficit	41,371	(312,166)
	18,839,291	18,226,555
	23,495,082	22,754,454

Approved by the Board

(Signed) Al Guarino Director

(Signed) Yves Laliberte Director

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

Sangoma Technologies Corporation

Condensed consolidated interim statements of comprehensive income
for the three months ended December 31, 2016 and 2015
(Unaudited in Canadian dollars)

	Second Quarter		Year to Date	
	F2017	F2016	F2017	F2016
	\$	\$	\$	\$
Revenue (Note 14)	6,569,674	5,081,882	12,390,105	9,793,512
Cost of sales	2,219,213	1,412,894	4,274,193	2,771,291
Gross profit	4,350,461	3,668,988	8,115,912	7,022,221
Expenses				
Sales and marketing	1,164,015	1,260,303	2,238,308	2,384,549
Research and development	1,284,712	1,202,717	2,478,557	2,274,333
General and administration	1,385,967	1,219,556	2,737,759	2,300,556
Foreign currency exchange (gain) loss	24,233	(155,360)	39,572	(228,804)
	3,858,927	3,527,216	7,494,196	6,730,634
Income before interest and taxes	491,534	141,772	621,716	291,587
Interest income (Note 9)	-	-	-	(1,856)
Interest expense (Note 9)	23,116	29,151	47,681	56,143
	23,116	29,151	47,681	54,287
Income before income tax	468,418	112,621	574,035	237,300
Provision for income taxes (Note 12)	178,423	34,809	220,498	71,190
Net income	289,995	77,812	353,537	166,110
Other comprehensive gain				
Items to be reclassified to net income				
Foreign currency translation adjustment (gain)	(41,367)	-	(90,585)	-
Comprehensive income	331,362	77,812	444,122	166,110
Earnings (loss) per share				
Basic (Note 11 (iii))	0.009	0.002	0.011	0.005
Diluted (Note 11 (iii))	0.009	0.002	0.011	0.005
Weighted average number of shares outstanding (Note 11 (iii))				
Basic	32,479,809	32,479,809	32,479,809	32,479,809
Diluted	33,237,533	32,479,809	33,100,982	32,479,809

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

Sangoma Technologies Corporation

Condensed consolidated interim statements of changes in shareholders' equity
for the three months ended Decemebr 31, 2016 and 2015

(Unaudited in Canadian dollars)

	Number of common shares	Share capital	Contributed surplus	Accumulated other comprehensive gain / (loss)	Deficit	Total Shareholders' equity
		\$	\$	\$	\$	\$
Balance, June 30, 2016	32,479,809	16,497,326	2,060,557	(19,162)	(312,166)	18,226,555
Net income	-	-	-	-	63,542	63,542
Other comprehensive gain	-	-	-	68,380	-	68,380
Share-based compensation expense (Note 11(ii))	-	-	71,434	-	-	71,434
Balance, September 30, 2016	32,479,809	16,497,326	2,131,991	49,218	(248,624)	18,429,911
Net income	-	-	-	-	289,995	289,995
Other comprehensive gain	-	-	-	41,367	-	41,367
Share-based compensation expense (Note 11(ii))	-	-	78,018	-	-	78,018
Balance, December 31, 2016	32,479,809	16,497,326	2,210,009	90,585	41,371	18,839,291
Balance, June 30, 2015	32,479,809	16,497,326	1,882,017	-	(426,599)	17,952,744
Net income	-	-	-	-	88,299	88,299
Share-based compensation expense (Note 11(ii))	-	-	19,726	-	-	19,726
Balance, September 30, 2015	32,479,809	16,497,326	1,901,743	-	(338,300)	18,060,769
Net income	-	-	-	-	77,812	77,812
Share-based compensation expense (Note 11(ii))	-	-	46,093	-	-	46,093
Balance, December 31, 2015	32,479,809	16,497,326	1,947,836	-	(260,488)	18,184,674

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

Sangoma Technologies Corporation

Condensed consolidated interim statements of cash flows for the three months ended Decemeber 31, 2016 and 2015

(Unaudited in Canadian dollars)

	Second Quarter		Year to Date	
	F2017	F2016	F2017	F2016
	\$	\$	\$	\$
Operating activities				
Net income	289,995	77,812	353,537	166,111
Adjustments for				
Depreciation of property and equipment (Note 6)	29,356	29,739	63,869	58,854
Amortization of intangible assets (Note 7)	160,310	189,822	346,282	375,820
Amortization of capitalized development costs (Note 8)	429,054	416,220	852,757	829,832
Unrealized foreign exchange gain	(13,573)	-	(6,564)	-
Income tax expense	178,423	34,809	220,498	71,190
Share-based compensation expense (Note 11(ii))	78,018	46,093	149,451	65,819
Accretion expense	-	8,354	-	16,943
Changes in item of working capital				
Trade receivables	(18,709)	668,908	901,094	501,421
Inventories	(540,041)	239,201	(646,171)	(30,253)
Other current assets	140,966	183,604	27,921	(44,125)
Sales tax receivables	-	-	-	(166,538)
Sales tax payable	(48,942)	-	(102,671)	-
Accounts payable and accrued liabilities (Note 10)	738,575	(148,745)	32,009	(264,677)
Provisions (Note 17)	5,000	-	10,000	-
Income tax payable	177,377	(6,440)	124,323	(19,458)
Deferred revenue	(13,680)	61,031	64,236	60,774
Income tax paid	(94,680)	-	(34,402)	-
	1,497,449	1,800,408	2,356,169	1,621,713
Investing activities				
Purchase of property and equipment (Note 6)	(23,931)	(60,705)	(31,112)	(112,501)
Development costs (Note 8)	(608,933)	(618,480)	(1,182,297)	(1,106,691)
Purchase of intangible assets (Note 19)	(952,317)	-	(952,317)	-
	(1,585,181)	(679,185)	(2,165,726)	(1,219,192)
Increase / (decrease) in cash and cash equivalents	(87,732)	1,121,223	190,443	402,521
Cash and cash equivalents, beginning of the period	2,365,107	1,799,454	2,086,932	2,518,156
Cash and cash equivalents, end of the period	2,277,375	2,920,677	2,277,375	2,920,677

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

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three months ended December 31, 2016, and 2015

(Unaudited in Canadian dollars)

1. General information

Founded in 1984, Sangoma Technologies Corporation (“Sangoma” or the “Company”) is publicly traded on the TSX Venture Exchange (TSX VENTURE: STC) and its operating subsidiaries are Sangoma Technologies Inc., Sangoma US Inc. and Sangoma Technologies PVT LTD.

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

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. Statement of compliance

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 on February 6, 2017 by the Company’s Board of Directors.

3. Significant accounting policies

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.

4. Significant accounting judgments, estimates and uncertainties

These condensed unaudited consolidated interim financial statements require 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.

5. Inventories

Inventories recognized in the statements of financial position can be analyzed as follows:

	December 31, 2016	June 30, 2016
	\$	\$
Finished goods	2,438,720	1,988,821
Parts	2,148,760	1,952,488
	4,587,480	3,941,309
Provision for obsolescence	(54,076)	(54,076)
Net inventory carrying value	4,533,404	3,887,233

During the three month period ended December 31, 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 December 31, 2016, and 2015

(Unaudited in Canadian dollars)

6. Property, plant and equipment

	Office furniture and computer equipment	Software and books	Stockroom and production equipment	Tradeshaw equipment	Leasehold improvement	Total
	\$	\$	\$	\$	\$	\$
<i>Cost</i>						
Balance, June 30, 2016	1,076,568	216,737	162,873	64,338	135,557	1,656,073
Effect of movements in exchange rate	6,226	-	-	-	955	7,181
Balance, Sept 30, 2016	1,082,794	216,737	162,873	64,338	136,512	1,663,254
Additions	11,016	12,915	-	-	-	23,931
Balance, Dec 31, 2016	1,093,810	229,652	162,873	64,338	136,512	1,687,185
<i>Accumulated depreciation</i>						
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
Balance, Sept 30, 2016	719,869	165,627	92,576	39,824	75,587	1,093,483
Depreciation expense	19,160	3,425	3,696	1,296	1,779	29,356
Balance, Dec 31, 2016	739,029	169,052	96,272	41,120	77,366	1,122,839
<i>Carry amount</i>						
Balance, June 30, 2016	378,811	55,208	74,128	25,880	63,076	597,103
Balance, Dec 31, 2016	354,781	60,600	66,601	23,218	59,146	564,346

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

7. Intangible assets

	Copyright to software	Purchased technology	Intangibles	Total
	\$	\$	\$	\$
<i>Cost</i>				
Balance, June 30, 2016	2,948,461	3,825,000	2,762,736	9,536,197
Effect of movements in exchange rate	-	-	19,294	19,294
Balance, Sept 30, 2016	2,948,461	3,825,000	2,782,030	9,555,491
Additions	-	-	952,317	952,317
Effect of movements in exchange rate	-	-	(25,663)	(25,663)
Balance, Dec 31, 2016	2,948,461	3,825,000	3,708,684	10,482,145
<i>Accumulated amortization and impairment</i>				
Balance, June 30, 2016	2,781,204	860,000	414,410	4,055,614
Amortization expense	20,907	95,625	69,440	185,972
Balance, Sept 30, 2016	2,802,111	955,625	483,850	4,241,586
Amortization expense	20,907	95,625	43,778	160,310
Balance, Dec 31, 2016	2,823,018	1,051,250	527,628	4,401,896
<i>Carrying amount</i>				
Balance, June 30, 2016	167,257	2,965,000	2,348,326	5,480,583
Balance, Dec 31, 2016	125,443	2,773,750	3,181,056	6,080,249

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

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Notes to the condensed consolidated interim financial statements

For the three months ended December 31, 2016, and 2015

(Unaudited in Canadian dollars)

8. Development costs

	December 31, 2016	June 30, 2016
	\$	\$
Development costs		
Balance, June 30, 2016	16,814,244	
Additions	573,364	
Investment tax credits	(137,500)	
Balance, September 30, 2016	17,250,108	
Additions	608,933	
Investment tax credits	(137,500)	
Balance, December 31, 2016	17,721,541	
Accumulated amortization		
Balance, June 30, 2016		(14,307,792)
Amortization		(423,703)
Balance, September 30, 2016		(14,731,495)
Amortization		(429,054)
Balance, December 31, 2016		(15,160,549)
	2,560,992	2,506,452
Net capitalized development costs		

Each period, additions to development costs are recognized net of Investment Tax Credits accrued. In addition to the above amortization, the Company has recognized \$855,658 of engineering expenditures as an expense during the three month period ended December 31, 2016 (December 31, 2015 - \$786,497).

9. 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 financial instruments.

Cash and cash equivalent is comprised of:

	December 31, 2016	June 30, 2016
	\$	\$
Cash at bank and on hand	2,277,375	2,086,932
	2,277,375	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 comprehensive income as interest income.

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Notes to the condensed consolidated interim financial statements

For the three months ended December 31, 2016, and 2015

(Unaudited in Canadian dollars)

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:

	Second Quarter		Year to Date	
	2017	2016	2017	2016
	\$	\$	\$	\$
Interest income	-	-	-	(1,856)
Interest expense (Note 9,18)	23,116	29,151	47,681	56,143
Net interest expense	23,116	29,151	47,681	54,287

10. 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:

	December 31, 2016	June 30, 2016
	\$	\$
Trade receivables aging		
0-30 days	2,066,944	3,187,854
31-90 days	744,552	638,705
Greater than 90 days	802,257	638,288
	3,613,753	4,464,847
Provision for doubtful accounts	(300,768)	(250,768)
Net trade receivable	3,312,985	4,214,079

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

	December 31, 2016	June 30, 2016
	\$	\$
Provision for doubtful accounts		
Allowance for doubtful accounts beginning balance	(250,768)	(234,024)
Net Allowance recorded during the year	(50,000)	(16,744)
Allowance for doubtful accounts ending balance	(300,768)	(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.

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Notes to the condensed consolidated interim financial statements

For the three months ended December 31, 2016, and 2015

(Unaudited in Canadian dollars)

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 equivalents and working capital, maintained through stringent cash flow management, to ensure sufficient liquidity is maintained. Maturity analysis of debt can be summarized as follows:

	December 31, 2016	June 30, 2016
	\$	\$
Accounts payable and accrued liabilities	2,064,885	2,435,687
Contingent consideration on acquisition	402,810	-
	2,467,695	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 December 31, 2016 a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate \$343,633 decrease or increase, respectively, in total comprehensive income (loss) and retained earnings (deficit) (June 30, 2016 - \$547,587). On an ongoing basis the Company's top line revenues are also impacted by the swings in the U.S. dollar.

The Company seeks to minimize the impact of foreign currency movement through hedging of the US dollar and the position as of December 31, 2016 was:

- (i) a United States dollar forward contract for the conversion of \$1.0 million USD to Canadian dollars at the rate of \$1.3338 to be settled on March 30, 2017.
- (ii) a United States dollar forward contract for the conversion of \$0.5 million USD to Canadian dollars at the rate of \$1.3334 to be settled on March 28, 2017.
- (iii) a United States dollar forward contract for the conversion of \$0.5 million USD to Canadian dollars at the rate of \$1.3440 to be settled on May 30, 2017
- (iv) a United States dollar forward contract for the conversion of \$1.0 million USD to Canadian dollars at the rate of \$1.3481 to be settled on June 29, 2017.

Interest rate risk

The Company has no significant exposure at December 31, 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 December 31, 2016, and 2015

(Unaudited in Canadian dollars)

11. Shareholders' equity

(i) Share capital and contributed surplus

Issued and outstanding common shares consist of the following:

	Second Quarter		Year to Date	
	2017	2016	2017	2016
	#	#	#	#
Shares issued and fully paid:				
Beginning of the year	32,479,809	32,479,809	32,479,809	32,479,809
Share issued	-	-	-	-
Shares issued and fully paid	32,479,809	32,479,809	32,479,809	32,479,809
Opening balance number of stock options outstanding	5,519,160	5,040,160	5,519,160	5,040,160
Share-based options granted	-	2,654,160	-	2,654,160
Share-based payments options expired or cancelled	-	(2,654,160)	-	(2,654,160)
Number of stock options outstanding	5,519,160	5,040,160	5,519,160	5,040,160
Fully diluted total shares	37,998,969	37,519,969	37,998,969	37,519,969

For each class of share capital:

The number of shares authorized	Unlimited	Unlimited	Unlimited	Unlimited
The number of shares issued and fully paid	32,479,809	32,479,809	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 issue 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 requirements.

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

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to allow the optionee or his or her personal representative time to exercise such stock options. The stock options are non-transferable.

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

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

	Number of options	Weighted average exercise price \$
Measurement date		
Balance, June 30, 2016	5,519,160	0.31
Balance, December 31, 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.

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

	December 31, 2016		June 30, 2016	
	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	3.46	5,519,160	3.96
	5,519,160	3.46	5,519,160	3.96

Total expense recognized for share based payments for the three month period ended December 31, 2016 was \$78,018 (December 31, 2015 - \$46,093).

(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 (December 31, 2015 – 32,479,809).

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For the three months ended December 31, 2016, and 2015

(Unaudited in Canadian dollars)

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:

	Second Quarter		Year to Date	
	2017	2016	2017	2016
	#	#	#	#
Number of shares				
Weighted average number of shares used in basic earnings per share	32,479,809	32,479,809	32,479,809	32,479,809
Shares deemed to be issued in respect of share-based payments	757,724	-	621,173	-
Weighted average number of shares used in diluted earnings per share	33,237,533	32,479,809	33,100,982	32,479,809

As of December 31, 2016, a total of 5,304,160 options were in-the-money hence were included in the weighted average number of shares for the purposes of diluted earnings per share calculation above (December 31, 2015 - none). As a result, 757,724 options (December 31, 2015 – none) are deemed to be issued and are included in the weighted average number of shares calculation above.

12. 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 investment tax credits available to the Company to reduce its income for federal 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.

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(Unaudited in Canadian dollars)

The Company income tax expense is determined as follows:

	December 31, 2016	Year to Date 2016	June 30, 2016
Statutory income tax rate	26.50%	26.50%	26.50%
Income before income taxes	468,418	574,035	283,392
Income before income taxes at statutory income tax ra	124,131	152,119	75,099
Additional taxes of foreign operations	24,617	27,354	19,315
Tax effect of non-deductible expenses	29,675	41,025	74,545
Income tax expense	178,423	220,498	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:

	December 31, 2016	June 30, 2016
Property and equipment - Canadian	(47,288)	(39,043)
Property and equipment - US	(74,386)	(74,386)
Non-deductible reserves - Canadian	103,819	64,214
Non-deductible reserves - US	16,912	16,912
Deferred development costs	(784,446)	(604,325)
Intangible assets including goodwill - Canadian	(690,520)	(690,520)
Intangible assets - US	226,721	81,102
SR&ED investment tax credits	2,010,007	1,735,007
Unutilized SR&ED expenditure pools	1,031,511	1,031,511
Deferred income tax assets	1,792,330	1,520,472

13. Related parties

The Company's related parties include its subsidiary 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	December 31, 2016	December 31, 2015
	\$	\$
The amount of outstanding balances:		
Payable	56,250	43,760

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14. Segment disclosures

The Company operates in one industry segment; development, manufacturing, distribution, support and service provision of voice and data connectivity components for software-based communication applications. The majority of the Company's assets are located in Canada. 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 each group of similar products and services for the quarters ending:

	Second Quarter		Year to Date	
	2017	2016	2017	2016
	\$	\$	\$	\$
Products	4,053,528	3,027,088	7,971,007	5,849,065
Services	2,516,146	2,054,794	4,419,098	3,944,447
Total revenues	6,569,674	5,081,882	12,390,105	9,793,512

Revenues in each of these geographic locations for the quarters ending:

	Second Quarter		Year to Date	
	2017	2016	2017	2016
	\$	\$	\$	\$
USA	4,016,824	3,392,774	7,643,426	6,478,370
Canada	176,566	52,189	340,395	208,640
All other countries	2,376,284	1,636,919	4,406,284	3,106,502
Total revenues	6,569,674	5,081,882	12,390,105	9,793,512

15. 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:

	December 31, 2016	June 30, 2016
	\$	\$
Share capital	16,497,326	16,497,326
Contributed surplus	2,210,009	2,060,557
Accumulated other comprehensive gain /(loss)	90,585	(19,162)
Deficit	41,371	(312,166)
	18,839,291	18,226,555

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16. Commitments

The future minimum lease payments for office space as at December 31, 2016 are as follows:

	\$
Not later than one year	375,804
Later than one year and not later than five years	1,004,091
	1,379,895

17. 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	-	-	10,000	10,000
Balance at December 31, 2016	18,722	19,596	75,000	113,318

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 \$2.5 million 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 December 31, 2016 was \$1,340,603 and carries an interest rate of Prime plus 0.8%. For the three months ended December 31, 2016 interest costs to service the operating line was \$23,116 (December 31, 2015 – \$20,797).

19. Business combination

On December 1, 2016 Sangoma US Inc., a wholly owned subsidiary of Sangoma Technologies Inc., acquired all the key assets of the cloud private exchange (PBX) service of Micro Advantage. Sangoma US Inc. paid an initial cash consideration of \$350,000 and entered into retention and earn-out arrangements for contingent consideration of up to a further \$300,000 USD. In accordance with IFRS this acquisition is accounted for as a business combination and the \$650,000 USD (\$952,317 CAD) is included in the Intangible Assets.

From December 1, 2016 all revenues and costs are being incorporated into Sangoma's Financial Statements.

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20. Post-reporting date events

- (i) On January 6, 2017 at the Annual General Meeting shareholders voted in favour of an amendment to the Company's stock options plan to increase the amount of shares reserved and set aside for issuance. As a result the number of options set aside for issuance in the Plan was increased from 5,542,160 to 6,199,160.
- (ii) Following the approval of the Plan increase above the 450,000 options conditionally granted on June 22, 2016 were issued.

21. Authorization of financial statements

The consolidated financial statements for the period ended December 31, 2016 (including comparatives) were, in accordance with the recommendation of the Audit Committee, approved by the Board of Directors on February 6, 2017.