Consolidated financial statements of

Sangoma Technologies Corporation

June 30, 2013 and 2012

Sangoma Technologies Corporation
June 30, 2013 and 2012

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Deloitte.

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Independent Auditor's Report

To the Shareholders of
Sangoma Technologies Corporation

We have audited the accompanying consolidated financial statements of Sangoma Technologies Corporation, which comprise the consolidated statements of financial position as at June 30, 2013 and June 30, 2012, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of 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.

Auditor's 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 audit 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 auditor's 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 as at June 30, 2013 and June 30, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
October 24, 2013

Sangoma Technologies Corporation
Consolidated statements of financial position
as at June 30, 2013 and 2012
(In Canadian dollars)

	2013	2012
	$	$
Assets		
Current assets		
Cash and cash equivalents (Note 8)	**4,012,126**	5,016,825
Trade receivables (Note 9)	**4,963,684**	4,495,018
Inventories (Note 4)	**3,035,704**	3,040,837
Investment tax credits receivable	**321,794**	469,108
Sales tax receivables	**28,854**	217,424
Investment in Vegastream Private Networks Limited (Note 16)	**10,665**	10,665
Other current assets	**47,677**	375,533
	12,420,504	13,625,410
Non-current assets		
Deferred income tax assets (Note 11)	**887,581**	-
Property, plant and equipment (Note 5)	**333,451**	378,560
Development costs (Note 7)	**2,539,418**	2,247,213
Intangible assets (Note 6)	**1,172,642**	2,636,123
Goodwill (Note 3(i))	**-**	3,543,912
	17,353,596	22,431,218
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**1,628,555**	2,101,598
Provisions (Note 17)	**23,318**	-
Income tax payable	**-**	2,220
Current portion of term loan (Note 9)	**17,035**	34,072
Deferred revenue	**146,514**	102,962
	1,815,422	2,240,852
Non-current liabilities		
Term loan (Note 9)	**-**	17,035
Deferred income tax liabilities (Note 11)	**-**	265,534
	1,815,422	2,523,421
Shareholders' Equity		
Share capital (Note 10)	**15,333,326**	15,712,274
Contributed surplus (Note 10)	**1,621,375**	1,277,393
Retained earnings (deficit)	**(1,416,527)**	2,918,130
	15,538,174	19,907,797
	17,353,596	22,431,218

Approved by the Board

(Signed) *Jonathan Matthews* Director

(Signed) *Yves Laliberte* Director

The accompanying notes to the consolidated financial statements are an integral part of this financial statement.

Sangoma Technologies Corporation

Consolidated statements of comprehensive income (loss)
years ended June 30, 2013 and 2012

(In Canadian dollars)

	2013	2012
	$	$
Revenue (Note 13)	**12,950,178**	13,762,871
Cost of sales	**4,465,551**	4,294,815
Gross profit	**8,484,627**	9,468,056
Expenses		
Sales and marketing	**2,777,713**	2,642,352
Research and development	**2,827,648**	2,797,505
General and administration	**3,080,595**	3,386,584
Foreign currency exchange gain	**(141,024)**	(412,913)
	8,544,932	8,413,528
Income before the undernoted	**(60,305)**	1,054,528
Interest income (Note 8)	**(26,907)**	(18,047)
Restructuring expense (Note 17)	**198,000**	-
Impairment of intangible asset (Note 6)	**1,056,088**	-
Impairment of goodwill (Note 3 (i))	**3,543,912**	-
Business acquisition costs (Note 16)	**-**	251,490
	4,771,093	233,443
Income (loss) before income tax	**(4,831,398)**	821,085
Provision for (recovery of) income taxes		
Current (Note 11)	**6,313**	284,224
Deferred (Note 11)	**(503,054)**	121,878
Net income (loss) and total comprehensive income (loss)	**(4,334,657)**	414,983
Earnings (loss) per share		
Basic (Note 10 (iii))	**(0.148)**	0.014
Diluted (Note 10 (iii))	**(0.148)**	0.014
Weighted average number of shares outstanding (Note 10 (iii))		
Basic	**29,261,162**	29,618,366
Diluted	**29,261,162**	29,751,876

The accompanying notes to the consolidated financial statements are an integral part of this financial statement.

Sangoma Technologies Corporation

Consolidated statements of changes in equity
years ended June 30, 2013 and 2012
(In Canadian dollars)

	Number of shares	Share capital	Contributed surplus	Retained earnings	Total equity
		$	$	$	$
Balance, June 30, 2011 (Notes 10(ii))	29,837,809	15,866,455	904,468	2,503,147	19,274,070
Net income/(loss) and total comprehensive income/(loss)	-	-	-	414,983	414,983
Share-based payment (Note 10 (ii))	-	-	372,925	-	372,925
Normal course issuer bid redemption (Note 10 (i))	(299,000)	(154,181)	-	-	(154,181)
Balance, June 30, 2012	29,538,809	15,712,274	1,277,393	2,918,130	19,907,797
Net income/(loss) and total comprehensive income/(loss)	-	-	-	(4,334,657)	(4,334,657)
Share-based payment (Note 10 (ii))	-	-	193,789	-	193,789
Normal course issuer bid redemption (Note 10 (i))	(709,000)	(378,948)	150,193	-	(228,755)
Balance, June 30, 2013	**28,829,809**	**15,333,326**	**1,621,375**	**(1,416,527)**	**15,538,174**

The accompanying notes to the consolidated financial statements
are an integral part of this financial statement.

Sangoma Technologies Corporation

Consolidated statements of cash flows
years ended June 30, 2013 and 2012

(In Canadian dollars)

	2013	2012
	$	$
Operating activities		
Net income (loss) for the period	**(4,334,657)**	414,983
Adjustments for		
Depreciation of property, plant and equipment (Note 5)	**87,219**	78,455
Amortization of intangible assets (Note 6)	**407,393**	442,839
Amortization of capitalized development costs (Note 7)	**1,747,593**	1,590,171
Income tax expense (recovery)	**(496,741)**	406,102
Share-based payment (Note 10 (ii)	**193,789**	372,925
Impairment of intangible asset (Note 6)	**1,056,088**	-
Impairment of goodwill (Note 3 (i))	**3,543,912**	-
Changes in item of working capital		
Trade receivables	**(468,666)**	(2,262,314)
Inventories (Note 4)	**5,133**	(1,554,490)
Other current assets	**327,856**	(347,472)
Sales tax receivables	**188,570**	(166,959)
Accounts payable and accrued liabilities	**(473,043)**	585,544
Provisions (Note 17)	**23,318**	-
Deferred revenue	**43,552**	42,098
Income tax received	**-**	780,323
Investment tax credits received	**239,390**	342,427
	2,090,706	724,632
Investing activities		
Purchase of property, plant and equipment (Note 5)	**(42,110)**	(86,786)
Development costs	**(2,790,468)**	(2,701,336)
Business combination	**-**	(1,515,754)
	(2,832,578)	(4,303,876)
Financing activities		
Repayment of term loan	**(34,072)**	(34,072)
Normal course issuer bid redemption	**(228,755)**	(154,181)
	(262,827)	(188,253)
Decrease in cash and cash equivalents	**(1,004,699)**	(3,767,497)
Cash and cash equivalents, beginning of year	**5,016,825**	8,784,322
Cash and cash equivalents, end of year	**4,012,126**	5,016,825

The accompanying notes to the consolidated financial statements are an integral part of this financial statement.

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 Corp. and its operating subsidiary is Sangoma Technologies 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 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").

(ii) Basis of preparation

The 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 Company has elected to present the net income (loss) and comprehensive income (loss) in a single financial statement titled Consolidated Statements of Comprehensive Income (Loss).

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 subsidiary Sangoma Technologies Inc.

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.

2. Significant accounting policies (continued)

(v) Revenue (continued)

Sale of goods (hardware and software)

For sales of hardware, the recognition criteria are generally met at the time the product is shipped to the customer. Depending on the delivery conditions, title and risk have passed to the customer at that point and acceptance of the product, when contractually required, 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 equipment and service. These multiple element arrangements are assessed to determine whether they 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 Company's presentation currency is the Canadian Dollar ("C$"). The functional currency of the Company and its subsidiary is the Canadian Dollar.

In preparing the consolidated financial statements, transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognized in profit or loss in the period in which they arise.

(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.

2. Significant accounting policies (continued)

(ix) Share-based payments

The Company grants stock options to certain employees. Stock options vest over and expire after various periods of time, usually 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 Statements of Comprehensive Income (Loss) 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 income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the Statements of Financial Position date and are expected to apply when the asset is realized or liability is settled. Deferred income 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 income tax assets and liabilities are recognized for the tax effects of these differences. Deferred income 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.

2. Significant accounting policies (continued)

(xi) Property, plant and equipment

Property, plant 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 Statements of Comprehensive Income (Loss) during the period in which they are incurred.

Depreciation is calculated at 20% of the declining balance for all classes except for depreciation for leasehold improvements which is calculated on a straight-line basis over the shorter of the lease term or useful life. 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, plant 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 Statements Comprehensive of Income (Loss).

(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, straight-line basis over 10 years for purchased technology, and 3 years for websites. Amortization expense is included in the Statements of Comprehensive Income (Loss) 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 (xv) below.

(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.

2. Significant accounting policies (continued)

(xiii) Research and development expenditures (continued)

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 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 (xv) below.

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'.

(xiv) 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. Refer to Note 2 (xv) for a description of impairment procedures.

(xv) Impairment testing of goodwill, other intangible assets and property, plant 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). Sangoma has only one cash generating unit.

The cash-generating unit to which goodwill has been allocated and intangible assets not yet available for use is 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 unit and reflect their respective risk profiles as assessed by management.

Impairment losses for the cash-generating unit 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 shall 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 doesn't exceed the carrying value of the asset had it not originally been impaired.

2. Significant accounting policies (continued)

(xvi) 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 Statements 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:

(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 Statements of Comprehensive Income (Loss). Gains and losses arising from changes in fair value are presented in the Statements of Comprehensive Income (Loss) 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 Statements of Financial Position date, 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 credit receivable, sales tax receivables 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 term loan. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. The term loan was recognized initially at fair value, net of any transaction costs incurred, and subsequently 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.

2. Significant accounting policies (continued)

(xvi) Financial instruments (continued)

(iii) Financial liabilities at amortized cost (continued)

The Company has classified its financial instruments as follows:

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

(xvii) 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.

(xviii) Provisions

Provisions represent liabilities to 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.

(xix) Earnings per share

Basic earnings per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average number of shares outstanding are 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.

2. Significant accounting policies (continued)

(xx) Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of acquisition) of the asset acquired, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition costs are recognized in the Statements of Comprehensive Income (Loss) as incurred unless they relate to the issuance of debt or equity securities.

(xxi) 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. To the extent that collection is reasonably assured, ITCs are recorded as a reduction to the underlying expense or asset to which the ITCs is attributable.

(xxii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

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

IFRS 9, Financial Instruments - Classification and Measurement, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company’s consolidated financial statements for the period beginning July 1, 2015 and has not yet had an opportunity to consider the potential impact of the adoption of IFRS 9.

IFRS 10, Consolidated Financial Statements, together with IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27 (Revised), Separate Financial Statements and IAS 28 (Revised), Investments in Associates or Joint Ventures, which establish a framework for identifying control and accounting and disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Management anticipates that this standard will be adopted in the Company’s consolidated financial statements for the period beginning July 1, 2013 and has not yet had an opportunity to consider the potential impact of the adoption of IFRS 10, 11 and 12.

IFRS 13, Fair Value Measurement, which establishes a single framework for measuring fair value essentially based on exit price, i.e., the price that would be expected to be received to sell an asset or to be paid to transfer a liability. Management anticipates that this standard will be adopted in the Company’s consolidated financial statements for the period beginning July 1, 2013 and has not yet had an opportunity to consider the potential impact of the adoption of IFRS 13.

2. Significant accounting policies (continued)

(xii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company (continued)

IAS 1, Presentation of Financial Statements, which requires separate grouping of items of other comprehensive income into items that may be reclassified to income in future periods and Items that will not be reclassified to income in future periods. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning July 1, 2013 and has not yet had an opportunity to consider the potential impact of the application of the amendments to IAS 1.

IFRS 7, Financial Instruments Disclosures, which set out new disclosure requirements related to the offsetting of financial assets and liabilities. The Company is not expecting the new standard to have a material impact on the Company's consolidated financial statements.

In December 2011, the IASB amended IAS 32, Financial Instruments: Presentation, clarifying the application of the offsetting requirements of financial assets and financial liabilities. The amendments to IAS 32 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is not expecting the new standard to have a material impact on the Company's consolidated financial statements.

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 goodwill recorded in the consolidated financial statements relates to a single cash-generating unit. In the period since March 31, 2013 the Company's sales of legacy products have been less than expected, which has caused the Company to adjust its cash flow projections used in the impairment model for its legacy products. Based on the value in use method for testing impairment as at June 30, 2013, the carrying value of the cash generating unit no longer exceeded the recoverable amount. This has resulted in a write down of the entire $3,543,921 goodwill balance as at June 30, 2013.

The recoverable amount of the cash-generating unit was 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.

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

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

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 unit. At June 30, 2013, the after-tax discount rate used in the recoverable amount calculation was 19% (June 30, 2012 - 19%).

The cash flow forecasts were extrapolated beyond the five year period using an estimated long term growth rate of 2.0% (June 30, 2012 - 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. In August 2011, Sangoma purchased the assets of VegaStream for $1,515,754 and recorded Goodwill of $559,191 (see Note 16). The acquisition has been accounted for using the acquisition method. This goodwill has been written off at June 30, 2013.

(iii) Income taxes

The Company operates and earns income in Canada 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 each consolidated Statements of Financial Position date, the Company assesses whether the realization of deferred income tax benefits is sufficiently probable to recognize deferred income 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 income 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 income 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 utility in terms of duration of the assets to the Company. Actual utility, however, may vary due to technical obsolescence, particularly relating to software and Information Technology equipment.

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

(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. Therefore the estimates and assumptions related to stock options are critical to the Company's financial position.

(vii) Allowance for doubtful accounts

The Company is exposed to credit risk associated with its trade receivables. This risk is reduced by having most customers' trade receivables insured by Export Development Canada ("EDC"). 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.

(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.

(ix) Functional currency

The functional currency of the Company 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 functional currency.

(x) Tax credits recoverable

Tax credits are recorded based on management's estimate that all conditions attached to its receipt have been met. The Company has significant tax credits recoverable 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 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.

(In Canadian dollars)

4. Inventories

Inventories recognized in the Statements of Financial Position can be analyzed as follows:

	2013	2012
	$	$
Finished goods	**1,684,678**	1,972,926
Parts	**1,500,445**	1,125,760
	3,185,123	3,098,686
Provision for obsolescence	**(149,419)**	(57,849)
Net inventory carrying value	**3,035,704**	3,040,837

During the year ended June 30, 2013, there were $64,052 additional provisions made against inventory and a total of $4,128,146 of inventories were included in cost of goods sold compared to $3,974,033 for the year ended June 30, 2012.

5. Property, plant and equipment

	Office furniture and computer equipment	Software and books	Stockroom and production equipment	Tradeshow equipment	Leasehold improvement	Total
	$	$	$	$	$	$
Cost						
Balance, June 30, 2011	560,133	161,964	99,148	41,631	84,650	947,526
Additions	59,451	20,220	-	-	7,114	86,785
Business combination (Note 16)	15,763	-	-	-	-	15,763
Disposals	-	-	-	-	-	-
Balance, June 30, 2012	635,347	182,184	99,148	41,631	91,764	1,050,074
Additions	41,112	-	-	-	998	42,110
Disposals	-	-	-	-	-	-
Balance, June 30, 2013	**676,459**	**182,184**	**99,148**	**41,631**	**92,762**	**1,092,184**
Accumulated depreciation and impairment						
Balance, June 30, 2011	409,076	102,539	50,462	16,866	14,116	593,059
Elimination on disposal of assets	-	-	-	-	-	-
Depreciation expense	37,704	14,103	8,544	4,328	13,776	78,455
Balance, June 30, 2012	446,780	116,642	59,006	21,194	27,892	671,514
Elimination on disposal of assets	-	-	-	-	-	-
Depreciation expense	43,127	11,870	7,265	3,665	21,292	87,219
Balance, June 30, 2013	**489,907**	**128,512**	**66,271**	**24,859**	**49,184**	**758,733**
Carry amount						
Balance, June 30, 2012	188,567	65,542	40,142	20,437	63,872	378,560
Balance, June 30, 2013	**186,552**	**53,672**	**32,877**	**16,772**	**43,578**	**333,451**

Depreciation expense is included in general and administration expense in the Statements of Comprehensive Income (Loss).

(In Canadian dollars)

6. Intangible assets

	Copyright to software	Purchased technology	Website	Total
	$	$	$	$
Cost				
Balance, July 30, 2011	2,948,461	-	441,828	3,390,289
Additions	-	-	-	-
Business combination (Note 16)	-	905,000		
Disposals	-	-	-	-
Balance, June 30, 2012	2,948,461	905,000	441,828	4,295,289
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, June 30, 2013	**2,948,461**	**905,000**	**441,828**	**4,295,289**
Accumulated depreciation and impairment				
Balance, July 30, 2011	884,539	-	331,788	1,216,327
Elimination on disposal of assets	-	-	-	-
Amortization expense	294,846	60,000	87,993	442,839
Balance, June 30, 2012	1,179,385	60,000	419,781	1,659,166
Elimination on disposal of assets	-	-	-	-
Depreciation expense	294,846	90,500	22,047	407,393
Impairment	1,056,088	-	-	-
Balance, June 30, 2013	**2,530,319**	**150,500**	**441,828**	**2,066,559**
Carry amount				
Balance, June 30, 2012	1,769,076	845,000	22,047	2,636,123
Balance, June 30, 2013	**418,142**	**754,500**	**-**	**1,172,642**

Amortization expense is included in general and administration expense in the Statements of Comprehensive Income (Loss).

During the year ended June 30, 2013, the Company recorded a $1,056,088 impairment charge to the copyright to software intangible asset associated with the Paraxip acquisition. The recoverable amount for this copyright declined after a decline in revenue reduced the Company's expectations for future growth in revenue from this copyright.

(In Canadian dollars)

7. Development costs

	$
Development costs	
Balance, June 30, 2011	8,003,840
Additions	2,701,336
Investment tax credits	(847,617)
Balance, June 30, 2012	9,857,559
Additions	2,790,468
Investment tax credits	(750,670)
Balance, June 30, 2013	**11,897,357**
Accumulated amortization	
Balance, June 30, 2011	(6,020,175)
Amortization	(1,590,171)
Balance, June 30, 2012	(7,610,346)
Amortization	(1,747,593)
Balance, June 30, 2013	**(9,357,939)**

	2013	2012
	$	$
Net capitalized development costs	**2,539,418**	2,247,213

Each period the new spending is added net of Investment Tax Credits accrued. In addition to the above amortization, the Company has recognized $1,080,055 of engineering expenditures as an expense during the year ended June 30, 2013 (2012 - $1,207,334).

8. Financial instruments

The Company categorizes each of its fair value measurements in accordance with a fair value hierarchy. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

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

(In Canadian dollars)

8. Financial instruments (continued)

Cash and cash equivalent is comprised of:

	2013	2012
	$	$
Cash at bank and on hand	**1,672,439**	510,736
Short-term investments	**2,339,687**	4,506,089
Total cash and cash equivalents	**4,012,126**	5,016,825

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 investment carried at amortized cost is presented on the Statements of Comprehensive Income (Loss) in the Investment income line.

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

	2013	2012
	$	$
Interest income on short-term investments	**(26,097)**	(18,047)
	(26,097)	(18,047)

9. Financial instruments 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 the majority of the over 90 day receivable not being covered by EDC:

	2013	2012
	$	$
Trade receivables aging		
0-30 days	**3,334,059**	3,647,341
31-90 days	**312,190**	471,938
Greater than 90 days	**1,327,588**	394,172
	4,973,837	4,513,451
Provision for doubtful accounts	**(10,153)**	(18,433)
Net trade receivable	**4,963,684**	4,495,018

9. Financial instruments risks (continued)

Credit risk (continued)

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

	2013	2012
	$	$
Provision for doubtful accounts		
Allowance for doubtful accounts beginning balance	**(18,433)**	(41,313)
Allowance used (recorded) during the year	**8,280**	22,880
Allowance for doubtful accounts ending balance	**(10,153)**	(18,433)

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.

Liquidity risk

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

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

				Fiscal year
	2014	2015	2016	Total
	$	$	$	$
Accounts payable and accrued liabilities	1,806,556	-	-	1,806,556
Term loan maturity	17,035	-	-	17,035

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 Statements of Financial Position date through its U.S. denominated trade receivables, accounts payable and cash. As at June 30, 2013 a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate $530,000 decrease or increase, respectively, in total comprehensive income (loss) (2012- $400,000). The Company did not employ any currency hedging programs during the current period but did reduce its U.S. dollar exposure since the reporting date, see Note 17. On an ongoing basis the Company's top line revenues are also impacted by the swings in the US dollar.

Interest rate risk

The Company has no significant exposure at June 30, 2013 to interest rate risk through its financial instruments as the term loan is non-interest bearing and the short-term investments are at fixed rates of interest that do not fluctuate during the remaining term.

(In Canadian dollars)

10. Shareholders' equity

(i) Share capital and contributed surplus

Issued and outstanding common shares consist of the following:

	2013	2012
	#	#
Shares issued and fully paid		
Beginning balance	**29,538,809**	29,837,809
Share issue	**-**	-
Normal course bid redemption	**(709,000)**	(299,000)
	28,829,809	29,538,809
Opening balance number of stock options outstanding	**4,238,410**	4,603,910
Share-based options granted	**470,000**	-
Share-based payments options expired /cancelled	**(619,250)**	(365,500)
Number of stock options outstanding	**4,089,160**	4,238,410
Total shares and options outstanding	**32,918,969**	33,777,219
For each class of share capital		
The number of shares authorized	**Unlimited**	Unlimited
The number of shares issued and fully paid	**28,829,809**	29,538,809
The number of shares issued but not fully paid	**-**	-
Par value per share, or that the shares have no par value	**-**	-

Effective March 5, 2013, the Company received approval from the TSX Venture Exchange to purchase its own common shares up to a maximum of 5% of the issued and outstanding common shares being 1,476,940 of the 29,538,809 shares outstanding. During 2013, under the course of a normal course issuer bid which expires on March 4, 2014, the Company repurchased and cancelled 709,000 shares (2012 – 299,000) at a total cost of $228,755 (2012 - $154,181),an average of $0.32 per share (2012 - $0.52). The difference between the share capital and the cost of redemption of $150,193 (2012- $nil) is added back to the contributed surplus.

(ii) Stock options

The Company has a stock option plan (the "plan") for directors, officers, employees and consultants of the Company. The number of common shares that may be set aside for issue under the plan (and under all other management stock option and employee stock option plans) is limited to 5,542,160 common shares of the Company, provided that the board of directors has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company and provided that the Company complies with the provisions of policies, rules and regulations of applicable securities legislation.

The maximum number of common shares that may be reserved for issuance to any one person under the plan is 5% of the common shares outstanding at the time of grant (calculated on a non-diluted basis) less the number of common shares reserved for issuance to such person under any stock option to purchase common shares granted as a compensation or incentive mechanism.

Any common shares subject to a stock option, which for any reason is cancelled or terminated prior to exercise, will be available for a subsequent grant under the plan, subject to applicable regulatory requirements.

(In Canadian dollars)

10. Shareholders' equity (continued)

(ii) Stock options (continued)

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, 2011	4,603,910	0.58
Granted	-	-
Exercised	-	-
Expired	(365,500)	0.69
Cancelled	-	-
Forfeited	-	-
Balance, June 30, 2012	4,238,410	0.57
Granted	470,000	0.50
Exercised	-	-
Expired	(310,000)	1.13
Cancelled	(309,250)	0.58
Forfeited	-	-
Balance, June 30, 2013	**4,089,160**	**0.51**

(In Canadian dollars)

10. Shareholders' equity (continued)

(ii) Stock options (continued)

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 (see Consolidated Statements of Changes in Equity).The fair value of the stock options granted has been estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2013	2012
	$	$
Weighted average share price	**0.29**	-
Exercise price	**0.50**	-
Expected volatility	**65.6%**	0%
Expected option life	**4.55**	-
Expected dividend yield	**-**	-
Expected forfeiture rate	**0%**	0%
Risk-free interest rate	**1.3%**	0%

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of the Company's shares.

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

		2013		2012
Exercise price	**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	**2,363,498**	**2.62**	1,993,498	3.39
$0.51 - $0.75	**1,725,662**	**2.25**	1,816,562	3.25
$1.01 - $1.25	**-**	**-**	428,350	0.35
Total	**4,089,160**	**2.46**	4,238,410	3.02

Total expense recognized for share based payments was $193,789 (2012 - $372,925).

(iii) Earnings per share and dividends

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 29,261,162 shares (2012 - 29,618,366).

(In Canadian dollars)

10. Shareholders' equity (continued)

(iii) Earnings per share and dividends (continued)

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:

	2013	2012
Number of shares		
Weighted average number of shares used in basic earnings per share	**29,261,162**	29,618,366
Shares deemed to be issued in respect of share-based payments	**-**	133,510
Weighted average number of shares used in diluted earnings per share	**29,261,162**	29,751,876

As of June 30, 2013, no options were in-the-money hence none were included in the weighted average number of shares for the purposes of diluted earnings per share calculation above (2012 - 1,993,498). As a result, 4,089,160 options (2012 - 2,244,912) are excluded from the weighted average number of shares calculation above.

11. Income tax

The Company has deducted available SR&ED for federal and provincial purposes and has utilized SR&ED investment tax credits, as required, to reduce federal income taxes payable. These consolidated financial statements take into account an income tax benefit resulting from investment tax credits available to the Company to reduce its income for federal income tax purposes in future years as follows:

Year of investment	Year of expiration	Carry forward credits
		$
2011	2031	919
2012	2032	647,449
2013	2033	645,338
		1,293,706

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.

	Federal	Provincial
	$	$
SR&ED expenditures carried forward	2,125,791	2,150,839

(In Canadian dollars)

11. Income tax (continued)

The following reconciles the effective tax rate to the statutory rate on a percentage basis:

	2013	2012
	%	%
Statutory tax rate (recovery)	**(26.5)**	27.9
Tax effect on non-deductible expenses	**1.3**	13.9
Rate change for future income tax assets	**(1.2)**	-
Impairment of goodwill not recognised for tax	**16.2**	-
Non-deductible cumulative eligible capital ("CEC")	**-**	8.0
Tax rate (recovery) on others	**(0.1)**	(0.2)
Effective income tax rate (recovery)	**(10.3)**	49.6

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

	2013	2012
	$	$
Property, plant and equipment	**(29,591)**	77,237
Non-deductible reserves	**2,691**	4,922
Deferred development costs	**(635,115)**	(617,984)
Intangible assets including goodwill	**(147,857)**	(697,287)
SR&ED investment tax credits	**1,085,581**	513,649
Deferred revenue	**38,826**	27,491
Non-capital losses	**24**	105,944
Unutilized SR&ED expenditure pools	**573,022**	320,494
Deferred income tax assets (liabilities)	**887,581**	(265,534)

Income tax recognized in profit or loss:

	2013	2012
	$	$
Current tax		
Current tax expense in respect of the current year	**-**	284,224
Adjustments in current year relating to prior years	**6,313**	-
	6,313	284,224
Deferred tax		
Current movement in the deferred taxes	**27,634**	56,658
Adjustments in current period related to prior periods	**(39,125)**	(22,886)
Adjustments due to change in rates	**(42,563)**	88,106
Impairment of goodwill not recognized for tax	**(449,000)**	-
Effective income tax rate (recovery)	**(503,054)**	121,878
Net taxes	**(496,741)**	406,102

(In Canadian dollars)

12. Related parties

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

The Company had the following balances with related parties:

	2013	2012
	Other related parties	Other related parties
	$	$
The total of the transactions		
Expense	**27,571**	55,142
The amount of outstanding balances		
Receivable	**-**	-
Payable	**2,500**	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, 2013 were as follows:

	2013	2012
	$	$
Short-term benefits	**940,483**	1,325,564
Long-term benefits	**30,000**	30,000
Share-based payment transactions	**157,310**	323,077
Total compensation	**1,127,793**	1,678,641

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. 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.

13. Segment disclosures (continued)

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

	2013	2012
	$	$
Products	**12,360,066**	13,491,648
Services	**590,112**	271,223
Total revenue	**12,950,178**	13,762,871

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

	2013	2012
	$	$
USA	**5,020,740**	5,174,760
Canada	**585,623**	1,186,851
All other countries	**7,343,815**	7,401,260
Total revenue	**12,950,178**	13,762,871

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:

	2013	2012
	$	$
Share capital	**15,333,326**	15,712,274
Contributed surplus	**1,621,375**	1,277,393
Retained earnings	**(1,416,527)**	2,918,130
Total	**15,538,174**	19,907,797

15. Commitments

The future minimum lease payments for office space as at June 30, 2013 are as follows:

	$
Not later than one year	**305,092**
Later than one year and not later than five years	**266,116**
	571,208

(In Canadian dollars)

16. Business combination

On August 22, 2011 Sangoma Technologies Inc. acquired certain assets of the VegaStream Group of Companies; a United Kingdom ("UK") based developer of voice over Internet Protocol ("VoIP") Gateway appliances for a total cash consideration of $1,515,754. The transaction was undertaken in two components, the purchase of customer contracts from VegaStream Distribution Limited ("VDL") and the purchase of product design, licenses, prototypes, inventory, test equipment, certain supplier relationship and employment obligations from the administrator acting for VegaStream Group Limited ("VGL"). In addition Sangoma acquired a 5% shareholding in VegaStream Private Networks Limited an Indian company based in Bangalore, which is majority owned by an independent party, and which sells the Vega line of products in India and surrounding countries. On December 1, 2011 Sangoma launched the Vega product line as part of the Sangoma portfolio of products.

The two asset transactions described above are to be accounted for as a single business combination.

	$
Consideration for the acquisition	
Purchase of assets from VDL	224,231
Purchase of assets from the administrator for VGL	1,291,523
Total consideration	1,515,754

	$
Purchase price allocation	
Investment in VegaStream Private Networks Limited	10,665
Inventory	25,135
Equipment	15,763
Intangible assets (purchased technology) (Note 6)	905,000
Goodwill	559,191
	1,515,754

Since August 22, 2011 all revenues and costs have been incorporated into Sangoma's Financial Statements and transaction fees of $251,490 were expensed in the year ended June 30, 2012.

17. Provisions

	Warranty provision	Sales returns & allowances provision
	$	$
Balance at June 30, 2012	-	-
Additional provision recognized	14,318	9,000
Balance at June 30, 2013	**14,318**	**9,000**

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 Company accrues for product warranties and sales returns and allowances at the time the product is delivered.

18. Post-reporting date events

In the period commencing July 1, 2013 the Company:

(i) initiated a United States dollar (“USD”) forward contract for the conversion of $1 million USD to Canadian dollars at the rate of $1.0378 which was settled on September 16 2013.

19. Authorization of financial statements

The consolidated financial statements for the period ended June 30, 2013 (including comparatives) were, as per recommendation of the Audit Committee, approved by the Board of Directors on October 24, 2013