

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**
FISCAL YEAR ENDED JUNE 30, 2011

October 27, 2011

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INTRODUCTION

The Management Discussion and Analysis (“MD&A”) provides a detailed analysis of the financial condition and results of operations of Sangoma Technologies Corporation (hereinafter referred to as “Sangoma” or the “Company”). The MD&A compares the financial results for the year ended June 30, 2011, with those of the previous years. The MD&A should be read in conjunction with Sangoma’s financial statements and related notes for the year ended June 30, 2011 (“Financial Statements”), which have been prepared in accordance with generally accepted accounting principles in Canada. All amounts are in Canadian Dollars unless otherwise noted.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, including statements regarding the future success of our business, development strategies and future opportunities.

Forward-looking statements include, but are not limited to, statements concerning estimates of expected expenditures, statements relating to expected future production and cash flows, and other statements which are not historical facts. When used in this document, the words such as “could”, “plan”, “estimate”, “expect”, “intend”, “may”, “potential”, “should” and similar expressions indicate forward-looking statements.

Although Sangoma believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Forward-looking statements are based on the opinions and estimates of management at the date that the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in forward-looking statements. Sangoma undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change except as required by law.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other events contemplated by the forward-looking statements will not occur. Although Sangoma believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct as these expectations are inherently subject to business, economic and competitive uncertainties. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in the management's discussion and analysis include, but are not limited to changes in exchange rate between the Canadian Dollar and other currencies, changes in technology, changes in the business climate, changes in the regulatory environment, the decline in the importance of the PSTN (see glossary below) and new competitive pressures. The forward-looking statements contained in the management's discussion and analysis are expressly qualified by this cautionary statement.

DESCRIPTION OF THE BUSINESS

General (please refer to the Glossary of Terms at the end of the document)

Sangoma's primary business is the manufacture of hardware and software that enables computing devices, mainly PC servers, to communicate with telephone networks and high speed Wide Area Networks. These products consist of hardware cards, software drivers, software applications and utilities. Figure 1 shows a typical Sangoma card - The A104 card. The A104 is capable of supporting up to 128 simultaneous telephone calls or providing up to 8Mbps of full duplex data bandwidth over T1 or E1 lines.

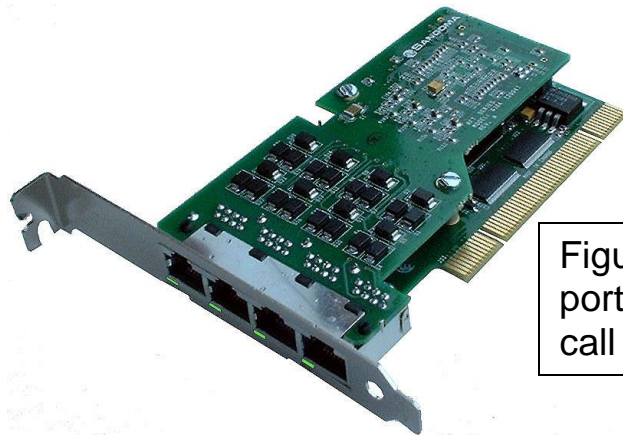


Figure 1: Sangoma 4 port T1/E1 card: 128 call capacity

While Sangoma continues to invest in the development and certification of new products supporting voice and data transport, the Company is also developing products that are not tied to the existing telephony infrastructure.

Wide Area Networks cards

Mass market switches and routers are purpose built devices that have either no expandability or use proprietary hardware interfaces that support only the supplier's hardware.

Where somewhat specialized functions are required, it is convenient to use standard PC-type hardware and readily available operating systems and toolkits to produce switches, routers and other connectivity devices in small and medium quantities. Sangoma's WANPIPE® internal routing solutions support these systems with standard telephony interfaces such as T3, E3, T1, E1, BRI, ADSL and 56kbps DDS, or industry standard serial interfaces such as RS232, V.35 and X.21. Typical customers for this technology include companies from a vast array of industry segments, but a few examples would include clients who build switches and routers for rugged industrial environments, a number of companies building devices that interface to Air Traffic Control systems, firms who use the cards to monitor cell phone call data and large global telephony equipment manufacturers who use Sangoma cards for a specialized SS7 monitoring application.

This business is the original market that Sangoma products addressed from conception and it is still a very important component of the Company's business.

Open Source Telephony (OST)

Asterisk®

Asterisk is an Open Source telephony project based on the PC platform and was one of the first such OST products. It grew out of a small initiative in the late 1990s and has grown into a worldwide phenomenon. Over 12% of all new PBX installations in the US in 2008 were Asterisk-based¹. Asterisk is Open Source which means that it is free to use and modify, but it is owned and copyrighted by Digium, Inc. which also market telephony cards similar to those provided by Sangoma.

In 2004 Sangoma began providing cards to this market and has been the most successful telephony card supplier in this space, except for Digium itself.

The original market for these products was to large numbers of small OEMs and integrators who hand built systems for themselves or clients. This has been changing into one of increasing scale and professionalism as the market consolidates.

Sangoma's successes in this market has largely been with larger, more professional OEM packagers of the basic Asterisk product, where requirements for product quality, low system loads and voice quality have steered customers to the Sangoma product line. Thus the increasing consolidation in the market has worked to Sangoma's advantage. The barriers to entry in the Asterisk market can be quite low (so several other companies have attempted to enter this market with generally modest success) and this market is a price sensitive one (so some entries from China are finding acceptance in the low end).

Other Open Source Markets

There exist several other OST projects apart from Asterisk. Such OST projects allow Sangoma to compete with other board suppliers on a level playing field compared to Asterisk, where Digium can be perceived to have somewhat of an advantage due to providing the software application as well as the hardware cards.

FreeSwitch™ is one such OST application that is generally considered architecturally superior to earlier solutions. It has begun to be used for switching and PBX applications commercially. Sangoma has supported the project virtually from its inception, and is currently involved in the development of the part of the system that provides connectivity to the PSTN. Sangoma's involvement in FreeSwitch provides Sangoma a competitive advantage as compared to other PSTN card manufacturers for FreeSwitch. The Sangoma implementation for FreeSwitch does not include Open Source telephony control and signalling modules (those are provided as closed source modules that only work with Sangoma hardware), and that adds a considerable barrier to entry for competitors in this space.

There are many other such OST solutions and Sangoma endeavours to work with these organizations and interface to these products whenever practical. Some examples of solutions based upon their own OST application/appliance or upon integrating others' OST products include YATE, Fonality, PBXnSIP, 3CX, Elastix, etc. many of which we already support and cooperate with. These offerings are all potential opportunities for Sangoma to sell its hardware and software into, or alongside.

¹ Open Source PBX: Market Size, Forecast and Analysis:
Eastern Management Group , 2009

Figure 2 below illustrates typical Sangoma support for an OST project. The OST PSTN interface, being Open Source, is what we integrate with. It is essentially an API that Sangoma has been able to use to integrate our low level driver, and hence Sangoma's hardware, into the system. The PSTN connection can be analog or digital T1, E1 or BRI.

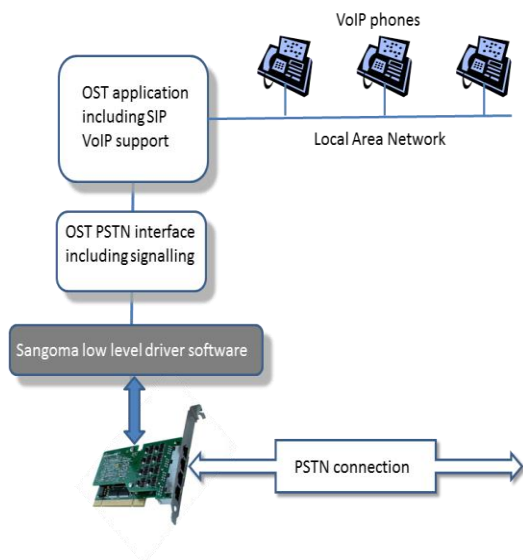


Figure 2: Sangoma support of OST applications

Non OST Telephony projects

The success of OST offerings coupled with growth in the concept of VoIP has fuelled a movement away from the use of proprietary hardware to the use of PC platforms for telephony applications, not only for OST but also for the larger, more general market of commercial applications. Thus companies that had traditionally used their own hardware for PBX and call center applications now are making available software that can be run under Windows or Linux on virtually any PC server that has enough computing power. These PC-based telephony applications are all VoIP based and concentrate on Unified Communications features. Connection to the PSTN is generally intended to be provided by third party gateways.

As virtually all telephony is moving to the PC platform there is an opportunity to provide the same integrated PSTN connectivity for commercial, non-OST (i.e. “closed source”) telephony applications as we have done for the OST market. There are many interesting applications in this market, including offerings from Microsoft (ie. Lync), Avaya, Cisco, IBM and many others. All such solutions are potential opportunities for Sangoma.

In the case of closed source applications, Sangoma has had to find another standard interface, one that is supported by all commercial applications. Until a decade ago, such an interface did not exist. With the rise of VoIP, however, a standard has emerged for supporting VoIP traffic, and that standard is SIP. SIP is supported by all modern software-based telephony applications and it has the power and control required to allow a fully functioning PSTN support application to work properly. The opportunity for Sangoma therefore lies in being able to provide integrated Gateway functions (i.e. inside the PC that hosts the telephony application).

Sangoma has been investing heavily in R&D to address this market, and has now launched Gateway products accordingly. These relatively new products, including Net Border Express obtained via Sangoma’s acquisition of Paraxip, are generating revenue for us.

Sangoma’s product offering, including the software Gateway (Net Border Express or otherwise) and the hardware cards, allows us to support SIP interfaces and therefore acts as a built-in gateway for closed source packages as shown in Figure 3.

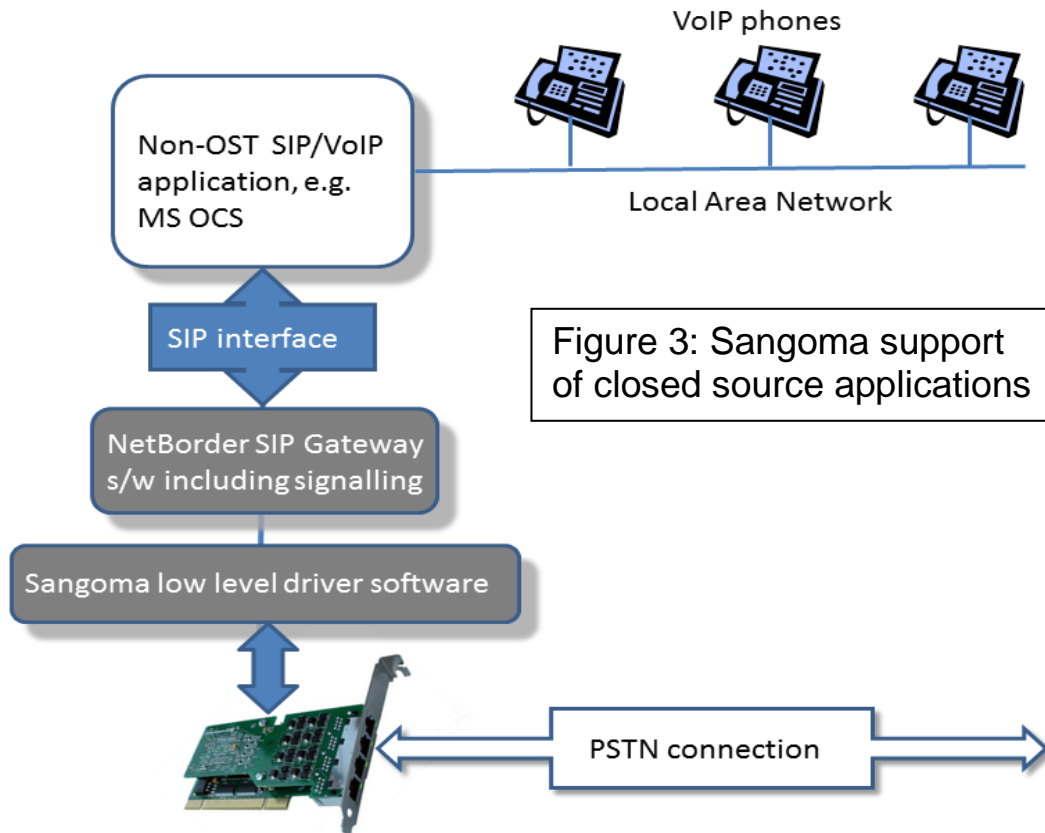


Figure 3: Sangoma support of closed source applications

Call Progress Analysis

This is a product acquired as part of the Paraxip acquisition which has since been improved and enhanced. CPA is a software product, running under Windows or Linux that is able to examine digitized telephone traffic and report whether a call has been answered by a human or answering machine/voicemail or has some other type of response such as an out of order message. CPA is a product that is purely VoIP-based. As such, it is a product that does not depend on the PSTN for its implementation, although most sales to date have also included gateways.

CPA is used in outbound call centers which are typically controlled by automatic diallers working from lists. Calls are only connected to agents once the call has been answered and verified to be a person (not an answering machine, etc.). Accurate CPA can have a very significant effect on the efficiency of the agents and hence the profitability of a call center. In addition, new regulations are coming into effect worldwide to reduce nuisance calls to subscribers, and these impose strict limits on the accuracy of determination of a human respondent as well as the time taken to make that determination.

Sangoma's CPA is based on a proprietary artificial intelligence model that is the subject of a patent application. It is currently considered the most accurate system available, having an accuracy of approximately 95% while most competing systems have an accuracy of about 80%. Customers of CPA include many large companies and Fortune 500 firms. CPA is sold largely through recommendations by partners, the most important at this time being Genesys, a major supplier of call center applications. Work continues on streamlining the implementation of CPA, to simplify the task performed by these partners, and we are actively seeking new partners in the call center business to help market and implement the product.

Transcoding

Sangoma's D100, D150 and D500 cards are now commercially available. Transcoding means the translation of voice traffic encoding from one Codec to another, usually to save bandwidth, in which the 'translation' is a compression task. A standard digital voice channel consumes 64kbps in each direction, while one that is compressed using another Codec may only consume 8kbps. Especially in the "last mile" scenario where the link may have an upstream bandwidth of 700kbps or less, VoIP compression is very important, particularly if the link is shared with normal Internet traffic.

Transcoding to different Codecs can be done on a PC, but the number of sessions that a single PC can handle is severely limited. Also, many of the codecs are patented so that significant license fees are required for software-based transcoding.

Sangoma's transcoding cards can handle 480 simultaneous compression sessions on the D100 series and 2400 sessions on the D500 series.

The product is expected to be of interest to SIP based telephony providers of all types, as well as call centers and PBX manufacturers. Transcoding is another new area of business for Sangoma that is not dependent at all on the PSTN.

Future Products

Sangoma is actively developing several new products for release over the next one to two years. Such products will lead Sangoma into many new markets as the Company diversifies its portfolio to add these new product categories to its existing telephony interface cards.

In addition to developing its own products Sangoma will selectively acquire additional products through M&A activity such as the purchase of the VegaStream product portfolio that was added through an asset purchase transaction on August 22, 2011. The VegaStream portfolio adds external gateways which provide much of the same functionality as Sangoma's existing portfolio, but reside outside the server as their own appliance, and Sangoma is now able to offer our customers both options. External gateways expand our addressable market, and can be easily integrated into Virtualized and Cloud based solutions, in order to capture additional opportunities in this space as well as in Sangoma's traditional segment.

OVERALL PERFORMANCE

Financial¹

Sales for the fourth quarter of fiscal 2011 ended June 30, 2011 were \$3.25 million, down 1% from \$3.29 million in the quarter ended June 30, 2010. This is the third quarter of consistent revenue growth this year, delivering a 29% increase in revenue since the Corporation's first quarter revenue of \$2.5 million in fiscal 2011. Gross margins for the quarter were 75%, 4% above that of the quarter ended June 30, 2010. Operating expense, before one-time goodwill impairment and accelerated amortization, for the quarter ended June 30, 2011 was \$2.10 million, 36% higher than those of the quarter end June 30, 2010, due primarily to a large \$0.51 million swing in foreign exchange expenses from a gain of \$0.3 million in the quarter ended June 30, 2010 to a loss of \$0.20 million in the fourth quarter of 2011. Income before taxes and before one-time, non-cash expenses was \$0.34 million for the fiscal fourth quarter, compared to \$0.46 million in the immediately preceding quarter and \$0.79 million in the same quarter last year.

In addition to the positive operating results described above, the Corporation also took two 'non-cash', one-time adjustments during the fourth quarter of fiscal 2011. First, in accordance with GAAP, Sangoma carries out an impairment test each year during the fourth quarter. During this year's test, the goodwill was shown to be impaired by \$3.85 million, and so this impairment was taken as a one-time charge to the Corporation's fourth quarter earnings. Secondly, during the fourth quarter, Sangoma was notified that a patent application which had been part of the Paraxip acquisition, had been rejected by the US Patent Office. The Corporation accordingly decided to accelerate the amortization of the remaining \$1.35 million remaining in book value of this intangible asset. Accelerating this amortization required restatement of a future tax liability on the Corporation's prior year's balance sheet, and this change does not materially affect earnings in fiscal 2010. Further, neither of these charges affected cash generated by the business in any way during fiscal 2011. In fact, during fiscal 2011 Sangoma increased its cash balance by \$1.04 million, 20% more than the cash generated in fiscal 2010. On June 30, 2011 Sangoma had working capital of \$12.46 million, as compared to \$10.92 million on June 30, 2010. Working capital on June 30, 2011 included \$8.78 million in cash and equivalents.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the quarter ended June 30, 2011 was \$0.96 million, down slightly from the \$0.97 million last quarter, and 28% below the same quarter one year ago.

Net loss for the fiscal fourth quarter was \$4.41 million (\$0.146 per share fully diluted) compared to Net Income of \$1.30 million (\$0.043 per share fully diluted) for the fiscal fourth quarter 2010.

For the financial year ended June 30, 2011 sales were \$11.86 million as compared with \$12.51 million for the financial year ended June 30, 2010. The 5% sales shortfall year over year was primarily due to a weaker US\$ and a soft first quarter. Gross margins were 75%, slightly higher than the 74% recorded in the financial year ended June 30, 2010. Operating expense, before one-time impairment and accelerated amortization, of \$7.49 million for the financial year ended June 30, 2011 was 20% higher than the \$6.26 million incurred in the financial year ended June 30, 2010, attributable primarily to the increase in amortized development costs, foreign exchange,

¹ *Financial results for 2009 and 2010 have been restated to reflect the impact of the future tax liability provision associated with the Intangible Assets arising at the time of the Paraxip Technologies Inc. acquisition in July 2008. The restatement did not materially affect 2009 or 2010 earnings.*

and sales and marketing spending. Income before taxes and one-time, non-cash items was \$1.35m for the fiscal year 2011 a decline of 55% from the \$2.99m in fiscal 2010.

After the accelerated amortization of intangible assets and impairment of goodwill, net loss was \$3.67 million (-\$0.121 per share fully diluted) compared to net income of \$2.65 million (\$0.088 per share fully diluted) for the year ended June 30, 2010. EBITDA for the financial year ended June 30, 2011 was \$3.41 million as compared to \$4.48 million for the financial year ended June 30, 2010, a decrease of 24%.

Operational

Sangoma has earned a reputation for quality, innovation and responsiveness as the supplier of key network connectivity components to the PC-based telephony and data transport markets.

The Company has been a strong player in the OST business for many years now, and is a respected contributor to open source telephony solutions and contributes back to the OST community regularly. Further, Sangoma's traditional OST business is well positioned to benefit from Digium's Asterisk project beginning to face a credible challenge from other OST offerings. Just one example of such offerings would include FreeSwitch (supported by Barracuda Networks), which is increasingly being used for larger switching applications as well as for PBXs. Sangoma is heavily involved in the development and maintenance of the PSTN interface portion of FreeSwitch, giving the Company a significant competitive advantage in this market.

Sangoma has moved into the commercial, non-OST space through the introduction of our PSTN to SIP Gateway products and several other applications are using our Gateway products for PSTN connections.

Sangoma is focusing on several strategies to accelerate the Company's growth, including significantly strengthening the management team, broadening its product portfolio, addressing new market segments, targeting developing geographies more substantially, and considering selective M&A opportunities such as the acquisition of the assets of VegaStream on August 22, 2011.

Innovation

Sangoma invests in Research and Development to develop new products and to improve existing offerings. The Markham and Montreal teams were strengthened and restructured in March into one cohesive engineering team. This new focus is to ensure the majority of R&D spending is on new product development, and to dramatically accelerate the pace at which the Company develops and introduces new products. This will provide Sangoma with a more flexible pool of engineering talent that can work across the entire product portfolio, rather than separate groups working only on specific products.

In fiscal 2011, the Company released several new products including its new transcoding line of D100 and D500 cards, the D150 available as a small transcoding appliance or as a card, and NetBorder Express V4 of our soft SIP-TDM gateway. Target markets for the transcoding line include any organization concerned with VoIP including SIP trunking providers, call center operators, Telcos and cell phone operators. Transcoding is an entirely new application for Sangoma so that all revenues are accretive to our other WAN and PSTN-based income. During fiscal 2012, Sangoma expects to dramatically accelerate the rate of new product introduction, and release many more new products to the market.

Sales and Marketing

Sangoma has a dual sales path to customers: direct sales to large OEM partners, and two tier distribution to others.

OEM partners are companies that “design in” Sangoma products as a component of the OEM’s solution. Two tier distribution involves Sangoma selling to a distributor, the distributor selling to resellers, and resellers selling to end users. Utilizing regional distributors to develop their own network of resellers supported by Sangoma sales and marketing efforts has proven very successful. The impact of lower margins from a two tier distribution model is offset by the net new growth of sales which distributors bring to Sangoma as well as reducing the cost of handling relatively small orders.

OEM Customers tend to be long term successful participants in their given markets and to have longer term focus. It is important to reach these potential customers in the early days of any project to secure ‘design wins’ and to have sales and marketing programs that will ensure close intercompany collaboration during development and sales development cycles that may last as long as three years.

Sangoma’s OST buyers are often smaller resellers which are well serviced through online resellers and distributors. Distribution channels require frequent attention to keep Sangoma as the premier supplier in a crowded product marketplace. Sangoma has implemented several incentive programs with distributors and is defining marketing programs specific to each region. The development and support effort of the Markham software group have kept Sangoma’s brand and name prominent in the OST community.

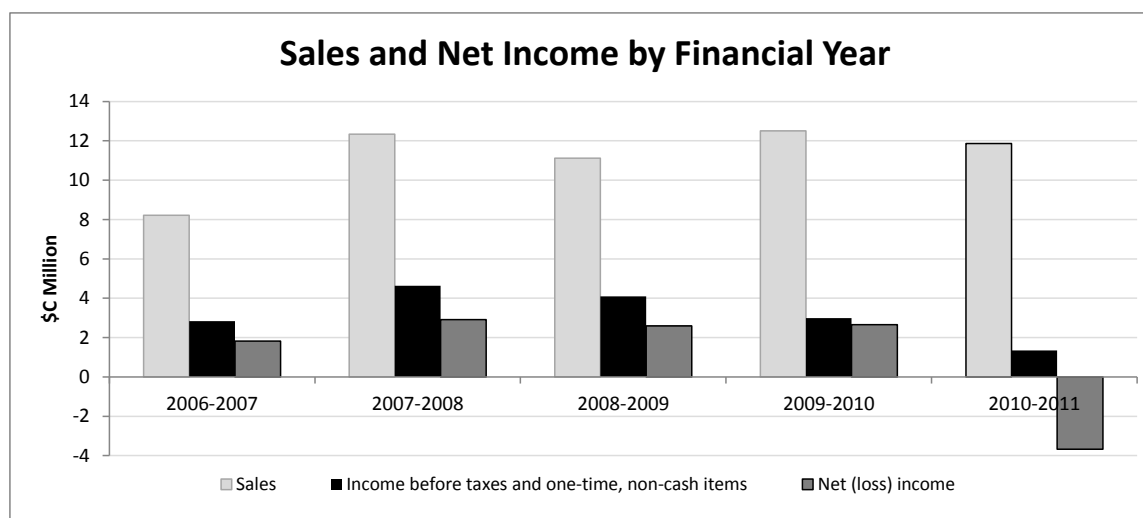
The Company is increasing its investment in, and focus on, Sales. Sangoma is in the process of expanding its sales organization and is hiring such staff in the regions close to customers. Further, the Company is developing a comprehensive set of channel promotion programs to incent and reward its distribution partners for performance and behaviours that Sangoma believes will grow its revenue. These programs launched in the first fiscal quarter of 2012.

Sangoma is also increasing its focus on, and investment in, Marketing under the leadership of our new executive hired in fiscal 2011. The marketing team is putting together corporate marketing programs to promote the Company more aggressively and to convey the message that Sangoma is ‘not just a board company any more’. These programs are launching in the first quarter of fiscal 2012. The Company is now utilizing various marketing techniques typical of technology firms like Sangoma. That includes participation in tradeshows, speaking at selected industry events, attending specialized seminars run by our distribution channel and other partners, investing in electronic marketing strategies (eg. web presence, social media and blogging, on-line advertising, SEO/SEM, etc), conducting lead generation campaigns, and creating thought leadership pieces. The Sangoma partner portal is continuing to develop as a place where approved application partners, distributors and resellers of Sangoma can get access to product information, online pricing/purchasing, co-marketing material, sales tools and other privileged partner information.

SELECTED ANNUAL INFORMATION

The table and chart below shows selected historical information from the Company's Financial Statements

Fiscal year ended June 30:			
	2011	2010 (restated)	2009 (restated)
	(\$ millions, except per share amounts)		
Operating Results			
Sales	11.86	12.51	11.12
Gross profit	8.84	9.25	8.21
Operating Expense	7.49	6.26	4.11
Income before taxes and one-time, non-cash items	1.35	2.99	4.10
Net Income	(3.67)	2.65	2.59
Net earnings per share:			
- non diluted basis	(\$0.12)	\$0.09	\$0.09
- fully diluted basis	(\$0.12)	\$0.09	\$0.08
EBITDA	3.41	4.48	5.24
Financial Position			
Cash and equivalents	8.78	7.74	6.87
Total Assets	21.42	25.50	25.97
Long term debt	0.05	0.12	1.08
Shareholders' Equity	19.27	22.03	18.35
Cash dividends declared per share	\$0.00	\$0.00	\$0.00

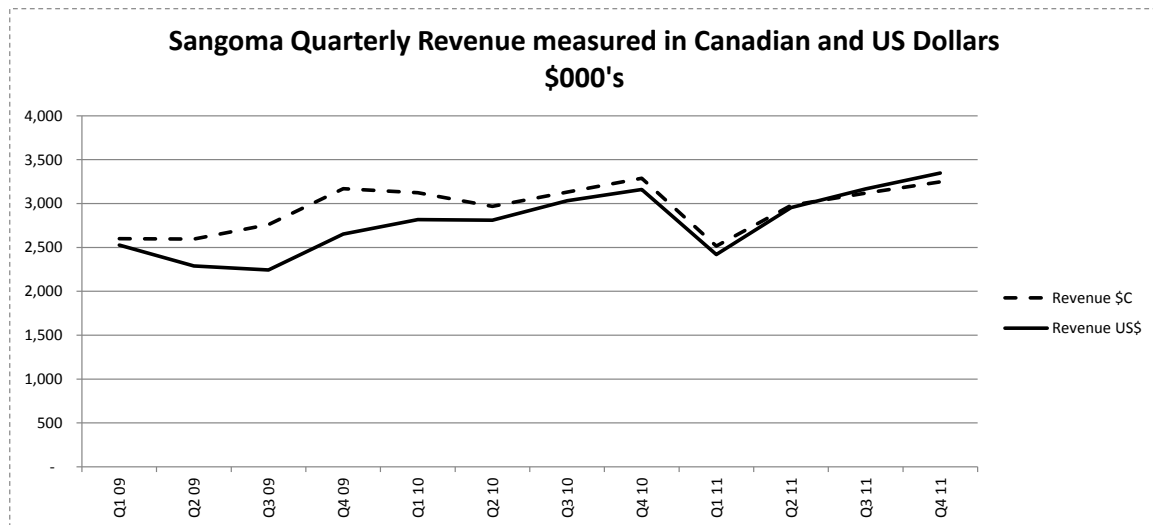


RESULTS OF OPERATIONS

SUMMARY OF RESULTS FOR THE FOURTH QUARTER

Sales for the quarter ended June 30, 2011 were \$3.25 million, up 4% from \$3.12 million during the Company's immediately preceding third quarter of fiscal 2011. This is the third quarter of consistent revenue growth this year, delivering a 29% increase in revenue since the Company's first quarter of \$2.5 million in fiscal 2011.

When measured in source currency (predominantly US\$), sales in the quarter ended June 30, 2011 were the highest level of revenue ever for Sangoma. This is an increase of 6% from both third quarter sales this year and from the same quarter last year, and is the Company's second straight quarter of record revenue when measured in source currency. While the fourth quarter improvement is positive, solid performance in the first few quarters of fiscal 2012 is required to prove the longer term trend.



Gross margins for the quarter ended June 30, 2011 were 75%, 2% above the 73% in the immediately preceding third quarter of fiscal 2011, and 4% above that of the quarter ended June 30, 2010.

Operating expense, before one-time goodwill impairment and accelerated amortization, for the quarter ended June 30, 2011 was \$2.11 million, 16% higher than that of fiscal third quarter ended March 31, 2011, mainly due to the increase in development cost amortization following the ramp in spending late in fiscal 2010 and to increased sales and marketing investment for the expected benefit of higher sales in future quarters. In the fourth quarter management determined that the patents no longer had a remaining useful life and accelerated amortization to reflect this. Also in the quarter, Sangoma recorded one-time charges relating to the impairment of goodwill following a valuation as required annually under Canadian GAAP. Operating expense, before one-time impairment and accelerated depreciation, for the fourth quarter 2011 was 39% higher than that of

the comparable quarter last year, due primarily to a large \$0.51 million swing in foreign exchange expenses from a gain of \$0.31m million last year to a loss of \$0.20 million this year.

Inclusive of the one-time non-cash items, net loss was \$3.67 million for the fiscal fourth quarter (\$0.121 per share fully diluted) compared to net income of \$0.35 million (\$0.011 per share fully diluted) in the immediately preceding quarter, and \$1.21 million (\$0.040 per share fully diluted) for the quarter ended June 30, 2010. EBITDA for the quarter ended June 30, 2011 was \$0.96 million, approximately flat with the \$0.97 million last quarter, and 28% below the same quarter one year ago.

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of selected quarterly consolidated financial information of the Company for each of the eight most recently completed financial quarters (\$000's except per share data):

	First quarter 2009-2010	Second quarter 2009-2010	Third quarter 2009-2010	Fourth quarter 2009-2010	First quarter 2010-2011	Second quarter 2010-2011	Third quarter 2010-2011	Fourth quarter 2010-2011
Net Sales	\$ 3,123	\$ 2,968	\$ 3,130	\$ 3,288	\$ 2,515	\$ 2,980	\$ 3,119	\$ 3,247
Income before taxes and one-time, non-cash items	\$ 884	\$ 633	\$ 692	\$ 829	\$ 103	\$ 452	\$ 456	\$ 335
Net Income	\$ 562	\$ 367	\$ 419	\$ 1,299	\$ 55	\$ 343	\$ 347	-\$ 4,411
Net Earnings per Share								
non-diluted basis	\$0.019	\$0.012	\$0.014	\$0.044	\$0.002	\$ 0.011	\$ 0.011	-\$ 0.147
fully diluted basis	\$0.019	\$0.012	\$0.014	\$0.043	\$0.002	\$ 0.011	\$ 0.011	-\$ 0.147

SUMMARY RESULTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Sales

Sales for the year ended June 30, 2011 were \$11.86 million compared to \$12.51 million for fiscal 2010. The 5% sales shortfall year over year was primarily due to a weaker US\$ and a soft first quarter. In US\$, revenues in quarters two through four all exceeded those of the same quarter the year prior.

Cost of Sales and Gross Profit

The cost of sales for the year ended June 30, 2011 was \$3.02 million or 25% of sales compared to \$3.26 million or 26% of sales for the year ended June 30, 2010. Gross profit for the fiscal year ended June 30, 2011 was \$8.84 million, as compared to \$9.25 million for the same period ending June 30, 2010, a decrease of 4%.

Operational expense

Administration and Engineering Expenses

Administration expenses were \$2.62 million for the year ended June 30, 2011 an increase of 6% over those for the same period ended June 30, 2010 (\$2.48 million) and remain in line with the run-rate for the past few quarters.

Development Costs

Continuous product development is crucial to maintaining Sangoma's competitive position in the fast-moving data communications and voice market. Certain development costs are amortized on a straight-line basis over three years (see the Notes to Consolidated Financial Statements). Actual cash expenditure on development was \$2.12 million for the year ended June 30, 2011, as compared to \$2.47 million for the year ended June 30, 2010, a decrease of 14%. The decrease is attributable to the investment in engineering tools added in the latter part of fiscal 2010.

The development costs amortized during the year ended June 30, 2011 were \$1.35 million (\$0.84 million for the year ended June 30, 2010), reflecting the amortization of the software development tools purchased in fiscal 2010.

Amortization - property, plant and equipment

Amortization of property, plant and equipment was \$0.16 million for the year ended June 30, 2011, 18% higher than the \$0.14 million in the year ended June 30, 2010.

Amortization - intangibles

Intangible assets which include copyright to software and patent rights acquired as part of the Paraxip purchase are being amortized over 10 and 20 years respectively. This year's expense was \$0.37 million before the one-time accelerated amortization of the patents taken separately in the fourth quarter.

Foreign Exchange

For the year ended June 30, 2011, the foreign exchange loss was \$0.69 million versus \$0.40 million in the year ended June 30, 2010 due to the weakening US dollar.

Stock Based Compensation

For the year ended June 30, 2011, stock based compensation was \$0.20 million versus \$0.11 million in the year ended June 30, 2010. The increase in stock based compensation reflects the non-cash charges taken in accordance with Canadian GAAP for the issuance of options to executives, directors and staff.

Selling and Marketing Expenses

Selling and marketing expenses were \$2.11 million for the year ended June 30, 2011 as compared with \$1.89 million for the year ended June 30, 2010, an increase of 12%. Sales and Marketing remains a key focus for Sangoma and investment in this area has been increased for the expected benefit of higher sales in future periods.

Investment income

Investment income for the year ended June 30, 2011 was \$0.03 million in line with that of the year ended June 30, 2010.

Total operational expense

Total operational expense, before one-time goodwill impairment and accelerated amortization, was \$7.49 million for fiscal 2011 compared to \$6.26 million a year ago, an increase of 20%, attributable primarily to the increase in amortization of development costs, foreign exchange, and increased sales and marketing spending as management remains focused on continuing the quarter over quarter revenue growth.

Accelerated amortization of patents

In the fourth quarter management determined that the patent mentioned earlier no longer had a remaining useful life and accelerated amortization by \$1.35m to reflect this. This is non-cash charge.

Impairment of goodwill

In the fourth quarter of 2011 Sangoma recorded a one-time charge of \$3.854 million to record the result of the valuation conducted by the Company as part of a step 2 impairment test required by Canadian GAAP.

Net Earnings

Net loss for the year ended June 30, 2011 was \$3.67 million (\$0.122 per share fully diluted) compared to net income of \$2.65 million (\$0.09 per share fully diluted) for the year ended June 30, 2010.

LIQUIDITY

The Company completed the financial year ended June 30, 2011 with current assets of \$13.92 million and current liabilities of \$1.56 million, resulting in working capital of \$12.36 million, as compared to \$10.92 million at June 30, 2010. Cash and equivalents at June 30, 2011 were \$8.78 million as compared to \$7.74 million at June 30, 2010.

The average collection period for receivables is 63 days, based on the fourth quarter sales and accounts receivable at June 30, 2011. This is higher than the 54 days at the end of the fiscal year 2010 because a higher percentage of sales were recorded in the last month of the most recent quarter.

Inventory was \$1.46 million on June 30, 2011, 11% lower than the \$1.65 million on June 30, 2010. The turnover rate was approximately 2.2 times per year for the year ended June 30, 2011 as compared to 2.0 times per year during the year ended June 30, 2010. The lower inventory at the end of 2011 reflects the high level of shipments in the last month of the quarter rather than any change in the Company's inventory policies.

The Company increased its cash balance during the year by \$1.04 million, or 20% more than in 2010. Cash flow from operations before non-cash working capital balances was positive \$3.23 million for the year ended June 30, 2011 compared to positive \$4.03 million in the year ended June 30, 2010. After taking into account non-cash working capital balances related to operations, cash flow from operations was positive \$2.69 million as compared to positive \$3.06 million for the year ended June 30, 2010.

The Company continues to be profitable with positive cash flow from operations. There are no existing or anticipated defaults or arrears on lease payments, or interest. Management of the Company believes that the current working capital and funds generated from operations will be sufficient to meet the operating and planned capital expenditures of the Company for the foreseeable future.

CAPITAL RESOURCES

There are no commitments for capital expenditures at this time.

OFF-BALANCE SHEET ARRANGEMENTS

There are no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of Sangoma.

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.

PROPOSED TRANSACTIONS

There are no proposed asset or business acquisitions as at the date of this MD&A.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION OF IFRS

Transition to IFRS

The Accounting Standards Board (the “AcSB”) requires all publicly accountable enterprises to adopt International Financial Reporting Standards (“IFRS”) effective the first fiscal year following January 2011.

As previously reported the Company has worked through the process to transition from GAAP to IFRS. This changeover process involves three separate and distinct phases:

1. Scoping Phase – assessing the differences between GAAP and IFRS and focusing on the areas that will have the most significant impacts on the Company;
2. Analysis Phase – resulting in the analysis and development of detailed solutions to address the differences identified during the Scoping Phase; and
3. Implementation Phase – implementing all of the required changes necessary for IFRS compliance.

The Company has successfully completed Scoping and Analysis Phases and has determined that the areas most likely to have a significant impact on The Company include: the requirements of IFRS 1 dealing with first time adoption choices; share-based payment; intangibles; impairment; and provisions. These areas, in turn, impact policies, procedures and financial statement disclosures.

The Company is currently completing the Implementation Phase of its changeover process. The Company monitors the IASB’s activities on an ongoing basis, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and GAAP. However, since all potential changes to IFRS that will be effective as at June 30, 2012 are not yet known, any conclusions drawn at this point in time must be considered preliminary.

The Company’s progress to date has resulted in the following preliminary assessments:

IFRS 1 - First-time adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion from GAAP to IFRS shall be directly recognized in retained earnings. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions, which prohibit retrospective application of standards. While this list has been subject to some change, currently there are sixteen elective exemptions and three mandatory exceptions that need to be considered.

The Company currently expects to apply the following elective exemptions:

- it will commence application of IFRS 2 (Share Based Payment) to outstanding and not vested stock options as at July 1, 2010;
- it will not restate the accounting of past business combinations;

- it will not select fair value as deemed cost for property, plant and equipment or intangibles;
- it will take an exemption on leases and will determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date;
- it will not designate previously recognized financial instruments at available-for-sale or at fair value through profit or loss;
- it will apply the transitional provisions set out in paragraphs 27 and 28 of IAS 23, as revised in 2007

Differences that impact the Company

IFRS 2 – Share Based Payment

IFRS 2 is effective for the Company as of July 1, 2010 and is applicable to stock options that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Stock option grants prior to November 7, 2002 are not taken into account for IFRS 2;
- Stock option grants subsequent to November 7, 2002 are only taken into account if they have not vested as at July 1, 2010; and,
- From July 1, 2010, all stock options payments will be treated under IFRS 2.

Recognition of Expense

Canadian GAAP - For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS - Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

As a result, the Company will recognize a reduction in Retained Earnings at the date of transition.

Estimated Life

Canadian GAAP – Life of the option for the purposes of FV measurement is the option's contractual life.

IFRS - At the time of recognition IFRS requires the Company to estimate, to its best ability, the number of options that will eventually vest and measure the transaction at this best available estimate. IFRS also requires this best available estimate to be revised when subsequent information indicates a new estimate. On the vesting date, the estimate should be revised to be equal to what is ultimately vested.

Forfeitures

Canadian GAAP - Forfeitures of awards are recognized as they occur.

IFRS – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

The Company does not expect any adjustments for forfeitures.

IAS 36 – Impairment

IAS 36 uses a one-step approach for testing and measuring asset impairments, with carrying values being compared to the higher of value in use and fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset. In the absence of an active market, fair value less costs to sell may be determined using discounted cash flows. IAS 36 allows reversal of previously recognized impairment losses (other than goodwill) where circumstances change such that prior impairment has been reduced.

Canadian GAAP uses undiscounted future cash flows to compare against the asset's carrying value to determine if impairment exists. Canadian GAAP prohibits reversal of previously recognized impairment losses.

The Company's assets will be subject to the one-step approach under IFRS for testing and measuring asset impairments, which may result in some impairments being recognized or reversed under IFRS that would not have been required or permitted under Canadian GAAP.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Sangoma has determined the estimated fair value of its financial assets and liabilities based on generally accepted valuation methods.

Short-term financial instruments

Cash and equivalents, accounts receivable, investment tax credits, accounts payable and accrued liabilities and term loan are short-term financial instruments whose fair value approximates their carrying amount on the balance sheet due to their near-term maturities. The Company does not otherwise rely on financial instruments to satisfy its capital requirements.

OUTSTANDING SHARE DATA

During the year ended June 30, 2011 the Company issued 778,086 shares as the final consideration for the acquisition of Paraxip Technologies in 2008, and purchased and cancelled 505,000 shares through its Normal Course Issuer Bid. In addition the Company issued 3,451,060 options to Directors, Executives and Staff. As at the date hereof, there are 29,837,809 issued and outstanding common shares of Sangoma and 4,603,910 outstanding options to acquire common shares. Each option converts to one common share.

SUBSEQUENT EVENTS

(a) Following the end of the fiscal year on June 30, 2011, the Company acquired all the key assets of the VegaStream Group of Companies on August 22, 2011. VegaStream was a leading UK-based developer of VOIP gateway appliances.

The business operations of VegaStream will be quickly integrated into Sangoma's, with VegaStream staff being welcomed as part of the respective Sangoma teams, the majority being in R&D and Sales and Marketing. The VegaStream products will become part of the Sangoma portfolio with customers rapidly benefiting from Sangoma's reputation for efficient supply chain management and quick turnaround of customer orders.

Sangoma is investing in new marketing, sales and product development initiatives, and this transaction is further evidence of such investments to drive ongoing growth. The acquisition of VegaStream helps Sangoma to achieve several of its strategic objectives: broadening its portfolio, adding to its distribution network, delivering existing channel partners a more comprehensive set of products, affording Sangoma an EU office to enable better service to this critical part of the world in local time zones, expanding its customer base and customer segments (including more network operators), and penetrating more deeply into developing regions, including significant upside in the key market of India with some excellent large clients

This is an all cash purchase and no new shares are being issued by Sangoma as part of this transaction. The company paid £0.9M (approximately \$1.4M) in cash, subject to some minor closing adjustments, for all of the key assets of VegaStream which were partly purchased through an administration process in the UK. In addition to the operating assets, Sangoma purchased the VegaStream share of VSNPL, a JV in India. Sangoma expects the VegaStream assets to begin to contribute to the company's earnings during the second half of fiscal 2012 once it has integrated these operations and ramped up production, and be accretive for fiscal 2013.

The Company is in the process of setting up a facility to enable issuing Letters of Credit to the offshore manufacturers used to build the recently acquired Vega product portfolio.

(b) Immediately subsequent to the end of fiscal 2011, the Company amalgamated its Paraxip subsidiary into the parent Sangoma. This step was taken to simplify operations, lower administration overhead/costs, and substantially reduce the Company's taxes. This is possible by taking advantage of tax loss carry forward amounts in Paraxip that will now be available to Sangoma starting in fiscal 2012.

ADDITIONAL INFORMATION

Additional information relating to the Company is filed electronically on SEDAR at www.sedar.com.

GLOSSARY OF TERMS

Analog

Analog telephony is the telephone system that dates back to the original experiments by Alexander Graham Bell. The voice signal is picked up by a microphone and transmitted to the central office. Voice signals from the central office consist of voltages that drive a headset to produce sound. Analog means that the voice pressure signals are represented by voltages levels on the line.

API

Application Program Interface: An API is a purpose-built interface that allows third party software to interact with a particular application. A typical API is the user interface for Windows that allow programmers to write programs for Windows that use all its built-in utilities. APIs do not depend on revealing source code, in general. They are usually well documented and include sample programs that make development easy.

Codec

In the telephony context a codec is a mechanism of digitally encoding voice. On the PSTN a voice channel takes up 64kbps in a codec standard called G.711. Cell phones use a codec called GSM that compress the voice further so that a GSM call consumes about 24kbps. Other compressed codecs are used in VoIP to conserve bandwidth. These include standards such as G.729, G.723. Most audio codecs are lossy, in that some of the voice quality is degraded by the compression. On the other hand, as bandwidth becomes cheaper, VoIP allows one to use other codecs that in fact use more bandwidth than the PSTN, the so-called broadband codecs that have DVD-like voice quality.

Digital telephony

In the modern PSTN only the “last mile” line to the customer is still analog, all other internal parts of the network are digital. Digital in this case means that at the central office the analog signal from the subscriber’s telephone is sampled digitally, converting the line voltages to a series of numbers that can be easily transmitted error free over long distances. See T1, E1 below.

Gateway

In the telephony context this is typically a separate unit with its own case and power supply that provides VoIP-to-PSTN services for a VoIP network. Almost all gateway devices use SIP interfaces to the VoIP system over Ethernet and have analog or digital telephony interfaces that connect to the PSTN. VoIP gateways are available from many manufacturers including Audiocodes, Cisco, Grandstream, Patton Electronics and many others.

ISDN

Integrated Services Digital Network (ISDN) is a set of communications standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits of the public switched telephone network. Of the many variations of ISDN, Sangoma supports BRI (Basic Rate Interface) which is essentially an all-digital replacement for ordinary analog lines and PRI (Primary Rate Interface) which is used over T1 and E1 lines. BRI is very popular outside of North America. PRI is used worldwide.

IVR

Interactive Voice Response: IVR systems use the phone to navigate a menu, for example those used by banks to allow access to customer’s account information. IVR systems have typically been driven by dial tones as the buttons on your phone are pressed, but increasingly they are using voice recognition for navigation.

Open Source

Open Source software is distributed free subject to certain conditions. Open Source licenses usually stipulate that source code must always be distributed or made available, and any improvements in the code have to be donated back to the community. It is possible to have dual licensing: Open Source to the community and also a closed, commercial license of the same or similar software.

NetBorder

This is the trade name of a Sangoma SIP to PSTN gateway product. It includes several other functions in addition to the PSTN gateway function. The mass marketed version is known as NetBorder Express or NBE.

PSTN

Public Switched Telephone Network: This is the standard telephone network that has been in operation for many decades. A telephone or FAX or PBX or other telephony device is generally connected to an analog line at a wall plug, which is connected by “last mile” cabling to the central office. The analog signal from the device is converted to a digital signal at the Telco central office and is multiplexed, 24 simultaneous voice channels per line (in North America) onto a T1 for onward transmission. At the other end of the line the digital channel is reconverted to analog for transmission over the “last mile” to the receiving phone or other device.

Signalling

Call setup and tear down is remarkably complicated, involving such things as responding to the different tones as well as generating them, caller identification and handling the different features like hook-flash and voicemail properly. There are different signalling mechanisms for different types of circuits. Analog circuits use tones such as out-of-order, busy, ringing as well as the dialling tones. T1 lines often use a data protocol called ISDN PRI, where packets of control data are exchanged on a separate data channel. ISDN PRI is a simplification of the general signalling protocol used internally by the telecommunications networks known as SS7. In all cases signalling has to be exactly compatible with what the Telco expects, so interoperability and standards are important.

SIP

Session Initiation Protocol: SIP is the emerging standard signalling protocol for VoIP, though it has much broader applications. SIP is responsible for setting up and teardown of two party and multiparty calls, as well as a host of management features. To a great and increasing extent, VoIP calls are SIP based.

T1, E1

A T1 line is a circuit that carries 24 digital telephone calls simultaneously. At higher densities, 28 T1s are aggregated into a T3 line carrying 672 calls. Larger offices can also connect to the central office via T1 directly, so as to have only one circuit for up to 24 calls. T1 is standard in North America and Japan while E1 is the standard in the rest of the world. E1 carries 30 channels of digitized voice per line.

Unified Communications

Unified communications is a concept in which voice, email, messaging, video and any other type of communication are all considered forms of data that can be combined, manipulated and used in intelligent applications in a seamless way.

VoIP

Voice over IP: The transfer of voice traffic over the Internet Protocol (IP). IP is used universally for all networking including local area networks and private networks, not just the Internet. So VoIP is not necessarily voice over the Internet, but voice over general data networks.