Sangoma Technologies Corporation

Consolidated Financial Statements
June 30, 2011

October 27, 2011

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 balance sheets as at June 30, 2011 and 2010 and the consolidated statements of income and comprehensive income, retained earnings and shareholders' equity and cash flows for the years then ended, and the related notes, which comprise 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 Canadian generally accepted accounting principles, 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 audit. We conducted our audit 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.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Sangoma Technologies Corporation as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED BALANCE SHEET AS AT JUNE 30

(in Canadian dollars)

	2011	2010
	$	$
		(Restated Note 3)
ASSETS		
Current		
Cash and equivalents (Note 4)	8,784,322	7,744,596
Accounts receivable	2,232,704	1,972,758
Investment tax credits receivable	577,444	192,877
Inventory (Note 5)	1,461,212	1,648,852
Prepaid expenses and deposits	28,061	118,318
Income taxes receivable	836,210	595,882
	13,919,953	12,273,283
Property, plant and equipment (Note 6)	464,507	447,740
Development costs (Note 7)	1,983,665	2,158,221
Intangible assets (Note 8)	2,063,922	3,787,638
Goodwill (Note 14)	2,984,721	6,834,721
	21,416,768	25,501,603
LIABILITIES		
Accounts payable and accrued liabilities	1,465,589	1,242,345
Deferred income	60,864	76,688
Current portion of term loan (Note 9)	34,072	34,072
Obligation to issue shares-short term	-	959,847
	1,560,525	2,312,952
Long Term		
Term loan (Note 9)	51,107	85,179
Future income taxes (Note 13)	531,066	1,071,637
	582,173	1,156,816
SHAREHOLDERS' EQUITY		
Stated capital	15,866,455	15,158,762
Contributed surplus	754,852	554,043
Retained earnings	2,652,763	6,319,030
	19,274,070	22,031,835
	21,416,768	25,501,603

Approved by the Board of Directors

(signed) Jonathan Matthews Director (signed) Yves Laliberte Director

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30
(in Canadian dollars)

	2011	2010
	$	$
		(Restated Note 3)
Sales	11,861,514	12,510,515
Cost of sales	3,022,458	3,258,755
Gross profit	8,839,056	9,251,760
Expenses		
Administration and engineering	2,622,992	2,477,253
Amortization		
– development costs (Note 7)	1,352,060	839,362
– property, plant and equipment	165,398	140,168
– intangible assets (Note 8)	374,228	425,557
Foreign currency exchange loss	693,042	404,611
Stock-based compensation (Note 10)	200,809	109,164
Selling and marketing	2,111,037	1,886,521
Investment income	(26,374)	(25,214)
Total Expenses	7,493,192	6,257,422
Income before the undernoted	1,345,864	2,994,338
Accelerated amortization of patents (Note 8)	1,349,489	-
Impairment of goodwill (Note 14)	3,850,000	-
(Loss) income before provision for income taxes	(3,853,625)	2,994,338
Provision for (recovery of) income taxes		
Current	277,913	351,069
Future	(465,271)	(4,207)
	(187,358)	346,862
Net (loss) income and Comprehensive (loss) income for the year	(3,666,267)	2,647,476
Basic (loss) income per share	(0.122)	0.090
Fully diluted (loss) income per share	(0.122)	0.088
Weighted average number of shares outstanding		
– basic	30,088,138	29,458,193
– diluted	30,261,338	30,236,279

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30
(in Canadian dollars)

	2011 $	2010 $ (Restated Note 3)
Cash provided by (used in)		
Operating activities		
Net (loss) income for the year	(3,666,267)	2,647,476
Add items not requiring an outlay of cash		
Amortization (Note 8)	1,891,686	1,405,087
Accelerated amortization of patents (Note 8)	1,349,489	-
Impairment of goodwill (Note 14)	3,850,000	-
Future income tax recovery	(465,271)	(4,207)
Stock-based compensation	200,809	109,164
	3,160,446	4,157,520
Net change in working capital balances related to operations (Note 15)	(474,825)	(1,092,079)
Cash flow from operation activities	**2,685,621**	**3,065,441**
Investing activities		
Development costs net of investment tax credits	(1,177,504)	(1,964,243)
Investment in patents rights and trademarks	-	(8,308)
Purchase of property, plant and equipment	(182,165)	(171,415)
	(1,359,669)	(2,143,966)
Financing activities		
Issuance of capital stock	-	66,358
Share repurchase	(252,154)	(100,325)
Repayment of debt	(34,072)	(17,036)
	(286,226)	(51,003)
Increase in cash and cash equivalents during the year	**1,039,726**	**870,472**
Cash and equivalents - beginning of year	7,744,596	6,874,124
Cash and equivalents - end of year	**$ 8,784,322**	**$ 7,744,596**

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30
(in Canadian Dollars)

	2011 $	2010 $
Retained Earnings, beginning of period	$ 6,319,030	$ 3,671,554
Net income for the period	$ (3,666,267)	$ 2,647,476
Retained Earnings, end of period	$ 2,652,763	$ 6,319,030

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED JUNE 30
(in Canadian dollars)

	Stated Capital		Contributed Surplus	Retained Earning (Restated Note 3)	Total Shareholders' Equity (Restated Note 3)
	Number	$	$	$	$
Balance - June 30, 2009	**28,740,584**	**14,170,819**	**506,939**	**3,671,554**	**18,349,312**
Issuance of common shares (Note 19)	778,089	959,850			**959,850**
Exercise of stock options	181,550	128,418	(62,060)		**66,358**
Stock-based compensation (Note 10)			109,164		**109,164**
Normal course issuer bid redemption (Note 18)	(135,500)	(100,325)			**(100,325)**
Net income for the year				2,647,476	**2,647,476**
Balance - June 30, 2010	**29,564,723**	**15,158,762**	**554,043**	**6,319,030**	**22,031,835**
Issuance of Common shares (Note 19)	778,086	959,847			**959,847**
Stock-based compensation (Note 10)			200,809		**200,809**
Normal course issuer bid redemption (Note 18)	(505,000)	(252,154)			**(252,154)**
Net loss for the year				(3,666,267)	**(3,666,267)**
Balance - June 30, 2011	**29,837,809**	**15,866,455**	**754,852**	**2,652,763**	**19,274,070**

1 Basis of presentation

Sangoma Technologies Corporation and its wholly owned subsidiaries (collectively the Company) engage in the development, manufacturing, distribution and support of voice and data connectivity components for software-based communication applications.

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

2 Summary of significant accounting policies

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Basis of consolidation

These consolidated financial statements for the year ended June 30, 2011 include the accounts of Sangoma Technologies Corporation and its wholly owned subsidiaries, Sangoma Technologies Inc. (Sangoma) and Paraxip Technologies Inc. (Paraxip). All intercompany transactions and balances have been eliminated.

Cash and equivalents

Cash and equivalents include cash and investments in Canadian chartered bank demand money market funds.

Inventory

Parts and finished goods are valued at the lower of cost determined on a first-in, first out basis and net realizable value. Inventory costs include the cost of materials and labour.

Income taxes

The Company follows the liability method of measuring income taxes based on temporary differences between the financial reporting and income tax bases of assets and liabilities. Future income tax expense represents the change during the year in the future income tax assets and future income tax liabilities. In addition, the future benefits of income tax assets, including unutilized income tax losses, are recognized to the extent that it is more likely than not those losses will ultimately be utilized. Future income tax assets and liabilities are measured using substantively enacted income tax rates and laws that are expected to apply when the income tax liabilities or assets are to be either settled or realized. The Company provides a valuation allowance on future income tax assets when it is more likely than not those assets will not be realized.

Property, plant and equipment and intangible assets

Property, plant and equipment are recorded at cost and amortized to statement of income over their estimated useful lives. Amortization is at 20%, declining balance for all other property, plant and equipment.

Intangible assets are recorded at acquired cost and include the copyright to software, which is amortized straight-line, over 10 years, and website over three years.

The unamortized portions of property, plant and equipment and intangible assets are reviewed when events or circumstances indicate that the carrying amounts may not be recoverable. If the projected undiscounted cash flows are less than carrying amounts, the assets are considered to be impaired and an impairment loss is measured as the amount by which the carrying amounts exceed fair values.

Research and development costs

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 reasonable assurances of realization exist. Development costs, which meet criteria under Canadian GAAP, are capitalized and amortized over three years on a straight-line basis. Costs are reduced by government grants and investment tax credits, where applicable.

Revenue recognition

Revenue consists primarily of fees for hardware sales. The Company also generates revenue from sales of software licences, maintenance and engineering services.

Revenues from the sales of hardware are recognized when there is persuasive evidence of an arrangement, goods have been delivered, the amount is fixed or determinable, and collection is reasonably assured. When customer acceptance clauses are considered to be substantive, recognition of revenue is deferred until customer acceptance is received. If delivery has not occurred, the Company will recognize revenue, provided all other criteria are met as the risks of ownership have passed to the customer, the customer has a fixed commitment to purchase the goods, the customer requests that the delivery not occur until a later date, there is a fixed schedule for delivery of the goods, the Company has not retained any specific performance obligations such that the earnings process is not complete, the ordered goods have been segregated from the Company’s inventory and is not subject to being used to fill other orders, and the product is complete and ready for shipment.

Revenues from sales of software licences and maintenance represent multiple element arrangements. These multiple element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition.

Revenues relating to engineering services are recognized as services are rendered.

In cases where the Company sells a multiple element arrangement, the fees are allocated to the elements based on Company specific objective evidence of each element’s fair value. Vendor specific objective evidence (VSOE) used in determining the fair value of licence revenue is generally based on the price that the Company separately sells similar elements to other entities. If VSOE of fair value is not available for delivered software products but is available for all undelivered elements in the arrangement, revenue is allocated to the delivered software using the residual method. Under this method, revenue is allocated to undelivered elements based on their fair values and the residual is allocated to the delivered elements. VSOE used in determining the fair value of maintenance is based on a percentage of the licence fee revenue.

Revenue that consists of licence fees relating to software licences 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 licence fee is fixed and determinable, and collection of the related receivable is deemed probable by management.

Stock-based compensation plan

The Company uses the fair value method to account for all stock-based awards granted to employees 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 credit 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 credited to stated capital at the time of exercise. The Company's stock-based compensation plan is described in note 10.

Earnings per share

Basic earnings per common share are computed using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to calculate diluted earnings per common share. This method assumes that proceeds, which could be obtained on the exercise of in-the-money stock options, would be used to purchase common shares at the average market price during the year.

Foreign currency

Current monetary assets and current monetary liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange in effect at the consolidated balance sheet date. Other assets and liabilities as well as revenues and expenses denominated in a foreign currency are translated to Canadian dollars at the prevailing rate of exchange in effect at the date of each transaction. Foreign currency translation gains and losses are included in the consolidated statement of income and comprehensive income for the year.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts, goodwill and intangible assets, future income taxes and excess and obsolete inventory. In determining the estimates for the allowance for doubtful accounts, the Company relies on current customer information and management's planned course of action, as well as assumptions about future business and economic conditions. The Company has estimated the useful lives of its intangible assets, based on rapidly changing industry trends and changes in customers' business. In determining revenue and related accounts receivable, when applicable, the Company relies on assumptions supporting its revenue recognition policy. As VSOE is based on the price that the Company separately sells similar elements to other entities, changes in the Company's business practices or sales arrangements may impact its ability to identify sufficient evidence, thereby changing the timing of revenue recognition. Management believes the techniques and assumptions used in establishing these amounts are appropriate. Actual results may differ from those estimates and the differences could be material to these consolidated financial statements.

Fair value of financial instruments

Financial assets and financial liabilities are initially recorded at fair value and are subsequently measured based on their classification as described below. The Company classifies its financial instruments into various categories, based on the purpose for which the financial instruments were acquired and their characteristics. The Company determines the fair value of its financial instruments based on quoted market prices or discounted cash flow analyses.

- Held-for-trading

  Financial assets that are purchased and held with the intention of generating profits in the short-term are classified as held-for-trading. These investments are accounted for at fair value with the change in fair value recognized in net income during the year. No investments are classified as held-for-trading as at June 30, 2011.

- Held-to-maturity

  Securities that have a fixed maturity date and which the Company has a positive intention and ability to hold to maturity are classified as held-to-maturity and are accounted for at amortized cost using the effective interest rate method. The Company accrues interest income over the expected life of each financial instrument. The Company does not recognize gains and losses arising from changes in the fair value of these financial instruments until the gains and losses are realized or there is impairment in the value of a financial asset. When recognized, such gains and losses are recorded directly in net income. The Company's cash and investments in Canadian chartered bank demand money market funds are classified as held-to-maturity investments. The Company does not own any asset-backed commercial paper.

- Available-for-sale

  Available-for-sale investments are carried at fair value, except where the financial instrument does not have a quoted market price in an active market, with foreign currency exchange and revaluation gains and losses included in other comprehensive income or loss until the gains and losses are realized when the available-for-sale investments are sold in the market or there is impairment in the value. No investments are classified as available-for-sale as at June 30, 2011.

- Loans and receivables

  The Company's accounts receivable are classified as loans and receivables and are recorded at amortized cost, which on their initial measurement is equal to their fair value. Subsequent measurement of trade receivables is at amortized cost, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts and approximates fair value.

- Other financial liabilities

  Accounts payable and accrued liabilities and term loan are classified as other financial liabilities and are measured at amortized cost, which approximates fair value.

The Company is not party to any derivative financial instruments.

Goodwill

Goodwill represents the excess of the purchase price of business acquisitions over the fair values of identifiable net assets acquired in such acquisitions and is allocated as at the date of the business combination. Goodwill is not subject to amortization but is assessed for impairment on at least an annual basis and, additionally, whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting unit is estimated using a combination of the income or discounted cash flow approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to quantify the amount of the impairment loss, if any. Any impairment in the carrying amount of goodwill is recognized in operating income.

New accounting standards

The Company has adopted the following changes to its accounting policies:

Canadian standards

In February 2008, The Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3064 Goodwill and Intangible Assets, which replaced existing Handbook Sections 3062, Goodwill and Other Intangible Assets, and 3450, Research and Development Costs. The new standard introduces changes to the recognition, measurement and disclosure of goodwill and intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. Handbook Section 3064 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier adoption encouraged. The Company adopted this standard effective July 1, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of financial assets and financial liabilities included in level 1 are determined by reference to quoted prices in active markets for identical financial assets and financial liabilities. Financial assets and financial liabilities in level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market date, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Handbook Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. The Company adopted this new guidance effective July 1, 2009, and it did not have a material impact on the Company's financial position, results of operations or cash flow.

The Company will be adopting the following changes to its accounting policies in the future:

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The Company will begin reporting its consolidated financial statements in accordance with IFRS on July 1, 2011. As a results, the Company has not early adopted recently issued statements under Canadian GAAP.

June 30 (in Canadian dollars)

3 Future tax liabilities

In July 2008, the Company acquired all of the issued and outstanding shares of Paraxip Technologies Inc. (Paraxip). The results of Paraxip's operations have been included in the consolidated financial statements since that date.

Effective June 30, 2011, the Company determined that as part of their annual goodwill impairment test, prior year financial statements should have future tax liabilities related to the intangible assets acquired as part of the Paraxip transaction.

An adjustment has been made to correct the historical information and to recognize a future tax liability and goodwill in the opening comparative balance sheet in the amount of $1,291,872. The 2010 retained earnings at the beginning of the year has been increased $106,093, and net income has been increased by $129,027 to recognize the reduction of the future tax liability in those periods.

4 Cash and equivalents

	2011 **$**	**2010** **$**
Cash	4,236,993	4,394,246
Demand money market funds	4,547,329	3,350,350
	8,784,322	7,744,596

5 Inventory

Inventory at year-end consists of the following:

	2011 **$**	**2010** **$**
Finished goods	967,368	842,071
Parts	493,844	806,781
	1,461,212	1,648,852

June 30 (in Canadian dollars)

6 Property, plant and equipment

	2011 $	2010 $
Office furniture, fixtures, equipment, website and leasehold improvements		
Cost	1,389,355	1,207,190
Accumulated amortization	924,848	759,450
	464,507	447,740

7 Development costs

	$
Balance – June 30, 2009	1,033,340
Additions	2,473,453
Investments tax credits	(509,210)
Amortization	(839,362)
Balance - June 30, 2010	2,158,221
Additions	2,291,782
Investments tax credits	(1,114,278)
Amortization	(1,352,060)
Balance – June 30, 2011	1,983,665

June 30 (in Canadian dollars)

8 Intangible assets

As required by Canadian GAAP, the Company considered the useful life of its intangible assets. During Q4 of fiscal 2011 Sangoma was notified that the patent applications, which had been part of the Paraxip acquisition, had been challenged by the respective patent authorities. Sangoma reviewed the reasons for the initial rejections and determined that the cost to pursue the applications outweighed the commercial value of having the patents granted. Sangoma had assigned a value to the patents of $1,587,633 at the time of the acquisition and was amortizing over the expected 10 year life and as of June 30, 2011 the net book value was $1,349,489. Management has determined that the decision not to invest further resources to pursue the application as a result of the change in the patents legal standing means that the asset does not have a remaining useful life and that this remaining value should be fully amortized in fiscal 2011. The accelerated amortization is shown on a separate line on the Consolidate Statements of Income and Comprehensive Income for the year ended June 30, 2011.

	2011		
	Gross carrying amount	**Accumulated amortization**	**Net**
	$	**$**	**$**
Copyright to software	2,948,461	884,539	2,063,922
Patent rights	1,587,633	1,587,633	-
Trademarks	54,869	54,869	-
TOTAL	4,590,963	2,527,041	2,063,922

	2010		
	Gross carrying amount	**Accumulated amortization**	**Net**
	$	**$**	**$**
Copyright to software	2,948,461	589,693	2,358,768
Patent rights	1,587,633	158,763	1,428,870
Trademarks	54,869	54,869	-
TOTAL	4,590,963	803,325	3,787,638

June 30 (in Canadian dollars)

9 Term loan

The interest-free term loan from Canada Economic Development is repayable in eight semi-annual instalments, which began in 2010.

Principal repayments to be made over future years are as follows:	$
2012	34,072
2013	34,071
2014	17,036
	85,179

10 Stock-based compensation plan

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.

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 or consultant 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. There were 216,100 stock options that were cancelled and 980,800 options that were vested during the year ended June 30, 2011.

June 30 (in Canadian dollars)

The following table summarizes the Company's stock options issued since June 30, 2009:

	Number of stock options outstanding	Weighted average exercise price $
Balance June 30, 2009	1,618,350	0.81
Exercised	(181,550)	0.37
Cancelled	(67,850)	0.98
Balance June 30, 2010	1,368,950	0.86
Granted	3,451,060	0.48
Cancelled	(216,100)	0.93
Balance June 30, 2011	4,603,910	0.58

The following table summarizes the stock options outstanding as of June 30:

	2011		**2010**	
Exercise Price	**Number of stock options outstanding and exercisable**	**Remaining Contractual Life (Years)**	**Number of stock options outstanding and exercisable**	**Remaining Contractual Life (Years)**
$0.26 - $0.50	1,993,498	4.39		
$0.51 - $0.75	2,162,062	3.66	803,100	2.86
$0.76 - $1.00				
$1.01- $1.25	448,350	1.34	565,850	2.49
	4,603,910	3.75	1,368,950	2.71

11 Commitments

The Company is committed to lease payments as follows:

	$
2012	340,926
2013	340,926
2014	340,926
2015	220,385
	1,243,163

12 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 centres: the United States, Canada and other foreign countries. The sales, in Canadian dollars, in each of these geographic locations are as follows:

Year Ended	United States	Canada	Other Countries	TOTAL
	$	$	$	$
2011	4,889,106	1,233,390	5,739,018	11,861,514
2010	6,507,781	1,207,563	4,795,171	12,510,515

13 Income taxes

The Company has deducted available scientific research and experimental development costs (SR&ED) for federal and provincial purposes and has utilized SR&ED investment tax credits, as required, to reduce federal income taxes payable.

These consolidated financial statements take into account an income tax benefit resulting from investment tax credits available to the Company to reduce its income for federal income tax purposes in future years as follows:

Year of investment	Year of expiration	Carry-forward credits $
2010	2030	175,141
2011	2031	160,457
		335,598

The income tax benefit of the Company's 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	1,264,321	2,176,571

June 30 (in Canadian dollars)

The following reconciles the effective income tax rate to the statutory income tax rate on a percentage basis as at June 30:

	2011 %	**2010 % (Restated Note 3)**
Statutory tax rate (recovery)	(29.2)	32.7
Tax effect of non-deductible expenses	1.9	1.5
Non-deductible goodwill write-off	29.2	
Other miscellaneous differences	(6.8)	(22.8)
Effective income tax rate (recovery)	(4.9)	11.4

Future income taxes have been recognized on temporary differences, which consist of the following:

	2011 $	**2010 $ (Restated Note 3)**
Property, plant and equipment	(52,678)	(62,980)
Non-deductible reserves	13,180	
Deferred development costs	(513,592)	(632,222)
Intangible assets	(559,116)	(1,056,751)
SR&ED investment tax credits	113,281	129,173
Loss carry-forwards	-	152,927
Deferred revenues	16,829	22,355
SR&ED expenditure pools	451,031	375,861
Future income tax asset (liability)	(531,066)	(1,071,637)

14 Goodwill

	2011 $	**2010 $ (Restated Note 3)**
Balance at beginning of year	6,834,721	6,834,721
Impairment of goodwill (i)	(3,850,000)	-
Balance at end of year	2,984,721	6,834,721

During the fourth quarter of 2011, the Company performed its annual goodwill impairment assessment by comparing the fair value of the reporting unit to its carrying value. The current fair value of the reporting unit was estimated based on discounted cash flows. The valuation approach used key judgements and assumptions that are sensitive to change, which include appropriate sales growth, gross profit margins, operating capital requirements and weighted average cost of capital. The Company also considered the decline in the market value of the Company's stock compared to the book value of the entity, in determining the fair value of the reporting unit in comparison to its carrying value. When developing these key judgements and assumptions, the Company considered economic and operational conditions that could impact the fair value of the Company. These estimates and key judgements and assumptions on which the estimates are based will, in all likelihood, differ in some respects from actual future results.

June 30 (in Canadian dollars)

The first step of this assessment indicated an impairment to the value of the goodwill. As a result, the Company performed the second step of the assessment to quantify the amount of the impairment. The Company calculated the implied fair value of the goodwill in the Company's reporting unit and compared it to the carrying amount of the goodwill. The Company allocated the fair value of the reporting unit to all of its assets and liabilities. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. This analysis resulted in a non-cash goodwill impairment charge of $3,850,000. The charge is included in the consolidated (loss) income for the year ended June 30, 2011. The goodwill impairment charge is non-cash in nature and does not affect the Company liquidity or cash flows from operating activities.

15 Supplemental cash flow information for year ended June 30:

	2011	2010
	$	$
Net change in working capital balances related to operations		
Accounts receivable	(259,945)	(99,253)
Income Tax payable/receivable	(700,195)	(1,395,695)
Inventory	187,641	(4,448)
Prepaid expenses and deposits	90,256	64,305
Accounts payables and accrued liabilities	223,243	335,336
Deferred Income	(15,825)	7,676
	(474,825)	(1,092,079)

16 Financial instruments

Fair values of financial assets and financial liabilities

The Company is exposed to financial risks that may potentially impact its operating results including market risks (foreign exchange rate and interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The carrying amounts and fair values of financial assets and financial liabilities as at June 30, 2011 are summarized as follows:

	Carrying amount $	Fair value $
Held-to-maturity	8,784,322	8,784,322
Loans and receivables	2,810,148	2,810,148
Other financial liabilities	1,550,768	1,550,768

The Company's financial instruments recognized in the consolidated balance sheet consist of cash and equivalents, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities and term loan. The fair values of these financial instruments approximate their carrying amounts due to the short maturity of the current market rate associated with these instruments.

The Company does not hold or issue financial instruments for trading purposes.

Credit risk and concentration of credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Concentration of credit risk in cash and equivalents is managed by dealing only with major Canadian financial institutions and high-grade Canadian chartered bank demand money market funds.

Concentration of credit risk in accounts receivable is limited due to the large number of customers the Company services. The Company performs initial and ongoing credit evaluations of its customers, but does not require collateral to support customer accounts receivable. The Company writes off accounts receivable on a specific identification basis as soon as the account is determined not to be collectible, with such write-offs charged to net income.

Currency risk

A large percentage of the Company's transactions occur in a foreign currency (mainly US dollars) and, therefore, the Company is exposed to risk from currency fluctuations. The Company partially compensates for this risk by purchasing materials in US dollars.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company holds sufficient cash and equivalents and working capital, maintained through stringent cash flow management, to ensure sufficient liquidity is so maintained.

17 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 working capital and 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.

The Company is not subject to any capital requirements imposed by external parties.

18 Normal Course Issuer Bid

Effective December 10, 2010, 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 1,517,140 of the 30,342,809 shares outstanding. As of June 30, 2011 the Company had purchased a total of 505,000 shares.

19 Issuance of Common Shares

On July 14, 2008, the Company acquired all of the issued and outstanding shares of Paraxip and in addition to the cash consideration 778,089 common shares were issued on July 14, 2009 and the balance of 778,086 common shares were issued to the sellers on July 14, 2010. The value of the common shares issued was determined based on the average market price of Sangoma's shares for the period from June 6, 2008 to July 4, 2008.

20 Related Party Transactions

The Company is not party to any material transactions with related parties. The Chairman of the Board of Directors, who is also a significant shareholder of the Company, has a contract through Entropy Control Ltd. to provide certain services to Sangoma including the preparation and filing of the Company's Scientific Research and Development tax claim.

21 Comparative figures

Certain comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted in the current year.

22 Contingencies

The Company has no contingencies of a material amount as at June 30, 2011.

23 Subsequent Events

(a) On July 1, 2011 Sangoma Technologies Inc. amalgamated with Paraxip Technologies Inc. The amalgamated Company operates as Sangoma Technologies Inc. and is now the sole subsidiary of Sangoma Technologies Corporation. The amalgamation has no impact on the day to day operations of the business but will enable the accelerated use of available income tax attributes commencing in fiscal 2012.

(b) On August 22, 2011 Sangoma Technologies Inc. acquired the key assets of the VegaStream Group of Companies, a leading UK-based developer of VOIP Gateway appliances, for the cash purchase price of approximately $1.4m before transaction costs. The transaction will be accounted for as an asset purchase and will be included in the operations of the Company from August 22, 2011.