



SANGOMA TECHNOLOGIES CORPORATION

Consolidated Financial Statements for

Year ended June 30, 2017 and 2016

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

Sangoma Technologies Corporation

June 30, 2017 and 2016

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Independent Auditors' Report

To the Shareholders of Sangoma Technologies Corporation:

We have audited the accompanying consolidated financial statements of Sangoma Technologies Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2017 and 2016, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sangoma Technologies Corporation and its subsidiaries, as at June 30, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
October 10, 2017

Chartered Professional Accountants
Licensed Public Accountants

MNP LLP

MNP
LLP

Sangoma Technologies Corporation

Consolidated statements of financial position

as at June 30, 2017 and 2016

(In Canadian dollars)

	2017	2016
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 8)	6,758,889	2,086,932
Trade receivables (Note 9)	3,001,167	4,214,079
Inventories (Note 4)	4,545,739	3,887,233
Investment tax credits receivable	206,264	374,115
Other current assets	699,157	448,939
	15,211,216	11,011,298
Non-current assets		
Property and equipment (Note 5)	571,425	597,103
Intangible assets (Note 6)	5,534,781	5,480,583
Development costs (Note 7)	2,763,664	2,506,452
Deferred income tax assets (Note 11)	1,539,327	1,520,472
Goodwill (Note 2(xv))	1,638,546	1,638,546
	27,258,959	22,754,454
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	2,872,996	2,435,687
Provisions (Note 17)	123,318	103,318
Sales tax payable	73,854	113,735
Income tax payable	182,490	117,187
Operating facility and loan (Note 9, 18)	3,883,434	1,340,603
Deferred revenue	787,480	417,369
	7,923,572	4,527,899
Shareholders' equity		
Share capital (Note 14)	16,521,072	16,497,326
Contributed surplus (Note 14)	2,285,243	2,060,557
Accumulated other comprehensive gain / (loss)	41,043	(19,162)
Retained earnings / (deficit)	488,029	(312,166)
	19,335,387	18,226,555
	27,258,959	22,754,454

Approved by the Board

(Signed) Al Guarino Director

(Signed) Yves Laliberte Director

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

Sangoma Technologies Corporation

Consolidated statements of income and comprehensive income years ended June 30, 2017 and 2016

(In Canadian dollars)

	2017	2016
	\$	\$
Revenue (Note 13)	26,880,311	21,193,272
Cost of sales	9,353,401	6,785,161
Gross profit	17,526,910	14,408,111
Expenses		
Sales and marketing	5,152,543	4,401,707
Research and development	5,137,744	4,608,540
General and administration	5,785,872	4,958,014
Foreign currency exchange (gain) loss	(38,149)	50,391
	16,038,010	14,018,652
Income before interest, income taxes, and business acquisition costs	1,488,900	389,459
Interest income (Note 8)	(820)	(2,694)
Interest expense (Note 8)	114,327	108,761
Business acquisition costs (Note 16, 19)	184,819	-
	298,326	106,067
Income before income tax	1,190,574	283,392
Provision for income taxes (Note 11)		
Current	186,709	224,172
Deferred	203,670	(55,213)
Net income	800,195	114,433
Other comprehensive income		
Items to be reclassified to net income		
Foreign currency translation adjustment (gain) / loss	(60,205)	19,162
Comprehensive income	860,400	95,271
Earnings per share		
Basic	0.025	0.004
Diluted	0.023	0.004
Weighted average number of shares outstanding (Note 10(iii))		
Basic	32,519,962	32,479,809
Diluted	34,584,747	32,479,809

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

Sangoma Technologies Corporation

Consolidated statements of changes in shareholders' equity

years ended June 30, 2017 and 2016

(In Canadian dollars)

	Number of common shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings (deficit) \$	Total Shareholders' equity \$
Balance, June 30, 2015	32,479,809	16,497,326	1,882,017	-	(426,599)	17,952,744
Net income	-	-	-	-	114,433	114,433
Other comprehensive loss	-	-	-	(19,162)	-	(19,162)
Share-based compensation expense (Note 10(ii))	-	-	178,540	-	-	178,540
Balance, June 30, 2016	32,479,809	16,497,326	2,060,557	(19,162)	(312,166)	18,226,555
Net income	-	-	-	-	800,195	800,195
Other comprehensive gain	-	-	-	60,205	-	60,205
Share-based compensation expense (Note 10(ii))	-	-	231,034	-	-	231,034
Issuance of common shares upon option exercise	40,153	23,746	(6,348)	-	-	17,398
Balance, June 30, 2017	32,519,962	16,521,072	2,285,243	41,043	488,029	19,335,387

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

Sangoma Technologies Corporation

Consolidated statements of cash flows years ended June 30, 2017 and 2016

(In Canadian dollars)

	2017	2016
	\$	\$
Operating activities		
Net income	800,195	114,433
Adjustments for		
Depreciation of property and equipment (Note 5)	129,950	121,648
Amortization of intangible assets (Note 6)	762,556	742,950
Amortization of capitalized development costs (Note 7)	1,711,377	1,525,977
Unrealized foreign exchange gain	(157,217)	(132,240)
Income tax expense	390,379	168,959
Income tax paid	(208,722)	(37,449)
Income tax refunds	303,552	208,075
Share-based compensation expense (Note 10(ii))	231,034	178,540
Accretion expense (Note 9)	14,605	12,825
Changes in item of working capital		
Trade receivables	1,294,395	1,060,308
Inventories	(669,274)	88,659
Other current assets	(248,404)	(244,564)
Sales tax payable	(39,881)	113,735
Accounts payable and accrued liabilities	241,038	249,995
Provisions (Note 17)	20,000	20,000
Income tax payable	54,842	(8,510)
Deferred revenue	371,158	53,930
Investment tax credits receivables	167,851	(9,318)
	5,169,433	4,227,953
Investing activities		
Purchase of property and equipment (Note 5)	(96,164)	(214,456)
Development costs (Note 7)	(2,283,712)	(2,562,936)
Cash paid on acquisition of Micro Advantage (Note 16)	(438,822)	-
Payment of contingent consideration (Note 16)	(199,560)	(1,868,400)
	(3,018,258)	(4,645,792)
Financing activities		
Operating facility and loan (Note 18)	2,542,831	-
Issuance of common shares upon option exercise	17,398	-
	2,560,229	-
Effect of foreign exchange rate changes on cash and cash equivalents	(39,448)	(13,385)
Increase (decrease) in cash and cash equivalents	4,671,956	(431,224)
Cash and cash equivalents, beginning of year	2,086,932	2,518,156
Cash and cash equivalents, end of year	6,758,889	2,086,932

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

1. General information

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

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

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

2. Significant accounting policies

(i) *Statement of compliance*

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

(ii) *Basis of preparation*

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

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

(iii) *Basis of consolidation*

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

Subsidiaries are entities controlled by the Company. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. All intercompany balances, transactions, income and expenses have been eliminated on consolidation.

(iv) *Inventories*

Parts and finished goods are stated at the lower of cost and net realizable value. Inventory cost includes all expenses directly attributable to the manufacturing process, which include the cost of materials and labor, as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinary interchangeable items are assigned using the first in, first out method. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(v) *Revenue*

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

2. Significant accounting policies (continued)

(v) *Revenue (continued)*

Sale of goods (hardware and software)

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

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

Rendering of services

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

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

(vi) *Cost of sales*

Cost of product sales includes the cost of finished goods inventory and costs related to shipping and handling.

(vii) *Foreign currency*

The financial statements are presented in Canadian dollars. The functional currency of Sangoma Technologies Corporation and Sangoma Technologies Inc. is Canadian dollars while the functional currency of Sangoma US Inc. is US dollars and Sangoma Technologies Private Limited is Indian Rupee (INR), respectively.

Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the rate of exchange at the reporting period date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in the accumulated other comprehensive income (loss) included in shareholders' equity.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the reporting period date. Gains and losses on translation of monetary items are recognized in the statement of income and comprehensive income.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

2. Significant accounting policies (continued)

(viii) *Interest income*

Interest income from financial assets is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on the basis of time that has passed, by reference to the principal outstanding and at the effective interest rate applicable.

(ix) *Share-based payments*

The Company grants stock options to its employees. Stock options vest over and expire after various periods of time. The vesting policy is 25% of the options vest on the first anniversary of the grant and the remainder vest in equal amounts every 3 months thereafter until the fifth anniversary of the commencement date. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in Note 10(ii).

Share-based compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

(x) *Income taxes and deferred taxes*

The income tax provision comprises current and deferred tax. Income tax is recognized in the statement of income and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the asset is realized or liability is settled. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions to the extent that it is probable the Company will have taxable income against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized. The extent to which deductible temporary differences, unused tax losses and other income tax deductions are expected to be realized is reassessed at the end of each reporting period.

In a business combination, temporary differences arise as a result of differences in the fair values of identifiable assets and liabilities acquired and their respective tax bases. Deferred tax assets and liabilities are recognized for the tax effects of these differences. Deferred tax assets and liabilities are not recognized for temporary differences arising from goodwill or from the initial recognition of assets and liabilities acquired in a transaction other than a business combination which do not affect either accounting or taxable income or loss.

(xi) *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income and comprehensive income during the period in which they are incurred.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

2. Significant accounting policies (continued)

(xi) Property and equipment (continued)

Depreciation is calculated at 20% of the declining balance for all classes of property and equipment. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted, if required.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income and comprehensive income.

(xii) Intangible assets

Intangible assets with finite lives that are acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, such intangible assets are carried at cost less any accumulated amortization on a straight-line basis over 10 years for copyright to software, purchased technology and purchased intangibles. Amortization expense is included in the statement of income and comprehensive income in general and administration expense.

The estimated useful life and amortization method are reviewed annually, with the effect of any change in estimate being accounted for on a prospective basis. These assets are subject to impairment testing as described below in Note 2(xvi).

(xiii) Research and development expenditures

The Company qualifies for certain investment tax credits related to its research and development activities. Research costs are expensed as incurred and are reduced by related investment tax credits, which are recognized when it is probable that they will be realized.

Costs that are directly attributable to the development phase of new products are recognized as intangible assets and amortized over three years provided they meet the following recognition requirements:

- Completion of the intangible asset is technically feasible so that it will be available for use or sale.
- The Company intends to complete the intangible asset and use or sell it.
- The Company has the ability to use or sell the intangible asset.
- The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits.
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalization are expensed as incurred.

Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs (if any). Internally generated software development costs recognized as intangible assets are subject to the same subsequent measurement method as externally acquired software licenses. These assets are subject to impairment testing as described below in Note 2(xvi).

Any gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognized in profit or loss within "other income" or "other expenses".

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

2. Significant accounting policies (continued)

(xiv) Foreign currency hedging

The Company enters into forward foreign currency exchange contracts to hedge the cash flow risk associated with forecasted transactions in foreign currencies and foreign-currency denominated balances. The Company does not enter into derivative contracts for speculative purposes. The contracts, which have not been designated as hedges for accounting purposes, are marked to market each period. The resulting gain or loss is recorded as foreign currency exchange (gain) loss on the consolidated statement of income and comprehensive income.

(xv) Goodwill

Goodwill represents the excess of the acquisition cost in a business combination over the fair value of the Company's share of the identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses. As of June 30, 2017, the Company had \$1,638,546 of goodwill from the two acquisitions made on January 1, 2015.

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

For purposes of assessing impairment under IFRS, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). The Company has multiple cash generating units and intangible assets not yet available for use are tested for impairment at least annually. All other long-lived assets and finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell or value-in-use. To determine the value-in-use, management estimates expected future cash flows from the cash-generating unit and determines a suitable pre-tax discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements.

Discount factors have been determined for the cash-generating units and reflect its risk profile as assessed by management.

Impairment losses for the cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit, with any remaining impairment loss charged pro rata to the other assets in the cash-generating unit. In allocating an impairment loss, the Company does not reduce the carrying amount of an asset below the highest of its fair value less costs of disposal or its value in use and zero.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the assets' recoverable amount exceeds its carrying amount only to the extent of the new carrying amount does not exceed the carrying value of the asset had it not originally been impaired.

(xvii) Financial instruments

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

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

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

2. Significant accounting policies (continued)

(xvii) *Financial instruments (continued)*

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

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

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

(ii) Loans and receivables

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

(iii) Financial liabilities at amortized cost

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

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

The Company has classified its financial instruments as follows:

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

(xviii) *Impairment of financial assets*

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

(i) Financial assets carried at amortized cost

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

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

2. Significant accounting policies (continued)

(xix) Provisions

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Where material, provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(xx) Earnings per share

Basic earnings per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similarly to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options, if dilutive. The average number of shares is calculated by assuming that outstanding conversions were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

(xxi) Business combination

On the acquisition of a business, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets and liabilities on the basis of fair value of the date of acquisition. Provisional fair values allocated at a reporting date are finalized as soon as the relevant information is available, within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date. Incremental costs related to acquisitions are expensed as incurred.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

2. Significant accounting policies (continued)

(xxii) Investment tax credits

Investment tax credits ("ITCs") are recognized where there is reasonable assurance that the ITCs will be received and all attached conditions will be complied with. When the ITCs relates to an expense item, it is netted against the related expense. Where the ITCs relates to an asset, it reduces the carrying amount of the asset. The ITCs is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. The Company is actively engaged in scientific research and development ("R&D") and, accordingly, has previously filed for ITC refunds under both the Canadian federal and Ontario provincial Scientific Research and Experimental Development ("SR&ED") tax incentive programs. The ITCs recorded in the accounts are based on management's interpretation of the Income Tax Act of Canada, provisions which govern the eligibility of R&D costs. The claims are subject to review by the Canada Revenue Agency and the Minister of Revenue for Ontario before the refunds can be released.

(xxiii) Standards, amendments and interpretations issued and not yet effective and have not been adopted by the Company

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

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

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

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

3. Significant accounting judgments, estimates and uncertainties

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes to the consolidated financial statements. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimates are revised. Significant areas requiring the Company to make estimates include goodwill impairment testing and recoverability of assets, business combinations, income taxes, estimated useful life of long-lived assets, internally generated development costs, the fair value of share-based payments, allowance for doubtful accounts, inventory obsolescence, and warranty provision. These estimates and judgments are further discussed below:

(i) *Goodwill impairment testing and recoverability of assets*

The Company has multiple cash-generating units and reviews the value in use versus the carrying value both in total and for each of the individual assets. The recoverable amount of the cash-generating units were estimated based on an assessment of value in use using a discounted cash flow approach. The approach uses cash flow projections based upon a financial forecast approved by management and the Board of Directors, covering a five year period. Cash flows for the years thereafter are extrapolated using the estimated terminal growth rate. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ or change quickly, depending on economic conditions and other events.

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

Cash flow projections have been discounted using a discount rate derived from the Company's after-tax weighted average cost of capital adjusted for specific risks relating to the cash generating units. At June 30, 2017, the after-tax discount rate used in the recoverable amount calculation was 17.0% (2016 – 17.0%). The cash flow forecasts for the next 5 years have been forecasted to grow at 5.0% (2016 – 11.5%) and have been extrapolated beyond the five year period using an estimated long term growth rate of 2.0% (2016 - 2.0%).

(ii) *Business combinations*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. All acquisitions have been accounted for using the acquisition method.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

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

(iii) *Income taxes*

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

At the end of each reporting period, the Company assesses whether the realization of deferred tax benefits is sufficiently probable to recognize deferred tax assets. This assessment requires the exercise of judgment on the part of management with respect to, among other things, benefits that could be realized from available income tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets could be reduced if estimates of projected future taxable income and benefits from available income tax strategies are lowered, or if changes in current income tax regulations are enacted that impose restrictions on the timing or extent of the Company's ability to utilize deferred tax benefits.

The Company's effective income tax rate can vary significantly quarter-to-quarter for various reasons, including the mix and volume of business in lower income tax jurisdictions and in jurisdictions for which no deferred income tax assets have been recognized because management believed it was not probable that future taxable profit would be available against which income tax losses and deductible temporary differences could be utilized. The Company's effective income tax rate can also vary due to the impact of foreign exchange fluctuations.

(iv) *Estimated useful lives of long-lived assets*

Management reviews useful lives of depreciable assets at each reporting date. Management assesses that the useful lives represent the expected utilization in terms of duration of the assets to the Company. Actual utilization, however, may vary due to technical obsolescence, particularly relating to software and information technology equipment.

(v) *Internally generated development costs*

Management monitors the progress of internal research and development projects and uses judgment to distinguish research from the development phase. Expenditures during the research phase are expensed as incurred. Development costs are recognized as an intangible asset when the Company can demonstrate certain criteria listed in Note 2(xiii). Otherwise, they are expensed as incurred.

(vi) *Share-based payments*

The fair value of all share-based payments granted are determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of the options. The Company has a significant number of options outstanding and expects to continue to make grants.

(vii) *Allowance for doubtful accounts*

The Company is exposed to credit risk associated with its trade receivables. This risk is reduced by having customers' trade receivables insured by Export Development Canada ("EDC") wherever possible. Management reviews the trade receivables at each reporting date and assesses and makes an allowance for doubtful accounts when the expected recovery could be less than the actual trade receivable. The expected recovery amount can vary from the actual cash received.

(viii) *Inventory obsolescence*

Inventory consists of parts and finished goods recorded at the lower of cost and net realizable value. Inventory represents a significant portion of the asset base of the Company and its value is reviewed at each reporting period. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or slow moving. Actual net realizable value can vary from the estimated provision.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

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

(ix) *Functional currency*

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

(x) *Investment tax credits receivable*

Investment tax credits are recorded based on management's estimate that all conditions attached to its receipt have been met. The Company has significant investment tax credits receivable and expects to continue to apply for future tax credits as their research and development activities remain applicable. Therefore, the estimates related to the recoverability of these investment tax credits are important to the Company's financial position.

(xi) *Warranty provision*

The warranty provision represents management's best estimate of costs of product warranties at the time the product is installed or delivered. Therefore, the estimates and assumptions related to costs of repairs and/or replacement costs to correct product failures impact the Company's financial position.

(xii) *Sales returns and allowances provision*

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

(xiii) *Stock rotation provision*

The stock rotation provision represents management's best estimate of the value of the products sold in the current financial year that may be rotated in a future year.

4. Inventories

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

	2017	2016
	\$	\$
Finished goods	2,379,175	1,988,821
Parts	2,220,640	1,952,488
	4,599,815	3,941,309
Provision for obsolescence	(54,076)	(54,076)
Net inventory carrying value	4,545,739	3,887,233

During the year ended June 30, 2017, inventories in the amount of \$8,753,845 (2016 - \$6,403,833) were included in cost of sales.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

5. Property and equipment

	Office furniture and computer equipment	Software and books	Stockroom and production equipment	Tradeshaw equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, June 30, 2015	945,834	216,737	105,701	64,338	98,365	1,430,975
Additions	124,080	-	54,756	-	35,620	214,456
Effect of movements in exchange rates	6,654	-	2,416	-	1,572	10,642
Balance, June 30, 2016	1,076,568	216,737	162,873	64,338	135,557	1,656,073
Additions	59,102	37,062	-	-	-	96,164
Effect of movements in exchange rates	5,112	3,206	-	-	-	8,318
Balance, June 30, 2017	1,140,782	257,005	162,873	64,338	135,557	1,760,555
Accumulated depreciation						
Balance, June 30, 2015	615,014	148,525	75,297	32,374	64,820	936,030
Depreciation expense	81,737	13,004	13,242	6,084	7,581	121,648
Effects of movements in exchange rates	1,006	-	206	-	80	1,292
Balance, June 30, 2016	697,757	161,529	88,745	38,458	72,481	1,058,970
Depreciation expense	84,440	14,219	14,489	5,208	11,594	129,950
Effect of movements in exchange rates	210	-	-	-	-	210
Balance, June 30, 2017	782,407	175,748	103,234	43,666	84,075	1,189,130
Carrying amount						
Balance, June 30, 2016	378,811	55,208	74,128	25,880	63,076	597,103
Balance, June 30, 2017	358,375	81,257	59,639	20,672	51,482	571,425

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

6. Intangible assets

	Copyright to software	Purchased technology	Intangibles	Total
	\$	\$	\$	\$
Cost				
Balance, June 30, 2015	2,948,461	3,825,000	2,472,000	9,245,461
Additions	-	-	-	-
Business combination (Note 16)	-	-	-	-
Effects of movements on exchange rates	-	-	290,736	290,736
Balance, June 30, 2016	2,948,461	3,825,000	2,762,736	9,536,197
Business combination (Note 16)	-	-	814,956	814,956
Effects of movements on exchange rates	-	-	3,625	3,625
Balance, June 30, 2017	2,948,461	3,825,000	3,581,317	10,354,778
Accumulated amortization and impairment				
Balance, June 30, 2015	2,697,576	477,500	131,877	3,306,953
Amortization expense	83,628	382,500	276,822	742,950
Effects of movements on exchange rates	-	-	5,711	5,711
Balance, June 30, 2016	2,781,204	860,000	414,410	4,055,614
Amortization expense	44,784	382,500	335,272	762,556
Effects of movements on exchange rates	-	-	1,827	1,827
Balance, June 30, 2017	2,825,988	1,242,500	751,509	4,819,997
Carrying amount				
Balance, June 30, 2016	167,257	2,965,000	2,348,326	5,480,583
Balance, June 30, 2017	122,473	2,582,500	2,829,808	5,534,781

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

7. Development costs

	\$	
Development costs		
Balance, June 30, 2015	14,955,132	
Additions	2,562,936	
Investment tax credits	(703,804)	
Balance, June 30, 2016	16,814,264	
Additions	2,283,712	
Investment tax credits	(315,123)	
Balance, June 30, 2017	18,782,853	
Accumulated amortization		
Balance, June 30, 2015	(12,781,835)	
Amortization	(1,525,977)	
Balance, June 30, 2016	(14,307,812)	
Amortization	(1,711,377)	
Balance, June 30, 2017	(16,019,189)	
	2017	2016
	\$	\$
Net capitalized development costs	2,763,664	2,506,452

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized \$3,426,367 of engineering expenditures as an expense during the year ended June 30, 2017 (2016 - \$3,082,563).

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:

	2017	2016
	\$	\$
Cash at bank and on hand	6,758,889	2,086,932
Short-term investments	-	-
	6,758,889	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 consolidated financial statements

June 30, 2017 and 2016

(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:

	2017	2016
	\$	\$
Interest income	(820)	(2,694)
Interest expense (Note 9,18)	114,327	108,761
Net interest expense	113,507	106,067

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:

	2017	2016
	\$	\$
Trade receivables aging		
0-30 days	2,088,000	3,187,854
31-90 days	660,568	638,705
Greater than 90 days	289,737	638,288
	3,038,305	4,464,847
Provision for doubtful accounts	(37,138)	(250,768)
Net trade receivable	3,001,167	4,214,079

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

	2017	2016
	\$	\$
Provision for doubtful accounts		
Allowance for doubtful accounts beginning balance	(250,768)	(234,024)
Net Allowance used (recorded) during the year	213,630	(16,744)
Allowance for doubtful accounts ending balance	(37,138)	(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 consolidated financial statements

June 30, 2017 and 2016

(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:

	2017	2016
	\$	\$
Accounts payable and accrued liabilities	2,872,996	2,435,687
Operating facility and loan	3,883,434	1,340,603
	<u>6,756,430</u>	<u>3,776,290</u>

During the current year, the Company recorded a contingent consideration of \$180,380 (\$139,000 USD) to the selling shareholders of Micro Advantage Inc. which was included in the accounts payable and accrued liabilities balance as at June 30, 2017. The contingent consideration was discounted using an effective interest rate of 1.9% and the Company recorded an accretion expense of \$14,605 for the year ended June 30, 2016 (2016 – \$12,825).

Foreign currency risk

A large portion of the Company's transactions occur in a foreign currency (mainly in US dollars) and, therefore, the Company is exposed to foreign currency risk at the end of the reporting period through its U.S. denominated trade receivables, accounts payable and cash. As at June 30, 2017, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate \$480,255 decrease or increase, respectively, in total comprehensive income (loss) and retained earnings (deficit) (2016 - \$547,587). On an ongoing basis, the Company's revenues are also impacted by the swings in the U.S. dollar and to mitigate the risk of foreign currency, the Company had two forward contracts outstanding as at June 30, 2017:

- (i) A United States dollar ("USD") forward contract for the conversion of \$1,000,000 USD to Canadian dollars at the rate of \$1.3526 to be settled on September 28, 2017.
- (ii) A United States dollar forward contract for the conversion of \$500,000 USD to Canadian dollars at the rate of \$1.3501 to be settled on September 29, 2017.

As at June 30, 2017, the fair value of the forward contracts is \$1,946,550 (June 30, 2016 - \$1,951,350) and the carrying value of the forward contracts is \$2,027,650 (June 30, 2016 - \$1,933,200). The excess of carrying value over fair value in the amount of \$81,100 related to these forward contracts is included in accounts payable and accrued liabilities as at June 30, 2017.

Interest rate risk

The Company has no significant exposure at June 30, 2017 to interest rate risk through its financial instruments as the short-term investments are at fixed rates of interest that do not fluctuate during the remaining term.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

10. Shareholders' equity

(i) Share capital and contributed surplus

Issued and outstanding common shares consist of the following:

	2017	2016
	#	#
Shares issued and fully paid		
Beginning balance	32,479,809	32,479,809
Shares issued upon option exercise	40,153	-
	32,519,962	32,479,809
Number of stock options outstanding at the beginning of the year	5,969,160	5,040,160
Stock-based options granted	-	4,151,160
Stock-based options exercised	(40,153)	-
Stock-based options expired/cancelled	(36,627)	(3,222,160)
Number of stock options outstanding at the end of the year	5,892,380	5,969,160
	38,412,342	38,448,969
For each class of share capital		
The number of shares authorized	Unlimited	Unlimited
The number of shares issued and fully paid	32,519,962	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 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, or on the optionee's retiring, becoming permanently disabled or dying, subject to certain grace periods to allow the optionee or his or her personal representative time to exercise such stock options. The stock options are non-transferable.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(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, 2015	5,040,160	0.44
Granted	4,151,160	0.30
Exercised	-	-
Expired	(3,217,664)	0.48
Cancelled	-	-
Forfeited	(4,496)	0.35
Balance, June 30, 2016	5,969,160	0.31
Granted	-	-
Exercised	(40,153)	0.43
Expired	(15,627)	0.35
Cancelled	-	-
Forfeited	(21,000)	0.34
Balance, June 30, 2017	5,892,380	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.

	2017 \$	2016 \$
Weighted average share price	-	0.31
Exercise price	-	0.38
Expected volatility	-	58.2%
Expected option life	-	3.96
Expected dividend yield	-	-
Expected forfeiture rate	-	-
Risk-free interest rate	-	0.7%

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

10. Shareholders' equity (continued)

(ii) Stock options (continued)

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

	2017		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	5,892,380	3.06	5,969,160	3.96
	5,892,380	3.06	5,969,160	3.96

The Company recognized share based compensation expense in the amount of \$231,034 for the year ended June 30, 2017 (2016 - \$178,540).

(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 32,519,962 shares for the year ended June 30, 2017 (2016 – 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:

	2017	2016
Number of shares		
Weighted average number of shares used in basic earnings per share	32,519,962	32,479,809
Shares deemed to be issued in respect of share-based payments	2,064,785	-
Weighted average number of shares used in diluted earnings per share	34,584,747	32,479,809

As of June 30, 2017, 2,064,785 options were dilutive and therefore, were included in the weighted average number of shares for the purposes of diluted earnings per share calculation above (2016 - none).

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(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	451,794	-
2033	651,641	-
2034	347,033	29,073
2035	288,821	84,077
2036	334,585	98,306
2037	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.

The Company income tax expense is determined as follows:

	2017	2016
Statutory income tax rate	26.50%	26.50%
Income before income taxes	1,190,574	283,392
Income taxes at statutory income tax rate	315,630	75,099
Additional taxes of foreign operations	5,520	19,315
Tax effect of non-deductible expenses	125,230	74,545
Tax rate changes and true-ups	(64,430)	-
Tax effect on others adjustments	8,429	-
Income tax expense	390,379	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:

	2017	2016
	\$	\$
Property and equipment - Canadian	(603,114)	(39,043)
Property and equipment - US	(63,800)	(74,386)
Non-deductible reserves - Canadian	137,400	64,214
Non-deductible reserves - US	106,204	16,912
Deferred development costs	(816,150)	(604,325)
Intangible assets including goodwill - Canadian	(49,912)	(690,520)
Intangible assets - US	138,090	81,102
SR&ED investment tax credits	1,985,934	1,735,007
Unutilized SR&ED expenditure pools	704,675	1,031,511
Deferred income tax assets	1,539,327	1,520,472

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

12. Related parties

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

The Company had the following balances with related parties:

Related parties	2017	2016
	\$	\$
Total transactions during the year:		
Expenses	11,055	10,055
Outstanding balances as at June 30:		
Payable	5,000	5,000

Compensation of key management personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the members of the Board of Directors and three officers.

The remuneration of directors and other members of key management personnel during fiscal year ended June 30, 2017 and 2016 were as follows:

	2017	2016
	\$	\$
Short-term benefits	1,200,634	1,002,030
Long-term benefits	28,562	30,000
Share-based compensation	163,594	153,390
	1,392,790	1,185,420

13. Segment disclosures

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

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

	2017	2016
	\$	\$
Products	16,681,546	12,559,384
Services	10,198,765	8,633,888
	26,880,311	21,193,272

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(In Canadian dollars)

13. Segment disclosures (continued)

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

	2017	2016
	\$	\$
USA	16,225,040	13,849,676
Canada	1,368,138	488,890
All other countries	9,287,133	6,854,706
	26,880,311	21,193,272

14. Capital management

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

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

The Company manages the following capital:

	2017	2016
	\$	\$
Share capital	16,521,072	16,497,326
Contributed surplus	2,285,243	2,060,557
Accumulated other comprehensive income (loss)	41,043	(19,162)
Retained earnings (deficit)	488,029	(312,166)
	19,335,387	18,226,555

15. Commitments

The future minimum lease payments for office space as at June 30, 2017 are as follows:

	\$
Not later than one year	378,360
Later than one year and not later than five years	1,194,549
	1,572,909

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

16. Business combination

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 up to a further \$376,134 (\$300,000 USD) of which \$180,380 (\$139,000 USD) remains in accounts payable and accrued liabilities as at June 30, 2017 and \$199,560 (\$150,000 USD) was paid during the year. The acquisition has been accounted for using the acquisition method under IFRS 3, Business Combinations and the purchase price of \$814,956 (\$650,000 USD) has been allocated to purchased intangibles, with the results of operations included in the consolidated financial statements from the date of the acquisition. The purchase price allocation is preliminary as at June 30, 2017 and is subject to adjustments within the measurement period not exceeding one year from the date of the acquisition.

17. Provisions

	Warranty provision	Sales returns and allowances provision	Stock rotation provision	Total
	\$	\$	\$	\$
Balance at June 30, 2016	18,722	19,596	65,000	103,318
Additional provision recognized	10,000	5,000	5,000	20,000
Balance at June 30, 2017	28,722	24,596	70,000	123,318

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 June 2017, the Company:

- I. increased the existing Demand Operating Line of Credit from \$2,500,000 to up to \$3500,000 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 as of June 30, 2017 was \$2,910,159 (June 30, 2016 - \$1,340,603) and carries an interest rate of prime plus 0.8%.
- II. established a Term Loan Facility of up to \$1,000,000 to provide financing for 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 June 30, 2017 was \$973,275.

As of June 30, 2017, interest costs to service the operating line amounted to \$99,722 (2016 - \$46,921).

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Notes to the consolidated financial statements

June 30, 2017 and 2016

(In Canadian dollars)

19. Post-reporting date events

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) which are subject to standard regulatory hold periods. 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 \$184,819 in business acquisition costs for the year, 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:

Consideration	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 ¹		376,400		488,454
	\$	3,533,076	\$	4,584,873

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

Purchase price allocation	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
	\$	3,533,076	\$	4,584,873

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.

20. Authorization of financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on October 10, 2017.