

SANGOMA TECHNOLOGIES CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS
FISCAL THIRD QUARTER ENDED MARCH 31, 2012

May 11, 2012

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 quarter ended March 31, 2012, with those of the same quarter in the previous year. The MD&A should be read in conjunction with Sangoma’s audited financial statements and related notes for the year ended June 30, 2011 (“Financial Statements”), which were prepared in accordance with Generally Accepted Accounting Principles in Canada. All amounts are in Canadian Dollars unless otherwise noted.

BASIS OF PRESENTATION

The Company prepares its consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) as set out in the Handbook of The Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis and in these consolidated interim financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS, and “IFRS” refers to Canadian GAAP subsequent to the adoption of IFRS.

NON-IFRS MEASURES

This MD&A contains references to certain non-IFRS financial measures such as Operating Income and EBITDA. Non-IFRS financial measures are used by management to evaluate the performance of the Company and do not have any meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Non-IFRS financial measures used herein have been applied on a consistent basis. “Operating Income” means gross margin less expenses before financing costs and one-time charges. “EBITDA” means earnings before interest, income taxes, amortization and one-time charges. EBITDA is a measure used by many investors to compare issuers on the basis of their ability to generate cash from operations. We believe that Operating Income and EBITDA are useful supplemental information as they provide an indication of the results generated by the Company’s main business activities before taking into consideration how they are financed or taxed. Investors are cautioned that non-IFRS measures, such as those presented herein, should not be construed as an alternative to net income or cash flow determined in accordance with IFRS.

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 is a leading provider of hardware and software components that enable or enhance IP Communications Systems for both telecom and datacom applications. Enterprises, SMBs and Carriers in over 150 countries rely on Sangoma's technology as part of their mission critical infrastructures. Through its worldwide network of Distribution Partners, Sangoma delivers the industry's best engineered, highest quality products, some of which carry the industry's first lifetime warranty. Our products consist of hardware cards, software drivers, software applications, full appliances 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 Data Networking 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.

Telephony Cards

The Asterisk® Market

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

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

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.

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.

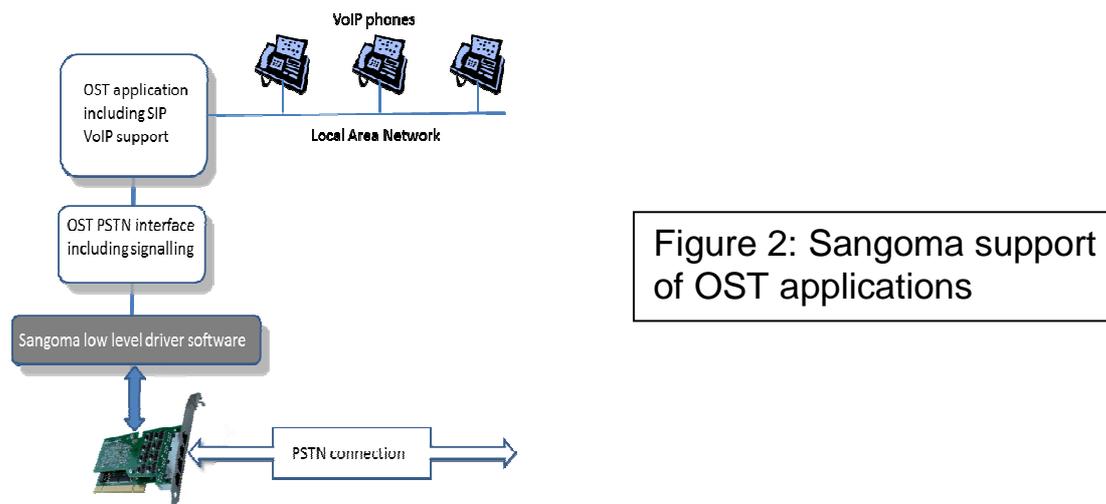


Figure 2: Sangoma support of OST applications

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.

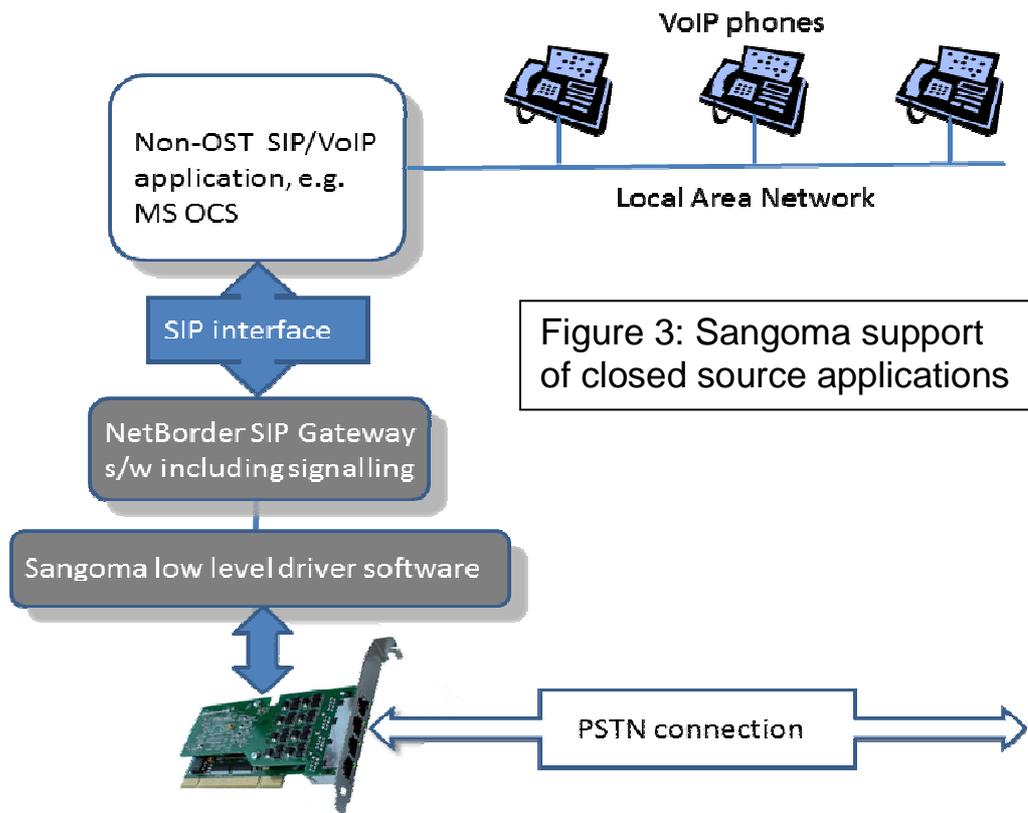
As virtually all telephony is moving to the PC platform there is an opportunity to provide the same integrated PSTN connectivity for commercial, non-OST (i.e. "closed source") telephony applications as we have done for the OST market. There are many interesting applications in this market, including 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.



Transcoding Boards

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.

Call Progress Analysis

This is a software application, 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.

SS7 Solutions

Sangoma's SS7 to VoIP offering is a software application that provides full-featured, carrier-class VoIP deployments while leveraging the flexibility of standard computing platforms and operating systems. It allows telecom service providers to introduce VoIP in their networks in the most cost-effective and flexible way. This is simply accomplished by combining this software application, normally with Sangoma's award-winning digital T1/E1 and transcoding boards, on standard computing servers. The solution supports up to 32 T1/E1 per server. For larger installations (up to 256 T1/E1), distribution across multiple servers provide maximum flexibility to support growth

SIP to PSTN Software Solutions

NetBorder Express is a complete SIP-compliant VoIP software application, delivering the most flexible and cost effective solution by removing the need for external gateways. It is compatible

with Analog FXO and FXS, MFC/R2, ISDN BRI and PRI telephony interfaces. NetBorder Express can scale from 2 to 480 simultaneous calls, providing excellent value and flexibility for deployments in any geography. NetBorder Express communicates with applications such as IP-PBXs, speech enabled IVRs, conferencing servers, contact center or trunking gateways directly with the ubiquitous SIP control protocol to reduce deployment time, complexity and cost for next generation network application deployments. NetBorder Express software is licensed via a simple online process. Sangoma Telephony hardware must be purchased separately

Media Gateways

Sangoma's Media Gateway portfolio consists of two broad product families of appliances: the Vega line and the NetBorder line.

The Vega VoIP Gateway portfolio reduces business phone bills and can truly improve business efficiency. Our Vega VoIP Gateway portfolio supports analog, ISDN Basic Rate and ISDN Primary Rate interfaces for North American and European standards. The Vega range allows businesses to reduce their telephony communications costs by routing inter-site calls over their given choice of IP network. Vega VoIP Gateways provide the perfect answer for IP-based voice services and for connecting to service provider broadband access over DSL and cable networks. The Vega line consists of the Vega50 for low density analog and digital applications up to 10 ports, the Vega100/200/400 for higher density digital applications up to 4 E1s or T1s, and the Vega5000 for higher density analog applications up to 50 ports.

Our NetBorder line of appliances offer Media Gateways for SS7 Solutions or for SIP to PSTN needs. These appliances bundle Sangoma's SS7 or SIP to PSTN software, our industry leading telephony cards (and often transcoding cards as well), and Sangoma supplied and tested server hardware and operating system, on a complete 'works out of the box' solution.

Multiplexers

In fiscal 2012, Sangoma introduced our new line of Multiplexers for the first time. The first product in this new line of appliances is our "M13 Multiplexer". This is a DS3 to T1 mux, that can rearrange a DS3 framing signal into 28 T1 framing. It offers cost-effective DS3 bandwidth consolidation, M13 and C-bit signaling support, and an external DS3 clock option.

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. This will include further software applications, more 'full solution' appliances, and of course additional card based products. In addition to developing its own products, Sangoma will continue to consider further acquisitions, some of which may provide additional products, such as the VegaStream 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 of \$3.61 million for the third quarter of fiscal 2012 were an all-time record for quarterly revenue at Sangoma, 16% higher than the same quarter last year, and 5% higher than the immediately preceding second fiscal quarter of 2012.

Gross profit for the quarter was \$2.41 million, an increase of 6% from the \$2.27 million in same period in fiscal 2011, and 4% below the immediately preceding quarter. As a percentage of revenue, gross margin was 67%.

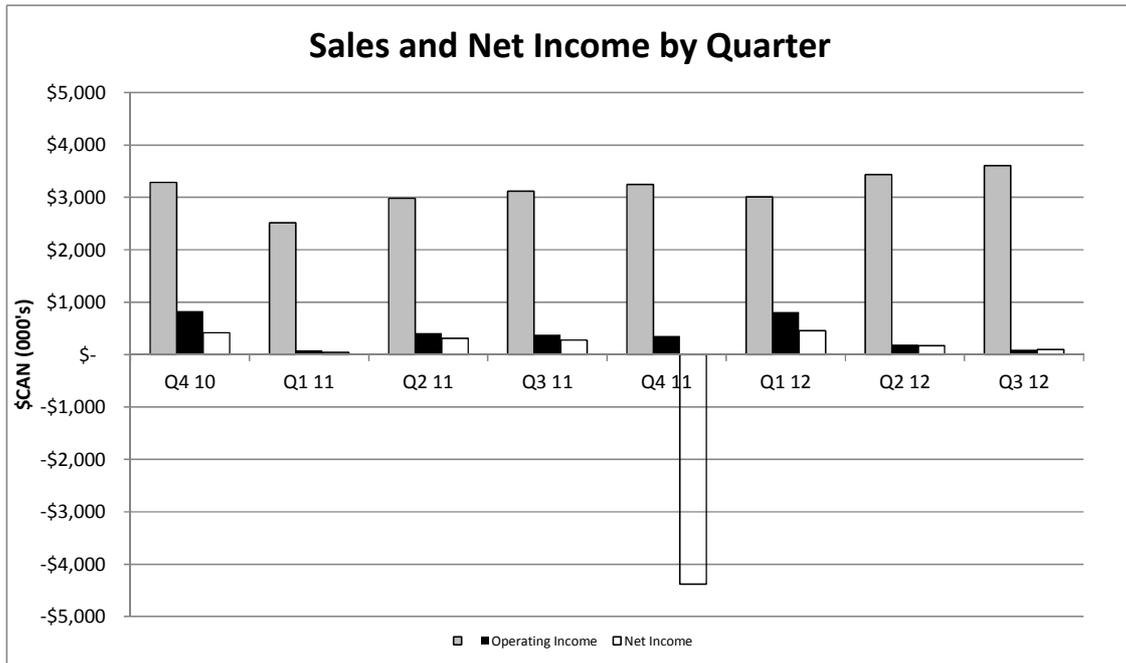
Operating expenses for the quarter ended March 31, 2012 were \$2.32 million, 23% higher than the \$1.89 million of the same quarter last year and almost identical with the spending run rate in the immediately preceding fiscal second quarter of 2012. The year over year increase in spending reflects Sangoma's continuing investment in new marketing, sales and product development initiatives.

Operating Income (revenue less expenses before financing and one-time costs) was \$0.10 million for the fiscal third quarter, versus \$0.38 million in the same quarter last year.

Net Income for the fiscal third quarter of 2012 was \$0.10 million (\$0.003 per share fully diluted) compared to Net Income of \$0.28 million (\$0.009 per share fully diluted) for the fiscal third quarter of 2011.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the quarter ended March 31, 2012 was \$0.23 million, versus the \$0.52 million in the same quarter one year ago.

¹ *Financial results for the third fiscal quarter of 2011 have been restated in accordance with the Company's transition to IFRS as more fully explained in the notes to the quarters consolidated interim financial statements.*



** Note 2010 numbers are under Canadian GAAP and 2011 and 2012 numbers are under IFRS

Operational

Sangoma is a leading provider of hardware and software components that enable or enhance IP Communications Systems for both telecom and datacom applications. Enterprises, SMBs and Carriers in over 150 countries rely on Sangoma's technology as part of their mission critical infrastructures. Through its worldwide network of Distribution Partners, Sangoma delivers the industry's best engineered, highest quality products, some of which carry the industry's first lifetime warranty.

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 including our NetBorder Express offering, our Vega product line and Microsoft Lync certified products. Several third party applications are using our Gateway products for PSTN connections.

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

As part of our strategy to broaden the product portfolio, Sangoma is actively developing new products for release into new markets. This includes further software applications, more ‘full solution’ appliances, IP only devices such as Session Border Controllers and of course additional board based products.

Innovation

Sangoma invests in Research and Development to develop new products and to improve existing offerings. Our focus is on ensuring the majority of R&D spending is on new product development. During fiscal 2012, Sangoma has dramatically accelerated the rate of new product introduction, and released many more new products to the market than in prior years. New products released this year so far are:

Q1 Jul 11 – Sep 11	<ul style="list-style-type: none"> • T3 Mux Appliance • Version 4 of NetBorder SS7 Media Gateway
Q2 Oct 11 – Dec 11	<ul style="list-style-type: none"> • Vega 50, 400 and 5000 series Gateways • NetBorder Express Media Gateway with Microsoft Lync Certification
Q3 Jan 12 – Mar 12	<ul style="list-style-type: none"> • NetBorder SS7 VoIP Gateway Appliance • W400 GSM Board
Q4 Apr 12 - Today	<ul style="list-style-type: none"> • Vega 100 and 200 Gateways • NetBorder Transcoding Gateway

Sales and Marketing

Sangoma has a dual sales path to customers which are 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. OEM customers tend to be committed 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.

Two tier distribution involves Sangoma selling to a distributor, the distributor selling to resellers. These resellers then sell to the final 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. 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 Company is increasing its investment in, and focus on, Sales with a sales professional in each major market region. During the third quarter, Sangoma completed its recruitment of regional Sales Professionals by adding a regional Director responsible for CALA (Caribbean and Latin America). This now gives Sangoma local Sales Executives in all key global regions for the first time. Further, the Company has developed 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.

Sangoma is also increasing its focus on, and investment in, Marketing. 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'. 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.

RESULTS OF OPERATIONS

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). Note that 2011 and 2012 fiscal results are based on IFRS while 2010 is presented on a non-adjusted Canadian GAAP basis.

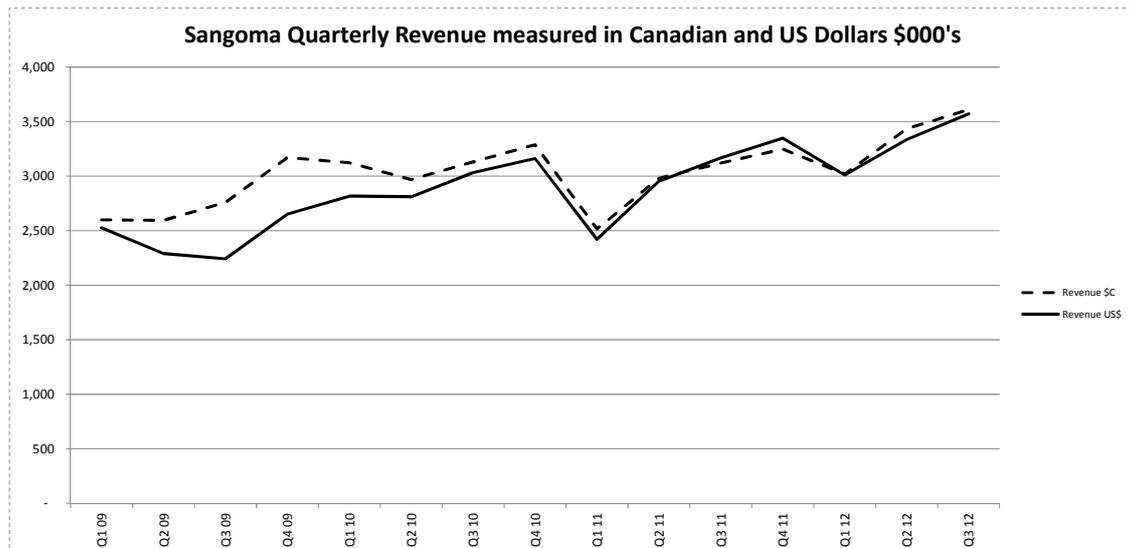
Sales and Net Income by Quarter

	Canadian GAAP Basis	IFRS Basis						
\$K	Fourth quarter 2009-2010	First quarter 2010-2011	Second quarter 2010-2011	Third quarter 2010-2011	Fourth quarter 2010-2011	First quarter 2011-2012	Second quarter 2011-2012	Third quarter 2011-2012
	\$ 3,288	\$ 2,515	\$ 2,980	\$ 3,119	\$ 3,247	\$ 3,012	\$ 3,435	\$ 3,609
Gross Margin	\$ 2,335	\$ 1,825	\$ 2,304	\$ 2,270	\$ 2,441	\$ 2,192	\$ 2,505	\$ 2,414
Operating Expense	\$ 1,506	\$ 1,745	\$ 1,893	\$ 1,889	\$ 2,085	\$ 1,381	\$ 2,317	\$ 2,319
Operating Income	\$ 829	\$ 80	\$ 411	\$ 381	\$ 356	\$ 811	\$ 188	\$ 96
Net Income	\$ 419	\$ 41	\$ 309	\$ 278	-\$ 4,385	\$ 457	\$ 170	\$ 101
Net Earnings per Share								
non-diluted basis	\$0.044	\$0.001	\$ 0.010	\$ 0.009	-\$ 0.146	\$ 0.015	\$ 0.006	\$ 0.003
fully diluted basis	\$0.043	\$0.001	\$ 0.010	\$ 0.009	-\$ 1.145	\$ 0.015	\$ 0.006	\$ 0.003

SUMMARY OF RESULTS FOR THE THIRD QUARTER

Sales for the quarter ended March 31, 2012 were \$3.61 million, up by 16% from the same period last year, and up 5% from the Company's immediately preceding second quarter of fiscal 2012.

When measured in source currency (predominantly US\$), sales in the third quarter were 13% higher than that of the third quarter of fiscal 2011, and up 7% from the prior quarter.



Gross Profit

Gross profit for the quarter was \$2.41 million, an increase of 6% from the \$2.27 million in same period in fiscal 2011, and 4% below the immediately preceding quarter. Gross margins for the quarter ended March 31, 2012 were 67%, down 6% from that of the quarter ended March 31, 2011, consistent with the slightly lower average gross margin of the Company's evolving product portfolio.

Operational expense

Under IFRS costs are allocated to the respective departments except for the impact of foreign exchange which can result in material swings between time periods.

Selling and Marketing

Selling and marketing expenses were \$0.68 million for the quarter ended March 31, 2012 as compared with \$0.49 million for the quarter ended March 31, 2011, an increase of 39%. Sales and Marketing remains a key focus for Sangoma and investment in this area has been increasing over the past several quarters for the benefit of higher sales.

Research and Development

Certain development costs are amortized on a straight-line basis over three years (see the Notes to Consolidated Interim Financial Statements). The engineering expense incurred in the quarter and the development costs amortized during the quarter ended March 31, 2012 totaled \$0.71 million.

This is an increase of 35% over the \$0.49 million incurred in the third fiscal quarter of 2011. This increase in R&D spending reflects the higher investment to bring more new products to market more quickly, plus the addition of the Vega product development team.

General and Administration

General and Administration expenses were \$0.84 million for the quarter ended March 31, 2012 an increase of 17% over those for the same period ended March 31, 2011 (\$0.72 million). While expenses were higher than the prior year they were 3% lower than the second quarter, and it is expected that the rate of General and Administration expense growth will be held below the rate of revenue growth.

Foreign Exchange

For the quarter ended March 31, 2012, the foreign exchange loss was \$0.09 million versus a loss of \$0.16 million in the equivalent quarter ended March 31, 2011. This loss resulted from the 2 point decline of the US dollar against the Canadian dollar in the quarter.

Total operational expense

Total operational expense, before acquisition related costs, was \$2.32 million for the third quarter of fiscal 2012. This is an increase of 23% compared to the \$1.89 million in the same quarter last year due to the increased investment in sales and marketing as well as in R&D. Total operational expense in the third quarter of this year was approximately the same as the immediately preceding quarter as our growth in spending is now slowing.

Operating Income (before financing and acquisition related expense)

Operating Income for the period was \$0.10 million versus \$0.39 million in the third quarter of 2011, due to the higher revenue (and associated margin) being offset by the spending increases targeted at new products and new customers.

Investment income

Investment income for the quarter ended March 31, 2012 was \$0.006 million in line with the \$0.006 million in the quarter ended March 31, 2011.

Net Income and Comprehensive Income

Net income for the quarter ended March 31, 2012 was \$0.10 million (\$0.003 per share fully diluted) compared to net income of \$0.28 million (\$0.009 per share fully diluted) for the quarter ended March 31, 2011.

SUMMARY OF RESULTS FOR THE FIRST NINE MONTHS OF 2012

Sales for the nine months ended March 31, 2012 were \$10.06 million, up by 17% from the same period last year.

Gross Margin

Gross margins for the nine months ended March 31, 2012 were 71%, 3% down from the same period in fiscal 2011.

Operational expense

Under IFRS costs are allocated to the respective departments except for the impact of foreign exchange which can result in material swings between time periods.

Selling and Marketing

Selling and marketing expenses were \$1.85 million for the nine months ended March 31, 2012 as compared with \$1.32 million for the nine months ended March 31, 2011, an increase of 40% reflecting the focus on, and incremental investment in, generating new revenue from existing, new and geographically diverse customers.

Research and Development

Certain development costs are amortized on a straight-line basis over three years (see the Notes to Consolidated Interim Financial Statements). The engineering expense incurred and the development costs amortized during the nine months ended March 31, 2012 totaled \$2.04 million. This is an increase of 33% over the \$1.53 million incurred in the first nine months of fiscal 2011. This increase in R&D spending reflects the higher investment to bring more new products to market more quickly, plus the addition of the Vega product development team.

General and Administration

General and Administration expenses were \$2.49 million for the nine months ended March 31, 2012 an increase of 14% over those for the same period ended March 31, 2011 (\$2.18 million).

Foreign Exchange

For the nine months ended March 31, 2012, the foreign exchange gain was \$0.37 million versus a loss of \$0.49 million in the first nine months of fiscal 2011.

Total operational expense

Total operational expense, before acquisition related costs, was \$6.02 million for the first nine months of fiscal 2012 compared to \$5.53 million in the quarters ending March 31, 2011. This is an increase of 9% with the foreign exchange swing offsetting some of the increase in operational spending described above.

Operating Income (before financing and acquisition related expense)

Operating Income for the first nine months was \$1.10 million versus \$0.87 million in the first nine months of fiscal 2011, due to higher revenue (and associated margin) being partially offset by the increases in spending.

Business Acquisition Costs

The acquisition of the assets of VegaStream Group acquired through two transactions incurred costs of \$0.25 million almost entirely constituting legal fees.

Net Income and Comprehensive Income

Net income for the nine months ended March 31, 2012 was \$0.73 million (\$0.024 per share fully diluted) compared to net income of \$0.63 million (\$0.021 per share fully diluted) for the nine months ended March 31, 2011.

Earnings before Interest, Taxes and Amortization (“EBITDA”)

EBITDA for the quarter ended March 31, 2012 was \$0.23 million versus \$0.52 million in the third quarter of the prior year. On a year to date basis EBITDA was \$1.25 million in 2012 versus \$0.75 million in 2011.

\$C Thousands	Three months ended		Nine months ended		Year ended
	Mar 31, 2012	Mar 31, 2011	Mar 31, 2012	Mar 31, 2011	June 30, 2011
Net Income	101	278	727	627	(4,385)
Tax	1	109	24	265	(453)
Interest	(6)	(6)	(10)	(43)	(5)
Amortization of Property, Plant and Equipment	18	42	39	87	40
Amortization of Intangibles	115	94	232	187	5,293
One time acquisition fees	0	0	251	0	
EBITDA	229	517	1,263	1,123	490

LIQUIDITY

Sangoma remains comfortably liquid. The Company completed the third financial quarter of 2012 on March 31, 2012 with current assets of \$13.31 million and current liabilities of \$1.79 million, resulting in working capital of \$11.52 million, as compared to \$12.36 million on June 30, 2011. The primary change since the beginning of the year resulted from the cash outlay for the VegaStream acquisition and the subsequent need to manufacture initial inventory volumes. Cash and equivalents at March 31, 2012 were \$6.62 million as compared to \$8.78 million at June 30, 2011.

The average collection period for receivables was 82 days, based on the third quarter sales and accounts receivable at March 31, 2012. This is higher than the 54 days at the end of the fiscal year 2011 as certain large sales to carrier customers have longer than average terms. Based on the customer profile of those customers with accounts over 90 days it was deemed appropriate to increase the allowance for doubtful debts by \$75,150 to \$116,463 or 3.5%.

Inventory was \$2.85 million on March 31, 2012, which is about 14% higher than at the end of immediately preceding second quarter of fiscal 2012. The inventory is also 94% higher than the \$1.47 million on June 30, 2011 as a result of building inventory of the Vega portfolio and other new products.

The Company had a net inflow of cash in the quarter ended March 31, 2012 of \$0.32 million versus an outflow of \$0.02 million during the third quarter of fiscal 2011, given the continuing profitable operations and due to the inventory and accounts receivable increase being more than offset by the receipt of the SRED tax credits in the quarter.

The Company continues to be profitable while driving the growth in revenue and investment in marketing and new products. 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 input to the preparation 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

Adoption of IFRS

As previously reported the Company has worked through the process to transition from Canadian GAAP to IFRS. This changeover process involved three separate and distinct phases which are now complete:

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.

In accordance with the requirements of the CICA Handbook the Company has applied the IFRS accounting policies since July 1, 2011 and the interim consolidated statements for the quarter ended March 31, 2012 have been prepared on that basis. IFRS 1 lays out the requirement for reporting in the first year of adoption and requires an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its audited consolidated annual financial statements for June 30, 2012.

IFRS 1 also requires that comparative financial information be provided. As a result, while the first date at which the Company has applied IFRS was July 1, 2011 (the “Transition Date”), all IFRS standards have been retrospectively applied to the fiscal year 2011.

Initial elections upon adoption

IFRS 1 provides some exemptions and exceptions that may be applied in the Company’s conversion from Canadian GAAP to IFRS and the undernoted items have been relied on by the Company.

(i) IFRS Exemption Options

1. Share-based payments - IFRS 2 *Share-based Payments*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 only to equity instruments granted after November 7, 2002 that had not vested by its Transition Date.
2. The Company has elected to use facts and circumstances existing at the date of transition to determine whether an arrangement contains a lease.
3. Financial assets and liabilities that had been de-recognized before July 1, 2011 under previous GAAP have not been recognized under IFRS.
4. The Company has not elected to designate previously recognized financial instruments at available-for-sale or at fair-value-through-profit-or-loss;

5. The Company has elected to take an election to apply a transitional provision available for borrowing costs and therefore IAS 23 *Borrowing Costs* will be applied from July 1, 2011.
6. The Company has elected to take an election not to restate the accounting of past business combinations and therefore IFRS 3 *Business Combinations* will be applied from July 1, 2011;
7. The Company has elected not to select fair value as deemed cost for property, plant and equipment or intangibles and therefore IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* will be applied with retroactive application;

(ii) IFRS Mandatory Exceptions

1. Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS.

The impact of the transition to IFRS is shown in the notes to the unaudited Interim Consolidated Statement of Financial Position published in conjunction with this MD&A.

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.

The Company has assessed that there is no impairment as of March 31, 2012.

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 quarter ended March 31, 2012 the Company continued to purchase its shares on the open market under the NCIB under which the Company can purchase up to 5% (1,491,890) of the issued and outstanding common shares as of December 16, 2011. During the third quarter Sangoma purchased 236,000 shares which were then cancelled such that -at the date hereof, there are 29,601,809 issued and outstanding common shares of Sangoma and 4,238,410 outstanding options to acquire common shares. Each option converts to one common share.

SIGNIFICANT EVENTS

On July 1, 2011, the Company amalgamated its Paraxip subsidiary with Sangoma Technologies Inc. so that the parent company Sangoma Technologies Corporation now has only one subsidiary. This step was taken to simplify operations, lower administration overhead/costs, and to allow tax loss carry forward amounts in Paraxip to be available to Sangoma.

On August 22, 2011 the Company purchased the assets of the VegaStream Group of companies as more fully described in the accompanying Third Quarter Financial Statements.

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.