



**SANGOMA TECHNOLOGIES CORPORATION**

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**Condensed consolidated interim financial statements**

**For the nine months ended March 31, 2018 and 2017**

**(Unaudited in Canadian Dollars)**

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

# Sangoma Technologies Corporation

March 31, 2018

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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 March 31, 2018 and June 30, 2017

(Unaudited in Canadian dollars)

	March 31, 2018	June 30, 2017
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 8)	14,025,141	6,758,889
Trade receivables (Note 9)	7,159,831	3,001,167
Inventories (Note 4)	6,775,370	4,545,739
Investment tax credits receivable	-	206,264
Other current assets	1,334,772	699,157
	<b>29,295,114</b>	<b>15,211,216</b>
Non-current assets		
Property and equipment (Note 5)	1,118,384	571,425
Intangible assets (Note 6)	11,153,588	5,534,781
Development costs (Note 7)	2,651,174	2,763,664
Deferred income tax assets (Note 11)	1,764,327	1,539,327
Goodwill (Note 16)	4,696,049	1,638,546
	<b>50,678,636</b>	<b>27,258,959</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	6,150,667	2,872,996
Provisions (Note 17)	1,382,552	123,318
Sales tax payable	216,089	73,854
Income tax payable	687,674	182,490
Operating facility and loan - current (Notes 9,18)	1,004,004	3,883,434
Deferred revenue	3,448,673	787,480
	<b>12,889,659</b>	<b>7,923,572</b>
Long term debt		
Operating facility and loan - long term (Notes 9,18)	3,820,012	-
	<b>16,709,671</b>	<b>7,923,572</b>
<b>Shareholders' equity</b>		
Share capital (Note 14)	29,317,363	16,521,072
Contributed surplus (Note 14)	2,421,450	2,285,243
Accumulated other comprehensive gain / (loss)	(12,052)	41,043
Retained earnings / (deficit)	2,242,204	488,029
	<b>33,968,965</b>	<b>19,335,387</b>
	<b>50,678,636</b>	<b>27,258,959</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 and nine months ended March 31, 2018 and 2017

(Unaudited in Canadian dollars)

	Third Quarter		Year to Date	
	F2018	F2017	F2018	F2017
	\$	\$	\$	\$
<b>Revenue (Note 13)</b>	<b>16,244,457</b>	6,811,777	<b>39,825,601</b>	19,201,882
Cost of sales	<b>7,274,921</b>	2,333,793	<b>18,744,926</b>	6,607,986
Gross profit	<b>8,969,536</b>	4,477,984	<b>21,080,675</b>	12,593,896
Expenses				
Sales and marketing	<b>2,189,216</b>	1,344,823	<b>5,644,242</b>	3,583,131
Research and development	<b>2,418,828</b>	1,300,525	<b>5,174,907</b>	3,779,082
General and administration	<b>2,870,822</b>	1,405,127	<b>7,279,971</b>	4,142,886
Foreign currency exchange (gain) loss	<b>78,865</b>	(25,462)	<b>(84,080)</b>	14,110
	<b>7,557,731</b>	4,025,013	<b>18,015,040</b>	11,519,209
Income before interest, income taxes, and business acquisition costs	<b>1,411,805</b>	452,971	<b>3,065,635</b>	1,074,687
Interest income (Note 8)	<b>(690)</b>	-	<b>(1,042)</b>	-
Interest expense (Note 8)	<b>85,596</b>	27,071	<b>169,889</b>	74,752
Business acquisition costs (Note 16)	<b>281,752</b>	-	<b>381,810</b>	-
	<b>366,658</b>	27,071	<b>550,657</b>	74,752
Income before income tax	<b>1,045,147</b>	425,900	<b>2,514,978</b>	999,935
Provision for income taxes				
Current (Note 11)	<b>295,011</b>	145,273	<b>760,803</b>	365,771
<b>Net income</b>	<b>750,136</b>	280,627	<b>1,754,175</b>	634,164
Other comprehensive gain/(loss)				
Items to be reclassified to net income				
Foreign currency translation adjustment (gain) / loss	<b>(26,000)</b>	9,971	<b>53,096</b>	(80,614)
<b>Comprehensive income</b>	<b>776,136</b>	270,656	<b>1,701,079</b>	714,778
<b>Earnings per share</b>				
Basic (Note 10(iii))	<b>0.016</b>	0.009	<b>0.037</b>	0.020
Diluted (Note 10(iii))	<b>0.015</b>	0.008	<b>0.035</b>	0.019
<b>Weighted average number of shares outstanding (Note 10(iii))</b>				
Basic	<b>47,140,190</b>	32,479,809	<b>47,140,190</b>	32,479,809
Diluted	<b>50,153,420</b>	34,576,650	<b>49,500,993</b>	33,708,905

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 period ended March 31, 2018 and 2017

(Unaudited in Canadian dollars)

	Number of common shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total Shareholders' equity
		\$	\$	\$	\$	\$
<b>Balance, June 30, 2017</b>	<b>32,519,962</b>	<b>16,521,072</b>	<b>2,285,243</b>	<b>41,043</b>	<b>488,029</b>	<b>19,335,387</b>
Net income	-	-	-	-	1,004,039	1,004,039
Other comprehensive gain / (loss)	-	-	-	(79,096)	-	(79,096)
Share-based compensation expense (Note 10(ii))	-	-	74,174	-	-	74,174
Common shares issued (Note 10(i))	1,367,228	615,078	-	-	-	615,078
Balance, December 31, 2017	33,887,190	17,136,150	2,359,417	(38,053)	1,492,068	20,949,582
Net income	-	-	-	-	750,136	750,136
Other comprehensive gain / (loss)	-	-	-	-	-	-
Share-based compensation expense (Note 10(ii))	-	-	62,033	26,001	-	88,034
Common shares issued (Note 10(i))	13,253,000	12,181,213	-	-	-	12,181,213
<b>Balance, March 31, 2018</b>	<b>47,140,190</b>	<b>29,317,363</b>	<b>2,421,450</b>	<b>(12,052)</b>	<b>2,242,204</b>	<b>33,968,965</b>

	Number of common shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	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	-	-	-	-	353,537	353,537
Other comprehensive gain / (loss)	-	-	-	109,747	-	109,747
Share-based compensation expense (Note 10(ii))	-	-	149,452	-	-	149,452
Common shares issued (Note 10(i))	-	-	-	-	-	-
Balance, December 31, 2016	32,479,809	16,497,326	2,210,009	90,585	41,371	18,839,291
Net income	-	-	-	-	280,627	280,627
Other comprehensive gain / (loss)	-	-	-	(9,971)	-	(9,971)
Share-based compensation expense (Note 10(ii))	-	-	38,935	-	-	38,935
Common shares issued (Note 10(i))	-	-	-	-	-	-
<b>Balance, March 31, 2017</b>	<b>32,479,809</b>	<b>16,497,326</b>	<b>2,248,944</b>	<b>80,614</b>	<b>321,998</b>	<b>19,148,882</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 and nine months ended March 31, 2018 and 2017

(Unaudited in Canadian dollars)

	Third Quarter		Year to Date	
	F2018	F2017	F2018	F2017
	\$	\$	\$	\$
<b>Operating activities</b>				
Net income	750,136	280,627	1,754,175	634,164
Adjustments for				
Depreciation of property and equipment (Note 5)	84,189	30,097	170,614	93,966
Amortization of intangible assets (Note 6)	337,334	207,428	900,009	553,710
Amortization of capitalized development costs (Note 7)	448,969	435,484	1,252,192	1,288,241
Unrealized foreign exchange gain	13,563	(4,223)	(27,804)	(10,787)
Income tax expense	295,011	145,273	760,803	365,771
Share-based compensation expense (Note 11(ii))	62,033	38,935	136,207	188,386
Changes in item of working capital				
Trade receivables	(3,349,400)	(460,265)	(4,158,664)	440,829
Inventories	(953,882)	(498,234)	(2,229,631)	(1,144,405)
Investment tax credits receivables	-	7,267	37,957	7,267
Other current assets	(391,260)	171,410	(635,615)	199,331
Sales tax payable	87,186	70,727	142,235	(31,944)
Accounts payable and accrued liabilities (Note 9)	2,099,816	(57,744)	4,526,905	(25,735)
Provisions (Note 17)	5,000	5,000	15,000	15,000
Income tax payable	5,805	3,053	210,174	127,376
Income tax refund	172,016	243,274	172,016	243,274
Deferred revenue	2,902,173	(32,035)	2,661,193	32,201
Income tax paid	-	-	(380,058)	(34,401)
	<b>2,568,689</b>	<b>586,074</b>	<b>5,307,708</b>	<b>2,942,244</b>
<b>Investing activities</b>				
Purchase of property and equipment (Note 5)	(560,437)	(20,945)	(717,573)	(52,057)
Development costs (Note 7)	(515,008)	(563,934)	(1,364,702)	(1,746,231)
Goodwill	(1,863,237)	-	(3,057,504)	-
Purchase of intangible assets (Note 6, 19)	(3,468,806)	-	(6,518,816)	(952,317)
	<b>(6,407,488)</b>	<b>(584,879)</b>	<b>(11,658,595)</b>	<b>(2,750,605)</b>
<b>Financing activities</b>				
Operating facility and loan (Note 18)	2,660,403	-	940,583	-
Issuance of common shares and exercise of options	11,902,967	-	12,796,291	-
	<b>14,563,370</b>	<b>-</b>	<b>13,736,874</b>	<b>-</b>
Effect of foreign exchange rate changes on cash and cash equivalents	3,729	-	(119,734)	-
Increase / (decrease) in cash and cash equivalents	10,728,300	1,195	7,266,253	191,639
Cash and cash equivalents, beginning of the period	3,296,841	2,277,376	6,758,889	2,086,932
<b>Cash and cash equivalents, end of the period</b>	<b>14,025,141</b>	<b>2,278,571</b>	<b>14,025,142</b>	<b>2,278,571</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 and nine months ended March 31, 2018 and 2017

(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. During the fiscal year 2018 Sangoma acquired VoIP Supply LLC and the CCD division of Dialogic and both of these acquisitions, and their associated assets and liabilities, are incorporated into these Sangoma financial statements.

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, 2017.

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 May 15, 2018.

#### 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, 2017 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, 2017

#### 4. Inventories

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

	<b>March 31, 2018</b>	June 30, 2017
	\$	\$
Finished goods	<b>4,301,802</b>	2,379,175
Parts	<b>2,527,644</b>	2,220,640
	<b>6,829,446</b>	4,599,815
Provision for obsolescence	<b>(54,076)</b>	(54,076)
Net inventory carrying value	<b>6,775,370</b>	4,545,739

During the three month period ended March 31, 2018 there were no further provisions made against inventory.

# Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements

For the three and nine months ended March 31, 2018 and 2017

(Unaudited in Canadian dollars)

## 5. Property and equipment

	Office furniture and computer equipment	Software and books	Stockroom and production equipment	Tradeshaw equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance, June 30, 2017	1,140,782	257,005	162,873	64,338	135,557	1,760,555
Additions	133,640	4,348	-	-	19,148	157,136
Balance, December 31, 2017	1,274,422	261,353	162,873	64,338	154,705	1,917,691
Additions	49,701	1,688	2,048	-	1,267	54,704
Business combination (Note 16)	505,733	-	-	-	-	505,733
<b>Balance, March 31, 2018</b>	<b>1,829,856</b>	<b>263,041</b>	<b>164,921</b>	<b>64,338</b>	<b>155,972</b>	<b>2,478,128</b>
<b>Accumulated depreciation</b>						
Balance, June 30, 2017	782,407	175,748	103,234	43,666	84,075	1,189,130
Depreciation expense	59,051	8,921	5,901	2,009	10,543	86,425
Balance, December 31, 2017	841,458	184,669	109,135	45,675	94,618	1,275,555
Depreciation expense	73,883	3,890	2,763	1,067	2,586	84,189
<b>Balance, March 31, 2018</b>	<b>915,341</b>	<b>188,559</b>	<b>111,898</b>	<b>46,742</b>	<b>97,204</b>	<b>1,359,744</b>
<b>Carrying amount</b>						
Balance, June 30, 2017	358,375	81,257	59,639	20,672	51,482	571,425
<b>Balance, March 31, 2018</b>	<b>914,515</b>	<b>74,482</b>	<b>53,023</b>	<b>17,596</b>	<b>58,768</b>	<b>1,118,384</b>

Depreciation 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 and nine months ended March 31, 2018 and 2017

(Unaudited in Canadian dollars)

## 6. Intangible assets

	Copyright to software	Purchased technology	Intangibles	Website	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance, June 30, 2017	2,948,461	3,825,000	3,581,317	-	10,354,778
Business combination (Note 16)	-	-	2,867,917	207,632	3,075,549
Effects of movements on exchange rates	-	-	(25,539)	-	(25,539)
<b>Balance, December 31, 2017</b>	<b>2,948,461</b>	<b>3,825,000</b>	<b>6,423,695</b>	<b>207,632</b>	<b>13,404,788</b>
Business combination (Note 16)	-	-	3,468,806	-	3,468,806
<b>Balance, March 31, 2018</b>	<b>2,948,461</b>	<b>3,825,000</b>	<b>9,892,501</b>	<b>207,632</b>	<b>16,873,594</b>
<b>Accumulated amortization and impairment</b>					
Balance, June 30, 2017	2,825,988	1,242,500	751,509	-	4,819,997
Amortization expense	41,814	191,251	297,210	32,400	562,675
<b>Balance, December 31, 2017</b>	<b>2,867,802</b>	<b>1,433,751</b>	<b>1,048,719</b>	<b>32,400</b>	<b>5,382,672</b>
Amortization expense	20,907	95,625	202,733	18,069	337,334
<b>Balance, March 31, 2018</b>	<b>2,888,709</b>	<b>1,529,376</b>	<b>1,251,452</b>	<b>50,469</b>	<b>5,720,006</b>
<b>Carrying amount</b>					
Balance, June 30, 2017	122,473	2,582,500	2,829,808	-	5,534,781
<b>Balance, March 31, 2018</b>	<b>59,752</b>	<b>2,295,624</b>	<b>8,641,049</b>	<b>157,163</b>	<b>11,153,588</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 and nine months ended March 31, 2018 and 2017

(Unaudited in Canadian dollars)

## 7. Development costs

	March 31, 2018	June 30, 2017
	\$	\$
<u>Development costs</u>		
Balance, June 30, 2017	18,782,853	
Additions	849,694	
Investment tax credits	(150,000)	
Balance, December 31, 2017	19,482,547	
Additions	515,008	
Investment tax credits	(75,000)	
Balance, March 31, 2018	<b>19,922,555</b>	
<u>Accumulated Amortization</u>		
Balance, June 30, 2017	(16,019,189)	
Amortization	(803,223)	
Balance, December 31, 2017	(16,822,412)	
Amortization	(448,969)	
Balance, March 31, 2018	<b>(17,271,381)</b>	
	<b>March 31, 2018</b>	<b>June 30, 2017</b>
	\$	\$
Net capitalized development costs	<b>2,651,174</b>	2,763,664

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized \$1,969,859 of engineering expenditures as an expense during the quarter ended March 31, 2018 (March 31, 2017 - \$1,736,009).

## 8. Financial instruments

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

Cash and cash equivalents are comprised of:

	March 31 2018	June 30 2017
	\$	\$
Cash at bank and on hand	<b>14,025,141</b>	6,758,889
	<b>14,025,141</b>	6,758,889

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 and nine months ended March 31, 2018 and 2017

(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:

	Third Quarter		Year to Date	
	2018	2017	2018	2017
	\$	\$	\$	\$
Interest income	(690)	-	(1,042)	-
Interest expense	85,596	27,071	169,889	74,752
Net interest expense	84,906	27,071	168,847	74,752

### 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:

	March 31, 2018	June 30 2017
	\$	\$
Trade receivables aging		
0-30 days	6,037,848	2,088,000
31-90 days	776,829	660,568
Greater than 90 days	489,830	289,737
	7,304,507	3,038,305
Provision for doubtful accounts	(144,676)	(37,138)
Net trade receivable	7,159,831	3,001,167

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

	March 31, 2018	June 30 2017
	\$	\$
Provision for doubtful accounts		
Allowance for doubtful accounts beginning balance	(37,138)	(250,768)
Net Allowance used (recorded) during the year	(107,538)	213,630
Allowance for doubtful accounts ending balance	(144,676)	(37,138)

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 and nine months ended March 31, 2018 and 2017

(Unaudited in Canadian dollars)

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## 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>March 31, 2018</b>	June 30 2017
	\$	\$
Accounts payable and accrued liabilities	6,150,667	2,872,996
Operating facility and loan	4,824,016	3,883,434
	<u>10,974,683</u>	<u>6,756,430</u>

On July 5, 2017, the Company recorded a contingent consideration of \$488,454 (\$376,400 USD) to the selling shareholders of VoIP Supply LLC which was included in the accounts payable and accrued liabilities balance as at March 31, 2018. The contingent consideration was discounted using an effective interest rate of 1.9% and the Company recorded an accretion expense of \$7,612 for the quarter.

### *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 March 31, 2018, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate \$92,811 decrease or increase, respectively, in total comprehensive income (loss) and retained earnings (deficit) (June 30, 2017 - \$480,255). On an ongoing basis, the Company's revenues are also impacted by the swings in the U.S. dollar.

### *Interest rate risk*

The Company has no significant exposure at March 31, 2018 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 and nine months ended March 31, 2018 and 2017

(Unaudited in Canadian dollars)

#### 10. Shareholders' equity

##### (i) Share capital and contributed surplus

Issued and outstanding common shares consist of the following:

	Third Quarter		Year to Date	
	2018	2017	2018	2017
Shares issued and fully paid:	#	#	#	#
Beginning balance	33,910,814	32,479,809	32,519,962	32,479,809
Shares issued for capital	13,138,000	-	14,131,627	-
Shares issued upon exercise of options	91,376	-	488,601	-
Shares issued and fully paid	47,140,190	32,479,809	47,140,190	32,479,809
Opening balance number of stock options outstanding	5,870,717	5,969,160	5,868,676	5,969,160
Share-based options granted	-	-	401,000	-
Share-based options exercised	(91,376)	-	(488,601)	-
Share-based payments options expired or cancelled	-	(2,000)	(1,734)	(2,000)
Number of stock options outstanding	5,779,341	5,967,160	5,779,341	5,967,160
	52,919,531	38,446,969	52,919,531	38,446,969
For each class of share capital:				
The number of shares authorized	Unlimited	Unlimited	Unlimited	Unlimited
The number of shares issued and fully paid	47,140,190	32,479,809	47,140,190	32,479,809

##### (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 6,199,160 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,

# Sangoma Technologies Corporation

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For the three and nine months ended March 31, 2018 and 2017

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## 10. Shareholders' equity (continued)

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.

### (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. During the quarter there were no new options granted, and a total of 131,376 options were exercised at a strike price of \$0.35 each.

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

	Number of options	Weighted average exercise price \$
Measurement date		
Balance, December 31, 2017	5,910,717	0.33
Exercised	(131,376)	0.35
<b>Balance, March 31, 2018</b>	<b>5,779,341</b>	<b>0.33</b>

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>March 31, 2018</b>		June 30, 2017	
	<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>5,378,341</b>	<b>2.44</b>	5,892,380	3.06
\$0.51 - \$0.75	<b>401,000</b>	<b>4.75</b>	-	-
	<b>5,779,341</b>	<b>2.60</b>	5,892,380	3.06

The Company recognized share based compensation expense in the amount of \$62,033 for the period ended March 31, 2018 (March 31, 2017 - \$\$38,935).

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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 47,140,190 shares for the period ended March 31, 2018, (March 31, 2017 – 32,479,809).

During the quarter the Company had a private placement and 13,138,000 new shares were issued. 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:

	Third Quarter		Year to Date	
	2018	2017	2018	2017
	#	#	#	#
Number of shares				
Weighted average number of shares used in basic earnings per share	47,140,190	32,479,809	47,140,190	32,479,809
Shares deemed to be issued in respect of share-based payments	3,013,230	2,096,841	2,360,803	1,229,096
Weighted average number of shares used in diluted earnings per share	50,153,420	34,576,650	49,500,993	33,708,905

As of March 31, 2018, 3,013,230 (March 31, 2017, 2,096,841) options were dilutive and were included in the weighted average for the purposes of diluted earnings per share calculation above.

#### 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
		\$
2031	451,794	-
2032	651,641	-
2033	347,033	29,073
2034	288,821	84,077
2035	334,585	98,306
2036	300,386	68,347
	2,374,260	279,803

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 \$2,678,637 for federal & Ontario income tax purposes.

# Sangoma Technologies Corporation

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## 11. Income tax (continued)

The Company income tax expense is determined as follows:

	<b>March 31, 2018</b>	<b>Year to Date 2018</b>	June 30, 2017
Statutory income tax rate	26.50%	26.50%	26.50%
Income before income taxes	1,045,417	2,514,978	1,190,574
Income taxes at statutory income tax rate	276,964	666,469	315,630
Additional taxes of foreign operations	8,412	55,379	5,520
Tax effect of non-deductible expenses	9,635	38,955	69,229
<b>Income tax expense</b>	<b>295,011</b>	<b>760,803</b>	<b>390,379</b>

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

	<b>March 31, 2018</b>	June 30, 2017
	\$	\$
Property and equipment - Canadian	(612,851)	(603,114)
Property and equipment - US	(244,219)	(63,800)
Non-deductible reserves - Canadian	157,275	137,400
Non-deductible reserves - US	149,222	106,204
Deferred development costs	(1,077,796)	(816,150)
Intangible assets including goodwill - Canadian	(49,912)	(49,912)
Intangible assets - US	626,999	138,090
SR&ED investment tax credits	2,110,934	1,985,934
Unutilized SR&ED expenditure pools	704,675	704,675
<b>Deferred income tax assets</b>	<b>1,764,327</b>	<b>1,539,327</b>

## 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. The outstanding balances payable are director fees and in March the Company made a \$70,000 USD loan to an executive that is repayable on demand.

The Company had the following balances with related parties:

	<b>March 31, 2018</b>	March 31, 2017
	\$	\$
Outstanding balance payable	75,000	75,000
Outstanding balance receivable	90,258	-



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## 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 for the period can be summarized as:

	Third Quarter		Year to Date	
	2018	2017	2018	2017
	\$	\$	\$	\$
Products	12,260,126	3,917,659	29,702,516	11,888,666
Services	3,984,331	2,894,118	10,123,085	7,313,216
	16,244,457	6,811,777	39,825,601	19,201,882

The sales, in Canadian dollars, in each of these geographic locations for the period can be summarized as:

	Third Quarter		Year to Date	
	2018	2017	2018	2017
	\$	\$	\$	\$
USA	10,759,099	4,129,793	29,299,104	11,773,219
Canada	414,587	64,164	1,391,062	404,559
All other countries	5,073,771	2,617,820	9,135,435	7,024,104
	16,247,457	6,811,777	39,825,601	19,201,882

## 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.

# Sangoma Technologies Corporation

## Notes to the condensed consolidated interim financial statements

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The Company manages the following capital:

	<b>March 31, 2018</b>	June 30, 2017
	\$	\$
Share capital	<b>29,317,363</b>	16,521,072
Contributed surplus	<b>2,421,450</b>	2,285,243
Accumulated other comprehensive income	<b>(12,052)</b>	41,043
Retained earnings	<b>2,242,204</b>	488,029
	<b>33,968,965</b>	19,335,387

### 15. Commitments

The future minimum lease payments for office space as at March 31, 2018 are as follows:

	\$
Not later than one year	<b>1,357,008</b>
Later than one year and not later than five years	<b>2,286,603</b>
	<b>3,643,611</b>

### 16. Business combinations

- (A) On December 1, 2016, Sangoma US Inc., a wholly owned subsidiary of Sangoma Technologies Inc., acquired all the key assets of the Telecom business of Micro Advantage Inc. The Company acquired Micro Advantage Inc. to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies. Sangoma US Inc. paid an initial cash consideration of \$438,822 (\$350,000 USD) and entered into retention and earn-out arrangements for contingent consideration of which \$190,851 (\$150,000 USD) which was paid out during the quarter ended March 31, 2018. The acquisition was accounted for using the acquisition method under IFRS 3, Business Combinations and the purchase price of \$814,956 (\$650,000 USD) was allocated to purchase intangibles.
- (B) Effective July 1, 2017, Sangoma US Inc., a wholly owned subsidiary of Sangoma Technologies Inc., acquired all the membership interests of VoIP Supply LLC for total consideration of \$4,584,873 (\$3,533,076 USD). The Company paid \$3,374,379 (\$2,600,276 USD) in cash at closing and issued 993,627 common shares valued at \$722,040 (\$556,400 USD). In addition, the Company has contingent consideration in the amount of \$488,454 (\$376,400 USD) payable on the first anniversary of the closing, which has been discounted using a risk free rate and is contingent upon meeting certain targets. The Company incurred \$100,058 in business acquisition costs, which has been expensed and included in the consolidated statement of income and comprehensive income. The acquisition has been accounted for using the acquisition method under IFRS 3, Business Combinations and the purchase price has been allocated to the assets and liabilities as described below:

<b>Consideration</b>	USD		CAD
Cash consideration	\$	3,000,000	\$ 3,893,100
Less: working capital adjustments		(399,724)	(518,721)
Share consideration		556,400	722,040
Contingent consideration <sup>1</sup>		376,400	488,454
	\$	<b>3,533,076</b>	<b>\$ 4,584,873</b>

# Sangoma Technologies Corporation

## Notes to the condensed consolidated interim financial statements

### For the three and nine months ended March 31, 2018 and 2017

(Unaudited in Canadian dollars)

<sup>1</sup> The contingent consideration amounts represent the discounted amount estimated to be paid out in accordance with the agreement.

#### 16. Business combinations (continued)

<b>Purchase price allocation</b>	USD	CAD
Working capital	\$ 201,412	\$ 261,372
Capital assets	41,369	53,685
Customer relationships	1,160,000	1,505,332
Website	160,000	207,632
Brand	1,050,000	1,362,585
Goodwill	920,295	1,194,267
	<b>\$ 3,533,076</b>	<b>\$ 4,584,873</b>

The purchase price allocation is preliminary and is subject to adjustments within the measurement period not exceeding one year from the date of the acquisition.

- (C) Effective January 9, 2018, Sangoma Technologies Inc., acquired all the key assets of the Converged Communications Division from Dialogic Corporation for total consideration of \$5,683,038 (\$4,516,190 USD) of which \$568,304 was held in escrow pending finalization of Working Capital and completion of certain transition plans. The Company incurred \$281,752 in business acquisition costs to close the transaction which has been expensed and included in the consolidated statement of income and comprehensive income. The acquisition has been accounted for using the acquisition method under IFRS 3 - Business Combinations and the preliminary purchase price has been allocated to the assets and liabilities as described below:

<b>Consideration</b>	USD	CAD
Cash paid to vendor at closing	\$ 4,064,571	\$ 5,114,734
Held in escrow	451,619	568,304
	<b>\$ 4,516,190</b>	<b>\$ 5,683,038</b>

  

<b>Purchase price allocation</b>	USD	CAD
Working capital	\$ (123,781)	\$ (155,762)
Property and equipment	402,709	506,757
Purchased technology	-	-
Purchased intangibles	2,756,587	3,468,806
Goodwill	1,480,675	1,863,237
	<b>\$ 4,516,190</b>	<b>\$ 5,683,038</b>

The purchase price allocation is preliminary and is subject to audit and adjustments within the measurement period not exceeding one year from the date of the acquisition.

As part of this transaction the Company executed a series of cross guarantees amongst its affiliates and established new legal entities in Ireland (Sangoma Technologies Ltd.) and the United States (Sangoma Technologies US Inc.).

# Sangoma Technologies Corporation

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### 17. Provisions

	Warranty provision	Sales returns and allowances provision	Contract manufacturer provision	Stock rotation provision	Total
	\$	\$	\$	\$	\$
Balance at June 30, 2017	28,722	24,596	-	70,000	123,318
Additional provision recognized	45,323	56,496	1,113,916	43,500	1,259,235
Balance at March 31, 2018	<b>74,045</b>	<b>81,092</b>	<b>1,113,916</b>	<b>113,500</b>	<b>1,382,553</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 contract manufacturer provision was established at the time of the acquisition of the CCD assets in order to ensure a fair value of parts and finished goods held by the contract manufacturer at the time of closing. 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

As of March 31, 2018 the following borrowing facilities are effective:

- I. A Demand Operating Line of Credit to up to \$3,500,000 to ensure sufficient cash for operations. This facility is governed by a General Security Agreement and standard operating covenants. The amount drawn against the Operating Line at the time of the January 9, 2018 acquisition has been fully repaid such that the closing balance on March 31, 2018 was zero. (June 30, 2017 was \$2,910,159). The line carries an interest rate of prime plus 0.8% and the full value of the \$3,500,000 is available.
- II. A Term Loan Facility of up to \$1,000,000 which was used to finance the acquisition of VoIP Supply LLC. This facility is governed by the General Security Agreement and standard operating covenants and carries an interest rate of prime plus 1.25%. The balance drawn against this facility as of March 31, 2018 was \$799,371 (June 30, 2017 was \$973,275).
- III. A 2<sup>nd</sup> Term Loan Facility of up to \$3,200,000 USD (\$4,128,640 CAD) which was used to finance the acquisition of the CCD division from Dialogic. This facility is governed by the General Security Agreement and standard operating covenants and carries an interest rate of prime plus 1.25%. The balance drawn against this facility as of March 31, 2018 was \$4,007,037 (June 30, 2017 was \$0).

In the quarter ended March 31, 2018, interest costs to service the above debt amounted to \$85,596 (March 31, 2017 - \$27,071).

### 19. Post-reporting date events

In April the amount of working capital included in the assets of the CCD division of Dialogic Inc. was finalized and Sangoma paid an additional \$83,780 as well as releasing \$284,152 escrowed amount held in trust during the reconciliation period.

### 20. Authorization of financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on May 15, 2018.