Sangoma Technologies Corporation

Consolidated Financial Statements
December 31, 2010

SANGOMA TECHNOLOGIES CORPORATION

(Continued under the Ontario Business Corporations Act)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2010

(with comparative figures at June 30, 2010)

	Unaudited Dec 31, 2010	Audited June 30, 2010
ASSETS		
Current		
Cash and equivalents (Note 3)	$ 7,675,056	$ 7,744,596
Accounts receivable	1,347,321	1,972,758
Income tax credits receivable	192,877	192,877
Inventory (Note 4)	2,030,134	1,648,852
Prepaid expenses and deposits	90,616	118,318
Income taxes receivable	1,125,913	595,882
	12,461,917	12,273,283
Future income taxes (Note 12)	3,560	-
Property, plant and equipment (Note 5)	519,650	447,740
Development costs (Note 6)	2,604,426	2,158,221
Intangible assets (Note 7)	3,600,525	3,787,638
Goodwill	5,542,849	5,542,849
	$ 24,732,927	$ 24,209,731
LIABILITIES		
Current		
Accounts payable and accrued liabilities	1,377,523	1,242,345
Deferred income	82,102	76,688
Current portion of Term Loan (Note 8)	34,073	34,072
Obligation to issue shares-short term	-	959,847
	1,493,698	2,312,952
Long Term		
Term Loan (Note 8)	68,142	85,179
Future Income Taxes	-	14,886
	68,142	100,065
SHAREHOLDERS' EQUITY		
Stated capital	16,118,609	15,158,762
Contributed surplus	526,486	510,242
Retained earnings	6,525,992	6,127,710
	23,171,087	21,796,714
	$ 24,732,927	$ 24,209,731

Approved on behalf of the Board of Directors:

(Signed) *Yves Laliberte*, Director (Signed) *Jonathan Matthews*, Director

Unaudited

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

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE QUARTERS ENDED DECEMBER 31, 2010 AND 2009

	Three Months Second Quarter		Six Months Year to Date	
	2011	**2010**	**2011**	**2010**
Sales	$ 2,980,141	$ 2,967,891	$ 5,494,822	$ 6,091,599
Cost of Sales	676,395	755,725	1,366,405	1,506,767
Gross profit	2,303,746	2,212,166	4,128,417	4,584,832
Gross profit %	*77.3%*	*74.5%*	*75.1%*	*75.3%*
Expenses				
Administration & Engineering	672,170	634,565	1,333,537	1,093,361
Amortization				
– development costs (Note 6)	346,628	184,823	656,115	361,722
– property, plant, equipment	45,435	42,700	82,910	76,760
– intangibles	93,557	93,754	187,114	187,509
Foreign currency exchange loss (gain)	177,495	184,330	330,434	551,792
Stock-based compensation (Note 14)	16,244	-	16,244	-
Selling and marketing	506,516	445,535	982,644	811,354
Investment income	(6,061)	(6,426)	(15,441)	(14,133)
Total Expenses	1,851,984	1,579,280	3,573,556	3,068,364
Income before provision for income taxes	451,762	632,886	554,860	1,516,468
Provision for income taxes				
Current	47,774	(92,436)	126,318	170,774
Future	60,520	358,169	30,260	415,736
	108,294	265,733	156,578	586,511
Net income and Comprehensive income for the period	$ 343,468	$ 367,153	$ 398,282	$ 929,958
Basic income per share	$ 0.011	$ 0.012	$ 0.013	$ 0.032
Fully diluted income per share	$ 0.011	$ 0.012	$ 0.013	$ 0.031
Weighted average number of shares outstanding				
– basic	30,224,405	29,473,434	30,224,405	29,437,821
– diluted	30,224,405	29,473,434	30,224,405	30,215,907

Unaudited

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

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE QUARTERS ENDED DECEMBER 31, 2010 AND 2009

	Three Months Second Quarter		Six Months Year to Date	
	2011	2010	2011	2010
Retained Earnings, beginning of period	$ 6,182,524	$ 4,128,265	$ 6,127,710	$ 3,565,460
Net income for the period	$ 343,468	$ 367,153	$ 398,282	$ 929,958
Retained Earnings, end of period	$ 6,525,992	$ 4,495,418	$ 6,525,992	$ 4,495,418

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE QUARTERS ENDED DECEMBER 31, 2010 AND 2009

	Three Months Second Quarter		Six Months Year to Date	
	2011	2010	2011	2010
Cash provided by (used in)				
Operating activities				
Net income for the period	$ 343,468	$ 367,153	$ 398,282	$ 929,958
Add items not requiring an outlay of cash				
Amortization	485,620	321,277	926,139	625,991
Stock-based compensation	16,244	-	16,244	-
	845,332	688,430	1,340,664	1,555,949
Net change in non–cash working capital balances related to operations (Note 14)	(146,463)	(156,177)	(136,028)	(53,600)
Cash flow from operations	**698,868**	**532,253**	**1,204,637**	**1,502,349**
Investing activities				
Deferred development costs net of investment tax credits	(575,386)	(382,726)	(1,102,320)	(700,278)
Investment in patents rights and trademarks	-	-	-	(468)
Purchase of property, plant and equipment	(57,426)	(198,065)	(154,820)	(225,482)
	(632,813)	(580,791)	(1,257,141)	(926,227)
Financing activities				
Issuance of capital stock	0	(100,325)	0	(99,275)
Repayment of debt	-	-	(17,036)	-
	0	(100,325)	(17,036)	(99,275)
Increase (decrease) in cash and cash equivalents during the period	**66,056**	**(148,863)**	**(69,540)**	**476,846**
Cash and equivalents - beginning of period	7,608,999	7,499,833	7,744,596	6,874,124
Cash and equivalents - end of period	**$ 7,675,055**	**$ 7,350,970**	**$ 7,675,056**	**$ 7,350,970**

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE 2ND QUARTER ENDED DECEMBER 31, 2010

	Stated Capital		Contributed Surplus	Retained Earning	Total Shareholders' Equity
	Number	$	$	$	$
Balance - June 30, 2009	**28,740,584**	**14,170,819**	**506,939**	**3,565,460**	**18,243,218**
Issuance of Common shares	778,089	959,850			**959,850**
Exercise of stock options	181,550	128,418	(62,060)		**66,358**
Stock-based compensation (note 9)			65,363		**65,363**
Normal course issuer bid redemption	(135,500)	(100,325)			**(100,325)**
Net Income for the year				2,562,250	**2,562,250**
Balance - June 30, 2010	**29,564,723**	**15,158,762**	**510,242**	**6,127,710**	**21,796,714**
Issuance of Common shares [1]	778,086	959,847			**959,847**
Net Income for the 1st Quarter				54,814	**54,814**
Balance - September 30, 2010	**30,342,809**	**16,118,609**	**510,242**	**6,182,524**	**22,811,375**
Stock-based compensation (note 9)			16,244		**16,244**
Net Income for the 2nd Quarter				343,468	**343,468**
Balance - December 31, 2010	**30,342,809**	**16,118,609**	**526,486**	**6,525,992**	**23,171,087**

[1] Pursuant to an acquisition agreement dated July 7, 2008, the Company issued the remaining 778,086 common shares to former shareholders of Paraxip on July 14, 2010, at a deemed issue price of $959,847.

The Company is authorized to issue an unlimited number of common shares.

Normal Course Issuer Bid

Effective December 10, 2010, the Corporation received approval from the TSX-V 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. The Corporation did not purchase any shares under the bid in the quarter ended December 31, 2010.

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 financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The 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 quarter ended December 31, 2010 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 uses the asset/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 that such 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 that such assets will not be realized.

Property, plant and equipment and intangible assets

Property, plant and equipment are recorded at acquisition and amortized to operations cost over their estimated useful lives. Amortization is provided at three years, straight-line for website costs and 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 patent rights and trademarks, which are amortized, straight-line, over 20 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 deferred 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, and 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 9.

Earnings per share

Basic earnings per common share is 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 revenue recognition. 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 December 31, 2010.

- 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 December 31, 2010.

- 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.

- 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 values of the reporting units are 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 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 assets and liabilities included in level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and 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 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:

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations; 1601, Consolidated Financial Statements; and 1602, Non-controlling Interests. These sections replace the former Handbook Section 1581, Business Combinations and Handbook Section 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary. Handbook Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Handbook Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the effect these standards may have on the Company's consolidated financial position and results of operations.

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.

In December 2009, the CICA issued Emerging Issues Committee (EIC) 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was

amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and the consideration allocated; (2) require, in situations where a vendor does not have VSOE or third party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's period of adoption. The Company is currently assessing the future impact of these amendments on its consolidated financial statements and has not yet determined the timing and method of their adoption.

3 Cash and equivalents

	December 31, 2010 $	June 30, 2010 $
Cash	2,958,529	4,394,246
Demand money market funds	4,716,527	3,350,350
	7,675,056	7,744,596

4 Inventory

Inventory at period-end consists of the following:

	December 31, 2010 $	June 30, 2010 $
Finished goods	1,267,980	842,071
Parts	762,154	806,781
	2,030,134	1,648,852

5 Property, plant and equipment

	December 31, 2010 $	June 30, 2010 $
Office furniture, fixtures and equipment		
Cost	1,362,010	1,207,190
Accumulated depreciation	842,360	759,450
	519,650	447,740

6 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	611,934
Investments tax credits	(85,000)
Amortization	(309,487)
Balance – September 30, 2010	2,375,668
Additions	660,387
Investments tax credits	(85,000)
Amortization	(346,628)
Balance – December 31, 2010	2,604,426

7 Intangible assets

Acquired intangible assets for the quarter ended December 31, 2010 are as follows:

	Gross carrying amount $	Accumulated amortization $	Net $
Copyright to software	2,948,462	737,117	2,211,345
Patent rights	1,587,633	198,453	1,389,180
Trademarks	54,869	54,869	-
	4,590,964	990,439	3,600,525

8 Term loan

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

Principal repayments to be made over future years are as follows:	**$**
2011	17,036
2012	34,073
2013	34,072
2014	17,034
	102,215

9 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 2,654,160 stock options granted in the quarter, 85,450 stock options were cancelled and no options vested during the quarter ended December 31, 2010.

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 see Consolidated Statement of Shareholder Equity.

A summary of 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
Cancelled	(85,000)	$	1.01
Balance September 30, 2010	1,283,950	$	0.85
Issued	2,654,160	$	0.47
Cancelled	(85,450)	$	0.96
Balance December 31, 2010	3,852,660	$	0.59

The following table summarizes the options outstanding as of December 31, 2010 and 2009.

	December 31, 2010		**December 31, 2009**	
Exercise Price	**Number of options outstanding and exercisable**	**Remaining Contractual Life (Years)**	**Number of options outstanding and exercisable**	**Remaining Contractual Life (Years)**
$0.26 - $0.50	1,993,498	4.89	141,500	0.34
$0.51 - $0.75	1,402,412	3.51	850,900	3.31
$0.76 - $1.00	0		0	
$1.01- $1.25	456,750	1.85	595,850	2.96
	3,852,660	4.03	1,588,250	2.91

10 Commitments

The Company is committed to lease payments as follows:

	$
2011	163,362
2012	326,655
2013	326,655
2014	253,374
2015	216,735
	1,286,746

11 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:

	United States $	Canada $	Other Countries $	TOTAL $
2nd Qtr - December 31, 2010	1,137,884	330,278	1,511,979	2,980,141
2nd Qtr - December 31, 2009	1,495,637	213,596	1,258,658	2,967,891
6 Mths - December 31, 2010	2,015,745	560,115	2,918,962	5,494,822
6 Mths - December 31, 2009	2,970,052	762,993	2,358,554	6,091,599

12 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 $
2003	2013	15,385
2004	2014	820
2005	2015	355
2006	2026	2,681
2007	2027	2,605
2008	2028	3,009
2009	2029	138,101
2010	2030	234,787
		397,743

The income tax benefit of Paraxip'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	1,048,487	1,748,768

Also, these consolidated financial statements take into account an income tax benefit resulting from loss carry-forwards available to Paraxip to reduce its income for income tax purposes in future years as follows:

Year of loss	Year of expiration	Federal $	Provincial $
2007	2027	101,476	210,323
2008	2028	402,488	397,180
		503,964	607,503

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

	December 31, 2010 %	December 31, 2009 %
Statutory tax rate	27.2 %	34.0 %
Tax effect of non-deductible expenses	0.3 %	1.0 %
Other miscellaneous differences	0.6 %	3.7 %
Effective tax rate	28.1 %	38.7 %

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

	December 31, 2010 $	December 31, 2009 $
Property, plant and equipment	(80,727)	(55,394)
Deferred development costs	(708,502)	(197,995)
SR&ED investment tax credits	251,743	20,805
Loss carry-forwards	158,669	290,799
Deferred income	6,516	-
SR&ED expenditure pools	375,861	-
Future income tax (liability) asset	3,560	58,215

13 Contingencies

The Company has no contingencies of a material amount as at December 31, 2010.

14 Supplemental cash flow information

	Three months 2nd Quarter		Six months Year to Date	
	2011	2010	2011	2010
Net Change in non-working capital balances related to operations				
Accounts receivable	24,892	53,763	625,437	221,748
Income Tax payable/receivable	(244,234)	(301,567)	(548,478)	(282,148)
Inventory	(123,145)	61,547	(381,281)	(49,108)
Prepaid expenses and deposits	23,739	11,811	27,702	20,480
Accounts payables and accrued liabilities	154,498	(11,306)	135,177	(10,789)
Deferred Income	17,787	29,574	5,414	46,217
	(146,463)	(156,178)	(136,028)	(53,600)
Non-cash investing and financing activities				
Stock Based Compensation	16,244		16,244	
Cash paid for income taxes	267,528	523,366	535,056	739,726

15 Financial instruments

Fair values of financial assets and financial liabilities

The carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2010 are summarized as follows:

	Carrying amount $	**Fair value $**
Held-to-maturity	7,675,056	7,675,056
Loans and receivables	1,550,198	1,550,198
Other financial liabilities	1,479,738	1,479,738

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 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.

16 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 quarter.

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

17 Paraxip acquisition

On July 14, 2008, the Company acquired all of the issued and outstanding shares of Paraxip. The results of Paraxip's operations have been included in the consolidated financial statements since that date. Paraxip is a leading developer of intellectual property connectivity software that empowers the deployment of telephony applications.

The aggregate purchase price was $4,780,383, payable as to $1,900,835 in cash and 2,334,259 common shares at a deemed issue price of $1.2336 per share. The cash consideration was paid to sellers on closing along with 778,084 common shares. An additional 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. In addition, the Company granted stock options to purchase 220,000 common shares at $1.10 per share to employees of Paraxip, subject to vesting at three years.

Allocation of the purchase price is as follows:

	$
Net assets acquired	
Intellectual property	4,574,295
Working capital	264,353
Development costs	65,735
Capital assets	12,287
Long-term liabilities	(136,287)
	4,780,383

The acquired intellectual property includes copyright to software of $2,948,461, patent rights of $1,587,633 and capitalized patent and trademark expenditures of $38,201.

Acquisition fees totalled $212,204 and have been charged to stated capital.

18 Comparative figures

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

19 Subsequent Events

There have been no material subsequent events.