SANGOMA TECHNOLOGIES CORPORATION

Condensed consolidated interim financial statements for

the three month periods ended September 30, 2020 and 2019

(Unaudited in Canadian Dollars)

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

Sangoma Technologies Corporation
September 30, 2020

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Sangoma Technologies Corporation

Condensed consolidated interim statements of financial position

As at September 30, 2020 and June 30, 2020

(Unaudited in Canadian dollars)

	September 30, 2020	June 30, 2020
	$	$
Assets		
Current assets		
Cash and cash equivalents (Note 13)	**93,723,732**	27,249,863
Trade receivables (Note 13)	**9,162,155**	11,234,541
Inventories (Note 4)	**11,932,780**	12,643,738
Contract assets	**1,099,018**	1,082,051
Other current assets	**2,169,071**	2,383,857
	118,086,756	54,594,050
Non-current assets		
Property and equipment (Note 5)	**2,819,917**	3,001,687
Right-of-use assets (Note 15)	**16,199,946**	16,178,520
Intangible assets (Note 6)	**47,188,044**	50,206,378
Development costs (Note 7)	**2,444,899**	2,452,718
Deferred income tax assets (Note 10)	**6,033,369**	5,287,207
Goodwill (Note 8)	**43,079,076**	44,012,418
	235,852,007	175,732,978
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	**11,584,726**	14,185,737
Provisions (Note 16)	**768,991**	662,942
Sales tax payable	**578,316**	808,074
Income tax payable	**1,220,016**	2,636,159
Operating facility and loans - current (Note 9)	**7,736,620**	16,898,720
Contract liabilities - current	**8,448,589**	10,772,900
Derivative liability (Note 9)	**732,294**	797,380
Lease obligations on right-of-use assets - current (Note 15)	**2,910,532**	2,951,616
	33,980,084	49,713,528
Long term liabilities		
Operating facility and loans - long term (Note 9)	**30,946,480**	33,593,020
Contract liabilities - long term	**4,874,011**	3,972,730
Non-current lease obligation on right-of-use assets (Note 15)	**13,785,236**	13,671,174
	83,585,811	100,950,452
Shareholders' equity		
Share capital	**141,289,422**	64,628,552
Contributed surplus	**2,642,122**	2,437,227
Accumulated other comprehensive loss	**(2,311,878)**	(691,896)
Retained earnings	**10,646,530**	8,408,643
	152,266,196	74,782,526
	235,852,007	175,732,978

Approved by the Board

(Signed) *Al Guarino* Director

(Signed) *Yves Laliberte* Director

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

Sangoma Technologies Corporation

Condensed consolidated interim statements of income and comprehensive income

For the three month periods ended September 30, 2020 and 2019

(Unaudited in Canadian dollars)

	Three month periods ended September 30,	
	2020	2019
	$	$
Revenue (Note 17)	**35,032,874**	28,005,144
Cost of sales	**11,857,515**	10,522,173
Gross profit	**23,175,359**	17,482,971
Expenses		
Sales and marketing	**5,087,138**	4,929,209
Research and development	**6,083,168**	5,482,368
General and administration	**8,492,154**	5,456,328
Foreign currency exchange (gain) loss	**(19,170)**	9,528
	19,643,290	15,877,433
Income before interest, income taxes, business integration and acquisition costs	**3,532,069**	1,605,538
Interest income (Note 13)	**(1,567)**	(22,566)
Interest expense (Notes 9, 13, 15)	**519,546**	397,321
	517,979	374,755
Income before income tax	**3,014,090**	1,230,783
Provision for income taxes		
Current (Note 10)	**261,364**	-
Deferred (Note 10)	**514,839**	324,761
Net income	**2,237,887**	906,022
Other comprehensive income (loss)		
Items to be reclassified to net income		
Change in fair value of interest rate swaps, net of tax (Note 9)	**65,086**	-
Foreign currency translation (loss) income	**(1,685,068)**	152,466
Comprehensive income	**617,905**	1,058,488
Earnings per share		
Basic (Note 11(iii))	**0.022**	0.014
Diluted (Note 11(iii))	**0.022**	0.013
Weighted average number of shares outstanding (Note 11(iii))		
Basic	**99,679,932**	65,240,022
Diluted	**101,332,314**	68,481,528

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

Sangoma Technologies Corporation

Condensed consolidated statements of changes in shareholders' equity
For the three month periods ended September 30, 2020 and 2019
(Unaudited in Canadian dollars)

	Number of common shares	Share capital	Contributed surplus	Warrant reserve	Accumulated other comprehensive (loss) income	Retained earnings	Total shareholders' equity
		$	$	$	$	$	$
Balance, June 30, 2019	52,962,090	34,860,468	2,514,154	29,348	(54,169)	4,479,665	41,829,466
Impact on IFRS 16 adoption	-	-	-	-	-	346,895	346,895
Net Income	-	-	-	-	-	906,022	906,022
Other comprehensive income	-	-	-	-	152,466	-	152,466
Common shares issued through short form prospectus (Note 11(i))	14,846,500	21,319,720	-	-	-	-	21,319,720
Common shares issued for options exercised (Note 11(i))	1,424	649	(226)	-	-	-	423
Common shares issued for broker warrants exercised (Note 11(i))	61,957	91,305	-	(29,348)	-	-	61,957
Share-based compensation expense (Note 11(ii))	-	-	141,987	-	-	-	141,987
Balance, September 30, 2019	67,871,971	56,272,142	2,655,915	-	98,297	5,732,582	64,758,936
Balance, June 30, 2020	76,087,735	64,628,552	2,437,227	-	(691,896)	8,408,643	74,782,526
Net Income	-	-	-	-	-	2,237,887	2,237,887
Other comprehensive income	-	-	-	-	(1,685,068)	-	(1,685,068)
Change in fair value of interest rate swaps, net of tax (Note 9)	-	-	-	-	65,086	-	65,086
Common shares issued through short form prospectus, net of costs (Note 11(i))	35,006,000	75,283,264	-	-	-	-	75,283,264
Deferred tax benefit on share issuance costs (Note 10)		1,375,940					1,375,940
Common shares issued for options exercised (Note 11(i))	3,032	1,666	(549)	-	-	-	1,117
Share-based compensation expense (Note 11(ii))	-	-	205,444	-	-	-	205,444
Balance, September 30, 2020	**111,096,767**	**141,289,422**	**2,642,122**	**-**	**(2,311,878)**	**10,646,530**	**152,266,196**

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

Sangoma Technologies Corporation

Condensed consolidated interim statements of cash flows
For the three month periods ended September 30, 2020 and 2019
(Unaudited in Canadian dollars)

	Three month periods ended September 30,	
	2020	2019
	$	$
Operating activities		
Net income	**2,237,887**	906,022
Adjustments for:		
Depreciation of property and equipment (Note 5)	**206,835**	117,345
Depreciation of right-of-use assets (Note 15)	**834,894**	609,312
Amortization of intangible assets (Note 6)	**1,948,892**	1,193,295
Amortization of development costs (Note 7)	**442,026**	361,607
Income tax expense (Note 10)	**776,203**	324,761
Income tax paid	**(1,813,360)**	(456,141)
Share-based compensation expense (Note 11(ii))	**205,444**	141,987
Interest on obligation on right-of-use assets (Note 15)	**109,976**	54,679
Unrealized foreign exchange gain	**31,652**	-
Changes in working capital		
Trade receivables	**1,831,667**	1,018,060
Inventories	**442,233**	(483,855)
Contract assets	**(39,859)**	-
Other current assets	**164,011**	(25,413)
Sales tax payable	**(212,335)**	(259,423)
Accounts payable and accrued liabilities	**(2,297,083)**	(370,969)
Provisions	**119,945**	16,000
Contract liabilities	**(1,108,831)**	(171,898)
Net cash flows from operating activities	**3,880,197**	2,975,369
Investing activities		
Purchase of property and equipment (Note 5)	**(86,463)**	(113,624)
Development costs (Note 7)	**(486,464)**	(410,744)
Net cash flows used in investing activities	**(572,927)**	(524,368)
Financing activities		
Repayments of operating facility and loan (Note 9)	**(10,658,790)**	(1,031,158)
Repayment of right-of-use lease obligation (Note 15)	**(881,122)**	(663,991)
Issuance of common shares through private placement, net (Note 11(i))	**75,283,264**	21,319,720
Issuance of common shares for broker warrants exercised (Note 11(i))	**-**	61,957
Issuance of common shares for stock options exercised (Note 11(i))	**1,117**	423
Net cash flows from financing activities	**63,744,469**	19,686,951
Effect of foreign exchange rate changes on cash and cash equivalents	**(577,870)**	(466,785)
Increase in cash and cash equivalents	**66,473,869**	21,671,167
Cash and cash equivalents, beginning of the period	**27,249,863**	11,724,844
Cash and cash equivalents, end of the period	**93,723,732**	33,396,011

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

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 2021 are Sangoma Technologies Inc., Sangoma US Inc., VoIP Supply LLC, Digium Inc. 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.

Significant accounting policies

Statement of compliance and basis of presentation

The accompanying condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The condensed 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, 2020.

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 10, 2020.

These condensed 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, 2020, except for the change in functional currency of Sangoma Technologies Corporation and Sangoma Technologies Inc. from Canadian dollars to US dollars described below:

Change in functional currency for the Company and Sangoma Technologies Inc.

Management assessed the functional currency of the Company and its wholly-owned subsidiary Sangoma Technologies Inc. and concluded that the Company and its wholly-owned operating subsidiary should be measured using the US dollar as the functional currency. Effective July 1, 2020, the change in functional currency was applied on a prospective basis. The U.S. dollar translated amounts of nonmonetary assets and liabilities as
at July 1, 2020 became the historical accounting basis for those assets and liabilities at July 1, 2020.

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, 2020 and which are available at www.sedar.com. They were prepared using 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, 2020.

(In Canadian dollars)

4. Inventories

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

	September 30, 2020	June 30, 2020
	$	$
Finished goods	**7,631,906**	8,381,484
Parts	**4,636,314**	4,604,963
	12,268,220	12,986,447
Provision for obsolescence	**(335,440)**	(342,709)
Net inventory carrying value	**11,932,780**	12,643,738

(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, 2019	1,875,588	285,249	1,642,909	64,338	353,152	4,221,236
Additions through business combinations (Note 18)	307,553	249,585	-	-	-	557,138
Additions	493,749	3,383	59,469	-	74,737	631,338
Effects of movements in exchange rates	34,450	24,300	61,876	-	10,642	131,268
Balance at June 30, 2020	2,711,340	562,517	1,764,254	64,338	438,531	5,540,980
Additions	50,588	-	35,875	-	-	86,463
Effects of movements in exchange rates	(57,493)	(11,929)	(37,365)	(1,364)	(9,300)	(117,451)
Balance at September 30, 2020	**2,704,435**	**550,588**	**1,762,764**	**62,974**	**429,231**	**5,509,992**
Accumulated depreciation						
Balance at June 30, 2019	1,056,938	203,367	362,883	50,754	123,765	1,797,707
Depreciation expense	284,223	92,569	286,993	2,455	34,710	700,950
Effect of movements in exchange rates	21,263	8,219	21,177	26	(10,049)	40,636
Balance at June 30, 2020	1,362,424	304,155	671,053	53,235	148,426	2,539,293
Depreciation expense	101,666	30,526	61,881	545	12,217	206,835
Effects of movements in exchange rates	(31,332)	(6,381)	(14,093)	(1,127)	(3,120)	(56,053)
Balance at September 30, 2020	**1,432,758**	**328,300**	**718,841**	**52,653**	**157,523**	**2,690,075**
Net book value as at:						
June 30, 2020	1,348,916	258,362	1,093,201	11,103	290,105	3,001,687
September 30, 2020	**1,271,677**	**222,288**	**1,043,923**	**10,321**	**271,708**	**2,819,917**

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

(In Canadian dollars)

6. Intangible assets

	Copyright to software	Purchased technology	Website	Customer relationships	Brand	Other purchased intangibles*	Total
	$	$	$	$	$	$	$
Cost							
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
Business combinations (Note 18)	-	3,466,848	-	19,965,689	919,240	1,326,332	25,678,109
Effects of movements on exchange rates	-	327,516	9,003	1,542,265	333,829	144,066	2,356,679
Balance at June 30, 2020	2,948,461	11,615,368	236,705	40,687,100	9,249,756	3,745,065	68,482,455
Effects of movements on exchange rates	(62,526)	(246,319)	(5,020)	(862,824)	(196,153)	(79,419)	(1,452,261)
Balance at September 30, 2020	**2,885,935**	**11,369,049**	**231,685**	**39,824,276**	**9,053,603**	**3,665,646**	**67,030,194**
Accumulated amortization							
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	1,358,513	14,927	3,794,315	890,253	858,554	6,948,436
Effects of movements on exchange rates	-	33,779	8,821	206,455	43,525	40,940	333,520
Balance at June 30, 2020	2,948,461	4,135,642	236,705	7,409,142	1,974,769	1,571,358	18,276,077
Amortization expense	-	383,251	-	1,105,616	227,400	232,625	1,948,892
Effects of movements on exchange rates	(62,526)	(88,588)	(5,020)	(152,171)	(41,756)	(32,758)	(382,819)
Balance at September 30, 2020	**2,885,935**	**4,430,305**	**231,685**	**8,362,587**	**2,160,413**	**1,771,225**	**19,842,150**
Net book value as at:							
Balance at June 30, 2020	-	7,479,726	-	33,277,958	7,274,987	2,173,707	50,206,378
Balance at September 30, 2020	**-**	**6,938,744**	**-**	**31,461,689**	**6,893,190**	**1,894,421**	**47,188,044**

* Other purchase intangibles include non-compete agreements and backlog.

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

(In Canadian dollars)

7. Development costs

	$
Cost	
Balance at June 30, 2019	21,727,446
Additions	1,964,684
Investment tax credits	(136,716)
Balance at June 30, 2020	23,555,414
Additions	486,464
Effects of movements in exchange rates	(501,466)
Balance at September 30, 2020	**23,540,412**
Accumulated amortization	
Balance at June 30, 2019	(19,602,943)
Amortization	(1,499,753)
Balance at June 30, 2020	(21,102,696)
Amortization	(442,026)
Effects of movements in exchange rates	449,209
Balance at September 30, 2020	**(21,095,513)**

	September 30, 2020	June 30, 2020
	$	$
Net capitalized development costs	**2,444,899**	2,452,718

Each period, additions to development costs are recognized net of investment tax credits accrued. In addition to the above amortization, the Company has recognized $5,641,142 of engineering expenditures as an expense during the three month period ended September 30, 2020 (three month period ended September 30, 2019 - $5,120,761).

8. Goodwill

The carrying amount and movements of goodwill was as follows:

	$
Balance at June 30, 2019	21,405,420
Addition through business combinations (Note 18)	21,025,465
Effect of movements in exchange rates	1,581,533
Balance at June 30, 2020	44,012,418
Effect of movements in exchange rates	(933,342)
Balance at September 30, 2020	**43,079,076**

The addition to goodwill for the year ended June 30, 2020 is from the acquisition of VoIP Innovations LLC on October 18, 2019 and .e4 LLC on February 29, 2020 (Note 18).

9. Operating facility and loan and derivative liability

(a) Operating facility and loans

(i) The Company entered into a new loan facility with two banks and drew down the first tranche of $45,699,360 ($34,800,000 USD) on October 18, 2019. This new loan facility was used to pay down and close all existing loans and to fund part of the purchase of VoIP Innovations LLC. A further $7,879,200 ($6,000,000 USD) is available and may be drawn in a second tranche to pay any contingent consideration arising from the VoIP Innovations transaction at the end of the one-year assessment period. These term facilities are repayable over six years on a straight-line basis.

9. Operating facility and loan and derivative liability (continued)

(a) Operating facility and loans (continued)

The interest rates charged are based on Prime rate, US Base rate, London Inter-bank Offered Rate (LIBOR) or Canadian Dollar Offered Rate (CDOR) plus the applicable margin. Under the terms of these term facilities, the Company may convert the loans from variable to a fixed loan. The Company is required to lock in the interest rate on one half of the term loan within three months of each draw down. On January 21, 2020, the Company converted its US Base Rate loan to a one-month LIBOR loan plus the credit spread based on the syndicated loan agreement entered on October 18, 2019. Separately, as required under the agreement, the Company locked in half of the original loan amount by entering a 5-year interest rate credit swap with the two banks for $8,700,000 USD million each. The swaps together with protection against the 0% LIBOR floor have effectively converted one half of the variable LIBOR rate to a fixed loan of approximately 4.2% for five years of the six-year remaining balance on the loan. The repayment schedule for the loan has not been impacted by either of these changes. The balance outstanding against this term loan facility as of September 30, 2020 is $38,683,100 ($29,000,000 USD) (June 30, 2020 – $41,497,260 ($30,450,000 USD)). As at September 30, 2020, term loan facility balance of $7,736,620 (June 30, 2020 - $7,904,240) is classified as current and $30,946,480 (June 30, 2020 - $33,593,020) as long-term in the condensed consolidated interim statements of financial position.

(ii) The Company also has revolving credit facilities which includes a committed revolving credit facility for up to $8,000,000 and a committed swingline credit facility for up to $2,000,000 both of which may be used for general business purposes. On April 3, 2020, the Company drew down $1,838,460 ($1,300,000 USD) on the swingline credit facility available under the Credit Agreement. On April 17, 2020, the Company drew down $7,439,610 ($5,300,000 USD) from the revolving credit facility. The Company drew down the credit facility to maximize its cash balance in order to take advantage of opportunities that may arise, as well as to fully prepare itself for any further uncertainties during the COVID-19 pandemic. The balances outstanding as at June 30, 2020 for the swingline credit facility and revolving credit facility were $1,771,640 and $7,222,840 respectively and were classified as current. During August 2020, the Company paid back the outstanding amounts of $1,723,020 ($1,300,000 USD) on the swingline credit facility and $6,993,350 ($5,300,000 USD) on the revolving credit facility. The balances outstanding as at September 30, 2020 for the swingline credit facility and revolving credit facility were $nil. Both of these facilities remain fully available to the Company.

For the three month period ended September 30, 2020, the Company incurred interest costs to service the borrowing facilities in the amount of $409,570 (three month period ended September 30, 2019 - $342,642). During the three month period ended September 30, 2020, the Company borrowed $nil (three month period ended September 30, 2019 - $nil) in operating facility and loans and repaid $10,658,790 (three month period ended September 30, 2019 - $1,031,158).

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, 2020 and June 30, 2020, the Company was in compliance with all covenants related to its credit agreements.

(b) Derivative liability

The Company use derivative financial instruments to hedge its exposure to interest rate risks. All derivative financial instruments are recognized as either assets or liabilities at fair value on the condensed consolidated interim statements of financial position. Upon entering into a hedging arrangement with an intent to apply hedge accounting, the Company formally document the hedge relationship and designate

9. Operating facility and loan and derivative liability (continued)

(b) Derivative liability (continued)

the instrument for financial reporting purposes as a fair value hedge, a cash flow hedge, or a net investment hedge. When the Company determines that a derivative financial instrument qualifies as a cash flow hedge and is effective, the changes in fair value of the instrument are recorded in accumulated
other comprehensive income, net of tax in the condensed consolidated interim statements of financial position and will be reclassified to earnings when the hedged item affects earnings.

On January 21, 2020, the Company converted its US Base Rate loan to a one-month LIBOR loan plus the credit spread based on the syndicated loan agreement entered into on October 18, 2019. Separately, as required under the agreement, the Company locked in half of the original loan amount by entering into a 5-year interest rate credit swap with the two banks for $8,700,000 USD each to manage its exposure to changes in LIBOR-based interest rates. The interest rate swap hedges the variable cash flows associated with the borrowings under the loan facility, effectively providing a fixed rate of interest for five years of the six-year loan term.

The interest rate swap arrangement with two banks became effective on January 31, 2020, with a maturity date of December 31, 2024. The notional amount of the swap agreement at inception was $17,400,000 USD and decreases in line with the term of the loan facility. As of September 30, 2020, the notional amount of the interest rate swap was $15,130,436 USD (June 30, 2020 – 15,886,958 USD). The interest rate swap has a weighted average fixed rate of 1.65% (June 30, 2020 – 1.65%) and has been designated as an effective cash flow hedge and therefore qualifies for hedge accounting. As at September 30, 2020, the fair value of the interest rate swap liability was valued at $732,294 (June 30, 2020 - $797,380) and was recorded as derivative liability in the condensed consolidated interim statements of financial position. For the three month period ended September 30, 2020, the change in fair value of the interest rate swaps, net of tax, in the amount of $65,086 (three month period ended September 30, 2019 - $nil) is recorded in other comprehensive income (loss) in the condensed consolidated interim statements of income and comprehensive income. The fair value of interest rate swap is determined based on the market conditions and the terms of the interest rate swap agreement using the discounted cash flow methodology. Any differences between the hedged LIBOR rate and the fixed rate are recorded as interest expense on the same period that the related interest is recorded for the loan facility based on the LIBOR rate.

10. Income tax

The Company income tax expense is determined as follows:

(In Canadian dollars)

	September 30, 2020	September 30, 2019
Statutory income tax rate	**26.30%**	26.50%
	$	$
Net income before income taxes	**3,014,090**	1,230,783
Expected income tax expense	**794,689**	326,158
Tax rate changes and other adjustments	**(410)**	14,530
Share based compensation and non-deductible expenses	**8,580**	37,626
Difference in foreign tax rates	**(26,656)**	(53,553)
Income tax expense	**776,203**	324,761
The Company's income tax expense is allocated as follows:	**$**	$
Current tax expense	**261,364**	-
Deferred income tax recovery	**514,839**	324,761
Income tax expense	**776,203**	324,761

10. Income tax (continued)

The following table summarizes the components of deferred tax assets:

	September 30, 2020	June 30, 2020
	$	$
Deferred income tax assets (liabilities)		
Non-deductible reserves - Canadian	**108,180**	106,857
Non-deductible reserves - USA	**2,810,300**	2,568,308
SR&ED investment tax credits, net of 12(1)(x)	**1,988,790**	1,988,657
Property and equipment - Canadian	**(284,890)**	(310,810)
Property and equipment - USA	**(623,010)**	(679,817)
Deferred development costs	**(1,001,980)**	(1,001,984)
Intangible assets including goodwill - Canadian	**(92,480)**	(89,607)
Intangible assets including goodwill - USA	**(3,484,950)**	(3,812,802)
Non-capital losses carried forward - USA	**4,513,830**	5,551,484
Capital losses carried forward and other - Canadian	**4,370**	370,626
Non-capital losses carried forward - Canadian	**-**	127,473
Right of use assets net of obligations - Canadian	**7,650**	7,833
Right of use assets net of obligations - USA	**116,860**	103,662
Share issuance costs - Canadian	**1,642,140**	357,327
Other - USA	**328,559**	-
Net deferred income tax assets	**6,033,369**	5,287,207

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 assets:

(In Canadian dollars)

	September 30, 2020	June 30, 2020
	$	$
Balance at the beginning of the period	**5,287,207**	4,176,043
Recognized in profit/loss	**(514,839)**	479,929
Recognized in equity	**1,375,940**	432,590
Other foreign exchange movement	**(114,939)**	198,645
Balance at the end of the period	**6,033,369**	5,287,207

The Company has deducted available scientific research and experimental development ("SR&ED") for federal and provincial purposes and unutilized SR&ED tax credits. These condensed consolidated interim 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:

10. Income tax (continued)

Year of expiration	Federal tax credits carry forward	Ontario tax credits carry forward
	$	$
2033	317,501	-
2034	347,033	-
2035	288,821	-
2036	334,585	12,036
2037	300,386	68,347
2038	227,599	50,686
2039	325,909	54,213
2040	334,069	50,401
	2,475,903	235,683

The income tax benefit of eligible SR&ED costs incurred in prior years but not utilized have been taken into account in these condensed consolidated interim financial statements.

11. Shareholders' equity

(i) Share capital

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at September 30, 2020, the Company's issued and outstanding common shares consist of the following:

(In Canadian dollars)

	September 30, 2020	September 30, 2019
	#	#
Shares issued and outstanding:		
Outstanding, beginning of the period	**76,087,735**	52,962,090
Shares issued through private placement (Note 18)	**35,006,000**	14,846,500
Shares issued upon exercise of options	**3,032**	1,424
Shares issued upon exercise of broker warrants	**-**	61,957
Shares issued and outstanding, end of the period	**111,096,767**	67,871,971

On July 30, 2020, the Company closed its equity offering with 35,006,000 common shares being issued at a price of $2.30 per common share including 4,566,000 common shares sold pursuant to the exercise in full of the over-allotment option grant to the Underwriter for aggregate gross proceeds of $80,513,800 and net proceeds of $75,283,264. The Company intends to use the net proceeds of the offering to fund any future acquisitions, for debt repayment, and for general corporate purposes.

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 and net proceeds of $21,319,720.

During the three month period ended September 30, 2020, a total of 3,032 (three month period ended September 30, 2019 – 1,424) options were exercised for cash consideration of $1,117 (three month period ended September 30, 2019 - $423), and the Company recorded a charge of $549 (three month period ended September 30, 2019 – $226) from contributed surplus to share capital.

11. Shareholders' equity (continued)

(i) Share capital (continued)

During the three month period ended September 30, 2019, a total of 61,957 broker warrants were exercised for cash consideration of $61,957 and the Company recorded a charge of $29,348 from warrant reserve to share capital. As at September 30, 2020, no broker warrants were outstanding.

(ii) Stock options

During the year ended June 30, 2020, the shareholders of the Company amended the stock option plan (the "plan") for 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 10% of the outstanding common shares of the corporation 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 are terminated, cancelled, exercised, expired or surrendered 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.

(In Canadian dollars)

The following table shows the movement in the stock option plan:

Measurement date	Number of options	Weighted average price
	#	$
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
Balance, June 30, 2020	4,498,203	1.55
Exercised	(3,032)	(0.37)
Expired	(24,002)	(1.50)
Forfeited	(42,654)	(1.16)
Balance, September 30, 2020	**4,428,515**	**1.55**

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

11. Shareholders' equity (continued)

(ii) Stock options (continued)

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.

There were no stock options granted during the three month period ended September 30, 2020 (three month period ended September 30, 2019 – nil).

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

	September 30, 2020		September 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	**523,003**	**0.59**	2,403,841	1.28
$0.51 - $0.75	**127,952**	**2.24**	176,592	3.25
$1.01 - $1.25	**327,509**	**3.24**	-	-
$1.51 - $1.75	**37,110**	**3.67**	-	-
	1,015,574	**1.76**	2,580,433	1.41

(In Canadian dollars)

For the three month period ended September 30, 2020, the Company recognized share-based compensation expense in the amount of $205,444 (three month period ended September 30, 2019 - $141,987).

(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, 2020	September 30, 2019
Number of shares:		
Weighted average number of shares used in basic earnings per share	**99,679,932**	65,240,022
Shares deemed to be issued in respect of options and warrants	**1,652,382**	3,241,505
Weighted average number of shares used in diluted earnings per share	**101,332,314**	68,481,528
Net income for the year	**$ 2,237,887**	$ 906,022
Earnings per share:		
Basic earnings per share	**$ 0.022**	$ 0.014
Diluted earings per share	**$ 0.022**	$ 0.013

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 excluding key management compensation:

	September 30, 2020	June 30, 2020
	$	$
Accounts payable and accrued liabilities	**7,500**	5,000

13. Financial instruments

The fair values of the cash and cash equivalents, trade receivables, contract assets, accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term nature of these financial instruments and fair values of operating facility and loans approximate their carrying values due to variable interest loans or fixed rate loan, which represent market rate.

Cash and cash equivalents are comprised of:

(In Canadian dollars)

	September 30, 2020	June 30, 2020
	$	$
Cash at bank and on hand	**93,723,732**	27,249,863
	93,723,732	27,249,863

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. There were no cash equivalents as at September 30, 2020 and June 30, 2020.

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, 2020	September 30, 2019
	$	$
Interest income	**(1,567)**	(22,566)
Interest expense (Notes 9, 15)	**519,546**	397,321
Net interest expense	**517,979**	374,755

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.

13. Financial instruments (continued)

Credit risk (continued)

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, 2020	June 30, 2020
	$	$
Trade receivables aging:		
0-30 days	**7,902,809**	9,312,820
31-90 days	**1,036,227**	1,838,303
Greater than 90 days	**823,991**	671,596
	9,763,027	11,822,719
Expected credit loss provision	**(600,872)**	(588,178)
Net trade receivables	**9,162,155**	11,234,541

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

(In Canadian dollars)

	September 30, 2020	June 30, 2020
	$	$
Expected credit loss provision:		
Expected credit loss provision, beginning balance	**(588,178)**	(287,372)
Net change in expected credit loss provision during the period	**(12,694)**	(300,806)
Expected credit loss provision, ending balance	**(600,872)**	(588,178)

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, 2020
	Total	**Up to 30 days past due**	**Over 30 days past due**	**Over 90 days past due**
Default rates		1.72%	10.82%	42.80%
Trade receivables	**$ 9,763,027**	$ 7,902,809	$ 1,036,227	$ 823,991
Expected credit loss provision	**$ 600,872**	$ 136,119	$ 112,112	$ 352,641

				June 30, 2020
	Total	**Up to 30 days past due**	**Over 30 days past due**	**Over 90 days past due**
Default rates		1.68%	5.39%	49.58%
Trade receivables	**$ 11,822,719**	$ 9,312,820	$ 1,838,303	$ 671,596
Expected credit loss provision	**$ 588,178**	$ 156,043	$ 99,164	$ 332,971

13. Financial instruments (continued)

Credit risk (continued)

Substantially all of the Company's cash and cash equivalents are held with major Canadian or US financial institutions 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, 2020	June 30, 2020
	$	$
Accounts payable and accrued liabilities	**11,584,726**	14,185,737
Operating facility and loans	**7,736,620**	16,898,720
Lease obligations on right-of-use assets	**2,910,532**	2,951,616
	22,231,878	34,036,073

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, contract assets, accounts payable and accrued liabilities, and operating facility and loans. As at September 30, 2020, a 10% depreciation or appreciation of the U.S. dollar, Euro, and GBP against the Canadian dollar would have resulted in an approximate $8,608,340 (2019 - $387,379) increase or decrease, respectively, in total comprehensive income (loss).

Interest rate risk

The Company's exposure to interest rate fluctuations is with its credit facility (Note 9) which bears interest at a floating rate. As at September 30, 2020, a change in the interest rate of 1% per annum would have an impact of approximately $193,154 (three month period ended September 30, 2019 - $293,044) per annum in finance costs. The Company also entered into an interest rate swap arrangement for its loan facility (Note 9) to manage the exposure to changes in LIBOR-rate based interest rate. The fair value of the interest rate swaps was estimated based on the present value of projected future cash flows using the LIBOR forward rate curve. The model used to value the interest rate swaps included inputs of readily observable market data, a Level 2 input. As described in detail in Note 9, the fair value of the interest rate swaps was a $732,294 (June 30, 2020 – $797,380) liability at September 30, 2020.

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 and operating facilities and loans. 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 lease obligations

The Company's lease liabilities and right-of-use assets are presented below:

(In Canadian dollars)

	Right-of-use assets	Lease Obligations
	$	$
Present value of leases		
Balance at June 30, 2019	17,241,779	17,123,225
Additions	1,620,892	1,620,892
Effects of movements on exchange rates	697,732	694,785
Balance at June 30, 2020	19,560,403	19,438,902
Additions	1,196,170	1,196,170
Terminations	(222,111)	(99,633)
Effects of movements on exchange rates	(383,725)	(386,385)
Balance at September 30, 2020	20,150,737	20,149,054
Accumulated depreciation and repayments		
Balance at June 30, 2019	-	-
Depreciation expense	3,366,767	-
Repayments	-	3,285,223
Interest expense	-	(481,697)
Effects of movements on exchange rates	15,116	12,586
Balance at June 30, 2020	3,381,883	2,816,112
Depreciation expense	834,894	-
Terminations	(222,111)	(99,633)
Repayments	-	881,122
Interest expense	-	(109,976)
Effects of movements on exchange rates	(43,875)	(34,339)
Balance at September 30, 2020	3,950,791	3,453,286
Net book value as at:		
June 30, 2020	16,178,520	16,622,790
September 30, 2020	**16,199,946**	**16,695,768**
Lease Obligations - Current		**2,910,532**
Lease Obligations - Non-current		**13,785,236**
		16,695,768

16. Provisions

	Warranty provision	Sales returns & allowances provision	Stock rotation provision	Total
	$	$	$	$
Balance at June 30, 2019	208,481	48,230	300,294	557,005
Additional provision recognized	5,676	46,227	54,034	105,937
Balance at June 30, 2020	214,157	94,457	354,328	662,942
Additional provision recognized	212,288	35,319	(141,558)	106,049
Balance at September 30, 2020	**426,445**	**129,776**	**212,770**	**768,991**

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 operating 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 of America ("USA"). 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 month periods ended September 30, 2020 and 2019 as follows:

	September 30, 2020	September 30, 2019
	$	$
Products	**15,267,535**	17,073,977
Services	**19,765,339**	10,931,167
Total revenues	**35,032,874**	28,005,144

The sales, in Canadian dollars, in each of these geographic locations for the three month periods ended September 30, 2020 and 2019 as follows:

	September 30, 2020	September 30, 2019
	$	$
USA	**28,720,369**	20,477,994
Canada	**1,375,493**	1,463,560
All other countries	**4,937,012**	6,063,590
Total revenues	**35,032,874**	28,005,144

17. Segment disclosures (continued)

The non-current assets, in Canadian dollars, in each of the geographic locations as at September 30, 2020 and June 30, 2020 are below:

	September 30, 2020	June 30, 2020
	$	$
Canada	**9,558,059**	7,516,113
USA	**108,207,192**	113,622,815
Total non-current assets	**117,765,251**	121,138,928

18. Business combinations

a) On October 18, 2019, Sangoma Technologies US Inc., a wholly owned subsidiary of Sangoma Technologies Inc., acquired all the membership interest of VoIP Innovations LLC, a US based company. The total discounted consideration for the acquisition was $46,028,032 ($35,050,283 USD). The discounted purchase price consisted of $39,171,420 ($29,828,982 USD) in cash paid on
closing and the issuance of 5,500,417 common shares valued at $6,553,938 ($4,990,815 USD) based on a share price of $1.40 ($1.066 USD) per common share on closing and a discount of 14.9% to reflect the 12-month lock up. In addition, the Company is required to pay additional consideration of up to $7,879,200 ($6,000,000 USD) if certain performance criteria are met for the twelve month period from the date of acquisition. The Company expects this potential payment to be $nil and the working capital adjustment was finalized at $302,674 ($230,486 USD). Of the cash consideration paid to the vendors, $4,281,032 ($3,260,000 USD) was paid to an escrow agent to be held for periods ranging from 4 months to 2 years to cover potential working capital, indemnification and USF special indemnity adjustments. The cash held in escrow for working capital and indemnification purposes was discounted using a 5.0% discount for a period of four to twelve months, respectively for an amount of $1,163,074 ($885,679 USD) and $450,240 ($342,857 USD). The cash held in escrow for USF Special Indemnity purposes was discounted using a 1.72% and 1.64% discount for a period of one and two years, respectively for an amount of $2,194,691 ($1,671,254 USD) and $381,349 ($290,397 USD). The Company acquired VoIP Innovations LLC to expand its suite of service offerings and increase recurring revenue.

The Company incurred transaction costs in the amount of $2,581,854 which was expensed and included in the consolidated statements of income and comprehensive income of the fiscal year ended June 30, 2020. The acquisition has been accounted for using the acquisition method under IFRS 3, Business Combinations.

18. Business combinations (continued)

(In Canadian dollars)

Consideration	USD	CAD
Cash consideration on closing	$26,638,795	$34,982,066
Net working capital adjustment	$230,486	$302,674
Cash held in escrow for working capital	$885,679	$1,163,074
Cash held in escrow for indemnification	$342,857	$450,240
Cash held in escrow for USF Special Indemnity (1 year)	$1,671,254	$2,194,691
Cash held in escrow for USF Special Indemnity (2 year)	$290,397	$381,349
Common shares	$4,990,815	$6,553,938
	$35,050,283	**$46,028,032**

Purchase price allocation	USD	CAD
Cash	$1,513,854	$1,987,993
Accounts receivable	$582,676	$765,170
Prepaids and other deposits	$294,739	$387,051
Property and equipment	$424,260	$557,138
Right-of-use assets	$516,648	$678,462
Accounts payable and accrued liabilities	($561,890)	($737,874)
Other liabilities	($978,715)	($1,285,249)
Contract Liabilities	($628,728)	($825,646)
Lease obligations on right-of-use assets	($516,648)	($678,462)
Customer relationships	$15,030,000	$19,737,396
Technology	$2,640,000	$3,466,848
Brand	$700,000	$919,240
Non-compete	$1,010,000	$1,326,332
Goodwill	$15,024,087	$19,729,633
	$35,050,283	**$46,028,032**

b) On February 29, 2020, the Company acquired .e4 LLC in order to strengthen its sales capabilities in its FreePBX® ecosystem. Given the relative size of this transaction, no financial details were publicly disclosed.

Goodwill arises primarily from the ability to benefit from the assembled workforce, future growth and potential synergies in the form of cost savings.

19. Subsequent events

On October 7, 2020, $601,823 ($449,256 USD) was released to the Company from the funds held in escrow in connection with the VoIP Innovations LLC acquisition for further payment by the Company to the Universal Service Fund ("USF"). This was the last payment outstanding and was made in full and final settlement of all amounts due as at December 31, 2019. It has further been agreed between the parties that the remaining balance of the USF escrow will be released to the sellers.

20. Authorization of the condensed consolidated interim financial statements

The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on November 10, 2020.