



SANGOMA TECHNOLOGIES CORPORATION

**Condensed consolidated interim financial statements for
the three and six months ended December 31, 2018
(Unaudited in Canadian Dollars)**

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

Sangoma Technologies Corporation

December 31, 2018

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Sangoma Technologies Corporation

Condensed consolidated interim statements of financial position
as at December 31, 2018 and June 30, 2018

(Unaudited in Canadian dollars)

	December 31, 2018	June 30, 2018
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 13)	6,789,367	15,778,191
Trade receivables (Note 13)	9,486,687	7,225,374
Inventories (Note 4)	11,172,398	6,726,203
Other current assets	2,042,151	1,853,984
	29,490,603	31,583,752
Non-current assets		
Property and equipment (Note 5)	2,608,455	859,691
Intangible assets (Note 6)	33,416,550	10,548,450
Development costs (Note 7)	2,606,269	2,538,988
Deferred income tax assets (Note 10)	1,014,718	855,140
Goodwill (Note 8)	24,843,485	5,174,981
	93,980,080	51,561,002
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	13,167,424	7,919,096
Provisions (Note 16)	652,646	279,690
Sales tax payable	169,210	21,404
Income tax payable	496,797	405,503
Operating facility and loan - current (Note 9)	3,583,433	1,076,272
Deferred revenue	10,913,154	2,756,899
	28,982,664	12,458,864
Long term liabilities		
Operating facility and loan - long term (Note 9)	21,611,015	3,473,662
Deferred revenue	4,301,158	283,870
	54,894,837	16,216,396
Shareholders' equity		
Share capital	34,763,122	29,830,474
Contributed surplus	2,388,848	2,324,176
Warrant reserve (Note 11(i))	147,363	186,700
Accumulated other comprehensive income	115,970	61,732
Retained earnings	1,669,940	2,941,524
	39,085,243	35,344,606
	93,980,080	51,561,002

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 six months ended December 31, 2018 and 2017

(Unaudited in Canadian dollars)

	Second Quarter		Year to Date	
	F2019	F2018	F2019	F2018
	\$	\$	\$	\$
Revenue (Note 13)	29,219,946	11,735,538	50,659,281	23,581,144
Cost of sales	11,394,098	5,744,480	20,388,563	11,470,005
Gross profit	17,825,848	5,991,058	30,270,718	12,111,139
Expenses				
Sales and marketing	4,918,402	1,651,130	7,910,476	3,455,026
Research and development	6,011,193	1,350,849	9,520,600	2,756,079
General and administration	6,124,103	2,170,462	10,147,178	4,409,149
Foreign currency exchange (gain) loss	(21,787)	(89,587)	89,485	(162,945)
	17,031,911	5,082,854	27,667,739	10,457,309
Income before interest, income taxes, and business acquisition costs	793,937	908,204	2,602,979	1,653,830
Interest income (Note 8)	(3,828)	(176)	(7,542)	(352)
Interest expense (Note 8)	411,894	42,315	598,734	84,293
Business integration costs	600,714	-	600,714	-
Business acquisition costs (Note 16)	-	-	2,100,375	100,058
	1,008,780	42,139	3,292,281	183,999
Income before income tax	(214,843)	866,065	(689,302)	1,469,831
Provision for income taxes				
Current (Note 11)	60,007	252,481	582,280	465,792
Net income	(274,850)	613,584	(1,271,582)	1,004,039
Other comprehensive gain/(loss)				
Items to be reclassified to net income				
Foreign currency translation adjustment (gain) / loss	(51,141)	45,704	(54,238)	79,096
Comprehensive income	(223,709)	567,880	(1,217,344)	924,943
Earnings per share				
Basic (Note 10(iii))	(0.005)	0.018	(0.025)	0.030
Diluted (Note 10(iii))	(0.005)	0.017	(0.024)	0.027
Weighted average number of shares outstanding (Note 10(iii))				
Basic	51,469,162	33,910,814	50,021,359	33,910,814
Diluted	55,486,511	36,760,720	54,001,725	36,567,632

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

Sangoma Technologies Corporation

Condensed consolidated interim statements of changes in shareholders' equity
for the three and six months ended December 31, 2018 and the year ended June 30, 2018

(Unaudited in Canadian dollars)

	Number of common shares	Share capital	Contributed surplus	Warrant reserve	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total Shareholders' equity
	#	\$	\$	\$	\$	\$	\$
Balance, June 30, 2017	32,519,962	16,521,072	2,285,243	-	41,043	488,029	19,335,387
Net income	-	-	-	-	-	2,453,495	2,453,495
Other comprehensive income	-	-	-	-	20,689	-	20,689
Common shares issued through							
private placement, net of costs (Note 11(i))	13,138,000	12,140,963	-	-	-	-	12,140,963
Common shares issued for business combination (Note 11(ii))	993,627	824,710	-	-	-	-	824,710
Common shares issued for options exercised (Note 11(i))	809,368	530,429	(135,204)	-	-	-	395,225
Broker warrants issued through private placement (Note 11(ii))	-	(186,700)	-	186,700	-	-	-
Share-based compensation expense (Note 11(ii))	-	-	174,137	-	-	-	174,137
Balance, June 30, 2018	47,460,957	29,830,474	2,324,176	186,700	61,732	2,941,524	35,344,606
Net loss	-	-	-	-	-	(996,734)	(996,734)
Other comprehensive income	-	-	-	-	3,097	-	3,097
Common shares issued for business combination (Note 11(i))	3,943,041	4,868,090	-	-	-	-	4,868,090
Common shares issued for options exercised (Note 11(i))	7,000	3,362	-	-	-	-	3,362
Broker warrants redemption (Note 11(i))	39,337	39,337	-	(39,337)	-	-	-
Share-based compensation expense (Note 11(ii))	-	-	32,050	-	-	-	32,050
Balance, September 30, 2018	51,450,335	34,741,263	2,356,226	147,363	64,829	1,944,790	39,254,471
Net loss	-	-	-	-	-	(274,850)	(274,850)
Other comprehensive income	-	-	-	-	51,141	-	51,141
Common shares issued for options exercised (Note 11(i))	47,702	21,859	-	-	-	-	21,859
Share-based compensation expense (Note 11(ii))	-	-	32,622	-	-	-	32,622
Balance, December 31, 2018	51,498,037	34,763,122	2,388,848	147,363	115,970	1,669,940	39,085,243

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 six months ended December 31, 2018 and 2017
(Unaudited in Canadian dollars)

	Second Quarter		Year to Date	
	2018	2017	2018	2017
	\$	\$	\$	\$
Operating activities				
Net income	(274,850)	613,584	(1,271,582)	1,004,039
Adjustments for				
Depreciation of property and equipment (Note 5)	108,973	51,344	180,607	86,425
Amortization of intangible assets (Note 6)	1,462,113	274,761	2,049,928	562,675
Amortization of capitalized development costs (Note 7)	501,702	384,392	964,449	803,223
Unrealized foreign exchange gain	(50,174)	(41,366)	(97,244)	(41,367)
Income tax expense	60,007	252,481	582,280	465,792
Income tax paid	(89,123)	-	(683,953)	-
Income tax refunds	-	-	-	-
Share-based compensation expense (Note 10(ii))	32,622	40,020	64,672	74,174
Accretion expense	-	-	-	-
Changes in item of working capital				
Trade receivables	1,320,330	(383,460)	123,439	383,954
Inventories	(802,920)	(256,818)	(913,571)	(142,365)
Investment tax credits receivable				37,957
Other current assets	(147,716)	(221,564)	971,847	100,541
Sales tax payable	169,210	(27,943)	201,459	55,049
Accounts payable and accrued liabilities	625,783	28,320	1,227,008	16,962
Provisions (Note 17)	96,629	5,000	372,956	10,000
Income tax payable	68,373	257,481	91,294	204,369
Deferred revenue	159,261	(59,600)	1,110	(240,980)
Investment tax credits receivables	-	(147,005)	-	(380,058)
	3,240,220	769,627	3,864,699	3,000,390
Investing activities				
Purchase of property and equipment (Note 5)	(199,201)	(64,623)	(223,577)	(103,451)
Development costs (Note 7)	(490,094)	(367,853)	(1,031,730)	(849,694)
Business combinations, net of working capital and fixed assets (Note 18)	-	-	(30,420,812)	(3,862,833)
	(689,295)	(432,476)	(31,676,119)	(4,815,978)
Financing activities				
Operating facility and loan (Note 18)	1,156,228	-	21,704,542	-
Repayment of operating facility and loan	(874,432)	(119,045)	(1,060,028)	(1,719,820)
Issuance of common shares from treasury	21,859	152,466	64,558	68,614
	303,655	33,421	20,709,072	(1,651,206)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,073,610)	(69,925)	(1,886,476)	4,746
Increase/(Decrease) in cash and cash equivalents	1,780,970	300,647	(8,988,824)	(3,462,048)
Cash and cash equivalents, beginning of period	5,008,397	2,996,194	15,778,191	6,758,889
Cash and cash equivalents, end of period	6,789,367	3,296,841	6,789,367	3,296,841

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 six months ended December 31, 2018 and 2017

(Unaudited in Canadian dollars)

1. General information

Founded in 1984, Sangoma Technologies Corporation (“Sangoma” or the “Company”) is publicly traded on the TSX Venture Exchange (TSX VENTURE: STC). The Company was incorporated in Canada, its legal name is Sangoma Technologies Corporation and its primary operating subsidiaries for fiscal 2019 are Sangoma Technologies Inc., Sangoma US Inc., Digium Inc. and VoIP Supply Inc.

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 is 100 Renfrew Dr., Suite 100, Markham, Ontario, L3R 9R6 and the Company operates in multiple jurisdictions.

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, 2018.

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 February 14, 2019.

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, 2018 and which are available at 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, 2018

4. Inventories

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

	December 31, 2018	June 30, 2018
	\$	\$
Finished goods	7,697,718	4,307,048
Parts	3,652,974	2,597,449
	11,350,692	6,904,497
Provision for obsolescence	(178,294)	(178,294)
Net inventory carrying value	11,172,398	6,726,203

During the three month period ended December 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 six months ended December 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
Cost	\$	\$	\$	\$	\$	\$
Balance at June 30, 2018	1,576,233	266,859	176,482	64,338	163,646	2,247,558
Acquisitions	186,072	-	1,381,035	-	138,687	1,705,794
Additions	24,766	7,584	4,656	-	-	37,006
Balance at September 30, 2018	1,787,071	274,443	1,562,173	64,338	302,333	3,990,358
Additions	46,684	-	-	-	24,311	70,995
Effects of movements in exchange rates	11,287	406	109,090	-	7,424	128,207
Balance at December 31, 2018	1,845,043	274,849	1,671,262	64,338	334,068	4,189,561

Accumulated depreciation

Balance at June 30, 2018	922,943	192,451	118,130	47,660	106,683	1,387,867
Depreciation expense	45,964	11,089	21,409	834	4,970	84,266
Balance at September 30, 2018	968,907	203,540	139,539	48,494	111,653	1,472,133
Depreciation expense	64,457	3,325	32,221	792	8,178	108,973
Balance at December 31, 2018	1,033,364	206,865	171,760	49,286	119,831	1,581,106

Net book value as at:

June 30, 2018	653,291	74,408	58,351	16,678	56,963	859,691
Balance at December 31, 2018	811,680	67,984	1,499,502	15,052	214,238	2,608,455

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 six months ended December 31, 2018 and 2017

(Unaudited in Canadian dollars)

6. Intangible assets

	Copyright to software	Purchased technology	Website	Customer relationship	Brand	Other purchased intangibles	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, June 30, 2018	2,948,461	4,110,723	229,050	7,143,870	2,300,222	458,384	17,190,710
Business combinations (Note 18)	-	-	-	-	-	-	-
Effects of movements on exchange rate	-	47,652	1,401	64,057	21,658	2,831	137,599
Balance, September 30, 2018	2,948,461	4,063,071	227,649	7,079,813	2,278,564	455,553	17,053,111
Business combinations (Note 18)	-	3,745,060	-	12,354,345	5,748,660	1,990,935	23,839,000
Effects of movements on exchange rate	-	128,652	-	424,461	197,508	68,403	819,024
Balance, December 31, 2018	2,948,461	7,936,783	227,649	19,858,619	8,224,732	2,514,890	41,711,135
Accumulated amortization and impairment							
Balance, June 30, 2018	2,909,616	1,466,827	214,262	1,612,443	273,433	165,679	6,642,260
Amortization expense	20,907	226,037	67,886	220,854	21,350	30,781	587,815
Effects of movements on exchange rate	-	-	-	-	-	-	-
Balance, September 30, 2018	2,930,523	1,692,864	282,148	1,833,297	294,783	196,460	7,230,075
Amortization expense	-	518,091	17,733	503,515	201,462	221,312	1,462,113
Effects of movements on exchange rate	-	156,548	26,092	169,535	27,260	18,168	397,603
Balance, December 31, 2018	2,930,523	2,054,407	273,789	2,167,277	468,985	399,603	8,294,585
Carrying amount							
Balance, June 30, 2018	38,845	2,643,896	14,788	5,531,428	2,026,789	292,704	10,548,450
Balance, December 31, 2018	17,938	5,882,376	46,140	17,691,342	7,755,747	2,115,286	33,416,550

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 six months ended December 31, 2018 and 2017
(Unaudited in Canadian dollars)

7. Development costs

	\$	
Development costs		
Balance, June 30, 2018	20,255,338	
Additions	616,638	
Investment tax credits	(75,000)	
Balance, September 30, 2018	20,796,976	
Additions	565,093	
Investment tax credits	(75,000)	
Balance, December 31, 2018	21,287,069	
Accumulated amortization		
Balance, June 30, 2018	(17,716,350)	
Amortization	(462,748)	
Balance, September 30, 2018	(18,179,098)	
Amortization	(501,701)	
Balance, December 31, 2018	(18,680,799)	
	December 31, 2018	June 30, 2018
	\$	\$
Net capitalized development costs	2,606,269	2,538,988

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized \$5,509,492 of engineering expenditures as an expense during the quarter ended December 31, 2018 (December 31, 2017 - \$966,456).

8. Goodwill

The carrying amount and movements of goodwill as follows:

	\$
Balance as of June 30, 2017	1,638,546
Addition through business combinations (Note 18)	3,411,931
Effect of movements in exchange rates	124,504
Balance as of June 30, 2018	5,174,981
Addition through business combinations (Note 18)	18,807,338
Effect of movements in exchange rates	861,166
Balance as of December 31, 2018	24,843,485

The value assigned to goodwill for the purchase of Digium Inc. is subject to change until June 30, 2019.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements For the three and six months ended December 31, 2018 and 2017 (Unaudited in Canadian dollars)

9. Operating facility and loan

As at December 31, 2018, the following borrowing facilities are effective:

- (i) A Demand Operating Line of Credit of up to \$3,500,000 to ensure sufficient cash for operations. This facility is governed by a General Security Agreement and standard operating covenants. December 31 The Demand Operating Line of Credit carries an interest rate of prime plus 0.80%. As at December 31, 2018, 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. The Term Loan Facility has a maturity date of June 2022 and carries an interest rate of prime plus 1.25%. The balance drawn against this Term Loan Facility as of December 31, 2018 was \$713,338 (June 30, 2018 - \$773,620). As at December 31, 2018, \$204,570 (June 30, 2018 - \$296,280) in Term Loan Facility is classified as current and \$508,768 (June 30, 2018 - \$533,981) as long-term in the consolidated statements of financial position.
- (iii) A second Term Loan Facility of up to \$4,128,640 (\$3,200,000 USD) which was used to finance the acquisition of the CCD. This facility is governed by the General Security Agreement and standard operating covenants. This Term Loan Facility has a maturity date of January 2023 and carries a fixed interest rate of 5.38%. The balance drawn against this Term Loan facility as of December 31, 2018 was \$3,568,150 (June 30, 2018 - \$3,776,314). As at December 31, 2018, \$819,955 (June 30, 2018 - \$779,992) in Term Loan Facility is classified as current and \$2,748,195 (June 30, 2018 - \$2,996,322) as long-term in the consolidated statements of financial position.
- (iv) A third Term Loan Facility of up to \$5,178,000 (\$4,000,000 USD) which was used to finance the acquisition of Digium Inc. This facility is governed by the General Security Agreement and standard operating covenants. This Term Loan Facility has a maturity date of August 2023 and carries a fixed interest rate of 6.25%. The balance drawn against this Term Loan facility as of December 31, 2018 was \$5,232,013 (June 30, 2018 - \$nil). As at December 31, 2018, \$643,981 (June 30, 2018, \$nil) in Term Loan Facility is classified as current and \$4,588,032 (June 30, 2018 - \$nil) as long-term in the consolidated statements of financial position.
- (v) A fourth Term Loan Facility of up to \$15,534,000 (\$12,000,000 USD) which was used to finance the acquisition of the Digium Inc. This facility is governed by the General Security Agreement and standard operating covenant. This Term Loan Facility has a maturity date of August 2023 and carries a fixed interest rate of 6.18%. The balance drawn against this Term Loan facility as of December 31, 2018 was \$15,680,947 (June 30, 2018 - \$nil). As at December 31, 2018, \$1,914,927 (June 30, 2018, \$nil) in Term Loan Facility is classified as current and \$13,766,020 (June 30, 2018 - \$nil) as long-term in the consolidated statements of financial position.

For the quarter ended December 31, 2018, the Company incurred interest costs to service the borrowing facilities in the amount of \$411,894 (December 31, 2017 - \$42,139).

Under its credit agreements with its lenders, the Company must satisfy certain financial covenants, principally in respect of total funded debt to earnings before interest, taxes and amortization ("EBITDA"), and debt service coverage ratio.

As at December 31, 2018, the Company was in compliance with all covenants related to its credit agreements.

Sangoma Technologies Corporation

Notes to the condensed consolidated interim financial statements
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10. Income tax

The Company income tax expense is determined as follows:

	December 31, 2018	December 31, 2017
Statutory income tax rate	26.50%	26.50%
	\$	\$
Net income before income taxes	(274,850)	866,065
Expected income tax expense	(72,835)	229,507
Difference in foreign tax rates	42,639	7,537
Tax effect on non-deductible expenses	90,203	15,437
Income tax expense	60,007	252,481
The Company's income tax expense is allocated as follows:	\$	\$
Current tax expense	60,007	252,481
Income tax expense	60,007	252,481

The following table summarizes the components of deferred tax asset:

	December 31, 2018	June 30, 2018
	\$	\$
Deferred income tax assets (liabilities)		
Non-deductible reserves - Canadian	126,033	117,540
Non-deductible reserves - US	188,329	183,250
SR&ED investment tax credits, net of 12(1)(x)	1,914,750	1,839,750
Unutilized SR&ED expenditure pools	-	-
Property and equipment - Canadian	(500,034)	(496,040)
Property and equipment - US	(114,540)	(114,540)
Deferred development costs	(762,300)	(837,300)
Intangible assets including goodwill - Canadian	(64,290)	(64,290)
Intangible assets including goodwill - US	226,770	226,770
Net deferred income tax assets	1,014,718	855,140

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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 net 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	239,832	-
2033	651,641	-
2034	347,033	-
2035	288,821	-
2036	334,585	61,545
2037	300,386	68,347
2038	227,467	50,936
	2,389,765	180,828

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 has reviewed the Net Operating Losses incurred by Digium Inc. in prior years and expects to be able utilize approximately \$18 million US dollars over a seven year period.

11. Shareholders' equity

(i) Share capital

Issued and outstanding common shares consist of the following:

	Second Quarter		Year to Date	
	2019	2018	2019	2018
	#	#	#	#
Shares issued and outstanding:				
Outstanding, beginning of the period	51,450,335	33,553,589	47,460,957	32,519,962
Shares issued for business combinations			3,943,041	993,627
Shares issued through private placement				
Shares issued through redemption of broker warrants			39,337	
Shares issued upon exercise of options	47,702	357,225	54,702	397,225
Shares issued and outstanding, end of period	51,498,037	33,910,814	51,498,037	33,910,814

In September 2018 the Company issued 3,943,041 common shares valued at \$4,868,090 as part of the consideration for the acquisition of Digium Inc.

On March 2018, the Company completed a private placement of 13,138,000 common shares at a price of \$1.00 per share for total gross proceeds of \$13,138,000. As part of the private placement, the Company issued 394,140 broker warrants, which are exercisable at \$1.00 per common share from the date of issuance for a period of 18 months from the date of closing. During the first quarter 39,337 of the broker warrants were redeemed for 39,337 common shares. There were no redemption in the second quarter.

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For the three and six months ended December 31, 2018 and 2017

(Unaudited in Canadian dollars)

(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 8,200,000 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. 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:

Measurement date	Number of options #	Weighted average exercise price \$
Balance, June 30, 2017	5,892,380	0.31
Granted	401,000	0.69
Exercised	(809,368)	0.30
Expired	(17,000)	0.30
Forfeited	(8,438)	0.30
Balance, June 30, 2018	5,458,574	0.33
Exercised	(7,000)	0.30
Balance, September 30, 2018	5,451,574	0.34
Exercised	(47,702)	0.30
Balance, December 31, 2018	5,403,872	0.33

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The Company uses the fair value method to account for all share-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.

	2019	2018
Share price	\$ 1.10	\$ 0.69
Exercise price	\$ 1.16	\$ 0.69
Expected volatility	64.77%	64.77%
Expected option life	5 years	5 years
Expected dividend yield	-	-
Expected forfeiture rate	-	-
Risk-free interest rate	2.26%	1.82%

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

Exercise price	December 31, 2018		June 30, 2018	
	Number of stock options outstanding and exercisable	Weighted average remaining contractual life	Number of stock options outstanding and exercisable	Weighted average remaining contractual life
\$0.26 - \$0.50	5,002,872	1.68	5,057,574	2.18
\$0.51 - \$0.75	401,000	3.99	401,000	4.50
\$0.76 - \$1.00				
\$1.01 - \$1.25	1,573,000	5.00		
Total	6,976,872	2.56	5,458,574	2.69

The Company recognized share-based compensation expense in the amount of \$32,622 for the quarter ended December 31, 2018 (December 31, 2017 - \$32,050).

(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.

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	Second Quarter		Year to Date	
	2019	2018	2019	2018
Number of shares:				
Weighted average number of shares used in basic earnings per share	51,469,162	33,910,814	50,021,359	33,910,814
Shares deemed to be issued in respect of options and warrants	4,017,349	2,849,906	3,980,366	2,656,818
Weighted average number of shares used in diluted earnings per share	55,486,511	36,760,720	54,001,725	36,567,632
Net income for the year	-274,850	\$613,584	-1,271,344	\$1,004,039
Earnings per share:				
Basic earnings per share	\$ (0.005)	\$0.018	\$ (0.025)	\$0.030
Diluted earnings per share	(0.005)	\$0.017	(0.024)	\$0.027

12. Related parties

The Company's related parties include key management personnel and directors. Unless otherwise stated, none of the transactions incorporated 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:

	December 31,	December 31,
	\$	\$
Accounts payable and accrued liabilities	56,250	56,250

13. Financial instruments

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

Cash and cash equivalents are comprised of:

	December 31,	June 30,
	2018	2018
	\$	\$
Cash at bank and on hand	6,789,367	15,778,191

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. As at December 31, 2018 (and June 30, 2018), the Company had no cash equivalents.

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

	Second Quarter		Year to Date	
	2019	2018	2019	2018
	\$	\$	\$	\$
Interest income	(3,828)	(176)	(7,542)	(352)
Interest expense (Note 9)	411,894	42,315	598,734	84,293
Net interest expense	408,066	42,139	591,192	83,941

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:

	December 31, 2018	June 30, 2018
	\$	\$
Trade receivables aging:		
0-30 days	8,018,187	6,710,565
31-90 days	1,694,475	822,994
Greater than 90 days	472,795	289,949
	10,185,457	7,823,508
Provision for doubtful accounts	(698,770)	(598,134)
Net trade receivables	9,486,687	7,225,374

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

	December 31, 2018	June 30, 2018
	\$	\$
Provision for doubtful accounts:		
Allowance for doubtful accounts, beginning balance	(598,134)	(37,138)
Net allowance used (recorded) during the year	(100,636)	(560,996)
Allowance for doubtful accounts, ending balance	(698,770)	(598,134)

All of the Company's cash and cash equivalents are held with a major Canadian financial institution and thus the exposure to credit risk is considered insignificant. Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to trade receivables.

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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:

	December 31, 2018	June 30, 2018
	\$	\$
Accounts payable and accrued liabilities	13,167,424	7,919,096
Operating facility and loan	3,583,433	1,076,272
	16,750,857	8,995,368

Foreign currency risk

A large portion of the Company's transactions occur in a foreign currency (mainly in US dollars) and, therefore, the Company is exposed to foreign currency risk at the end of the reporting period through its U.S. denominated trade receivables, accounts payable and cash. As at December 31, 2018, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate \$256,408 (June 30, 2018 - \$156,737) decrease or increase, respectively, in total comprehensive income (loss).

Interest rate risk

The Company has no significant exposure at December 31, 2018 to interest rate risk through its financial instruments as the operating facility and loan which are due after twelve months from the reporting date are at fixed rates of interest that do not fluctuate during the remaining term.

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.

15. Commitments

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

	\$
Not later than one year	2,804,145
Later than one year and not later than five years	14,624,559
	17,428,704

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16. Provisions

	Warranty provision	Sales returns and allowances provision	Stock rotation provision	Total
	\$	\$	\$	\$
Balance at June 30, 2018	165,094	34,596	80,000	279,690
Additional provision recognized	362,956	10,000	-	372,956
Balance at December 31, 2018	528,050	44,596	80,000	652,646

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 represent the Company's best estimate of the value of the products sold in the current financial year that may be returned in a future year. The stock rotation provision represents the Company's best estimate of the value of the products sold in the current financial year that may be exchanged for alternative products in a future year. The Company accrues for product warranties, stock rotation, and sales returns and allowances at the time the product is delivered.

17. 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: United States of America ("USA"), 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 quarter ended December 31:

	Second Quarter		Year to Date	
	2019	2018	2019	2018
	\$	\$	\$	\$
Products	19,257,936	8,445,162	34,486,512	17,442,390
Services	9,962,010	3,290,376	16,172,769	6,138,754
Total revenues	29,219,946	11,735,538	50,659,281	23,581,144

The sales, in Canadian dollars, in each of these geographic locations for the quarter ended December 31:

	Second Quarter		Year to Date	
	2019	2018	2019	2018
	\$	\$	\$	\$
USA	23,187,265	9,285,365	37,865,864	18,543,005
Canada	807,342	278,123	1,966,918	976,475
All other countries	5,225,339	2,172,050	10,826,499	4,061,664
Total revenues	29,219,946	11,735,538	50,659,281	23,581,144

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18. Business combinations

a) 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 \$4,687,543 (\$3,612,193 USD). The Company paid \$3,374,379 (\$2,600,276 USD) in cash at closing and issued 993,627 common shares valued at \$824,710 (\$635,517 USD). In addition, the Company paid contingent consideration in the amount of \$488,454 (\$376,400 USD) on the first anniversary of the closing, which has been discounted using a risk-free rate. The Company acquired VoIP Supply LLC to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies. The carrying value of the trade receivables acquired approximated fair value. The allowance for doubtful accounts at the acquisition date was \$32,443 (\$25,000 USD). 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:

Consideration	USD	CAD
Cash consideration	\$ 3,000,000	\$ 3,893,100
Less: working capital adjustments	(399,724)	(518,721)
Share consideration	635,517	824,710
Contingent consideration ¹	376,400	488,454
	<u>\$ 3,612,193</u>	<u>\$ 4,687,543</u>

¹ The contingent consideration amount represents the discounted amount 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	999,412	1,296,937
	<u>\$ 3,612,193</u>	<u>\$ 4,687,543</u>

b) Effective January 9, 2018, Sangoma Technologies Inc., acquired all the key assets of the Converged Communications Division ("CCD") 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 amounts held in escrow was discounted to \$561,414 using a 5.0% discount rate. The Company acquired CCD to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies. The carrying value of the trade receivables acquired approximated fair value. The allowance for doubtful accounts at the acquisition date was \$698,098 (\$554,764 USD). The Company incurred \$372,873 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 purchase price has been allocated to the assets and liabilities as described below:

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Consideration	USD		CAD	
Cash consideration	\$	4,064,571	\$	5,114,734
Amounts held in escrow and paid on May 9, 2018		446,144		561,414
	\$	4,510,715	\$	5,676,148

Purchase price allocation	USD		CAD	
Working capital deficiency assumed	\$	(159,349)	\$	(200,520)
Property and equipment		200,000		251,674
Customer relationships		1,835,708		2,310,000
Technology		699,318		880,001
Brand		87,415		110,000
Other purchased intangibles		161,407		203,109
Goodwill		1,686,216		2,121,884
	\$	4,510,715	\$	5,676,148

- c) On September 5, 2018, Sangoma Technologies US Inc. a wholly owned subsidiary of Sangoma Technologies Inc., merged with Digium Inc., a US based company. The total consideration for the acquisition was \$35,434,804 (\$26,875,088). The purchase price consisted of \$30,420,812 (\$23,064,431) in cash and 3,943,041 Sangoma common shares valued at \$4,868,090 (\$3,700,000 USD) based on a share price of \$1.24 per common share. The Company acquired Digium Inc. to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies. The total transaction costs are currently estimated to be \$2,100,375 which have 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. The external valuation of the intangible assets is in the process of being audited but the current estimate is not expected to change materially.

Consideration	USD	CAD
Initial cash consideration ¹	\$23,850,246	\$31,446,549
Share consideration (3,943,041 shares)	\$3,700,000	\$4,868,090
Working capital adjustment ¹	-\$675,158	-\$879,835
	\$26,875,088	\$35,434,804

Purchase price allocation	USD	CAD
Cash ¹	\$110,657	\$145,902
Working capital	\$2,358,531	\$3,109,723
Deferred Revenue	-\$9,232,031	-\$12,172,433
Property and equipment	\$1,293,738	\$1,705,794
Customer Relationships	\$9,370,000	\$12,354,345
Backlog	\$1,240,000	\$1,634,940
Technology	\$2,840,000	\$3,744,540
Brand	\$4,360,000	\$5,748,660
Non-compete	\$270,000	\$355,995
Goodwill	\$14,264,193	\$18,807,338
	\$26,875,089	\$35,434,804

¹ net cash paid \$30,420,812

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19. Subsequent events

There were no post-closing and subsequent events.

20. Authorization of the consolidated financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on February 14, 2019.