



SANGOMA TECHNOLOGIES CORPORATION

ANNUAL REPORT

YEAR ENDED JUNE 30, 2019

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

MESSAGE TO SHAREHOLDERS

November 15, 2019

Fiscal 2019 was another strong one for Sangoma, with revenue and EBITDA both close to doubling that of last year, and exceeding the targets I had shared in my Message to Shareholders 12 months ago. Revenue finished at a record \$109.6 million, EBITDA at \$12.3 million and adjusted cash flow from operations was \$13.5 million. We completed the acquisition of Digium early in the year, followed quickly and successfully by the integration and restructuring, as we'd indicated at the time of the transaction. This acquisition, our 7th and our largest to date, brought together the two most widely used open source products in our industry under one roof and helped us get to 11th place in the annual Deloitte Enterprise Fast 15 ranking of companies in Canada.

At the beginning of the decade Sangoma was a nano-cap stock with about \$10 million in sales, that wasn't growing, which had one hardware product line in a declining space, with no recurring revenue. Since then we have built a full Unified Communications (UC) suite, entered the Cloud business, grown Sangoma's recurring revenue, become a global company with staff around the world and customers in over 120 countries, have crossed the \$100 million revenue mark, built up solid profitability and cash flow, and dramatically improved the value of your company. The organic product development and sales growth has been accelerated by acquisitions targeting new products, new customers and compounding recurring revenue.

We are continuing on that path in fiscal 2020 and last month acquired VoIP Innovations, a cloud communications company based in Pittsburgh. This further increases our scale, grows the portion of our sales that come from recurring revenue, improves EBITDA, and provides us with a new strategic platform called CPaaS, which enables developers to add communications capability (such as voice, video and messaging) to their software and web applications.

The groundwork laid over the last few years is paying off, with an enterprise value of well over \$150 million and a share price that increased by greater than 30% in fiscal 2019. While we are pleased to see Sangoma's market capitalization improving, we continue to believe Sangoma remains undervalued compared to peer companies.

I would like to take this opportunity to personally thank our customers for their faith in Sangoma, our employees for their continued hard work, and our investors their support. I believe that fiscal 2019 results are a very positive sign and we look forward to continued progress.

Bill Wignall

William J. Wignall
Chief Executive Officer

Please note that an extensive full year end investor briefing was delivered during the October 21, 2019 conference call and I would encourage investors to listen to the recording at:
<https://cdn.sangoma.com/wp-content/uploads/Sangoma20191021.mp3>

SANGOMA TECHNOLOGIES CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
FISCAL YEAR ENDED JUNE 30, 2019

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SANGOMA TECHNOLOGIES CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR FISCAL 2019 ENDED JUNE 30, 2019

October 18, 2019

INTRODUCTION

The Management Discussion and Analysis (“MD&A”) provides a detailed analysis of the financial condition and results of operations of Sangoma Technologies Corporation (hereinafter referred to as “Sangoma” or the “Company”). The MD&A compares the financial results for the fiscal fourth quarter of 2019 with those of the same quarter in the previous year. This MD&A should be read in conjunction with Sangoma’s audited annual consolidated financial statements and related notes for the year ended June 30, 2019 (“Financial Statements”) which are available at www.sedar.com. All amounts are in Canadian Dollars unless otherwise noted.

BASIS OF PRESENTATION

The Company reports in accordance with International Financial Reporting Standards (“IFRS”).

NON-IFRS MEASURES

This MD&A contains references to certain non-IFRS financial measures such as Operating Income, EBITDA and Adjusted Cash Flow. Non-IFRS financial measures are used by management to evaluate the performance of the Company and do not have any meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Non-IFRS financial measures used herein have been applied on a consistent basis. “Operating Income (Loss)” means gross profit less expenses before financing costs and one-time charges. “EBITDA” means earnings before interest, income taxes, depreciation, amortization and one-time charges. EBITDA is a measure used by many investors to compare issuers on the basis of their ability to generate cash from operations. “Adjusted Cash Flow” means cash flow from operations as defined by IFRS less the capitalized development costs that Sangoma amortized during the period and any one-time impacts at the time of an acquisition. We believe that Operating Income, EBITDA and Adjusted Cash Flow are useful supplemental information as they provide an indication of the results generated by the Company’s main business activities before taking into consideration how they are financed, taxed, depreciated or amortized. Investors are cautioned that non-IFRS measures, such as those presented herein, should not be construed as an alternative to net income or cash flow determined in accordance with IFRS.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, including statements regarding the future success of our business, development strategies and future opportunities.

Forward-looking statements include, but are not limited to, statements concerning estimates of expected expenditures, expected future product development, expected future production, anticipated cash flows, and other statements which are not historical facts. When used in this document, the words such as “could”, “plan”, “estimate”, “expect”, “intend”, “may”, “potential”, “should” and similar expressions indicate forward-looking statements.

Although Sangoma believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Forward-looking statements are based on the opinions and estimates of management at the date that the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in forward-looking statements. Except as required by law, Sangoma undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other events contemplated by the forward-looking statements will not occur. Although Sangoma believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct as these expectations are inherently subject to business, economic and competitive uncertainties. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in the management’s discussion and analysis include, but are not limited to changes in exchange rate between the Canadian dollar and other currencies, changes in technology, changes in the business climate, changes in the regulatory environment, the imposition of tariffs, the decline in the importance of the PSTN (see glossary below), impairment of goodwill and new competitive pressures. The forward-looking statements contained in the management’s discussion and analysis are expressly qualified by this cautionary statement.

DESCRIPTION OF THE BUSINESS

General (please also refer to the Glossary of Terms at the end of this document)

Sangoma's portfolio of products deliver complete, Unified Communications (UC) Solutions. As the communications landscape continues to grow in complexity, with more devices, networks, clouds, and systems needing to interoperate, Sangoma's portfolio of products enables service providers, carriers, enterprises, small and medium-sized businesses (SMBs), and original equipment manufacturers (OEMs) alike to leverage their existing infrastructure for maximum financial return, while still delivering the most advanced applications and services from the latest technologies available.

Sangoma's product portfolio includes a complete line of UC and PBX platforms, IP-Phones and UC Communicators, Cloud-based Services and Network Interconnection Products. Further, Sangoma has the world's two most widely used open source communications software projects: Asterisk and FreePBX.

Sangoma's latest innovations and expanded product portfolio include technology and appliances such as IP-PBXs based on FreePBX/PBXact/Switchvox, a range of IP-Phones and integration tools to enable automated configuration and management, a Unified Communication Server and Client with Zulu UC, Session Border controllers (SBCs) to provide VoIP Security, Network bridging and fail-safe VoIP gateways, UCaaS cloud-based service, SIP trunking service with SIPStation, fax-over-IP service with FaxStation and signalling gateways for enterprise, SMB, carrier, and OEM applications. Sangoma continues to invest and lead the market in VoIP-to-PSTN interface boards.

Unified communications and PBX platforms

A Private Branch Exchange (PBX) is an enterprise communication system. An IP-PBX is a VoIP-based PBX that uses Internet Protocol. Sangoma offers feature rich FreePBX (the most widely used software PBX in the world), PBXact, and SwitchVox. FreePBX is available free of charge as an open source software download, or in three commercial variants. FreePBX is available pre-installed on a telecom appliance, which can be enhanced a la carte with the purchase of individual add-on commercial modules (such as call center builder, high-availability, phone configuration management, enhanced reporting, etc.). Sangoma's PBXact UC systems, which comes pre-packaged with add-on functionality, tighter release and revision control, and service contracts. PBXact SaaS, which offers flexible virtualization and licensing for OEMs and Service providers to run their own hosted UC/PBX services. Switchvox is the on-premise UC product from Digium and it is the basis for DCS (Digium Cloud Services) as well. Usage of FreePBX, PBXact and Switchvox by customers also pulls through complementary products such as IP-phones, PSTN interface cards, VoIP gateways, or SBCs.

IP-phones and UC communicators

Sangoma's range of S-series IP-Phones are customized to seamlessly integrate with all FreePBX and PBXact systems to provide zero touch installation, simplified system management and instant access to a wide range of features. The range of D-series phones from Digium seamlessly integrate with Switchvox and DCS.

Sangoma has also recently launched Zulu UC, a set of server, desktop and smartphone software integrated with FreePBX and PBXact that delivers unified communications features (presence, contacts, chat, calling, screen sharing, audio and video conferencing, etc.) from a single application.

Cloud-based services

PBXact Cloud

PBXact Cloud service is a cloud based PBX service specifically designed to meet the needs of SMBs and small enterprise. PBXact Cloud uses Sangoma S-series phones and delivers simple online signup, unlimited US/Canada calling, number portability and other integrated features.

DCS

Digium Cloud Service (DCS) is a robust UCaaS (Unified Communications as a Service) offering. DCS is available in the continental 48 states and integrates elegantly with the D-series phones.

SIPStation

SIPStation is a hosted, SIP trunking service. SIP trunking is fast becoming the technology of choice to interconnect an IP-PBX system to a telephone company (in this case an IP telephony service provider or ITSP). The main drivers are cost efficiencies (over fixed lines such as ISDN or analog lines from incumbent telcos) and end to end UC features/transparency. Cost efficiencies are realized because SIP Trunking uses already-available broadband connections at customer premises. SIPStation is tightly integrated into the Sangoma FreePBX graphical user interface (GUI); and customers can purchase and enable the service directly from that GUI.

Fax over IP (FoIP)

Faxing remains an important communications tool. Yet VoIP networks are sometimes unable to send faxes reliably because fax standards are based on very specific timing that can be interrupted in VoIP systems, especially where there is substantial latency. Sangoma's FoIP (Fax over Internet Protocol) service is a hosted service to remedy this problem. It features a telecom appliance with up to four analog connections for fax machines and operates in concert with Sangoma's fax server data center to encrypt and package the fax communication to make it fail safe. This is particularly useful for small businesses that rely on fax communications but also for industries with challenging network conditions such as mining, oil rigs, ship-to-shore over satellite.

Network interconnection products

Session Border Controllers (SBCs)

Anytime two VoIP networks interconnect, issues of security and interoperability arise. SBCs can manage these issues, including provider-to-provider connections, provider-to-enterprise connections, and enterprise-to-enterprise connections. Sangoma's SBCs are available as hardware appliances, as software-only solutions running on a virtual machine in hosted environments, or as a hybrid of both. The hybrid solution is unique to Sangoma and provides all the flexibility expected from virtual machine capability coupled with the scalability that is found in hardware-based solutions.

Sangoma's SBCs have interoperability certifications for Microsoft Skype for Business and Broadsoft (now part of Cisco), as well as hundreds of installations in other networks along with such vendors as Telefonica, BT, ATT, Verizon, Genesys Call Centers, Cisco Call Manager, Avaya Call Manager, etc.

Customer premise VoIP gateways

VoIP gateways are needed any time voice traffic moves from a VoIP network to a traditional PSTN telephone network. As the traffic traverses these networks there are issues that need to be resolved regarding both the media (the sound of the caller's voice) and the signaling (the method used to control the media traveling over that connection).

Vega and Digium Enterprise Gateways are used by businesses that want to connect their traditional phone systems (PBX or key system) to a VoIP provider. These types of connections are referred to as SIP trunks, and Sangoma's gateways enable users to take advantage of the cost savings and flexibility of SIP trunks, without having to upgrade their entire phone system.

These same gateways can also be used to connect a newer IP-PBX to the PSTN. In addition to providing a backup to the service provided by their VoIP Provider, companies can use VoIP gateways for multi-site transitions from older phone systems to new IP-PBX phone systems.

VoIP Gateways are also needed to connect traditional telephones to an IP-PBX. For large companies, the cost of new IP phones can be higher than replacing the core system, so they keep the older phones and connect them to the new IP-PBX. This allows them to phase in the new phones over time without disrupting normal business operations. There may also be specialized telephones (elevator phones, door entry phones, ruggedized phones for use in hard industrial or outdoor conditions) for which there are no IP replacements. These phones can also be connected to the IP-PBX with a gateway.

Sangoma offers its Vega series, the Digium line of gateways, and the Dialogic DMG series of Enterprise gateways. The DMG series provides very specific features for the enterprise: Value Added Services Integration to a PBX such as speech recognition enabled IVRs and high-speed v.34 media processing for integration with IP Fax Server technologies.

Sangoma's Vega Gateways hold certifications for Microsoft Skype for Business, Cisco Call Manager and Broadsoft, as well as hundreds of installations in other networks alongside Genesys Call Centers, Avaya DevConnect, ATT, Verizon, Telefonica, BT, Orange, DT, etc.

Carrier and core VoIP gateways

In a service provider or carrier network, much larger gateways perform these same tasks. In addition, there are signaling protocols that are only used when carrier networks communicate with other carrier networks that are not included in the enterprise product line. The NetBorder SS7 VoIP Gateway is a carrier-specific product that enables a VoIP carrier to connect their network to the SS7 network for up to 960 channels.

The NetBorder SS7 gateways hold certifications and proven interoperability with Orange, BT, MTN, TATA, Telefonica, Telmex, MTT, etc.

In addition to the NetBorder product family, Sangoma markets the Dialogic IMG2020 Gateways. The Dialogic IMG2020 gateways perform similar functions as the NetBorder family with higher port densities – from 1 unit with support for 2016 channels and the ability to pool 6 units for over 12,000 ports. The IMG2020 also comes with a management system to configure, monitor, update systems from a central location.

PSTN interface boards

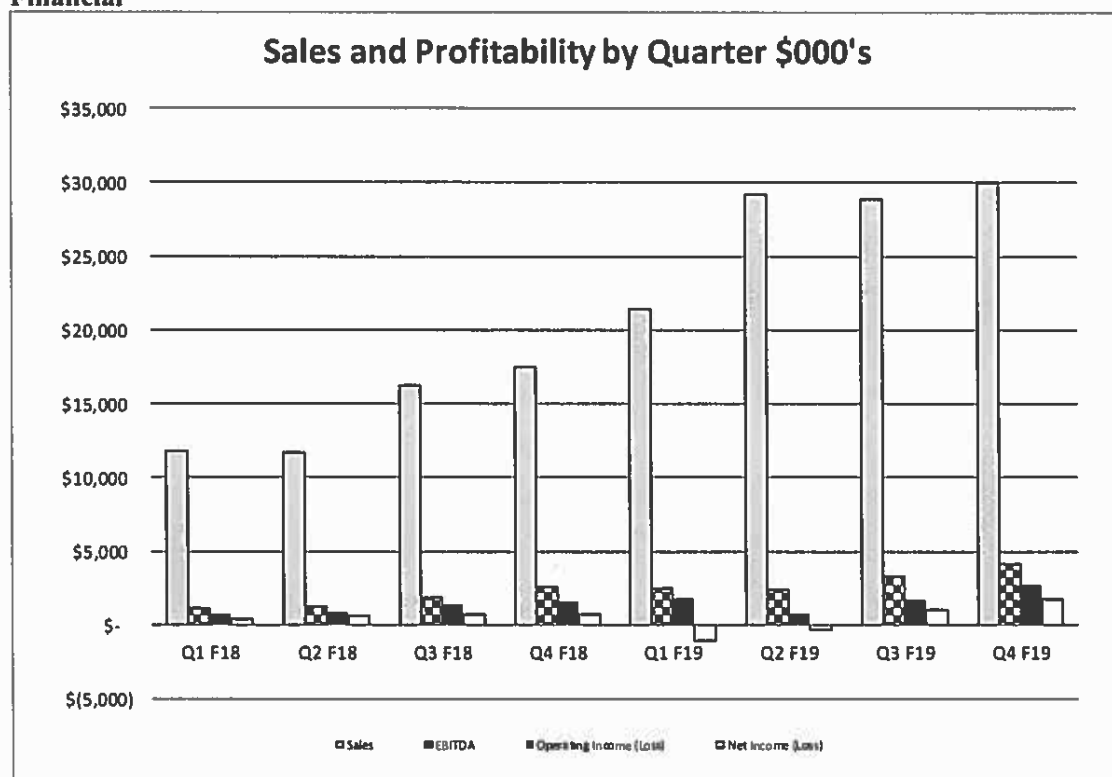
This product category is the one responsible for Sangoma's initial rise in market leadership. Sangoma continues to invest in this area and has maintained a leadership position with the sixteen-span board, the highest density TDM interface board on the market. This board can manage up to 480 calls using a single expansion slot in a server. Sangoma also has a complete line of boards that can interface a VoIP system with nearly every kind of telephony network on earth, including ISDN PRI and BRI, and analog FXO / FXS.

The above boards are primarily used in PC-Based VoIP telecommunications systems that connect to the PSTN and perform a very similar task to VoIP gateways, but are installed inside the server rather than being stand-alone devices. By providing customers with the option of using a PSTN interface board or a VoIP gateway, Sangoma maximizes flexibility based on installation requirements – particularly when space and power are at a premium. They may also be used in harsh conditions that require ruggedized servers.

In addition to the A and B series from Sangoma, the company also offers the Dialogic line of Media and Network Interface boards (consisting of the JCT, DNI, CG and Diva Series) and the Digium line of cards as well. The Dialogic line differs from the traditional boards in that they come with high end DSP media processing on board and with extensive programmable interfaces (APIs) for developers and integrators to design advanced telecom applications: IoT and modem banks, speech recognition systems, IVRs, call centers, etc.

OVERALL PERFORMANCE

Financial



¹ Operating income (loss) and EBITDA are metrics used by the Company to monitor its performance and the definitions may be found in the section non-IFRS measures above.

Annual revenue was \$109.6 million, 91% higher than the prior year, and another record.

Gross profit was \$66.8 million in fiscal 2019, producing gross margins of over 60% of revenue for the year.

Operating expenses were \$59.8 million in 2019, up from fiscal 2018, reflecting the additional expense consistent with higher revenue and following the Digium acquisition early in fiscal 19.

EBITDA was \$12.3 million for fiscal 2019, up from \$6.8 million in the prior year.

Net income for the year ended June 30, 2019 was \$1.5 million, down from fiscal 2018 due to debt service costs, one-time acquisition expenses, and business integrations costs related to the Digium acquisition.

Sangoma continues to manage its balance sheet prudently and finished the fiscal year with a cash balance of \$11.7 million, which was further supplemented by the July equity raise. Working capital is a comfortable \$5.3 million and Adjusted cash flow from operations of \$13.5 million was well above the \$5.9 million in fiscal 2018.

Operational

Sangoma is a leading provider of software/hardware products and accompanying Cloud services that deliver Unified Communications capability or enhance IP communications systems, in both telecom and datacom applications. Enterprises, SMBs and carriers in more than 100 countries rely on Sangoma's technology as part of their mission-critical infrastructures. Through a worldwide network of distribution partners, Sangoma delivers high-quality products, some of which carry the industry's first lifetime warranty.

The Company has been a major player in the open source telephony ("OST") business for many years, is a respected contributor to open source telephony solutions, and contributes back to the OST community regularly. Sangoma provides the two most widely used open source communications software projects in the world. Asterisk is the communications engine that enables software developers to create UC applications easily. FreePBX is the most popular PBX software in the world, supporting millions of installs around the globe.

To protect its future, Sangoma recognized the critical need to evolve the Company beyond its reliance on PSTN-based products. This started with an operational rebuild, the acquisition of VegaStream, an internal build out of the product portfolio to compete in new market and customer segments such as SBCs, the addition of a core PBX product and introduction of cloud services with SIPStation, FoIP and cloud PBX offerings together with a range of IP phones.

Sangoma is now a stronger competitor in the larger, more typical telecom software/services/equipment market, which is not generally OST based. With its PSTN interface boards, Vega gateway products, SBCs, Free PBX, IP phones, Switchvox, and various Services (primarily Cloud-based and maintenance), Sangoma now sells to carriers, service providers, enterprises, SMBs, and OEM customers with several third-party application providers using Sangoma products.

In the first quarter of fiscal 2019, Sangoma Technologies US Inc. a wholly owned subsidiary of Sangoma Technologies Inc., acquired Digium Inc., a US based company to expand and broaden the suite of service offerings, add key customers and employees, and help to grow the business.

Innovation

Sangoma continues to invest in Research and Development (“R&D”) to develop new products and to improve existing offerings. New additions to the product portfolio over the last few years include:

- T3 Mux Appliance
- Version 4 of NetBorder SS7 Media Gateway
- Vega 50, 400 and 5000 series Gateways
- NetBorder Express Microsoft Lync Certification
- NetBorder SS7 VoIP Gateway Appliance
- W400 GSM Board
- Vega 100 and 200 Gateways
- NetBorder Transcoding Gateway
- NetBorder Lync Express Appliance
- Vega 400 Session Border Controller
- A116 16-Span Digital Telephony Interface Board
- B500 BRI Board
- STM1 Mux Appliance
- Call Progress Analysis for Asterisk Systems
- NetBorder SS7 Gateway Release 5.0
- Full line of Session Border Controllers
- T116 16-Span Tapping Board
- NetBorder VOIP Gateway
- Lync Express 2.0
- SBC 2.0
- Video Multipoint Control Unit (MCU)
- FreePBX
- SIP trunks for FreePBX users through SIPStation
- FoIP service
- Sangoma’s commercial IP-PBX range called PBXact
- IP-phones with instant connect to FreePBX and PBXact
- PBXact UCC Cloud PBX Service
- Zulu softphone client
- Digium lines of cards and gateways
- Switchvox
- D-series phones
- Digium Cloud Services

Sales and marketing

Over the last few years the Company has steadily increased its investment in, and focus on, sales. Sangoma has professional sales teams across all key geographic regions to identify and engage local distributors/resellers, and to address opportunities with larger customers such as carriers and OEMs. Sangoma continues to use a dual sales path to customers: direct sales to large customers (typically OEMs and carriers) and distribution to others.

Carriers are typically telcos, ISPs, ITSPs, wireless/mobile operators, and service providers who resell services using either their own networks or those of others. All of these organizations are potential customers for Sangoma.

OEM partners are companies that “design in” Sangoma products as a component of their solutions. OEM customers tend to be committed participants in their given markets, and have longer-term focus. It is important to reach these potential customers in the early days of any project to secure design wins and to have sales and marketing programs that will ensure close collaboration during product and sales development cycles that may last as long as three years.

In other cases, Sangoma utilizes an indirect distribution model to reach the full breadth of customers in markets where such partners have established relationships. For enterprise and SMBs, the Company has built a network of distributors and resellers. Distributors typically sell to resellers. These resellers then sell, install, and support end users. Using regional distributors and resellers supported by Sangoma’s sales and marketing efforts has proven very successful. The impact of lower margins from a two-tier distribution model is offset by the net new growth of sales that distributors bring to Sangoma, as well as the cost reduction of handling relatively small orders. Distribution channels require frequent attention to keep Sangoma as the premier supplier in a crowded product marketplace. Sangoma has implemented several incentive programs with its resellers and distributors and has developed a comprehensive set of channel promotion programs to incent and reward its channel partners for performance and behaviours that Sangoma believes will grow its revenues.

Sangoma continues to increase its focus on, and investment in, marketing. The Company has assembled corporate marketing programs to promote its brand and products more aggressively and to convey the message about Sangoma’s full solutions of connectivity products, PBX’s, Phones, and SIP trunks. Sangoma is now using various marketing techniques typical of technology firms to generate greater awareness of the Company and its new products. This includes participation in tradeshow, speaking at selected industry events, attending specialized seminars run by Sangoma’s distribution channel and other partners, investing in electronic marketing strategies (e.g. web presence, social media and blogging, online advertising, search engine campaigns, etc.), conducting lead generation campaigns, and creating thought leadership pieces.

RESULTS OF OPERATIONS

SUMMARY OF RESULTS FOR THE FOURTH QUARTER OF FISCAL 2019

Sales

Sales for the quarter ended June 30, 2019 were \$30.07 million, helped by a significant one-time order, up 71% from the \$17.54 million in the fourth quarter of fiscal 2018 ended June 30, 2018. The increase in sales was driven by organic growth in both products and services and by the acquisition of Digium Inc. in September of 2018.

Cost of sales and gross profit

The cost of sales for the quarter ended June 30, 2019 was \$11.41 million compared to \$7.71 million for the quarter ended June 30, 2018. Gross profit for the fourth fiscal quarter of 2019 was \$18.66 million, 90% higher than the \$9.83 million realized in the fourth quarter of fiscal 2018. Gross margin for the fourth quarter was 62% of revenue, the same as last quarter and 6% higher than same quarter a year ago mostly due to the impact of the Digium acquisition together with a slightly more favourable product mix than in the fourth quarter of last year.

Operational expense

As permitted under IFRS, costs are allocated by function except for the impact of foreign exchange, which can result in material swings between time periods.

Selling and marketing

Selling and marketing expenses were \$4.48 million for the quarter compared to \$2.34 million for the same quarter last year. The increase is primarily a result of the additional staff and marketing investments from the Digium acquisition.

Research and development

A portion of the Company's development costs are capitalized each period and amortized on a straight-line basis over three years (see the Notes to the 2019 Annual Audited Consolidated Financial Statements available at www.sedar.com). The engineering expenses incurred, and the development costs amortized during the quarter ended June 30, 2019 were \$5.61 million, more than double that of the same quarter last year (\$2.59 million), following the addition of the team acquired in the Digium transaction.

General and administration

General and Administration expenses were \$5.75 million for the quarter ended June 30, 2019 compared to \$3.49 million over the same period ended June 30, 2018. The increased spend is from the acquisition of the Digium business together with the amortization of intangibles from the acquisition.

Foreign exchange

For the quarter ended June 30, 2019, there was a foreign exchange loss of \$0.12 million compared to a \$0.19 million gain in the fourth quarter of fiscal 2018.

Total operational expense

Operating expense for the fourth quarter of fiscal 2019 was \$15.96 million (similar to that of the third quarter) versus \$8.23 million over the same period last year resulting from the incorporation of the Digium staff and expenses.

Operating income (before interest, tax, business integration and acquisition related expenses)
Operating income for the quarter ended June 30, 2019 was \$2.70 million, 68% higher than the \$1.60 million in the same period last year.

Net income

Net income for the quarter ended June 30, 2019 was \$1.74 million (\$0.032 per share fully diluted) compared to a net income of \$0.70 million (\$0.017 per share fully diluted) for the equivalent quarter ended June 30, 2018.

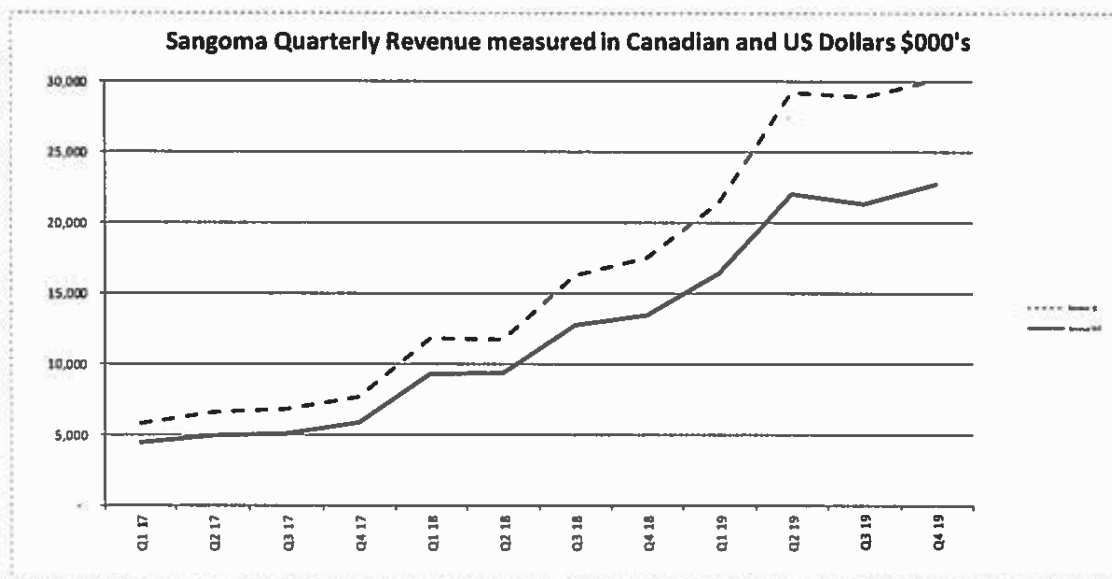
EBITDA (earnings before interest, depreciation, amortization, one-time business integration and acquisition related expenses)

EBITDA at \$4.13 million reflects the third quarter of fully integrated operations following the Digium acquisition, and the 13.7% earned as a percentage of revenue was slightly above the 13% rate at which we had expected to exit fiscal 2019, primarily as a result of the one-time order.

\$C Thousands	Three months ended	
	Jun 30, 2019	Jun 30, 2018
Net income	1,740	699
Tax	479	735
Interest income	(1)	(1)
Interest on operating line	389	77
Stock based compensation	263	38
Depreciation of property, plant and equipment	117	26
Amortization of intangibles	1,044	872
One time acquisition related expense	165	91
One time integration costs	(72)	-
EBITDA	4,124	2,537
Percent of revenue	13.7%	14.5%

The above table shows the reconciliation of net income and total comprehensive income to EBITDA which is a metric used by the Company to monitor its performance and the definition may be found in the section non-IFRS measures above.

QUARTERLY RESULTS TRENDS



When measured in source currency (predominantly US\$), sales in the quarter ended June 30, 2019 were 84% higher than in the fourth quarter of fiscal 2018 and 6% higher than in the immediately preceding quarter. Sangoma's quarterly revenue has now exceeded the same period in the prior year for each of the last eighteen quarters.

SALES AND NET INCOME BY QUARTER

CS thousands	First quarter 2017-2018	Second quarter 2017-2018	Third quarter 2017-2018	Fourth quarter 2017-2018	First quarter 2018-2019	Second quarter 2018-2019	Third quarter 2018-2019	Fourth quarter 2018-2019
Sales	\$ 11,846	\$ 11,736	\$ 16,244	\$ 17,536	\$ 21,439	\$ 29,220	\$ 28,915	\$ 30,073
Gross Margin	\$ 6,120	\$ 5,991	\$ 8,970	\$ 9,827	\$ 12,445	\$ 17,826	\$ 17,898	\$ 18,659
Operating Expense	\$ 5,374	\$ 5,083	\$ 7,558	\$ 8,226	\$ 10,636	\$ 17,032	\$ 16,155	\$ 15,962
Operating Income (Loss)	\$ 746	\$ 908	\$ 1,412	\$ 1,601	\$ 1,809	\$ 794	\$ 1,743	\$ 2,697
Net Income (Loss)	\$ 390	\$ 614	\$ 750	\$ 699	\$ (997)	\$ (275)	\$ 1,070	\$ 1,740
Net Earnings (Loss) per Share								
Non-diluted basis	\$ 0.012	\$ 0.018	\$ 0.016	\$ 0.019	\$ (0.021)	\$ (0.005)	\$ 0.021	\$ 0.034
Fully diluted basis	\$ 0.011	\$ 0.017	\$ 0.015	\$ 0.017	\$ (0.019)	\$ (0.005)	\$ 0.019	\$ 0.032
EBITDA	\$ 1,102	\$ 1,275	\$ 1,895	\$ 2,537	\$ 2,511	\$ 2,398	\$ 3,264	\$ 4,124

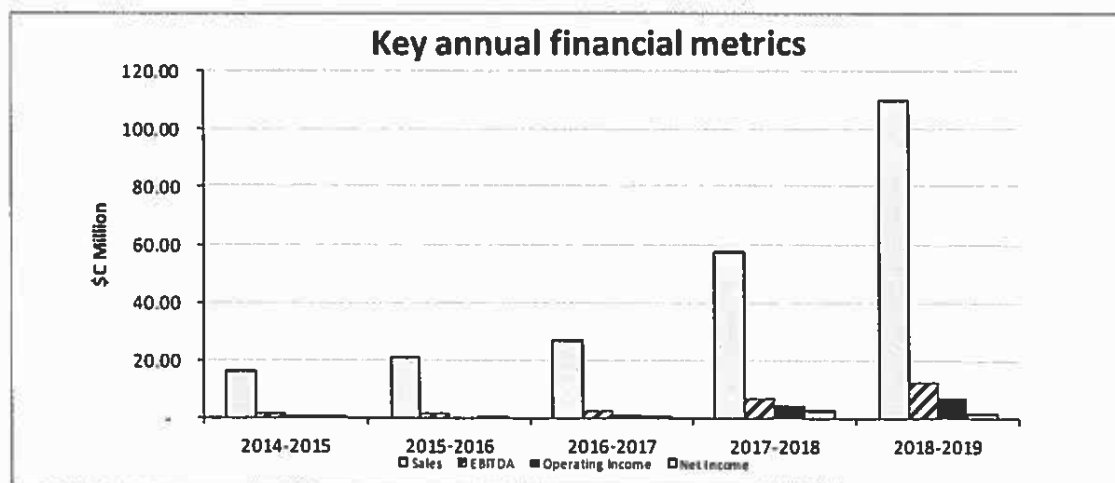
¹ Operating Income (Loss) and EBITDA are metrics used by the Company to monitor its performance and the definition may be found in the section non-IFRS measures above.

SELECTED ANNUAL INFORMATION

The table and chart below show selected historical information from the Company's Financial Statements.

	Fiscal year ended June 30:	
	2019	2018
	(\$ millions, except per share amounts)	
Operating Results		
Sales	109.65	57.36
Gross profit	66.83	30.91
Operating Expense	59.79	26.24
Operating Income (Loss) before undernoted ¹	7.04	4.67
Income (Loss) before provision for income tax	4.17	3.95
Net Income (Loss)	1.54	2.45
Net earnings per share:		
- non diluted basis	0.030	0.065
- fully diluted basis	0.028	0.060
EBITDA	12.30	6.81
Financial Position		
Cash and equivalents	11.72	15.78
Total Assets	96.41	51.56
Operating facility and loan	22.73	4.55
Shareholders' Equity	41.83	35.34
Cash dividends declared per share	\$0.00	\$0.00

¹ Operating Income (Loss) before undemoted and EBITDA are metrics used by the Company to monitor its performance and the definitions may be found in the section non-IFRS measures above.



SUMMARY OF RESULTS FOR YEAR TO DATE FISCAL 2019

Sales

Sales for the year ended June 30, 2019 were \$109.65 million, 91% above the \$57.36 million in fiscal year ended June 30, 2018. The increase in sales was driven by organic growth in both products and services and by the acquisitions of the CCD business from Dialogic in January of 2018 and Digium Inc in September of 2018.

Cost of sales and gross profit

The cost of sales for the year ended June 30, 2019 was \$42.82 million compared to \$26.45 million for the year ended June 30, 2018. Gross profit for the fiscal year 2019 was \$66.83 million, more than double the \$30.91 million realized in fiscal 2018. Gross margin for fiscal 2019 was 61% of revenue, up 7 points from the 54% last year reflecting the higher margins in the newly acquired businesses.

Operational expense

As permitted under IFRS, costs are allocated by function except for the impact of foreign exchange which can result in material swings between time periods.

Selling and marketing

Selling and marketing expenses were \$16.91 million for the year ended June 30, 2019 compared to \$7.98 million for the same period last year. The increase is primarily from the additional staff and marketing programs from the newly acquired businesses.

Research and development

A portion of the development costs are capitalized each period and amortized on a straight-line basis over three years (see the Notes to the 2018 Annual Audited Consolidated Financial Statements available at www.sedar.com). The engineering expenses incurred, and the development costs amortized during the year ended June 30, 2019 were \$20.75 million, compared to \$7.77 million during the same period last year, following the addition of the teams acquired in the Dialogic and Digium transactions.

General and administration

General and administration expenses were \$21.85 million for the year ended June 30, 2019 versus \$10.77 million over the same period ended June 30, 2018. The increased spend is from both acquisitions, Dialogic and Digium, together with the amortization of intangibles from those acquisitions.

Foreign exchange

For the year ended June 30, 2019, there was a foreign exchange loss of \$0.27 million compared to a \$0.28 million gain in the fiscal year 2018.

Total operational expense

Operating expense for the fiscal year 2019 was \$59.78 million compared to \$26.24 for the same period last year reflecting the additional costs resulting primarily from the incorporation of the Dialogic and Digium teams and associated costs.

Operating income (before interest, tax, one-time business integration and acquisition related expenses)

Operating income for the year ended June 30, 2019 was \$7.04 million more than 50% higher than the operating income of \$4.67 million in fiscal 2018.

Business acquisition costs

In fiscal 2019, Sangoma recorded \$2.27 million of costs directly associated with the legal, financing and closing of the acquisition of Digium Inc. on September 5, 2018.

Business integration costs

In the second quarter of fiscal 2019, Sangoma undertook the bulk of the integration of the Sangoma and Digium teams into a single organizational structure with some layoffs and one-time expenses needed to close or repurpose facilities and has recorded \$0.53 million for expenses associated with these activities.

Net income (loss)

Net Income for the fiscal year 2019 ended June 30, 2019 was \$1.54 million (\$0.028 per share fully diluted) compared to a net income of \$2.45 million (\$0.060 per share fully diluted) for the year ended June 30, 2018. This reflects the continuing strengthening in operating performance of the business, less the one-time costs associated with the acquisition and integration of Digium.

EBITDA (earnings before interest, depreciation, amortization, one-time business integration and acquisition related expenses)

\$C Thousands	Twelve months ended	
	Jun 30, 2019	Jun 30, 2018
Net income	1,538	2,453
Tax	1,340	1,495
Interest income	(14)	(2)
Interest on operating line	1,385	247
Stock based compensation	408	174
Depreciation of property, plant and equipment	432	196
Amortization of intangibles	4,414	1,772
One time acquisition related expense	2,266	473
One time integration costs	529	-
EBITDA	12,298	6,808
Percent of revenue	11.2%	11.9%

The above table shows the reconciliation of net income and total comprehensive income to EBITDA which is a metric used by the Company to monitor its performance and the definition may be found in the section non-IFRS measures above.

LIQUIDITY

As of June 30, 2019, Sangoma had current assets of \$36.83 million and current liabilities of \$31.51 million, resulting in working capital of \$5.32 million. This compares to \$19.12 million on June 30, 2018 which included cash from an equity raise to provide funds for the Digium acquisition.

Sangoma closed the fourth quarter of fiscal 2019 with \$11.72 million of cash and generated \$13.50 million of adjusted operating cash flow from operations during fiscal 2019.

\$k	F2019	F2018
Operating activities cash per financial statements	11,459	6,989
Less capitalization of development costs	(2,143)	(1,776)
Interest expense	1,385	247
Business acquisition costs	2,266	473
One-time integration costs	529	-
Adjusted cash flow from operations	13,496	5,933

Accounts receivable of \$11.25 million on June 30, 2019 were \$4.03 million higher than as at June 30, 2018 (\$7.22 million), reflecting the addition of Digium receivables and the change in the value of the Canadian dollar.

Inventories were \$11.11 million on June 30, 2019, \$4.39 million higher than for June 30, 2018 after absorbing approximately \$3.33 million of inventory as part of the Digium acquisition. As has been previously shared, Sangoma will see an increase in inventory as the supply chain is re-configured during the rest of calendar 2019. There has been no material change in our assessment of excess or obsolete inventory.

There are no existing or anticipated defaults or arrears on lease payments or interest payments and Sangoma is in full compliance with all debt covenants. Management of the Company believes that the current working capital and expected funds generated from operations will be sufficient to meet the operating and planned capital expenditures of the Company for the foreseeable future and the Company has paid down \$2.91 million of the additional debt taken on in September of 2018 in order to fund the Digium acquisition.

CAPITAL RESOURCES

There are no commitments for capital expenditures at this time.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of Sangoma.

RELATED PARTY TRANSACTIONS

Except as disclosed in the interim financial statements, the Company is not party to any material transactions with related parties.

PROPOSED TRANSACTIONS

None

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Sangoma has determined the estimated fair value of its financial assets and liabilities based on generally accepted valuation methods.

Short-term financial instruments

Cash and equivalents, trade receivables, contract assets, accounts payable and accrued liabilities and term loan are short-term financial instruments whose fair value approximates their carrying amount on the balance sheet due to their near-term maturities.

OUTSTANDING SHARE DATA

As of October 18, 2019, there were 67,872,628 issued and outstanding common shares of Sangoma and as of the same date there were outstanding options to acquire 5,233,636 common shares. The increase in the number of outstanding shares from June 30, 2019 was from the issuance of 14,846,500 shares in the private placement on July 16, 2019, the exercise of the last 61,957 warrants associated with the 2018 financing and the exercise of 2,081 stock options.

SIGNIFICANT EVENTS

None

POST REPORTING EVENTS

On July 16, 2019, the Company closed its short-form bought deal prospectus offering of 14,846,500 common shares, including 1,926,500 common shares issued upon the exercise in full of the over-allotment option granted to the Underwriters, at a price of \$1.55 per common share for aggregate gross proceeds on \$23,012,075.

On October 18, 2019, the Company closed the acquisition of VoIP Innovations, LLC by acquiring a 100% interest for upfront consideration of US\$36 million which consisted of US\$30 million in cash and US\$6 million in common shares based on the ten (10)-day volume weighted average price as of the date of execution of the definitive agreement. In addition, there is a contingent consideration component of up to US\$6 million that will be payable in cash upon achievement of certain revenue milestones in the twelve (12) months following the date of closing. The cash portion of the consideration was funded through a combination of cash on hand and, a new credit facility of \$46 million, jointly from TD and BMO replacing Company's existing debt. This new facility also provides for up to C\$8 million in a term loan, which would be utilized in about one year, to pay out contingent consideration of up to US\$6 million. The new credit facility also includes a C\$10 million revolver available for general working capital purposes.

ADDITIONAL INFORMATION

Additional information relating to the Company is filed electronically on SEDAR at www.sedar.com.

GLOSSARY OF TERMS

Analog

Analog telephony is the telephone system that dates back to the original experiments by Alexander Graham Bell. The voice signal is picked up by a microphone and transmitted to the central office. Voice signals from the central office consist of voltages that drive a headset to produce sound. Analog means that the voice pressure signals are represented by voltages levels on the line.

API

Application Program Interface: An API is a purpose-built interface that allows fourth party software to interact with a particular application. A typical API is the user interface for Windows that allow programmers to write programs for Windows that use all its built-in utilities. APIs do not depend on revealing source code, in general. They are usually well documented and include sample programs that make development easy.

Codec

In the telephony context a codec is a mechanism of digitally encoding voice. On the PSTN a voice channel takes up 64kbps in a codec standard called G.711. Cell phones use a codec called GSM that compress the voice further so that a GSM call consumes about 24kbps. Other compressed codecs are used in VoIP to conserve bandwidth. These include standards such as G.729, G.723. Most audio codecs are lossy, in that some of the voice quality is degraded by the compression. On the other hand, as bandwidth becomes cheaper, VoIP allows one to use other codecs that in fact use more bandwidth than the PSTN, the so-called broadband codecs that have DVD-like voice quality.

Digital telephony

In the modern PSTN only the "last mile" line to the customer is still analog, all other internal parts of the network are digital. Digital in this case means that at the central office the analog signal from the subscriber's telephone is sampled digitally, converting the line voltages to a series of numbers that can be easily transmitted error free over long distances. See T1, E1 below.

Gateway

In the telephony context this is typically a separate unit with its own case and power supply that provides VoIP-to-PSTN services for a VoIP network. Almost all gateway devices use SIP interfaces to the VoIP system over Ethernet and have analog or digital telephony interfaces that connect to the PSTN. VoIP gateways are available from many manufacturers including Audiocodes, Cisco, Grandstream, Patton Electronics and many others.

ISDN

Integrated Services Digital Network ("ISDN") is a set of communications standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits of the public switched telephone network. Of the many variations of ISDN, Sangoma supports BRI (Basic Rate Interface) which is essentially an all-digital replacement for ordinary analog lines and PRI (Primary Rate Interface) which is used over T1 and E1 lines. BRI is very popular outside of North America. PRI is used worldwide.

IP

The Internet Protocol ("IP") is the primary protocol in the internet layer of the Internet protocol suite, and delivers data packets from the source host to the destination host solely based on the IP address.

ISP

Internet Service Provider

ITSP

Internet Telephony Service Provider who offer telecommunications service including voice over internet type connections.

IVR

Interactive Voice Response: IVR systems use the phone to navigate a menu, for example those used by banks to allow access to customer's account information. IVR systems have typically been driven by dial tones as the buttons on your phone are pressed, but increasingly they are using voice recognition for navigation.

Open Source

Open Source software is distributed free subject to certain conditions. Open Source licenses usually stipulate that source code must always be distributed or made available, and any improvements in the code have to be donated back to the community. It is possible to have dual licensing: Open Source to the community and also a closed, commercial license of the same or similar software.

NetBorder

This is the trade name of a Sangoma SIP to PSTN gateway product. It includes several other functions in addition to the PSTN gateway function. The mass marketed version is known as NetBorder Express or NBE.

PBX

Private branch exchange. A PBX is a premised basis device to deliver calls from the PSTN or VOIP network to phones in a single or multiple locations.

PSTN

Public Switched Telephone Network: This is the standard telephone network that has been in operation for many decades. A telephone or FAX or PBX or other telephony device is generally connected to an analog line at a wall plug, which is connected by "last mile" cabling to the central office. The analog signal from the device is converted to a digital signal at the Telco central office and is multiplexed, 24 simultaneous voice channels per line (in North America) onto a T1 for onward transmission. At the other end of the line the digital channel is reconverted to analog for transmission over the "last mile" to the receiving phone or other device.

SBC

A Session Border Controller ("SBC") is a device deployed in Voice over Internet Protocol ("VoIP") networks to exert control over the signaling and usually also the media streams involved in setting up, conducting, and tearing down telephone calls or other interactive media communications. SBCs are deployed as demarcation points between enterprises and service providers and between service provider networks.

Signalling

Call setup and tear down is remarkably complicated, involving such things as responding to the different tones as well as generating them, caller identification and handling the different features like hook-flash and voicemail properly. There are different signalling mechanisms for different types of circuits. Analog circuits use tones such as out-of-order, busy, ringing as well as the dialling tones. T1 lines often use a data protocol called ISDN PRI, where packets of control data are exchanged on a separate data channel. ISDN PRI is a simplification of the general signalling protocol used internally by the telecommunications networks known as SS7. In all cases signalling has to be exactly compatible with what the Telco expects, so interoperability and standards are important.

SIP

Session Initiation Protocol: SIP is the emerging standard signalling protocol for VoIP, though it has much broader applications. SIP is responsible for setting up and teardown of two party and multiparty calls, as well as a host of management features. To a great and increasing extent, VoIP calls are SIP based. The term SIP Trunk is used to describe the provision of a SIP line to an end customer.

T1, E1

A T1 line is a circuit that carries 24 digital telephone calls simultaneously. At higher densities, 28 T1s are aggregated into a T3 line carrying 672 calls. Larger offices can also connect to the central office via T1 directly, so as to have only one circuit for up to 24 calls. T1 is standard in North America and Japan while E1 is the standard in the rest of the world. E1 carries 30 channels of digitized voice per line.

TDM

Time Division Multiplexing ("TDM") is used in circuit switched networks to increase the number of calls carried simultaneously on any one circuit and formed the basis for the digital telephony networks.

Unified Communications

Unified communications is a concept in which voice, email, messaging, video and any other type of communication are all considered forms of data that can be combined, manipulated and used in intelligent applications in a seamless way.

VoIP

Voice over IP: The transfer of voice traffic over the Internet Protocol. IP is used universally for all networking including local area networks and private networks, not just the Internet. So VoIP is not necessarily voice over the Internet, but voice over general data networks.



SANGOMA TECHNOLOGIES CORPORATION

Consolidated Financial Statements for
Year ended June 30, 2019 and 2018

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

Sangoma Technologies Corporation

June 30, 2019, and 2018

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Independent Auditor's Report

To the Shareholders of Sangoma Technologies Corporation:

Opinion

We have audited the consolidated financial statements of Sangoma Technologies Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2019 and June 30, 2018, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2019 and June 30, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

MNP

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ajmer Singh Sran.

Toronto, Ontario
October 18, 2019

MNP LLP
Chartered Professional Accountants
Licensed Public Accountants

MNP

Sangoma Technologies Corporation

Consolidated statements of financial position

As at June 30, 2019 and 2018

(In Canadian dollars)

	2019	2018
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 13)	11,724,844	15,778,191
Trade receivables (Note 13)	11,254,694	7,225,374
Inventories (Note 4)	11,114,143	6,726,203
Contract assets	789,643	-
Other current assets	1,947,620	1,853,984
	36,830,944	31,583,752
Non-current assets		
Property and equipment (Note 5)	2,423,529	859,691
Intangible assets (Note 6)	29,453,546	10,548,450
Development costs (Note 7)	2,124,503	2,538,988
Deferred income tax assets (Note 10)	4,176,043	855,140
Goodwill (Note 8)	21,405,420	5,174,981
	96,413,985	51,561,002
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	14,626,815	7,919,096
Provisions (Note 16)	557,005	279,690
Sales tax payable	259,423	21,404
Income tax payable	1,422,514	405,503
Operating facility and loans - current (Note 9)	3,923,775	1,076,272
Contract liabilities	10,724,357	2,756,899
	31,513,889	12,458,864
Long term liabilities		
Operating facility and loans - long term (Note 9)	18,806,583	3,473,662
Contract liabilities	4,264,047	283,870
	54,584,519	16,216,396
Shareholders' equity		
Share capital	34,860,468	29,830,474
Contributed surplus	2,514,154	2,324,176
Warrant reserve (Note 11(i))	29,348	186,700
Accumulated other comprehensive income (loss)	(54,169)	61,732
Retained earnings	4,479,665	2,941,524
	41,829,466	35,344,606
	96,413,985	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

Consolidated statements of income and comprehensive income

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

	2019	2018
	\$	\$
Revenue (Note 17)	109,647,502	57,361,653
Cost of sales	42,819,528	26,454,357
Gross profit	66,827,974	30,907,296
Expenses		
Sales and marketing	16,914,559	7,980,211
Research and development	20,748,282	7,766,210
General and administration	21,847,317	10,770,462
Foreign currency exchange (gain) loss	274,324	(276,200)
	59,784,482	26,240,683
Income before interest, income taxes, business integration costs and business acquisition costs	7,043,492	4,666,613
Interest income (Note 13)	(13,763)	(1,566)
Interest expense (Note 13)	1,384,706	246,783
Business integration costs	528,828	-
Business acquisition costs (Note 18)	2,265,770	472,931
	4,165,541	718,148
Income before income tax	2,877,951	3,948,465
Provision for income taxes		
Current (Note 10)	2,182,514	1,003,832
Deferred (Note 10)	(842,704)	491,138
Net income	1,538,141	2,453,495
Other comprehensive loss (gain)		
Items to be reclassified to net income		
Foreign currency translation loss (gain)	115,901	(20,689)
Comprehensive income	1,422,240	2,474,184
Earnings per share		
Basic (Note 11(iii))	0.030	0.065
Diluted (Note 11(iii))	0.028	0.060
Weighted average number of shares outstanding (Note 11(iii))		
Basic	50,943,244	37,642,780
Diluted	54,018,676	40,774,859

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

Sangoma Technologies Corporation
Consolidated statements of changes in shareholders' equity
For the years ended June 30, 2019 and 2018
(In Canadian dollars)

	Number of common shares	Share capital \$	Contributed surplus \$	Warrant reserve \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	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(i))	-	(186,700)	-	186,700	-	-	-
Share-based compensation expense (Note 11(iii))	-	-	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 income	-	-	-	-	-	1,538,141	1,538,141
Other comprehensive loss	-	-	-	-	(115,901)	-	(115,901)
Common shares issued for business combination (Note 11(i))	3,668,259	3,805,709	-	-	-	-	3,805,709
Common shares issued for options exercised (Note 11(i))	1,500,691	734,750	(217,698)	-	-	-	517,052
Common shares issued for broker warrants exercised (Note 11(i))	332,183	489,535	-	(157,352)	-	-	332,183
Share-based compensation expense (Note 11(iii))	-	-	407,676	-	-	-	407,676
Balance, June 30, 2019	52,962,090	34,860,468	2,514,154	29,348	(54,169)	4,479,665	41,829,466

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

Sangoma Technologies Corporation

Consolidated statements of cash flows

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

	2019	2018
		\$
Operating activities		
Net income	1,538,141	2,453,495
Adjustments for:		
Depreciation of property and equipment (Note 5)	431,545	196,315
Amortization of intangible assets (Note 6)	4,413,582	1,771,551
Amortization of development costs (Note 7)	1,886,593	1,697,161
Unrealized foreign exchange gain (loss)	4,987	(41,372)
Accrued Interest	115,347	-
Income tax expense (Note 10)	1,339,810	1,494,970
Income tax paid	(929,338)	(254,463)
Income tax refunds	128,068	169,806
Share-based compensation expense (Note 11(ii))	407,676	174,137
Accretion expense (Note 13)	-	44,319
Changes in item of working capital		
Trade receivables	(2,425,059)	1,176,449
Inventories	(927,180)	(552,662)
Contract assets	(205,992)	-
Other current assets	1,124,856	(693,831)
Sales tax payable	120,748	(52,450)
Accounts payable and accrued liabilities	3,151,685	(292,538)
Provisions	281,942	267,933
Income tax payable	978,867	163,519
Contract liabilities	22,770	(939,881)
Investment tax credits receivable	-	206,264
	11,459,048	6,988,722
Investing activities		
Purchase of property and equipment (Note 5)	(313,168)	(161,104)
Development costs (Note 7)	(2,143,033)	(1,776,154)
Business combinations, net of cash and cash equivalents acquired (Note 18)	(31,351,318)	(9,014,113)
Payment of contingent consideration	(547,240)	(186,810)
	(34,354,759)	(11,138,181)
Financing activities		
Proceeds from operating facility and loan (Note 9)	21,096,000	5,128,640
Repayments of operating facility and loan (note 9)	(2,906,694)	(4,514,795)
Issuance of common shares through private placement, net (Note 11(i))	-	12,140,963
Issuance of common shares for broker warrants exercised (Note 11(i))	332,183	-
Issuance of common shares for stock option exercised (Note 11(i))	517,052	395,225
	19,038,541	13,150,033
Effect of foreign exchange rate changes on cash and cash equivalents	(196,178)	18,728
Increase in cash and cash equivalents	(4,053,348)	9,019,302
Cash and cash equivalents, beginning of year	15,778,191	6,758,889
Cash and cash equivalents, end of year	11,724,844	15,778,191

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(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., VoIP Supply LLC, Digium Inc. and Digium Cloud Services LLC.

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

(i) Statement of compliance and basis of presentation

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

These audited consolidated 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, except for the adoption of IFRS 15 - "Revenue from Contracts with Customers" ("IFRS 15") and IFRS 9 - "Financial Instruments" ("IFRS 9") which have been applied as of July 1, 2018.

The changes in accounting policies from those used in the Company's consolidated financial statements for the year ended June 30, 2018 are described below.

(ii) Accounting standards implemented as of July 1, 2018

The Company adopted the following accounting standards which came into effect commencing July 1, 2018:

IFRS 15, Revenue from Contracts with Customers

The Company has adopted IFRS 15 with an initial application date of July 1, 2018. The impact on the Company's consolidated financial statements and additional disclosures are detailed as follows:

IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers and replaced the majority of existing IFRS requirements on revenue recognition including IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The core principle of the standard is to recognize revenue to depict the transfer of control of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has prescribed a five-step model to apply the principles. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requiring more informative and relevant disclosures. In April 2016, the IASB issued amendments to IFRS 15, which provided additional guidance on the identification of performance obligations, on assessing principal versus agent considerations and on licensing revenue.

The amendments also provide additional transition relief upon initial adoption of IFRS 15 and have the same effective date as the IFRS 15 standard.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(ii) Accounting standards implemented as of July 1, 2018 (continued)

IFRS 15, Revenue from Contracts with Customers (continued)

The Company has adopted IFRS 15 Revenue from Contracts with Customers with an initial adoption date of July 1, 2018. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. In its adoption of IFRS 15, the Company applied a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to July 1, 2018 and were previously accounted for under IAS 11 and IAS 18. There was no material impact on the Company's net loss and financial position resulting from the adoption of IFRS 15 and there was no effect to the opening deficit from the application of IFRS 15 to revenue contracts in progress at July 1, 2018.

Contracts with multiple products or services

Typically, the Company enters into contracts that contain multiple products and services such as right to use and right to access software licenses, hosted software-as-a-service, maintenance and support, and professional services. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

Where a contract consists of more than one performance obligation, revenue is allocated to each performance obligation based on their estimated standalone selling price ("SSP").

The Company recognizes revenue when the transfer of control of the promised products or services has occurred to customers in exchange for consideration the Company expects to receive, net of discounts and taxes. Revenue from the sale of software products is recognized when the product is shipped and received by the customer, and depending on the delivery conditions, title and risk have passed to the customer. Revenues from installation and training relating to the sale of software products are recognized as the services are performed. Software support and maintenance revenue is recognized over the term of the maintenance agreement. Revenues from the Company's hosted software-as-a-service ("SaaS") application are recognized as services are provided. The Company defers revenues that have been billed but which do not meet the revenue recognition criteria. Cash received in advance of revenue being recognized is classified as contract liabilities (unearned revenues).

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the costs to be recoverable and has determined that such costs meet the requirements to be capitalized. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer to the customer for the goods and services to which the asset relates. The amortization period includes specifically identifiable contract renewals where there is no substantive commission paid on renewals. The expected customer renewal period is estimated based over the life of the intellectual property including expected software upgrades by the customer. The Company does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(ii) Accounting standards implemented as of July 1, 2018 (continued)

IFRS 9, Financial Instruments

The Company has adopted IFRS 9 with a date of initial application of January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairment model.

The standard contains three classifications categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and the adoption of IFRS 9 did not change the Company's accounting policies for financial liabilities.

The classification changes for each class of the Company's financial assets and financial liabilities upon adoption at July 1, 2018 is as follows:

Financial assets and liabilities	IAS 39	IFRS 9	IAS 39 / IFRS 9 Carrying value
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 15,778,191
Trade receivables	Loans and receivables	Amortized cost	\$ 7,225,374
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	\$ 7,919,096
Operating facility and loan	Other financial liabilities	Amortized cost	\$ 4,549,934

As a result of the adoption of IFRS 9, the Company's accounting policies for financial instruments have been updated and applied from July 1, 2018 and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

(iii) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Sangoma Technologies Inc. (Canada), Sangoma US Inc. (United States), Sangoma Technologies US Inc. (United States), VoIP Supply LLC (United States), Digium Inc. (United States), Digium Cloud Services Inc. (United States), Sangoma Technologies Ltd. (Ireland), Sangoma HK Ltd. (Hong Kong) and Sangoma Technologies Private Limited (India).

Subsidiaries are entities controlled by the Company where 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 weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(v) Revenue

The Company determines revenue recognition through the following steps: a) identification of the contract with a customer; b) identification of the performance obligations in the contract; c) determination of the transaction price; d) allocation of the transaction price for the performance obligations in the contract; and e) recognition of revenue when the Company satisfies a performance obligation.

Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration receivable in exchange for those goods or services, net of discounts and sales taxes.

Contracts with multiple products or services

Typically, the Company enters into contracts that contain multiple products and services such as right to use and right to access software licenses, hosted software-as-a-service, maintenance and support, and professional services. The Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

Where a contract consists of more than one performance obligation, revenue is allocated to each performance obligation based on their estimated standalone selling price ("SSP").

The Company recognizes revenue when the transfer of control of the promised products or services has occurred to customers in exchange for consideration the Company expects to receive, net of discounts and taxes. Revenue from the sale of software products is recognized when the product is shipped and received by the customer, and depending on the delivery conditions, title and risk have passed to the customer. Revenues from installation and training relating to the sale of software products are recognized as the services are performed. Software support and maintenance revenue is recognized over the term of the maintenance agreement. Revenue from the Company's hosted software-as-a-service ("SaaS") application are recognized as services are provided. The Company defers revenues that have been billed but which do not meet the revenue recognition criteria. Cash received in advance of revenue being recognized is classified as contract liabilities (unearned revenues).

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the costs to be recoverable and has determined that such costs meet the requirements to be capitalized. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer to the customer for the goods and services to which the asset relates. The amortization period includes specifically identifiable contract renewals where there is no substantive commission paid on renewals. The expected customer renewal period is estimated based over the life of the intellectual property, including expected software upgrades by the customer. The Company does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less.

(vi) Cost of sales

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(vii) Foreign currency

The financial statements are presented in Canadian dollars. The functional currency of Sangoma Technologies Corporation and Sangoma Technologies Inc. is Canadian dollars, the functional currency of Sangoma US Inc., Sangoma Technologies US Inc., VoIP Supply LLC, Digium Inc., Digium Cloud Services LLC and Sangoma HK Ltd. is US dollars, the functional currency of Sangoma Technologies Limited is Euros and the functional currency of Sangoma Technologies Private Limited is Indian Rupees (INR).

Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the rate of exchange at the reporting period date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in the accumulated other comprehensive income (loss) included in shareholders' equity. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the reporting period date. Gains and losses on translation of monetary items are recognized in the statement of income and comprehensive income.

(viii) Interest income

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

(ix) Share-based payments

The Company grants stock options to its employees. Stock options vest over and expire after various periods of time. The vesting policy is 25% of the options vest on the first anniversary of the grant and the remainder vest in equal amounts every 3 months thereafter until the fifth anniversary of the commencement date. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in Note 11(ii).

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

(x) Income taxes and deferred taxes

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

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

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(x) *Income taxes and deferred taxes (continued)*

temporary differences, unused tax losses and other income tax deductions are expected to be realized is reassessed at the end of each reporting period.

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

(xi) *Property and equipment*

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

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

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

(xi) *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 the following periods:

Copyright to software	10 years
Purchased technology	6 - 10 years
Website	1 - 10 years
Customer relationship	4 - 10 years
Brand	6 - 10 years
Other purchased intangibles	2 months to 10 years

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

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(xii) *Research and development expenditures*

The Company qualifies for certain investment tax credits related to its research and development activities in Canada. 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 identified new products are recognized as intangible assets and amortized over three years provided, they meet the following recognition requirements:

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

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

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

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".

(xiii) *Foreign currency hedging*

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

(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.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(xv) *Impairment testing of goodwill and long-lived assets*

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

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell or value-in-use. To determine the value-in-use, management estimates expected future cash flows from the cash-generating unit and determines a suitable pre-tax discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors have been determined for the cash-generating unit and reflect its risk profile 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 does not reduce the carrying amount of an asset below the highest of its fair value less costs of disposal or its value in use and zero. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the assets' recoverable amount exceeds its carrying amount only to the extent of the new carrying amount does not exceed the carrying value of the asset had it not originally been impaired.

(xvi) *Financial instruments*

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- **Amortized cost** - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash and cash equivalents, trade receivables, and contract assets.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(xvi) Financial instruments

Financial assets (continued)

Classification and subsequent measurement (continued)

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets mandatorily measured at fair value through profit or loss.
- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

The Company measures all equity investments at fair value. Changes in fair value are recorded in profit or loss.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(xvi) Financial instruments

Financial assets (continued)

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions. The Company applies the simplified approach for trade receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the consolidated statements of financial position as a deduction from the gross carrying amount of the financial asset. Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

(xvii) Provisions

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

(xviii) Earnings per share

Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similarly to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, 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.

(xix) Business combinations

On the acquisition of a business, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets and liabilities on the basis of fair value of the date of acquisition. Provisional fair values allocated at a reporting date are finalized as soon as the relevant information is available, within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date. Incremental costs related to acquisitions are expensed as incurred. When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

(xx) 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.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

2. Significant accounting policies (continued)

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

The International Accounting Standards Board has issued several new standards and amendments that will be effective on various dates. The listing below is of standards, interpretation and amendments issued which the Company reasonably expects to be applicable at a future date. The Company intended to adopt those standards when they become effective.

In January 2016, the IASB issued *IFRS 16, Leases* ("IFRS 16"). IFRS 16 is effective for periods beginning on or after January 1, 2019, with early adoption permitted. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

IFRS 16 will also result in reclassification of the nature of lease expenses to depreciation and interest expense. IFRS 16 offers a range of transition options. The Company plans to apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16, if any, will be recognized as an adjustment to opening retained earnings as at July 1, 2019, with no restatement of comparative information.

Based on the information currently available, the Company estimates that it will recognize a lease liability and right to use asset of approximately \$14,401,000 as at July 1, 2019. This preliminary estimate is subject to adjustment as management continues to monitor and refine certain elements of its IFRS 16 adoption in advance of Q1 2019 reporting.

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, provision for expected credit losses, inventory obsolescence, and warranty provision. These estimates and judgments are further discussed below:

- (i) *Goodwill impairment testing and recoverability of long-lived assets*

Goodwill and long-lived assets are reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. 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, 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.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

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

(ii) *Business combinations*

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

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

(iii) *Income taxes*

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

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

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

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

(v) *Internally generated development costs*

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

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

(vii) *Provision for expected credit losses ("ECLs")*

The Company is exposed to credit risk associated with its trade receivables. This risk is reduced by having customers' trade receivables insured by Export Development Canada ("EDC") wherever possible. Management reviews the trade receivables at each reporting date in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs.

The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results are used to calculate the run rates of default which are then applied over the expected life of the trade receivables, adjusted for forward looking estimates.

(viii) *Inventory obsolescence*

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

(ix) *Investment tax credits receivable*

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

(x) *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.

(xi) *Sales returns and allowances provision*

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

(xii) *Stock rotation provision*

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

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(In Canadian dollars)

4. Inventories

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

	June 30, 2019	June 30, 2018
	\$	\$
Finished goods	7,946,691	4,307,048
Parts	3,323,207	2,597,449
	11,269,898	6,904,497
Provision for obsolescence	(155,755)	(178,294)
Net inventory carrying value	11,114,143	6,726,203

During the year ended June 30, 2019, inventories in the amount of \$40,206,444 (2018 - \$25,850,250) were included in cost of sales.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

5. Property and equipment

	Office furniture and computer equipment	Software and books	Stockroom and production equipment	Tradeshow equipment	Leasehold improvements	Total
Cost	\$	\$	\$	\$	\$	\$
Balance at June 30, 2017	1,140,782	257,005	162,873	64,338	135,557	1,760,555
Additions through business combinations (Note 18)	293,008	39	12,312	-	-	305,359
Additions	126,044	8,580	-	-	26,480	161,104
Effects of movements in exchange rates	16,399	1,235	1,297	-	1,609	20,540
Balance at June 30, 2018	1,576,233	266,859	176,482	64,338	163,646	2,247,558
Additions through business combination (Note 18)	186,072	-	1,381,034	-	138,688	1,705,794
Additions	144,855	20,495	95,712	-	52,106	313,168
Disposals	(25,487)	-	-	-	-	(25,487)
Effects of movements in exchange rates	(6,085)	(2,105)	(10,319)	-	(1,288)	(19,797)
Balance at June 30, 2019	1,875,588	285,249	1,642,909	64,338	353,152	4,221,236
Accumulated depreciation						
Balance at June 30, 2017	782,407	175,748	103,234	43,666	84,075	1,189,130
Depreciation expense	139,854	16,549	13,975	3,929	22,008	196,315
Effect of movements in exchange rates	682	154	921	65	600	2,422
Balance at June 30, 2018	922,943	192,451	118,130	47,660	106,683	1,387,867
Depreciation expense	150,663	13,021	247,489	3,094	17,278	431,545
Disposals	(13,414)	-	-	-	-	(13,414)
Effects of movements in exchange rates	(3,254)	(2,105)	(2,736)	-	(196)	(8,291)
Balance at June 30, 2019	1,056,938	203,367	362,883	50,754	123,765	1,797,707

Net book value as at:

June 30, 2018	653,290	74,408	58,352	16,678	56,963	859,691
June 30, 2019	818,650	81,882	1,280,026	13,584	229,387	2,423,529

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

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6. Intangible assets

	Copyright to software	Purchased technology	Website	Customer relationship	Brand	Other purchased intangibles	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance at June 30, 2017	2,948,461	3,197,760	18,362	3,175,544	770,920	243,731	10,354,778
Business combinations (Note 18)	-	880,001	207,632	3,815,332	1,472,585	209,999	6,585,549
Effects of movements on exchange rates	-	32,962	3,056	152,995	56,717	4,654	250,384
Balance at June 30, 2018	2,948,461	4,110,723	229,050	7,143,871	2,300,222	458,384	17,190,711
Business combination (Note 18)	-	3,744,540	-	12,169,755	5,748,660	1,832,715	23,495,670
Effects of movements on exchange rates	-	(34,259)	(1,348)	(134,480)	(52,195)	(16,432)	(238,714)
Balance at June 30, 2019	2,948,461	7,821,004	227,702	19,179,146	7,996,687	2,274,667	40,447,667
Accumulated amortization							
Balance at June 30, 2017	2,825,988	1,064,126	3,071	702,486	185,469	38,857	4,819,997
Amortization expense	83,628	390,955	205,031	883,416	85,398	123,123	1,771,551
Effects of movements on exchange rates	-	11,746	6,160	26,541	2,566	3,700	50,713
Balance at June 30, 2018	2,909,616	1,466,827	214,262	1,612,443	273,433	165,680	6,842,261
Amortization expense	6,971	1,287,360	-	1,829,798	776,453	513,000	4,413,582
Effects of movements on exchange rates	-	(10,837)	(1,305)	(33,869)	(8,895)	(6,816)	(61,722)
Balance at June 30, 2019	2,916,587	2,743,350	212,957	3,408,372	1,040,991	671,864	10,994,121
Net book value as at:							
June 30, 2018	38,845	2,643,896	14,788	5,531,428	2,026,789	292,704	10,548,450
June 30, 2019	31,874	5,077,654	14,745	15,770,774	6,955,696	1,602,803	29,453,546

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

7. Development costs

	\$
Development costs	
Balance at June 30, 2017	18,782,853
Additions	1,776,154
Investment tax credits	(303,669)
Balance at June 30, 2018	20,255,338
Additions	2,143,033
Investment tax credits	(670,925)
Balance at June 30, 2019	21,727,446

Accumulated amortization

Balance at June 30, 2017	(16,019,189)
Amortization	(1,697,161)
Balance at June 30, 2018	(17,716,350)
Amortization	(1,886,593)
Balance at June 30, 2019	(19,602,943)

	2019	2018
	\$	\$
Net capitalized development costs	2,124,503	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 \$18,861,689 of engineering expenditures as an expense during the year ended June 30, 2019 (2018 - \$6,069,049).

8. Goodwill

The carrying amount and movements of goodwill was as follows:

	\$
Balance at June 30, 2017	1,638,546
Addition through business combinations (Note 18)	3,418,821
Effect of movements in exchange rates	117,614
Balance at June 30, 2018	5,174,981
Addition through business combinations (Note 18)	16,373,896
Effect of movements in exchange rates	(143,457)
Balance at June 30, 2019	21,405,420

The recoverable amount of the Company's CGU was determined based on a value in use calculation which uses cash flow projections based on financial budgets covering a five-year period with growth rates of 3.0% - 10.0% and an after-tax discount rate of 17.0% (pre-tax - 22.4%) per annum. The cash flows beyond the five-year period have been extrapolated using a steady 2.0% per annum growth rate.

The cash flow projections used in estimating the recoverable amounts are generally consistent with results achieved historically adjusted for anticipated growth. The Company believes that any reasonably possible change in key assumptions on which the recoverable amounts were based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

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Notes to the consolidated financial statements

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9. Operating facility and loan

As at June 30, 2019, 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. The demand operating line of credit carries an interest rate of prime plus 0.80%. As at June 30, 2019 and 2018, the full value of the \$3,500,000 is available.
- (ii) A term loan facility of up to \$1,297,700 (\$1,000,000 USD) 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 6.75% as at June 30, 2019, consisting of base rate of 5.0% and a loan spread of 1.25% (June 30, 2018 – 6.25%, consisting of base rate of 5.0% and a loan spread of 1.25%). The balance drawn against this term loan facility as of June 30, 2019 was \$588,915 (June 30, 2018 - \$773,620). As at June 30, 2019, term loan facility balance of \$196,305 (June 30, 2018 - \$296,280) is classified as current and \$392,610 (June 30, 2018 - \$477,340) 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 Converged Communications Division ("CCD") from Dialogic Corporation. This facility is governed by a 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% as at June 30, 2019 (June 30, 2018 – 5.38%). The balance drawn against this term loan facility as of June 30, 2019 was \$3,112,086 (June 30, 2018 - \$3,776,314). As at June 30, 2019, term loan facility balance of \$808,082 (June 30, 2018 - \$779,992) is classified as current and \$2,304,004 (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 \$5,274,000 (\$4,000,000 USD) which was used to finance the acquisition of Digium Inc. This facility is governed by a general security agreement and standard operating covenants. This term loan facility has a maturity date of August 2023 and carries an interest rate of 6.75% as at June 30, 2019, consisting of base rate of 5.50% and a loan spread of 1.25% (June 30, 2018 – nil). The balance drawn against this term loan facility as of June 30, 2019 was \$4,701,895 (June 30, 2018 - \$nil). As at June 30, 2019, term loan facility balance of \$814,995 (June 30, 2018 - \$nil) is classified as current and \$3,886,900 (June 30, 2018 - \$nil) as long-term in the consolidated statements of financial position.
- (v) A fourth term loan facility of up to \$15,822,000 (\$12,000,000 USD) which was used to finance the acquisition of the Digium Inc. This facility is governed by a 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 6.18% as at June 30, 2019 (June 30, 2018 – nil). The balance drawn against this term loan facility as of June 30, 2019 was \$14,327,462 (June 30, 2018 - \$nil). As at June 30, 2019, term loan facility balance of \$2,104,393 (June 30, 2018 - \$nil) is classified as current and \$12,223,069 (June 30, 2018 - \$nil) as long-term in the consolidated statements of financial position.

For the year ended June 30, 2019, the Company incurred interest costs to service the borrowing facilities in the amount of \$1,384,706 (2018 - \$246,783). During the year ended June 30, 2019, the Company borrowed \$21,096,000 (2018 - \$5,128,640) in operating facility and loans and repaid \$2,906,694 (2018 - \$4,514,795).

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 June 30, 2019 and June 30, 2018, the Company was in compliance with all covenants related to its credit agreements.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

10. Income tax

The Company income tax expense is determined as follows:

	2019	2018
Statutory income tax rate	26.50%	26.50%
	\$	\$
Net income before income taxes	2,877,951	3,948,465
Expected income tax expense	737,660	1,047,130
Difference in foreign tax rates	-	147,540
Tax rate changes and other adjustments	(152,991)	54,740
Share based compensation and non-deductible expenses	238,539	73,550
True-up of prior years	(123,691)	9,860
Scientific Research and Experimental Development	329,135	-
Business acquisition costs	311,158	98,890
Change in tax benefits not recognized	-	63,260
Income tax expense	1,339,810	1,494,970

The Company's income tax expense is allocated as follows:

	\$	\$
Current tax expense	2,182,514	1,003,832
Deferred tax expense (recovery)	(842,704)	491,138
Income tax expense	1,339,810	1,494,970

The following table summarizes the components of deferred tax asset:

	June 30, 2019	June 30, 2018
	\$	\$
Deferred income tax assets (liabilities)		
Non-deductible reserves - Canadian	115,573	117,540
Non-deductible reserves - USA	1,501,338	183,250
SR&ED investment tax credits, net of 12(1)(x)	1,757,926	1,839,750
Property and equipment - Canadian	(388,859)	(496,040)
Property and equipment - USA	(458,970)	(114,540)
Deferred development costs	(854,549)	(837,300)
Intangible assets including goodwill - Canadian	(75,066)	(64,290)
Intangible assets including goodwill - USA	(4,759,331)	226,770
Non-capital losses carried forward - USA	7,208,503	-
Capital losses carried forward and other - Canadian	129,478	-
Net deferred income tax assets	4,176,043	855,140

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

10. Income tax (continued)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. The following table shows the movement in net deferred tax liabilities:

	2019	2018
	\$	\$
Balance at the beginning of the year	855,140	1,539,327
Recognized in profit/loss	842,704	(491,138)
Recognized in goodwill	2,461,682	-
Other	16,517	(193,049)
Balance at the end of the year	4,176,043	855,140

The Company has deducted available scientific research and experimental development ("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	-	-
2033	374,636	-
2034	347,033	-
2035	288,821	-
2036	334,585	46,366
2037	300,386	68,347
2038	227,599	50,686
2039	325,159	54,213
	2,198,219	219,612

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.

11. Shareholders' equity

(i) Share capital

Issued and outstanding common shares consist of the following:

	June 30, 2019	June 30, 2018
	#	#
Shares issued and outstanding:		
Outstanding, beginning of the year	47,460,957	32,519,962
Shares issued for business combinations (Note 18)	3,668,259	993,627
Shares issued through private placement	-	13,138,000
Shares issued upon exercise of broker warrants	332,183	-
Shares issued upon exercise of options	1,500,691	809,368
Shares issued and outstanding, end of year	52,962,090	47,460,957

Sangoma Technologies Corporation

Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

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11. Shareholders' equity (continued)

(i) Share capital (continued)

During the year ended June 30, 2019, the Company issued 3,668,259 common shares valued at \$3,805,709 as part of the consideration for the acquisition of Digium Inc as disclosed in Note 18.

During the year ended June 30, 2018, the Company issued 993,627 common shares valued at \$824,710 as consideration for the acquisition of VoIP Supply LLC as disclosed in Note 18.

In 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. The Company incurred \$997,037 of share issuance costs (excluding broker warrants) relating to the private placement, which has been capitalized as share issuance costs. The broker warrants issued have been recorded as a warrant reserve in the amount of \$186,700 in the consolidated statements of changes in shareholders' equity. The warrants fair value was determined using the Black-Scholes option pricing model with the following assumptions: share price - \$1.17; exercise price - \$1.00; expected life - 1.5 years; annualized volatility - 73.0%; dividend yield - nil; risk free rate - 1.83%.

For the year ended June 30, 2019, 1,500,691 (2018 - 809,368) options were exercised for cash consideration of \$517,052 (2018 - \$395,225). The Company reclassified \$217,698 from contributed surplus to share capital as a result of underlying exercise of options during the year ended June 30, 2019 (2018 - \$135,204).

For the year ended June 30, 2019, 332,183 (2018 - nil) broker warrants were exercised for cash consideration of \$332,183 (2018 - \$nil). The Company reclassified \$157,352 from warrant reserve to share capital as a result of underlying exercise of broker warrants during the year ended June 30, 2019 (2018 - \$nil). As at June 30, 2019, 61,957 (June 30, 2018 - 394,140) broker warrants were outstanding with an exercise price of \$1.00 per share.

(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 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,

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(In Canadian dollars)

11. Shareholders' equity (continued)

(ii) Stock options (continued)

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 price \$
Balance, June 30, 2017	5,892,380	0.31
Granted	401,000	0.69
Exercised	(809,368)	(0.48)
Expired	(17,000)	(0.17)
Forfeited	(8,438)	(0.31)
Balance, June 30, 2018	5,458,574	0.47
Granted	1,668,000	1.22
Exercised	(1,500,691)	(0.34)
Forfeited	(386,541)	(0.67)
Balance, June 30, 2019	5,239,342	0.58

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 - \$1.60	\$ 0.69
Exercise price	\$1.16 - \$1.60	\$ 0.69
Expected volatility	60.79% - 63.73%	64.77%
Expected option life	5 years	5 years
Expected dividend yield	-	-
Expected forfeiture rate	-	-
Risk-free interest rate	1.48% - 1.93%	1.82%

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

	June 30, 2019		June 30, 2018	
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	2,238,656	1.53	2,605,065	1.69
\$0.51 - \$0.75	160,759	3.50	132,874	4.50
	2,399,415	1.66	2,737,939	2.01

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Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

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11. Shareholders' equity (continued)

(ii) Stock options (continued)

For the year ended June 30, 2019, the Company recognized share-based compensation expense in the amount of \$407,676 (2018 - \$174,137).

(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.

	2019	2018
Number of shares:		
Weighted average number of shares used in basic earnings per share	50,943,244	37,642,780
Shares deemed to be issued in respect of options and warrants	3,075,432	3,132,079
Weighted average number of shares used in diluted earnings per share	54,018,676	40,774,859
Net income for the year	\$ 1,538,141	\$ 2,453,495
Earnings per share:		
Basic earnings per share	\$ 0.030	\$ 0.065
Diluted earnings per share	\$ 0.028	\$ 0.060

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:

	2019	2018
	\$	\$
Total transactions during the year:		
General and administrative expenses	10,000	10,000
Outstanding balances as at June 30:		
Accounts payable and accrued liabilities	5,000	5,000

Compensation of key management personnel

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

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12. Related parties (continued)

The remuneration of directors and other members of key management personnel during the fiscal year ended June 30, 2019 and 2018 were as follows:

	2019	2018
	\$	\$
Short-term benefits	2,212,430	1,393,836
Long-term benefits	42,371	33,690
Share-based compensation	119,444	104,478
	2,374,245	1,532,004

13. Financial instruments

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

Cash and cash equivalents are comprised of:

	2019	2018
	\$	\$
Cash at bank and on hand	11,724,844	15,778,191
	11,724,844	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 June 30, 2019 and 2018, the Company had no cash equivalents.

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:

	2019	2018
	\$	\$
Interest income	(13,763)	(1,566)
Interest expense (Note 9)	1,384,706	246,783
Net interest expense	1,370,943	245,217

The Company 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:

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(In Canadian dollars)

13. Financial instruments (continued)

Credit risk (continued)

	June 30, 2019	June 30, 2018
	\$	\$
Trade receivables aging:		
0-30 days	9,082,221	6,710,565
31-90 days	1,787,297	822,994
Greater than 90 days	672,548	289,949
	11,542,066	7,823,508
Provision for doubtful accounts	(287,372)	(598,134)
Net trade receivables	11,254,694	7,225,374

The movement in the provision for expected credit losses can be reconciled as follows:

	June 30, 2019	June 30, 2018
	\$	\$
Expected credit loss provision:		
Expected credit loss provision, beginning balance	(598,134)	(37,138)
Net change in expected credit loss provision during the year	310,762	(560,996)
Expected credit loss provision, ending balance	(287,372)	(598,134)

The Company applies the simplified approach to provide for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The expected credit loss provision is based on the Company's historical collections and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate for each aging category of trade receivables.

	Total	Not past due	Over 30 days past due	Over 60 days past due
Default rates		0.69%	0.96%	30.83%
Trade receivables	\$ 11,542,066	\$ 9,082,221	\$ 1,787,297	\$ 672,548
Expected credit loss provision	\$ 287,372	\$ 62,891	\$ 17,158	\$ 207,323

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.

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:

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13. Financial instruments (continued)

Liquidity risk (continued)

	2019	2018
	\$	\$
Accounts payable and accrued liabilities	14,626,815	7,919,096
Operating facility and loans	3,923,775	1,076,272
	18,550,590	8,995,368

As part of the acquisition of VoIP Supply LLC (Note 18), the Company recorded a contingent consideration of \$488,454 (\$376,400 USD) to the selling shareholders of VoIP Supply LLC, which was included in accounts payable and accrued liabilities as at June 30, 2018. As at June 30, 2019, the balance outstanding was \$nil (2018 - \$547,240) which was included in accounts payable and accrued liabilities. The contingent consideration was discounted using an effective interest rate of 1.90% and the Company recorded an accretion expense of \$nil for the year ended June 30, 2019 (2018 - \$44,319).

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 foreign denominated cash, trade receivables, accounts payable and operating facility and loans. As at June 30, 2019, a 10% depreciation or appreciation of the U.S. dollar, Euros, and GBP against the Canadian dollar would have resulted in an approximate \$1,286,241 (June 30, 2018 - \$156,737) increase or decrease, respectively, in total comprehensive income (loss).

Interest rate risk

The Company's exposure to interest rate fluctuations is with respect to the use of its term loans (Note 9), which bear interest at the floating rates. The Company does not undertake interest rate swaps to reduce its exposure to interest rate risk. As at June 30, 2019, a change in the interest rate of 1% per annum would have an impact of approximately \$48,000 per annum in finance costs.

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 June 30, 2019 are as follows:

	\$
Not later than one year	2,096,017
Greater than one year and less than five years	5,531,739
Greater than five years	9,163,720
	16,791,476

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For the years ended June 30, 2019 and 2018

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16. Provisions

	Warranty provision	Sales returns & allowances provision	Stock rotation provision	Total
	\$	\$	\$	\$
Balance at June 30, 2017	28,722	24,596	70,000	123,318
Additional provision recognized	136,372	10,000	10,000	156,372
Balance at June 30, 2018	165,094	34,596	80,000	279,690
Additional provision recognized	43,387	13,634	220,294	277,315
Balance at June 30, 2019	208,481	48,230	300,294	557,005

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 period that may be returned in a future period. The stock rotation provision represents the Company's best estimate of the value of the products sold in the current financial period that may be exchanged for alternative products in a future period. 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 year ended June 30, 2019 and 2018 as follows:

	2019	2018
	\$	\$
Products	73,711,251	43,255,442
Services	35,936,251	14,106,211
Total revenues	109,647,502	57,361,653

The sales, in Canadian dollars, in each of these geographic locations for the year ended June 30, 2019 and 2018 as follows:

	2019	2018
	\$	\$
USA	76,493,837	43,772,686
Canada	8,651,791	802,439
All other countries	24,501,874	12,786,528
Total revenues	109,647,502	57,361,653

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For the years ended June 30, 2019 and 2018

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17. Segment disclosures (continued)

The non-current assets, in Canadian dollars, in each of the geographic locations as at June 30, 2019 and 2018 are below:

	2019	2018
	\$	\$
Canada	6,638,535	6,812,340
USA	52,944,506	13,164,910
Total non-current assets	59,583,041	19,977,250

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 has contingent consideration in the amount of \$488,454 (\$376,400 USD) payable on the first anniversary of the closing, which has been discounted using a risk-free rate and is contingent upon meeting certain targets. The Company 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
Deferred payment ¹	(399,724)	(518,721)
Share consideration	635,517	824,710
Contingent consideration ¹	376,400	488,454
	\$ 3,612,193	\$ 4,687,543

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

Purchase price allocation	USD	CAD
Working capital	\$ 201,412	\$ 261,372
Capital assets	41,369	53,685
Customer relationships	1,160,000	1,505,332
Website	160,000	207,632
Brand	1,050,000	1,362,585
Goodwill	999,412	1,296,937
	\$ 3,612,193	\$ 4,687,543

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Notes to the consolidated financial statements

For the years ended June 30, 2019 and 2018

(In Canadian dollars)

18. Business combinations (continued)

- 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:

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 and its wholly-owned subsidiary Digium Cloud Services LLC. The total non-discounted agreed upon consideration for the acquisition was \$36,297,239 (\$27,529,191 USD). The purchase price consisted of \$31,446,549 (\$23,850,246 USD) in cash paid on closing and issuance of 262,468 common shares valued at \$325,460 (\$246,841 USD) based on a share price of \$1.24 (\$0.94 USD) per common share on closing. In addition, the Company issued \$128,365 (\$97,357 USD) and \$ 173,683 (\$131,728 USD) in cash, which was held in escrow for working capital and indemnification adjustments, respectively. The cash held in escrow for working capital and indemnification adjustments was discounted using a 5.0% discount for a period of three and sixteen months, respectively for an amount of \$126,809 (\$96,177 USD) and \$162,744 (\$123,431 USD). The Company also issued 1,454,964 and 1,950,827 common shares, which were held in escrow for working capital and indemnification purposes. The fair value of the 1,454,964 common shares, which were held in escrow for working capital adjustments was determined to be \$1,635,462 (\$1,240,396 USD). The discount related to the fair value of the shares held in escrow for working capital adjustments was determined using Black Scholes Option Pricing model with the following assumptions: share price of \$0.941 USD, exercise price of \$0.941 USD, expected life of 0.25 years, volatility of 48.0%, risk free rate of 1.49% and dividend yield of nil. The fair value of the 1,950,827 common shares, which were held in escrow for indemnification adjustments was determined to be \$1,844,787 (\$1,399,156 USD). The discount related to the fair value of the shares held in escrow for indemnification adjustments was determined using Black Scholes Option Pricing model with the following assumptions: share price of \$0.941 USD, exercise price of \$0.941 USD, expected life of 1.33 years, volatility of 56.0%, risk free rate of 1.995% and dividend yield of nil. The Company acquired Digium Inc. to expand and broaden the suite of service offerings, add key customers and realize synergies by removing redundancies.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

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(In Canadian dollars)

18. Business combinations (continued)

The total transaction costs were \$2,265,770 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.

Consideration	USD	CAD
Cash consideration on closing	\$23,850,246	\$31,446,549
Cash held in escrow for working capital	\$96,177	\$126,809
Cash held in escrow for indemnification	\$123,431	\$162,744
Common shares issued on closing	\$246,841	\$325,460
Common shares held in escrow for working capital	\$1,240,396	\$1,635,462
Common shares held in escrow for indemnification	\$1,399,156	\$1,844,787
	\$26,956,247	\$35,541,811

Purchase price allocation	USD	CAD
Cash	\$291,835	\$384,784
Accounts receivable	\$1,248,095	\$1,645,614
Inventory	\$2,574,131	\$3,393,992
Prepays and other deposits	\$1,380,647	\$1,820,383
Property and equipment	\$1,293,738	\$1,705,794
Deferred tax asset	\$1,881,013	\$2,480,116
Accounts payable and accrued liabilities	(2,812,511)	(3,708,296)
Other liabilities	(12,393)	(16,341)
Contract liabilities	(9,126,887)	(12,033,801)
Customer relationships	\$9,230,000	\$12,169,755
Backlog	\$1,220,000	\$1,608,570
Technology	\$2,840,000	\$3,744,540
Brand	\$4,360,000	\$5,748,660
Non-compete	\$170,000	\$224,145
Goodwill	\$12,418,579	\$16,373,896
	\$26,956,247	\$35,541,811

19. Subsequent events

On July 16, 2019, the Company closed its short-form bought deal prospectus offering of 14,846,500 common shares, including 1,936,500 common shares issued upon the exercise in full of the over-allotment option granted to the Underwriters, at a price of \$1.55 per common share for aggregate gross proceeds of \$23,012,075.

On October 18, 2019, the Company closed the acquisition of VoIP Innovations LLC, to acquire a 100% interest for upfront consideration of US\$36 million which consists of US\$30 million in cash and US\$6 million in common shares based on the ten (10)-day volume weighted average price as of the date of execution of the definitive agreement. In addition, there is a contingent consideration component of up to US\$6 million (the "Contingent Consideration") that will be payable in cash upon achievement of certain revenue milestones in the twelve (12) months following the date of closing. The cash portion of the consideration is funded through a combination of cash on hand and, a new credit facility of \$46 million, jointly from TD and BMO replacing Company's existing debt. This new facility also provides for up to C\$8 million in a term loan, which would be utilized in about one year, to pay out contingent consideration of up to US\$6 million. The new credit facility also includes a C\$10 million revolver available for general working capital purposes.

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20. Authorization of the consolidated financial statements

The consolidated financial statements were authorized for issuance by the Board of Directors on October 18, 2019.