SANGOMA TECHNOLOGIES CORPORATION

Condensed consolidated interim financial statements for

the three months ended September 30, 2019

(Unaudited in Canadian Dollars)

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

Sangoma Technologies Corporation
September 30, 2019

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Sangoma Technologies Corporation

Condensed consolidated interim statements of financial position
as at September 30, 2019 and June 30, 2019
(Unaudited in Canadian dollars)

	September 30, 2019	June 30, 2019
	$	$
Assets		
Current assets		
Cash and cash equivalents (Note 13)	**33,396,011**	11,724,844
Trade receivables (Note 13)	**10,236,634**	11,254,694
Inventories (Note 4)	**11,597,998**	11,114,143
Contract assets	**780,587**	789,643
Other current assets	**1,982,089**	1,947,620
	57,993,319	36,830,944
Non-current assets		
Property and equipment (Note 5)	**2,445,220**	2,423,529
Right-of-use assets (Note 15)	**16,353,348**	-
Intangible assets (Note 6)	**28,588,694**	29,453,546
Development costs (Note 7)	**2,173,640**	2,124,503
Deferred income tax assets (Note 10)	**3,941,642**	4,176,043
Goodwill (Note 8)	**21,641,046**	21,405,420
	133,136,909	96,413,985
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	**13,908,951**	14,626,815
Provisions (Note 16)	**573,005**	557,005
Sales tax payable	**-**	259,423
Income tax payable	**1,056,733**	1,422,514
Operating facility and loans - current (Note 9)	**3,789,298**	3,923,775
Contract liabilities - current	**8,933,479**	10,724,357
Lease obligations on right-of-use assets - current (Note 15)	**2,444,369**	-
	30,705,835	31,513,889
Long term liabilities		
Operating facility and loans - long term (Note 9)	**17,909,903**	18,806,583
Contract liabilities - long term	**5,883,027**	4,264,047
Non-current lease obligation on right-of-use assets (Note 15)	**13,908,979**	-
	68,407,744	54,584,519
Shareholders' equity		
Share capital	**56,242,712**	34,860,468
Contributed surplus	**2,655,574**	2,514,154
Warrant reserve (Note 11(i))	**-**	29,348
Accumulated other comprehensive income (loss)	**98,297**	(54,169)
Retained earnings (Note 15)	**5,732,582**	4,479,665
	64,729,165	41,829,466
	133,136,909	96,413,985

Approved by the Board

(Signed) *Al Guarino* Director

(Signed) *Yves Laliberte* Director

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

Sangoma Technologies Corporation

Condensed consolidated interim statements of income and comprehensive income
for the three months ended September 30, 2019 and 2018
(Unaudited in Canadian dollars)

	September 30, 2019	September 30, 2018
	$	$
Revenue (Note 17)	**28,005,144**	21,439,335
Cost of sales	**10,522,173**	8,994,465
Gross profit	**17,482,971**	12,444,870
Expenses		
Sales and marketing	**4,929,209**	2,992,074
Research and development	**5,482,368**	3,509,407
General and administration	**5,456,328**	4,023,075
Foreign currency exchange (gain) loss	**9,528**	111,272
	15,877,433	10,635,828
Income before interest, income taxes, and business acquisition costs	**1,605,538**	1,809,042
Interest income (Note 13)	**(22,566)**	(3,714)
Interest expense (Note 13, 15)	**397,321**	186,840
Business acquisition costs (Note 18)	**-**	2,100,375
	374,755	2,283,501
Income before income tax	**1,230,783**	(474,459)
Provision for income taxes		
Current (Note 10)	**-**	592,728
Deferred (Note 10)	**324,761**	(70,455)
Net income	**906,022**	(996,732)
Other comprehensive loss (gain)		
Items to be reclassified to net income		
Foreign currency translation loss (gain)	**(152,466)**	(3,097)
Comprehensive income	**1,058,488**	(993,635)
Earnings per share		
Basic (Note 11(iii))	**0.014**	(0.021)
Diluted (Note 11(iii))	**0.013**	(0.019)
Weighted average number of shares outstanding (Note 11(iii))		
Basic	**65,240,022**	48,573,557
Diluted	**68,481,528**	52,515,488

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

Sangoma Technologies Corporation

Condensed consolidated statements of changes in shareholders' equity
for the three months ended September 30, 2019 and 2018
(Unaudited 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, 2018	47,460,957	29,830,474	2,324,176	186,700	61,732	2,941,524	35,344,606
Net income	-	-	-	-	-	(996,734)	(996,734)
Other comprehensive loss	-	-	-	-	3,097	-	3,097
Common shares issued for business combination (Note 11(i))	3,943,041	4,779,290	-	-	-	-	4,779,290
Common shares issued for options exercised (Note 11(i))	7,000	3,362	-	-	-	-	3,362
Common shares issued for broker warrants exercised (Note 11(i))	39,337	39,337	-	(39,337)	-	-	-
Share-based compensation expense (Note 11(ii))	-	-	32,050	-	-	-	32,050
Balance, June 30, 2019	51,450,335	34,652,463	2,356,226	147,363	64,829	1,944,790	39,165,671
Balance, June 30, 2019 as previously reported	**52,962,090**	**34,860,468**	**2,514,154**	**29,348**	**(54,169)**	**4,479,665**	**41,829,466**
Impact on IFRS 16 adoption (Note 15)	-	-	-	-	-	346,895	346,895
Balance, June 30, 2019 (restated)	**52,962,090**	**34,860,468**	**2,514,154**	**29,348**	**(54,169)**	**4,826,560**	**42,176,361**
Net income	-	-	-	-	-	906,022	906,022
Other comprehensive gain	-	-	-	-	152,466	-	152,466
Common shares issued for business combination (Note 11(i))	14,846,500	21,319,720	-	-	-	-	21,319,720
Common shares issued for options exercised (Note 11(i))	1,424	567	(567)	-	-	-	-
Common shares issued for broker warrants exercised (Note 11(i))	61,957	61,957	-	(29,348)	-	-	32,609
Share-based compensation expense (Note 11(ii))	-	-	141,987	-	-	-	141,987
Balance, September 30, 2019	**67,871,971**	**56,242,712**	**2,655,574**	**-**	**98,297**	**5,732,582**	**64,729,165**

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

Sangoma Technologies Corporation

Consolidated statements of cash flows

For the three-months ended September 30, 2019 and 2018

(Unaudited in Canadian dollars)

	September 30, 2019	September 30, 2018
Operating activities		
Net income	**906,022**	(996,732)
Adjustments for:		
Depreciation of property and equipment (Note 5)	**117,345**	84,264
Depreciation of right-of-use assets (note 15)	**609,312**	-
Amortization of intangible assets (Note 6)	**1,193,295**	587,815
Amortization of development costs (Note 7)	**361,607**	462,748
Income tax expense (Note 10)	**324,761**	522,273
Income tax paid	**(90,360)**	(594,830)
Share-based compensation expense (Note 11(ii))	**141,987**	32,050
Interest on obligation on right-of-use assets (Note 15)	**54,679**	-
Changes in item of working capital		
Trade receivables	**1,018,060**	(1,228,643)
Inventories	**(483,855)**	(309,275)
Other current assets	**(25,413)**	936,549
Sales tax payable	**(259,423)**	121,596
Accounts payable and accrued liabilities	**(370,969)**	598,712
Provisions	**16,000**	276,327
Income tax payable	**(365,781)**	22,921
Deferred revenue	**(171,898)**	(490,718)
	2,975,369	25,057
Investing activities		
Purchase of property and equipment (Note 5)	**(113,624)**	(235,252)
Development costs (Note 7)	**(410,744)**	(616,638)
Business combinations, net of cash and cash equivalents acquired (Not	**-**	(35,306,128)
	(524,368)	(36,158,018)
Financing activities		
Proceeds from operating facility and loan (Note 9)	**-**	20,712,718
Repayments of operating facility and loan (note 9)	**(1,031,158)**	(185,596)
Repayment of right-of-use lease obligation	**(663,991)**	-
Issuance of common shares through private placement, net (Note 11(i))	**21,319,720**	4,821,989
Issuance of common shares for broker warrants exercised (Note 11(i))	**32,609**	-
	19,657,180	25,349,111
Effect of foreign exchange rate changes on cash and cash equivalents	**(437,015)**	14,056
Increase in cash and cash equivalents	**21,671,166**	(10,769,794)
Cash and cash equivalents, beginning of year	**11,724,844**	15,778,191
Cash and cash equivalents, end of period	**33,396,011**	5,008,397

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

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 2020 are Sangoma Technologies Inc., Sangoma US Inc., Digium Inc., VoIP Supply, LLC, Digium Inc., Digium Cloud Services, LLC and VoIP Innovations, 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"). The condensed unaudited consolidated interim financial statements do not include all of the information required for annual consolidated financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2019.

These condensed consolidated interim financial statements were, at the recommendation of the audit committee, approved and authorized for issuance by the Company's Board of Directors on November 14, 2019.

These condensed unaudited consolidated interim financial statements were prepared using the same basis of presentation, accounting policies and methods of computation as those of the audited consolidated financial statements for the year ended June 30, 2019, except for the adoption of *IFRS 16 Leases* which has been applied as of July 1, 2019.

The changes in accounting policies from those used in the Company's consolidated financial statements for the year ended June 30, 2019 are described below.

(ii) Accounting standards implemented as of July 1, 2019

Effective July 1, 2019, the Company adopted IFRS 16: Leases ("IFRS 16") which stipulates how to recognize, measure, present and disclose leases. This new standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. The purpose of IFRS 16 is to help users of financial statements to assess the effect of leases on the financial position, financial performance and cash flows of an entity.

At commencement of the contract, the Company evaluates if the contract is a lease based on whether the contract conveys the right to control the use of a specific asset for a period of time in exchange for a consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right of use asset is initially measured at cost which comprises of the lease liability, lease payments made at or before the commencement date less any lease incentives. Subsequently the right of use asset is measured at net carrying value, which is cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

(Unaudited in Canadian dollars)

2 Significant accounting policies (continued)

The lease liability is initially measured at the present value of the future lease payments discounted using the Company incremental borrowing rate as the discount rate. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has adopted IFRS 16 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to opening deficit at the date of initial application. The Company has elected to not apply IFRS 16 for short term leases that are 12 months or less and for leases of low value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term. Refer to note 15 for details of the adoption of IRFS 16 which shows the impact on the right of use assets and right of use liabilities.

Company adopted IFRS 16 Leases, a new accounting standard effective fiscal year commencing July 1, 2019. The purpose of IFRS 16 is to help users of financial statements to assess the effect of leases on the financial position, financial performance and cash flows of an entity. It does this by ensuring that lessees and lessors recognize, measure, present and disclose all of their leasing transactions. IFRS 16 Leases introduces a new approach to lessee accounting whereby a lessee recognizes assets and liabilities for the rights and obligations created by all leases. The asset created is "*Right of use assets*" with an equal and offsetting liability as "*Right of use liabilities*". The Company will have more assets (Right of use assets) but also more debt (Right of use liabilities).

"This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity."

3. Significant accounting judgments, estimates and uncertainties

These condensed unaudited consolidated interim financial statements were prepared using the same basis of presentation, accounting policies and methods of computation as those of the audited consolidated financial statements for the year ended June 30, 2019 and which are available at www.sedar.com. They the same critical estimates and judgments in applying the accounting policies as those of the audited consolidated financial statements for the year ended June 30, 2019

4. Inventories

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

	September 30, 2019	June 30, 2019
	$	$
Finished goods	**7,621,252**	7,946,691
Parts	**4,133,712**	3,323,207
	11,754,964	11,269,898
Provision for obsolescence	**(156,966)**	(155,755)
Net inventory carrying value	**11,597,998**	11,114,143

(Unaudited 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, 2018	1,576,233	266,859	176,482	64,338	163,646	2,247,558
Additions through business combinations (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
Additions	74,074	-	39,550	-	-	113,624
Effects of movements in exchange rates	11,134	263	17,734	-	2,769	31,900
Balance at September 30, 2019	**1,960,796**	**285,512**	**1,700,193**	**64,338**	**355,921**	**4,366,760**
Accumulated depreciation						
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)
Effect 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
Depreciation expense	42,900	4,500	59,603	668	9,674	117,345
Effects of movements in exchange rates	3,205	-	2,909	-	374	6,488
Balance at September 30, 2019	**1,103,043**	**207,867**	**425,395**	**51,422**	**133,813**	**1,921,540**
Net book value as at:						
June 30, 2019	818,650	81,882	1,280,026	13,584	229,387	2,423,529
September 30, 2019	**857,753**	**77,645**	**1,274,798**	**12,916**	**222,108**	**2,445,220**

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

(Unaudited in Canadian dollars)

6. Intangible assets

	Copyright to software	Purchased technology	Website	Customer relationship	Brand	Other purchased intangibles	Total
	$	$	$	$	$	$	$
Cost							
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 combinations (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
Effects of movements on exchange rates	-	65,837	12,683	242,165	55,114	18,355	394,154
Balance at September 30, 2019	**2,948,461**	**7,886,841**	**240,385**	**19,421,311**	**8,051,801**	**2,293,022**	**40,841,821**
Accumulated amortization							
Balance at June 30, 2018	2,909,616	1,466,827	214,262	1,612,443	273,433	165,680	6,642,261
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
Amortization expense	31,874	236,112	712	556,738	203,224	164,635	1,193,295
Effects of movements on exchange rates	-	11,876	694	38,373	10,913	3,855	65,711
Balance at September 30, 2019	**2,948,461**	**2,991,338**	**214,363**	**4,003,483**	**1,255,128**	**840,354**	**12,253,127**

Net book value as at:							
June 30, 2019	31,874	5,077,654	14,745	15,770,774	6,955,696	1,602,803	29,453,546
September 30, 2019	**-**	**4,895,503**	**26,022**	**15,417,828**	**6,796,673**	**1,452,668**	**28,588,694**

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

(Unaudited in Canadian dollars)

7. Development costs

	$
Development costs	
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
Additions	460,744
Investment tax credits	(50,000)
Balance at September 30, 2019	**22,138,190**

Accumulated amortization	
Balance at June 30, 2018	(17,716,350)
Amortization	(1,886,593)
Balance at June 30, 2019	(19,602,943)
Amortization	(361,607)
Balance at September 30, 2019	**(19,964,550)**

	September 30, 2019	June 30, 2019
	$	$
Net capitalized development costs	**2,173,640**	2,124,503

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized $5,120,761 of engineering expenditures as an expense during the quarter ended September 30, 2019 (2019 - $3,046,659).

8. Goodwill

The carrying amount and movements of goodwill was as follows:

	$
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
Effect of movements in exchange rates	235,626
Balance at September 30, 2019	**21,641,046**

There were no additions to goodwill during the quarter ended September 30, 2019

9. Operating facility and loan

As at September 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 September 30, 2019 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 September 30, 2019, consisting of base rate of 5.50% and a loan spread of 1.25%. The balance drawn against this term loan facility as of September 30, 2019 was $546,274 (June 30, 2019 - $588,915). As at September 30, 2019, term loan facility balance of $198,645 (June 30, 2019 - $196,305) is classified as current and $347,629 (June 30, 2019 - $392,610) 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 September 30, 2019. The balance drawn against this term loan facility as of September 30, 2019 was $2,949,134 (June 30, 2019 - $3,112,086). As at September 30, 2019, term loan facility balance of $829,008 (June 30, 2019 - $808,082) is classified as current and $2,120,126 (June 30, 2019 - $2,304,004) 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. The balance drawn against this term loan facility as of September 30, 2019 was $4,504,185 (June 30, 2019 - $4,701,895). As at September 30, 2019, term loan facility balance of $761,271 (June 30, 2019 - $814,995) is classified as current and $3,742,914 (June 30, 201,9 - $3,886,900) 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 September 30, 2019. The balance drawn against this term loan facility as of September 30, 2019 was $13,699,608 (June 30, 2019 - $14,327,462). As at September 30, 2019, term loan facility balance of $2,000,374 (June 30, 2019 - $2,104,393) is classified as current and $11,699,234 (June 30, 2019 - $12,223,069) as long-term in the consolidated statements of financial position.

For the quarter ended June 30, 2019, the Company incurred interest costs to service the borrowing facilities in the amount of $342,642. During the quarter ended September 30, 2019, the Company repaid $1,031,157. All the above loans were repaid in full on October 18, 2019. see note 19.

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

(Unaudited in Canadian dollars)

10. Income tax

The Company income tax expense is determined as follows:

	September 30, 2019	September 30, 2018
Statutory income tax rate	**26.50%**	26.50%
	$	$
Net income before income taxes	**1,230,783**	(474,459)
Expected income tax expense	**326,158**	(125,732)
Tax rate changes and other adjustments	**14,530**	74,438
Share based compensation and non-deductible expenses	**37,626**	16,968
Business acquisition costs	**-**	556,599
Currency translation adjustment and other adjustments	**(53,553)**	-
Income tax expense	**324,761**	522,273

The Company's income tax expense is allocated as follows:	**$**	$
Current tax expense	**-**	592,728
Deferred income tax expense	**324,761**	(70,455)
Income tax expense	**324,761**	522,273

The following table summarizes the components of deferred tax asset:

	September 30, 2019	June 30, 2019
	$	$
Deferred income tax assets (liabilities)		
Non-deductible reserves - Canadian	**115,570**	115,573
Non-deductible reserves - USA	**1,534,680**	1,501,338
SR&ED investment tax credits, net of 12(1)(x)	**1,757,930**	1,757,926
Property and equipment - Canadian	**(369,920)**	(388,859)
Property and equipment - USA	**(463,110)**	(458,970)
Deferred development costs	**(854,550)**	(854,549)
Intangible assets including goodwill - Canadian	**(75,070)**	(75,066)
Intangible assets including goodwill - USA	**(4,581,476)**	(4,759,331)
Non-capital losses carried forward - USA	**6,612,810**	7,208,503
Non-capital losses carried forward - Canadian	**116,488**	-
Capital losses carried forward and other - Canadian	**148,290**	129,478
Net deferred income tax assets	**3,941,642**	4,176,043

(Unaudited in Canadian dollars)

10. Income tax (continued)

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
	$	$
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:

	September 30, 2019	September 30, 2018
	#	#
Shares issued and outstanding:		
Outstanding, beginning of the period	**52,962,090**	47,460,957
Shares issued for business combinations (Note 18)	**-**	3,943,041
Shares issued through private placement	**14,846,500**	-
Shares issued upon exercise of broker warrants	**61,957**	39,337
Shares issued upon exercise of options	**1,424**	7,000
Shares issued and outstanding, end of period	**67,871,971**	51,450,335

On July 16, 2019, the Company closed a 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.

For the quarter ended September 30, 2019, 61,957(2019 – 39,337) broker warrants were exercised for cash consideration of $61,957 (2019 - $39,337). As at September 30, 2019, there were no broker warrants outstanding (2019 –354,803).

(Unaudited in Canadian dollars)

11. Shareholders' equity (continued)

(i) 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, 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, 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
Exercised	(1,424)	(0.30)
Forfeited	(3,625)	(0.34)
Balance, September 30, 2019	**5,234,293**	**0.58**

(Unaudited in Canadian dollars)

11. Shareholders' equity (continued)

(ii) Stock options (continued)

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.

	September 30, 2019	June 30, 2019
Share price	-	\$1.10 - \$1.60
Exercise price	-	\$1.16 - \$1.60
Expected volatility	-	60.79% - 63.73%
Expected option life	-	5 years
Risk-free interest rate	-	1.48% - 1.93%

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

	September 30, 2019		June 30, 2019	
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	**2,403,841**	**1.28**	2,238,656	1.53
\$0.51 - \$0.75	**176,592**	**3.25**	160,759	3.50
	2,580,433	**1.41**	2,399,415	1.66

(ii) Stock options (continued)

For the quarter ended September 30, 2019, the Company recognized share-based compensation expense in the amount of \$141,987 (2019 - \$32,040).

(Unaudited in Canadian dollars)

11. Shareholders' equity (continued)

(iii) Earnings per share

Both the basic and diluted earnings per share have been calculated using the net income attributable to the shareholders of the Company as the numerator.

	September 30, 2019		September 30, 2018
Number of shares:			
Weighted average number of shares used in basic earnings per share	**65,240,022**		48,573,557
Shares deemed to be issued in respect of options and warrants	**3,241,505**		3,941,931
Weighted average number of shares used in diluted earnings per share	**68,481,528**		52,515,488
Net income (loss) for the period	**$ 906,022**		(996,732)
Earnings per share:			
Basic earnings per share	**$ 0.014**	$	(0.021)
Diluted earnings per share	**$ 0.013**	$	(0.019)

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:

	September 30, 2019	September 30, 2018
	$	$
Accounts payable and accrued liabilities	**67,500**	37,500

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:

	September 30, 2019	June 30, 2019
	$	$
Cash at bank and on hand	**33,396,011**	11,724,844
	33,396,011	11,724,844

Cash includes demand deposits with financial institutions and cash equivalents consist of short-term,

(Unaudited in Canadian dollars)

13. Financial instruments (continued)

highly liquid investments purchased with original maturities of three months or less. As at September 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:

	September 30, 2019	September 30, 2018
	$	$
Interest income	**(22,566)**	(3,714)
Interest expense (Note 9)	**397,321**	186,840
Net interest expense	**374,755**	183,126

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:

	September 30, 2019	June 30, 2019
	$	$
Trade receivables aging:		
0-30 days	**8,319,748**	9,082,221
31-90 days	**1,470,200**	1,787,297
Greater than 90 days	**762,483**	672,548
	10,552,431	11,542,066
Provision for doubtful accounts	**(315,797)**	(287,372)
Net trade receivables	**10,236,634**	11,254,694

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

	September 30, 2019	June 30, 2019
	$	$
Expected credit loss provision:		
Expected credit loss provision, beginning balance	**(287,372)**	(598,134)
Net change in expected credit loss provision during the period	**(28,426)**	310,762
Expected credit loss provision, ending balance	**(315,798)**	(287,372)

13. Financial instruments (continued)

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.

	September 30,2019			
	Total	**Not past due**	**Over 30 days past due**	**Over 60 days past due**
Default rates		0.58%	0.82%	33.51%
Trade receivables	**$ 10,552,431**	$ 8,319,748	$ 1,470,200	$ 762,483
Expected credit loss provision	**$ 315,798**	$ 48,255	$ 12,056	$ 255,488

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:

	September 30, 2019	June 30, 2019
	$	$
Accounts payable and accrued liabilities	**13,908,951**	14,626,815
Operating facility and loans	**3,789,298**	3,923,775
Lease obligations on right-of-use assets	**2,444,369**	-
	20,142,618	18,550,590

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 September 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 $387,379 (September 30, 2018 - $384,704) 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 September 30, 2019, a change in the interest rate of 1% per annum would have an impact of approximately $45,000 per annum in finance costs.

(Unaudited in Canadian dollars)

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 have been 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. Leases: Right of use assets and liabilities

The Company adopted IFRS 16 effective July 1, 2019 at the start of its new fiscal year and on initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability. When measuring lease liabilities, the Company discounted lease payments using its borrowing rate of 6.50% at July 1, 2019 for all leases outside of the U.S.A and a weighted average of 5.35% for all leases within the U.S.A. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after July 1, 2019.

The following table reconciles the Company's operating lease obligations to the lease obligations recognized on initial application of IFRS 16 at July 1, 2019

	Right-of-use assets	Right-of-use liabilities
	$	$
Present value of leases		
Balance at June 30, 2019	-	-
Aggregate lease commitments	19,123,244	19,123,244
Less: impact of present value	(2,160,584)	(2,160,584)
Opening IFRS 16 lease value as at July 1, 2019	16,962,660	16,962,660
Additions	-	-
Balance at September 30, 2019	**16,962,660**	**16,962,660**
Accumulated depreciation and repayments		
Depreciation expense	609,312	-
Repayments	-	609,312
Balance at September 30, 2019	609,312	609,312
Net book value as at:		
June 30, 2019	-	-
September 30, 2019	**16,353,348**	**16,353,348**

As a result of adopting IFRS 16, lease payments (comprised of principal and interest payments on lease obligations) are now classified as financing cash flows instead of operating cash flows.

During the quarter ended September 30, 2019, interest expenses of $54,679 (September 30, 2018 - $nil) was charged to the condensed consolidated interim statements of income and comprehensive income and lease obligations (deferred rent) of $346,895 were reclassed to retained earnings.

16. Provisions

	Warranty provision	Sales returns & allowances provision	Stock rotation provision	Total
	$	**$**	**$**	**$**
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
Additional provision recognized	5,000	3,000	8,000	16,000
Balance at September 30, 2019	**213,481**	**51,230**	**308,294**	**573,005**

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 three-months ended September 30, 2019 and 2018 as follows:

	September 30, 2019	September 30, 2018
	$	$
Products	**17,073,977**	15,228,576
Services	**10,931,167**	6,210,759
Total revenues	**28,005,144**	21,439,335

The sales, in Canadian dollars, in each of these geographic locations for the three-months ended September 30, 2019 and 2018 were as follows:

	September 30, 2019	September 30, 2018
	$	$
USA	**20,477,994**	14,678,599
Canada	**1,463,560**	1,159,576
All other countries	**6,063,590**	5,601,160
Total revenues	**28,005,144**	21,439,335

17. Segment disclosures (continued)

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

	September 30, 2019	June 30, 2019
	$	$
Canada	**6,628,577**	**6,929,236**
USA	**52,161,665**	**52,653,805**
Total non-current assets	**58,790,242**	59,583,041

18. Business combinations

a) 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

b) 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

(Unaudited in Canadian dollars)

18. Business combinations (continued)

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.

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
Prepaids 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 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 5,500,417 common shares valued at US$6 million 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. An initial purchase price allocation and transaction related expenses will be available in the Company's second quarter report.

In preparation for the VoIP Innovations acquisition the Company entered into a credit agreement for up to $64 million. $45,699,360 of this was drawn on October 18, 2019 of which $21,477,155 was used to pay off all the loans in Note 9 and the balance of $24,222,205 was used to partially fund the VoIP Innovations acquisition also on October 18, 2019. The new facility also provides for up to C$8 million in a term loan that may be solely used for the payment of any contingent consideration due to the Sellers of VoIP innovations in accordance with that agreement. In addition, the new credit facility includes a C$10 million revolver facility which is available for general working capital purposes.

20. Authorization of the consolidated financial statements

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