

Consolidated financial statements of

Sangoma Technologies Corporation

June 30, 2014 and 2013

Sangoma Technologies Corporation

June 30, 2014 and 2013

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Independent Auditor's Report

To the Shareholders of
Sangoma Technologies Corporation

We have audited the accompanying consolidated financial statements of Sangoma Technologies Corporation, which comprise the consolidated statements of financial position as at June 30, 2014 and 2013, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sangoma Technologies Corporation as at June 30, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
October 23, 2014

Sangoma Technologies Corporation

Consolidated statements of financial position

as at June 30, 2014, and 2013

(In Canadian dollars)

	2014	2013
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 8)	4,981,571	4,012,126
Trade receivables (Note 9)	5,309,728	4,963,684
Inventories (Note 4)	2,587,634	3,035,704
Investment tax credits receivable	367,874	321,794
Sales tax receivables	44,422	28,854
Investment in Vegastream Private Networks Limited (Note 16)	10,665	10,665
Other current assets	115,348	47,677
	13,417,242	12,420,504
Non-current assets		
Deferred income tax assets (Note 11)	944,282	887,581
Property, plant and equipment (Note 5)	349,553	333,451
Development costs (Note 7)	2,745,227	2,539,418
Intangible assets (Note 6)	998,514	1,172,642
	18,454,818	17,353,596
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,705,802	1,628,555
Provisions (Note 17)	43,318	23,318
Income tax payable	21,598	-
Current portion of term loan	-	17,035
Deferred revenue	300,226	146,514
	2,070,944	1,815,422
Shareholders' equity		
Share capital (Note 10(i), 14)	15,333,326	15,333,326
Contributed surplus (Note 10(i), 14)	1,730,025	1,621,375
Deficit	(679,477)	(1,416,527)
	16,383,874	15,538,174
	18,454,818	17,353,596

Approved by the Board

(Signed) Al Guarino

Director

(Signed) Yves Laliberte

Director

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

Sangoma Technologies Corporation

Consolidated statements of comprehensive income (loss)

years ended June 30, 2014, and 2013

(In Canadian dollars)

	2014	2013
	\$	\$
Revenue (Note 13)	13,829,082	12,950,178
Cost of sales	4,574,556	4,465,551
Gross profit	9,254,526	8,484,627
Expenses		
Sales and marketing	3,359,401	2,777,713
Research and development	2,594,514	2,827,648
General and administration	2,416,295	3,080,595
Foreign currency exchange gain	(56,472)	(141,024)
	8,313,738	8,544,932
Income before the undernoted	940,788	(60,305)
Interest income (Note 8)	(26,809)	(26,907)
Restructuring expense	-	198,000
Impairment of intangible asset (Note 6)	-	1,056,088
Impairment of goodwill (Note 3(i))	-	3,543,912
	(26,809)	4,771,093
Income (loss) before income tax	967,597	(4,831,398)
Provision for (recovery of) income taxes		
Current (Note 11)	150,178	6,313
Deferred (Note 11)	80,369	(503,054)
Net income (loss) and total comprehensive income (loss)	737,050	(4,334,657)
Earnings (loss) per share		
Basic (Note 10(iii))	0.026	(0.148)
Diluted (Note 10(iii))	0.026	(0.148)
Weighted average number of shares outstanding (Note 10(iii))		
Basic	28,829,809	29,261,162
Diluted	28,829,809	29,261,162

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

Sangoma Technologies Corporation

Consolidated statement of changes in equity years ended June 30, 2014 and 2013

(In Canadian dollars)

	Number of shares	Share capital \$	Contributed surplus \$	Retained earnings \$	Total equity \$
Balance, June 30, 2012	29,538,809	15,712,274	1,277,393	2,918,130	19,907,797
Net income/(loss) and total comprehensive income/(loss)	-	-	-	(4,334,657)	(4,334,657)
Share-based payment (Note 10(ii))	-	-	193,789	-	193,789
Normal course issuer bid redemption (Note 10(i))	(709,000)	(378,948)	150,193	-	(228,755)
Balance, June 30, 2013	28,829,809	15,333,326	1,621,375	(1,416,527)	15,538,174
Net income/(loss) and total comprehensive income/(loss)	-	-	-	737,050	737,050
Share-based payment (Note 10(ii))	-	-	108,650	-	108,650
Normal course issuer bid redemption (Note 10(i))	-	-	-	-	-
Balance, June 30, 2014	28,829,809	15,333,326	1,730,025	(679,477)	16,383,874

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

Sangoma Technologies Corporation

Consolidated statements of cash flows

years ended June 30, 2014 and 2013

(In Canadian dollars)

	2014	2013
	\$	\$
Operating activities		
Net income (loss) for the period	737,050	(4,334,657)
Adjustments for		
Depreciation of property, plant and equipment (Note 5)	74,472	87,219
Amortization of intangible assets (Note 6)	174,128	407,393
Amortization of capitalized development costs (Note 7)	1,673,410	1,747,593
Income tax expense (recovery)	230,547	(496,741)
Income taxes paid	8,632	-
Share-based expense (Note 10(ii))	108,650	193,789
Impairment of intangible asset (Note 6)	-	1,056,088
Impairment of goodwill (Note 3(i))	-	3,543,912
Changes in item of working capital		
Trade receivables	(346,044)	(468,666)
Inventories (Note 4)	448,070	5,133
Other current assets	(67,671)	327,856
Sales tax receivables	(15,568)	188,570
Accounts payable and accrued liabilities	77,247	(473,043)
Provisions (Note 17)	20,000	23,318
Deferred revenue	153,712	43,552
Income tax payable	21,598	-
Investment tax credits receivables	(46,080)	239,390
	3,252,153	2,090,706
Investing activities		
Purchase of property, plant and equipment (Note 5)	(90,574)	(42,110)
Development costs	(2,175,099)	(2,790,468)
	(2,265,673)	(2,832,578)
Financing activities		
Repayment of term loan	(17,035)	(34,072)
Normal course issuer bid redemption	-	(228,755)
	(17,035)	(262,827)
Decrease in cash and cash equivalents	969,445	(1,004,699)
Cash and cash equivalents, beginning of year	4,012,126	5,016,825
Cash and cash equivalents, end of year	4,981,571	4,012,126

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

1. General information

Founded in 1984, Sangoma Technologies Corporation (“Sangoma” or the “Company”) is publicly traded on the TSX Venture Exchange (TSX VENTURE: STC). The Company was incorporated in Canada, its legal name is Sangoma Technologies Corp. and its operating subsidiary is Sangoma Technologies Inc.

Sangoma is a leading provider of hardware and software components that enable or enhance Internet Protocol Communications Systems for both telecom and datacom applications. Enterprises, small to medium sized businesses (“SMBs”) and telecom operators in over 150 countries rely on Sangoma’s technology as part of their mission critical infrastructures. The product line includes data and telecom boards for media and signal processing, as well as gateway appliances and software.

The Company is domiciled in Ontario, Canada. The address of the Company’s registered office and its principal place of business is 100 Renfrew Dr., Suite 100, Markham, Ontario, L3R 9R6.

2. Significant accounting policies

(i) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

(ii) *Basis of preparation*

The financial statements are prepared on a going concern basis, under the historical cost convention except for the revaluation of certain financial assets and liabilities to fair value. All financial information is presented in Canadian dollars, except per share amounts or as otherwise noted. The Company has elected to present the net income (loss) and comprehensive income (loss) in a single financial statement titled consolidated statement of comprehensive income (loss).

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

(iii) *Basis of consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Sangoma Technologies Inc.

Subsidiaries are entities controlled by the Company. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. All intercompany balances, transactions, income and expenses have been eliminated on consolidation.

(iv) *Inventories*

Parts and finished goods are stated at the lower of cost and net realizable value. Inventory cost includes all expenses directly attributable to the manufacturing process, which include the cost of materials and labor, as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinary interchangeable items are assigned using the first in, first out method. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(v) *Revenue*

Revenue comprises revenue from the sale of goods and the rendering of services. Revenue is measured at the fair value of the consideration received or receivable for the gross inflow of economic benefits during the period, arising in the ordinary course of the Company’s activities. Revenue is recognized when it is probable that the economic benefits will flow to the Company.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

2. Significant accounting policies (continued)

(v) *Revenue (continued)*

Sale of goods (hardware and software)

For sales of hardware, the recognition criteria are generally met at the time the product is shipped to the customer. Depending on the delivery conditions, title and risk have passed to the customer at that point and acceptance of the product, when contractually required, has been obtained, either via formal acceptance by the customer or lapse of rejection period.

Revenue that consists of license fees relating to software licenses that do not require significant modification or customization of software or where services are not essential to the functionality of the software are recognized when a contract with a customer has been executed, delivery and acceptance of the software have occurred, the license fee is fixed and determinable, and collection of the related receivable is deemed probable by management.

Rendering of services

Services comprise after-sales service and maintenance and consulting. The Company provides support to its customers and the amount of the selling price associated with the servicing agreement is deferred and recognized as revenue over the period during which the service is performed. This deferred revenue is included in current liabilities. Revenues relating to engineering services are recognized as the services are rendered. Cash received in advance of revenue being recognized is classified as deferred revenue.

The Company also enters into transactions that represent multiple-element arrangements, which may include any combination of equipment and service. These multiple element arrangements are assessed to determine whether they can be sold separately in order to determine whether they can be treated as more than one unit of accounting or element for the purpose of revenue recognition. When there are multiple elements or units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements on a relative fair value basis. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered. The revenue recognition policy described above is then applied to each unit of accounting.

(vi) *Cost of sales*

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

(vii) *Foreign currency*

The Company's presentation currency is the Canadian Dollar ("C\$"). The functional currency of the Company and its subsidiary is the Canadian Dollar.

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

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

(viii) *Interest income*

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

2. Significant accounting policies (continued)

(ix) *Share-based payments*

The Company grants stock options to certain employees. Stock options vest over and expire after various periods of time, usually 25% of the options vest on the first anniversary of the grant and the remainder vest in equal amounts every 3 months thereafter until the fifth anniversary of the commencement date. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in Note 10(ii).

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

(x) *Income taxes and deferred taxes*

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

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

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

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

(xi) *Property, plant and equipment*

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

Depreciation is calculated at 20% of the declining balance for all classes except for depreciation for leasehold improvements which is calculated on a straight-line basis over the shorter of the lease term or useful life. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted, if required.

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

2. Significant accounting policies (continued)

(xii) Intangible assets

Intangible assets with finite lives that are acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, such intangible assets are carried at cost less any accumulated amortization on a straight-line basis over 10 years for copyright to software, straight-line basis over 10 years for purchased technology, and 3 years for websites. Amortization expense is included in the statement of comprehensive income (loss) in general and administration expense.

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

(xiii) Research and development expenditures

The Company qualifies for certain investment tax credits related to its research and development activities. Research costs are expensed as incurred and are reduced by related investment tax credits, which are recognized when it is probable that they will be realized.

Costs that are directly attributable to the development phase of new products are recognized as intangible assets and amortized over three years provided they meet the following recognition requirements:

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

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

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

Any gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognized in profit or loss within "other income" or "other expenses".

(xiv) Goodwill

Goodwill represents the excess of the acquisition cost in a business combination over the fair value of the Company's share of the identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses. As of June 30, 2014 the Company had no Goodwill.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

2. Significant accounting policies (continued)

(xv) *Impairment testing of goodwill, other intangible assets and property, plant and equipment*

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

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell or value-in-use. To determine the value-in-use, management estimates expected future cash flows from the cash-generating unit and determines a suitable pre-tax discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements.

Discount factors have been determined for the cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for the cash-generating unit reduce first the carrying amount of any goodwill allocated to that cash-generating unit, with any remaining impairment loss charged pro rata to the other assets in the cash-generating unit. In allocating an impairment loss, the Company shall not reduce the carrying amount of an asset below the highest of its fair value less costs of disposal or its value in use and zero.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the assets' recoverable amount exceeds its carrying amount only to the extent of the new carrying amount doesn't exceed the carrying value of the asset had it not originally been impaired.

(xvi) *Financial instruments*

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

2. Significant accounting policies (continued)

(xvi) Financial instruments (continued)

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of comprehensive income (loss). Gains and losses arising from changes in fair value are presented in the statement of comprehensive income (loss) within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade receivables, investment tax credit receivable, sales tax receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities and term loan. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. The term loan was recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Company has classified its financial instruments as follows:

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

2. Significant accounting policies (continued)

(xvii) *Impairment of financial assets*

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) *Financial assets carried at amortized cost*

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(xviii) *Provisions*

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

(xix) *Earnings per share*

Basic earnings per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average number of shares outstanding are increased to include additional shares for the assumed exercise of stock options, if dilutive. The average number of shares is calculated by assuming that outstanding conversions were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

(xx) *Business combination*

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

2. Significant accounting policies (continued)

(xxi) Investment tax credits

Investment tax credits (“ITCs”) are recognized where there is reasonable assurance that the ITCs will be received and all attached conditions will be complied with. When the ITCs relates to an expense item, it is netted against the related expense. Where the ITCs relates to an asset, it reduces the carrying amount of the asset. The ITCs is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. The Company is actively engaged in scientific research and development (“R&D”) and, accordingly, has previously filed for ITC refunds under both the Canadian federal and Ontario provincial Scientific Research and Experimental Development (“SR&ED”) tax incentive programs. The ITCs recorded in the accounts are based on management’s interpretation of the Income Tax Act of Canada, provisions which govern the eligibility of R&D costs. The claims are subject to review by the Canada Revenue Agency and the Minister of Revenue for Ontario before the refunds can be released. To the extent that collection is reasonably assured, ITCs are recorded as a reduction to the underlying expense or asset to which the ITCs is attributable.

(xxii) New and revised standards and interpretations adopted as at January 1, 2013

- IFRS 7, “Financial Instruments: Disclosure” (amendment);
- IFRS 10, “Consolidated Financial Statements” (new);
- IFRS 11, “Joint Arrangements” (new);
- IFRS 12, “Disclosure of Interests in Other Entities” (new); and
- IFRS 13, “Fair Value Measurement” (new).

The adoption of these new and revised standards and interpretations did not have a significant impact on the Company’s consolidated financial statements.

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

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

IFRS 9, “Financial instruments” (“IFRS 9”) was issued by the IASB in November 2009 and will replace IAS 39, “Financial instruments: recognition and measurement” (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In December 2011, the IASB issued amendments to IFRS 9 that also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 which was originally limited to companies that chose to apply IFRS 9 prior to 2012. Alternatively, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. In November 2013, the IASB issued amendments to IFRS 9 deferring the mandatory effective date, which has not yet been finalized; however early adoption is permitted. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 9, “Financial instruments” or IAS 39, “Financial instruments: recognition and measurement”. The amendments to IFRS 10 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Company’s consolidated financial statements.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

2. Significant accounting policies (continued)

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

IFRS 10, "Consolidated financial statements" ("IFRS 10") was amended by the IASB in October 2012. The amendments introduce an exception for investment entities to the principle that all subsidiaries are consolidated. The amendments define an investment entity and require an investment entity to measure subsidiaries at fair value through profit or loss in accordance with IFRS 9, "Financial instruments" or IAS 39, "Financial instruments: recognition and measurement". The amendments to IFRS 10 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

IFRS 12, "Disclosure of interests in other entities" ("IFRS 12") was amended by the IASB in October 2012. The amendments add disclosure requirements for investment entities as defined in IFRS 10, "Consolidated financial statements". The amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

IFRS 15, "Revenue from contracts and customers" ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, revenue, IAS 11, construction contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IAS 36, "Impairment of assets" ("IAS 36") was amended by the IASB in May 2013. The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognised or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

IAS 39, "Financial instruments: recognition and measurement" ("IAS 39") was amended by the IASB in June 2013. The amendments clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

IFRIC 21 - Levies was issued in May 2013 and is an interpretation of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. The interpretation clarifies the obligating event that gives rise to a liability to pay a levy. IFRIC 21 is effective for periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of this interpretation on its consolidated financial statements.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

3. Significant accounting judgments, estimates and uncertainties

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes to the consolidated financial statements. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimates are revised. Significant areas requiring the Company to make estimates include goodwill impairment testing and recoverability of assets, business combinations, income taxes, estimated useful life of long-lived assets, internally generated development costs, the fair value of share-based payments, allowance for doubtful accounts, inventory obsolescence, and warranty provision. These estimates and judgments are further discussed below:

(i) *Intangible asset impairment testing and recoverability of assets*

Sangoma has a single cash-generating unit and reviews the value in use versus the carrying value both in total and for each of the individual assets. The recoverable amount of the cash-generating unit was estimated based on an assessment of value in use using a discounted cash flow approach. The approach uses cash flow projections based upon a financial forecast approved by management and the Board of Directors, covering a five year period. Cash flows for the years thereafter are extrapolated using the estimated terminal growth rate. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ or change quickly, depending on economic conditions and other events.

The following are the key assumptions upon which management based its determination of the recoverable amount of goodwill.

Cash flow projections have been discounted using a discount rate derived from the Company's after-tax weighted average cost of capital adjusted for specific risks relating to the cash generating unit. At June 30, 2014, the after-tax discount rate used in the recoverable amount calculation was 18% (2013 - 19%). The cash flow forecasts were extrapolated beyond the five year period using an estimated long term growth rate of 2% (2013 - 2.0%).

During fiscal 2013 the previously recorded goodwill of \$3,543,912 was written down in its entirety.

(ii) *Business combinations*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In August 2011, Sangoma purchased the assets of VegaStream for \$1,515,754 and recorded an intangible asset, Purchased Technology, of \$905,000 (see note 16) and Goodwill of \$559,191 which was written down to zero in fiscal 2013. The acquisition has been accounted for using the acquisition method.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

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

(iii) *Income taxes*

The Company operates and earns income in Canada and the United Kingdom and is subject to changing income tax laws within these countries. Significant judgments are necessary in determining worldwide income tax liabilities.

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

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

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

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

(v) *Internally generated development costs*

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

(vi) *Share-based payments*

The fair value of all share-based payments granted are determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of the options. The Company has a significant number of options outstanding and expects to continue to make grants. Therefore the estimates and assumptions related to stock options are critical to the Company's financial position.

(vii) *Allowance for doubtful accounts*

The Company is exposed to credit risk associated with its trade receivables. This risk is reduced by having customers' trade receivables insured by Export Development Canada ("EDC") wherever possible. Management reviews the trade receivables at each reporting date and assesses and makes an allowance for doubtful accounts when the expected recovery could be less than the actual trade receivable. The expected recovery amount can vary from the actual cash received.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

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

(viii) *Inventory obsolescence*

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

(ix) *Functional currency*

The functional currency of the Company has been assessed by management based on consideration of the currency and economic factors that mainly influence operating costs, financing and related transactions. Changes to these factors may have an impact on the judgment applied in the future determination of the Company's functional currency.

(x) *Tax credits recoverable*

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

(xi) *Warranty provision*

The warranty provision represents management's best estimate of costs of product warranties at the time the product is installed or delivered. Therefore, the estimates and assumptions related to costs of repairs and/or replacement costs to correct product failures impact the Company's financial position.

(xii) *Sales returns and allowances provision*

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

Stock rotation provision

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

4. Inventories

Inventories recognized in the statement of financial position can be analyzed as follows:

	2014	2013
	\$	\$
Finished goods	1,106,897	1,684,678
Parts	1,763,274	1,500,445
	2,870,171	3,185,123
Provision for obsolescence	(282,537)	(149,419)
Net inventory carrying value	2,587,634	3,035,704

During the year ended June 30, 2014, the provision for obsolescence was increased by \$133,118 and a total of \$4,279,868 of inventories were included in cost of goods sold compared to \$4,128,146 for the year ended June 30, 2013.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

5. Property, plant and equipment

	Office furniture and computer equipment	Software and books	Stockroom and production equipment	Tradeshaw equipment	Leasehold improvement	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, June 30, 2012	635,347	182,184	99,148	41,631	91,764	1,050,074
Additions	41,112	-	-	-	998	42,110
Balance, June 30, 2013	676,459	182,184	99,148	41,631	92,762	1,092,184
Additions	48,720	30,330	6,553	-	4,971	90,574
Balance, June 30, 2014	725,179	212,514	105,701	41,631	97,733	1,182,758
Accumulated depreciation and impairment						
Balance, June 30, 2012	446,780	116,642	59,006	21,194	27,892	671,514
Depreciation expense	43,127	11,870	7,265	3,665	21,292	87,219
Balance, June 30, 2013	489,907	128,512	66,271	24,859	49,184	758,733
Depreciation expense	51,007	8,529	4,785	1,821	8,330	74,472
Balance, June 30, 2014	540,914	137,041	71,056	26,680	57,514	833,205
Carry amount						
Balance, June 30, 2013	186,552	53,672	32,877	16,772	43,578	333,451
Balance, June 30, 2014	184,265	75,473	34,645	14,951	40,219	349,553

Depreciation expense is included in general and administration expense in the statement of comprehensive income (loss).

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

6. Intangible assets

	Copyright to software	Purchased technology	Website	Total
	\$	\$	\$	\$
Cost				
Balance, June 30, 2012	2,948,461	905,000	441,828	4,295,289
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, June 30, 2013	2,948,461	905,000	441,828	4,295,289
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, June 30, 2014	2,948,461	905,000	441,828	4,295,289
Accumulated depreciation and impairment				
Balance, June 30, 2012	1,179,385	60,000	419,781	1,659,166
Depreciation expense	294,846	90,500	22,047	407,393
Impairment	1,056,088	-	-	1,056,088
Balance, June 30, 2013	2,530,319	150,500	441,828	3,122,647
Depreciation expense	83,628	90,500	-	174,128
Impairment	-	-	-	-
Balance, June 30, 2014	2,613,947	241,000	441,828	3,296,775
Carry amount				
Balance, June 30, 2013	418,142	754,500	-	1,172,642
Balance, June 30, 2014	334,514	664,000	-	998,514

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

During the year ended June 30, 2013, the Company recorded a \$1,056,088 impairment charge to intangible assets related to a portion of the copyright associated with the Paraxip acquisition from 2008.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

7. Development costs

		\$
Development costs		
Balance, June 30, 2012	9,857,559	
Additions	2,790,468	
Investment tax credits	(750,670)	
Balance, June 30, 2013	11,897,357	
Additions	2,175,099	
Investment tax credits	(295,880)	
Balance, June 30, 2014	13,776,576	
Accumulated amortization		
Balance, June 30, 2012	(7,610,346)	
Amortization	(1,747,593)	
Balance, June 30, 2013	(9,357,939)	
Amortization	(1,673,410)	
Balance, June 30, 2014	(11,031,349)	
	2014	2013
	\$	\$
Net capitalized development costs	2,745,227	2,539,418

Each period the new spending is added net of Investment Tax Credits accrued. In addition to the above amortization, the Company has recognized \$921,104 of engineering expenditures as an expense during the year ended June 30, 2014 (2013 - \$1,080,055).

8. Financial instruments

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

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

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

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8. Financial instruments (continued)

Cash and cash equivalent is comprised of:

	2014	2013
	\$	\$
Cash at bank and on hand	4,005,755	1,672,439
Short-term investments	975,816	2,339,687
	4,981,571	4,012,126

Cash includes demand deposits with financial institutions and cash equivalents consist of short-term, highly liquid investments purchased with original maturities of three months or less.

The Company's interest income on short-term investment carried at amortized cost is presented on the statement of comprehensive income (loss) in the interest income line.

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

	2014	2013
	\$	\$
Interest income on short-term investments	(26,809)	(26,907)

9. Financial instruments risks

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, foreign currency risk, interest rate risk and market risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. Where possible the Company uses an insurance policy with Export Development Canada ("EDC") for its trade receivables to manage this risk and minimize any exposure. The Company's maximum exposure to credit risk for its trade receivables is summarized as follows with the majority of the over 90 day receivable not being covered by EDC:

	2014	2013
	\$	\$
Trade receivables aging		
0-30 days	3,319,116	3,334,059
31-90 days	667,599	312,190
Greater than 90 days	1,663,969	1,327,588
	5,650,684	4,973,837
Provision for doubtful accounts	(340,956)	(10,153)
Net trade receivable	5,309,728	4,963,684

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

9. Financial instruments risks (continued)

Credit risk (continued)

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

	2014	2013
	\$	\$
Provision for doubtful accounts		
Allowance for doubtful accounts beginning balance	(10,153)	(18,433)
Allowance used (recorded) during the year	(330,803)	8,280
Allowance for doubtful accounts ending balance	(340,956)	(10,153)

All of the Company's cash and cash equivalents and short-term investments are held with a major Canadian financial institution and thus the exposure to credit risk is considered insignificant. The short-term investments are cashable in whole or in part, generally with interest, at any time to maturity. Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to trade receivables.

Liquidity risk

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

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

	Fiscal year			
	2015	2016	2017	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,705,802	-	-	1,705,802

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 statement of financial position date through its U.S. denominated trade receivables, accounts payable and cash. As at June 30, 2014 a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would have resulted in an approximate \$582,000 decrease or increase, respectively, in total comprehensive income (loss) and retained earnings (deficit) (2013 - \$530,000). The Company employed currency hedging programs periodically during the current period and reduced its U.S. dollar exposure after the reporting date, see Note 17. On an ongoing basis the Company's top line revenues are also impacted by the swings in the US dollar.

Interest rate risk

The Company has no significant exposure at June 30, 2014 to interest rate risk through its financial instruments as the short-term investments are at fixed rates of interest that do not fluctuate during the remaining term.

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

10. Shareholders' equity

(i) Share capital and contributed surplus

Issued and outstanding common shares consist of the following:

	2014	2013
	#	#
Shares issued and fully paid		
Beginning balance	28,829,809	29,538,809
Share issue	-	-
Normal course bid redemption	-	(709,000)
	28,829,809	28,829,809
Opening balance number of stock options outstanding	4,089,160	4,238,410
Share-based options granted	1,650,000	470,000
Share-based payments options expired/cancelled	(508,126)	(619,250)
Number of stock options outstanding	5,231,034	4,089,160
	34,060,843	32,918,969
For each class of share capital		
The number of shares authorized	Unlimited	Unlimited
The number of shares issued and fully paid	28,829,809	28,829,809
The number of shares issued but not fully paid	-	-
Par value per share, or that the shares have no par value	-	-

Effective March 5, 2013, the Company received approval from the TSX Venture Exchange to purchase its own common shares up to a maximum of 5% of the issued and outstanding common shares being 1,476,940 of the 29,538,809 shares outstanding. During fiscal 2014 the Company did not make any purchases under the bid which expired on March 4, 2014. In fiscal 2013 the Company repurchased and canceled 709,000 shares at a total cost of \$228,755 at an average of \$0.32 per share. The difference between the share capital and the cost of redemption of \$150,193 was added back to the contributed surplus.

(ii) Stock options

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

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

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

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

10. Shareholders' equity (continued)

(ii) Stock options (continued)

The stock option price of any common shares cannot be less than the closing price or the minimum price as determined by applicable regulatory authorities of the relevant class or series of shares, on the day immediately preceding the day on which the stock option is granted. Stock options granted under the plan may be exercised during a period not exceeding five years from the date of grant, subject to earlier termination on the termination of the optionee's employment, on the optionee's ceasing to be an employee, officer or director of the Company or any of its subsidiaries, as applicable, or on the optionee's retiring, becoming permanently disabled or dying, subject to certain grace periods to allow the optionee or his or her personal representative time to exercise such stock options. The stock options are non-transferable.

The plan contains provisions for adjustment in the number of common shares issuable thereunder in the event of the subdivision, consolidation, reclassification or change of the common shares, a merger or other relevant changes in the Company's capitalization. The board of directors may, from time to time, amend or revise the terms of the plan or may terminate the plan at any time.

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

	Number of options	Weighted average exercise price \$
Measurement date		
Balance, June 30, 2012	4,238,410	0.57
Granted	470,000	0.50
Exercised	-	-
Expired	(310,000)	1.13
Cancelled	(309,250)	0.58
Forfeited	-	-
Balance, June 30, 2013	4,089,160	0.51
Granted	1,650,000	0.35
Exercised	-	-
Expired	(345,000)	0.72
Cancelled	(53,122)	0.53
Forfeited	(110,004)	0.51
Balance, June 30, 2014	5,231,034	0.44

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

10. Shareholders' equity (continued)

(ii) Stock options (continued)

The Company uses the fair value method to account for all stock-based awards granted to employees, officers and directors. The estimated fair value of stock options granted is determined using the Black-Scholes option pricing model and is recorded as a charge to income over the vesting period of the stock options, with a corresponding increase to contributed surplus. Stock options are granted at a price equal to or above the fair value of the common shares on the day immediately preceding the date of the grant. The consideration received on the exercise of stock options is added to stated capital at the time of exercise (see consolidated statement of changes in equity). The fair value of the stock options granted has been estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2014	2013
	\$	\$
Weighted average share price	0.31	0.29
Exercise price	0.35	0.50
Expected volatility	60.3%	65.6%
Expected option life	4.55	4.55
Expected dividend yield	-	-
Expected forfeiture rate	-	-
Risk-free interest rate	1.3%	1.3%

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

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

	2014		2013	
	Number of stock options outstanding and exercisable	Weighted average remaining contractual life	Number of stock options outstanding and exercisable	Weighted average remaining contractual life
Exercise price				
\$0.26-\$0.50	3,900,372	3.02	2,363,498	2.62
\$0.51-\$0.75	1,330,662	1.57	1,725,662	2.25
	5,231,034	2.65	4,089,160	2.46

Total expense recognized for share based payments was \$108,650 (2013 - \$193,789).

(iii) Earnings per share and dividends

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

The weighted average number of outstanding shares used for basic earnings per share amounted to 28,829,809 shares (2013 - 29,261,162).

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

10. Shareholders' equity (continued)

(iii) Earnings per share and dividends (continued)

The weighted average number of shares for the purposes of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2014	2013
Number of shares		
Weighted average number of shares used in basic earnings per share	28,829,809	29,261,162
Shares deemed to be issued in respect of share-based payments	-	-
Weighted average number of shares used in diluted earnings per share	28,829,809	29,261,162

As of June 30, 2014, no options were in-the-money hence none were included in the weighted average number of shares for the purposes of diluted earnings per share calculation above (2013 - none). As a result, 5,231,034 options (2013 - 4,089,160) are excluded from the weighted average number of shares calculation above.

11. Income tax

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

	Year of expiration	Carry forward credits
		\$
Year of investment		
2012	2032	514,164
2013	2033	651,451
2014	2034	357,408
		1,523,023

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

	Federal	Provincial
	\$	\$
SR&ED expenditures carried forward	1,664,694	995,232

Sangoma Technologies Corporation

Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

11. Income tax (continued)

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

	2014	2013
	%	%
Statutory tax rate (recovery)	26.5	(26.5)
Tax effect on non-deductible expenses	4.0	1.3
Rate change for future income tax assets	(9.1)	(1.2)
Impairment of goodwill not recognised for tax	-	16.2
Tax rate (recovery) on others	1.9	(0.1)
Effective income tax rate (recovery)	23.3	(10.3)

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

	2014	2013
	\$	\$
Property, plant and equipment	(35,479)	(29,591)
Non-deductible reserves	90,353	2,691
Deferred development costs	(728,134)	(635,115)
Intangible assets including goodwill	(113,116)	(147,857)
SR&ED investment tax credits	1,226,283	1,085,581
Deferred revenue	79,560	38,826
Non-capital losses	-	24
Unutilized SR&ED expenditure pools	424,815	573,022
Deferred income tax assets (liabilities)	944,282	887,581

Income tax recognized in profit or loss:

	2014	2013
	\$	\$
Current tax		
Current tax expense in respect of the current year	138,490	-
Adjustments in current year relating to prior years	11,688	6,313
	150,178	6,313
Deferred tax		
Current movement in the deferred taxes	168,216	27,634
Adjustments in current period related to prior periods	(87,847)	(39,125)
Adjustments due to change in rates	-	(42,563)
Impairment of goodwill not recognized for tax	-	(449,000)
Effective income tax rate (recovery)	80,369	(503,054)
Net taxes	230,547	(496,741)

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Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

12. Related parties

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

The Company had the following balances with related parties:

Other related parties	2014	2013
	\$	\$
The total of the transactions:		
Expenses	25,549	27,571
The amount of outstanding balances:		
Payable	10,000	2,500

Compensation of key management personnel

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

The remuneration of directors and other members of key management personnel during fiscal year ended June 30, 2014 were as follows:

	2014	2013
	\$	\$
Short-term benefits	1,017,080	940,483
Long-term benefits	30,000	30,000
Share-based payment transactions	91,406	157,310
	1,138,486	1,127,793

13. Segment disclosures

The Company operates in one industry segment; development, manufacturing, distribution and support of voice and data connectivity components for software-based communication applications. The majority of the Company's assets are located in Canada. The Company sells into three major geographic centers: the United States, Canada and other foreign countries. The Company has determined that it has a single reportable segment as the Company's decision makers review information on a consolidated basis.

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Notes to the consolidated financial statements

June 30, 2014, and 2013

(In Canadian dollars)

13. Segment disclosures (continued)

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

	2014	2013
	\$	\$
Products	12,900,984	12,360,066
Services	928,098	590,112
	13,829,082	12,950,178

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

	2014	2013
	\$	\$
USA	5,051,334	5,020,740
Canada	362,007	585,623
All other countries	8,415,741	7,343,815
	13,829,082	12,950,178

14. Capital management

The Company's objectives in managing capital are to safeguard the Company's assets, to ensure sufficient liquidity to sustain the future development of the business via advancement of its significant research and development efforts, to conservatively manage financial risk and to maximize investor, creditor and market confidence. The Company considers its capital structure to include its shareholders' equity. Working capital is optimized via stringent cash flow policies surrounding disbursement, foreign currency exchange and investment decision-making.

There were no changes in the Company's approach to capital management during the year and the Company is not subject to any capital requirements imposed by external parties.

The Company manages the following capital:

	2014	2013
	\$	\$
Share capital	15,333,326	15,333,326
Contributed surplus	1,730,025	1,621,375
Deficit	(679,477)	(1,416,527)
	16,383,874	15,538,174

15. Commitments

The future minimum lease payments for office space as at June 30, 2014 are as follows:

	\$
Not later than one year	228,099
Later than one year and not later than five years	38,017
	266,116

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Notes to the consolidated financial statements

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(In Canadian dollars)

16. Business combination

On August 22, 2011 Sangoma Technologies Inc. acquired certain assets of the VegaStream Group of Companies; a United Kingdom (“UK”) based developer of voice over Internet Protocol (“VoIP”) Gateway appliances for a total cash consideration of \$1,515,754 and an intangible asset for Purchased Technology of \$905,000 was established together with a 5% shareholding in VegaStream Private Networks Limited an Indian company based in Bangalore, which is majority owned by an independent party, and which sells the Vega line of products in India and surrounding countries. On December 1, 2011 Sangoma launched the Vega product line as part of the Sangoma portfolio of products and has since incorporated all revenues and costs into Sangoma’s financial statements.

17. Provisions

	Warranty provision	Sales returns & allowances provision	Stock rotation provision
	\$	\$	\$
Balance at June 30, 2013	14,318	9,000	-
Additional provision recognized	-	-	20,000
Balance at June 30, 2014	14,318	9,000	20,000

The provision for warranty obligations represents the Company’s best estimate of repair and/or replacement costs to correct product failures. The sales returns and allowances provision represents the Company’s best estimate of the value of the products sold in the current financial year that may be returned in a future year. The stock rotation provision represents the Company’s best estimate of the value of the products sold in the current financial year that may be exchanged for alternative products in a future year. The Company accrues for product warranties, stock rotation, and sales returns and allowances at the time the product is delivered.

18. Post-reporting date events

In the period commencing July 1, 2014 the Company:

- (i) initiated a United States dollar (“USD”) forward contract for the conversion of \$1.5 million USD to Canadian dollars at the rate of \$1.0905 which was subsequently settled.
- (ii) initiated a United States dollar forward contract for the conversion of \$1.5 million USD to Canadian dollars at the rate of \$1.0920 to be settled on December 31, 2014.
- (iii) initiated a United States dollar forward contract for the conversion of \$2.0 million USD to Canadian dollars at the rate of \$1.1200 to be settled on March 31, 2015
- (iv) initiated a United States dollar forward contract for the conversion of \$1.0 million USD to Canadian dollars at the rate of \$1.1189 to be settled on June 30, 2015
- (v) On July 24, 2014 the Company filed a claim against a customer for non-payment of \$85,676.03 USD and the customer has filed a counter claim for \$15,000 plus attorney fees.

19. Authorization of financial statements

The consolidated financial statements for the period ended June 30, 2014 (including comparatives) were, as per recommendation of the Audit Committee, approved by the Board of Directors on October 23, 2014.