Sangoma Technologies Corporation

Consolidated Financial Statements
June 30, 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
PO Box 82
Royal Trust Tower, Suite 3000
Toronto Dominion Centre
Toronto, Ontario
Canada M5K 1G8
Telephone +1 416 863 1133
Facsimile +1 416 365 8215

October 19, 2010

Auditors' Report

To the Shareholders of
Sangoma Technologies Corporation

We have audited the consolidated balance sheet of **Sangoma Technologies Corporation** as at June 30, 2010 and the consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

The comparative figures as at June 30, 2009 and for the year then ended were audited by another firm of chartered accountants who expressed an opinion without reservation in their report dated October 18, 2009.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Sangoma Technologies Corporation

Consolidated Balance Sheet

As at June 30

	2010 $	2009 $
Assets		
Current assets		
Cash and equivalents (note 3)	7,744,596	6,874,124
Accounts receivable	1,972,758	1,873,505
Investment tax credits receivable	192,877	235,085
Inventory (note 4)	1,648,852	1,644,405
Prepaid expenses and deposits	118,318	182,623
Income taxes receivable	595,882	-
	12,273,283	10,809,742
Future income taxes (note 12)	-	109,933
Property, plant and equipment (note 5)	447,740	416,493
Development costs (note 6)	2,158,221	1,033,340
Intangible assets (note 7)	3,787,638	4,204,888
Goodwill	5,542,849	5,542,849
	24,209,731	22,117,245
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,242,345	907,009
Deferred income	76,688	69,012
Term loan (note 8)	34,072	17,036
Obligation to issue common shares (note 10)	959,847	959,851
Income taxes payable	-	842,021
	2,312,952	2,794,929
Long-term liabilities		
Term loan (note 8)	85,179	119,251
Obligation to issue common shares (note 10)	-	959,847
Future income taxes (note 12)	14,886	-
	100,065	1,079,098
Shareholders' Equity		
Stated capital (note 9)	15,158,762	14,170,819
Contributed surplus	510,242	506,939
Retained earnings	6,127,710	3,565,460
	21,796,714	18,243,218
	24,209,731	22,117,245

Approved by the Board of Directors

(signed) David Mandelstam Director (signed) Jonathan Matthews Director

Sangoma Technologies Corporation

Consolidated Statement of Income and Comprehensive Income

For the year ended June 30

	2010 $	2009 $
Sales	12,510,515	11,124,325
Cost of sales	3,258,755	2,919,127
Gross profit	9,251,760	8,205,198
Expenses		
Administration and engineering	2,477,253	1,944,993
Amortization		
Development costs (note 6)	839,362	776,733
Property, plant and equipment	140,168	128,910
Intangible assets	425,557	376,218
Foreign currency exchange loss (gain)	404,611	(962,726)
Stock-based compensation (note 9)	65,363	65,363
Selling and marketing	1,886,521	1,982,108
Investment income	(25,214)	(111,741)
	6,213,621	4,199,858
Income before provision for income taxes	3,038,139	4,005,340
Provision for income taxes		
Current	351,069	1,500,407
Future	124,820	10,958
	475,889	1,511,365
Net income and comprehensive income for the year	2,562,250	2,493,975
Basic income per common share	0.087	0.086
Fully diluted income per common share	0.085	0.081
Weighted average number of common shares outstanding		
Basic	29,458,193	29,065,501
Fully diluted	30,236,279	30,621,676

Sangoma Technologies Corporation

Consolidated Statement of Shareholders' Equity

For the year ended June 30

	Stated capital		Contributed surplus	Retained earnings	Total shareholders' equity
	Number	$	$	$	$
Balance - June 30, 2008	28,360,000	13,531,567	523,152	1,071,485	15,126,204
Issuance of common shares	778,084	959,844	-	-	959,844
Exercise of stock options	230,000	150,477	(81,576)	-	68,901
Stock-based compensation (note 9)	-	-	65,363	-	65,363
Normal course issuer bid redemptions (note 9)	(627,500)	(258,865)	-	-	(258,865)
Acquisition fees related to Paraxip (note 17)	-	(212,204)	-	-	(212,204)
Net income for the year	-	-	-	2,493,975	2,493,975
Balance - June 30, 2009	28,740,584	14,170,819	506,939	3,565,460	18,243,218
Issuance of common shares	778,089	959,850	-	-	959,850
Exercise of stock options	181,550	128,418	(62,060)	-	66,358
Stock-based compensation (note 9)	-	-	65,363	-	65,363
Normal course issuer bid redemptions (note 9)	(135,500)	(100,325)	-	-	(100,325)
Net income for the year	-	-	-	2,562,250	2,562,250
Balance - June 30, 2010	29,564,723	15,158,762	510,242	6,127,710	21,796,714

Sangoma Technologies Corporation

Consolidated Statement of Cash Flows

For the year ended June 30

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	2,562,250	2,493,975
Add (deduct): Items not requiring an outlay of cash		
Amortization	1,405,087	1,281,862
Future income taxes related to operations	124,820	(563,196)
Stock-based compensation	65,363	65,363
Unrealized foreign currency exchange loss (gain)	243,463	(790,484)
	4,400,983	2,487,520
Net change in non-cash working capital balances related to operations (note 14)	(1,099,888)	963,318
	3,301,095	3,450,838
Investing activities		
Amount paid for acquisition of intellectual property - Paraxip	-	(1,900,835)
Deferred development costs before investment tax credits	(2,473,453)	(1,636,296)
Investment tax credits	509,210	574,154
Investment in patent rights and trademarks	(8,307)	(6,812)
Purchase of property, plant and equipment	(171,416)	(143,558)
	(2,143,966)	(3,113,347)
Financing activities		
Issuance of common shares - net of redemptions and common share issue costs	(33,967)	(402,169)
Increase (decrease) in cash and equivalents during the year	1,123,162	(64,678)
Unrealized foreign currency exchange (loss) gain on cash and equivalents	(252,690)	740,484
Cash and equivalents - Beginning of year	6,874,124	6,198,318
Cash and equivalents - End of year	7,744,596	6,874,124

1 Basis of presentation

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

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

2 Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below:

Basis of consolidation

These consolidated financial statements for the year ended June 30, 2010 include the accounts of Sangoma Technologies Corporation and its wholly owned subsidiaries, Sangoma Technologies Inc. (Sangoma) and Paraxip Technologies Inc. (Paraxip). All intercompany transactions and balances have been eliminated.

Cash and equivalents

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

Inventory

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

Income taxes

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

Property, plant and equipment and intangible assets

Property, plant and equipment are recorded at acquisition and amortized to operations cost over their estimated useful lives. Amortization is provided at three years, straight-line for website costs and at 20%, declining balance, for all other property, plant and equipment.

Intangible assets are recorded at acquired cost and include the copyright to software, which is amortized straight-line, over 10 years, and patent rights and trademarks, which are amortized, straight-line, over 20 years.

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

Research and development costs

The Company qualifies for certain investment tax credits related to its research and development activities. Research costs are expensed as incurred and are reduced by related investment tax credits, which are recognized when reasonable assurances of realization exist. Development costs, which meet criteria under Canadian GAAP, are deferred and amortized over three years on a straight-line basis. Costs are reduced by government grants and investment tax credits, where applicable.

Revenue recognition

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

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

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

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

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

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

Stock-based compensation plan

The Company uses the fair value method to account for all stock-based awards granted to employees and directors. The estimated fair value of stock options granted is determined using the Black-Scholes option pricing model and is recorded as a charge to income on a straight-line basis over the vesting period of the stock options, with a corresponding credit to contributed surplus. Stock options are granted at a price equal to or above the fair value of the common shares on the day immediately preceding the date of the grant. The consideration received on the exercise of stock options is credited to stated capital at the time of exercise. The Company's stock-based compensation plan is described in note 9.

Earnings per share

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

Foreign currency

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

Use of estimates

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

Fair value of financial instruments

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

- Held-for-trading

  Financial assets that are purchased and held with the intention of generating profits in the short-term are classified as held-for-trading. These investments are accounted for at fair value with the change in fair value recognized in net income during the year. No investments are classified as held-for-trading as at June 30, 2010.

- Held-to-maturity

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

- Available-for-sale

  Available-for-sale investments are carried at fair value, except where the financial instrument does not have a quoted market price in an active market, with foreign currency exchange and revaluation gains and losses included in other comprehensive income or loss until the gains and losses are realized when the available-for-sale investments are sold in the market or there is impairment in the value. No investments are classified as available-for-sale as at June 30, 2010.

- Receivables

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

- Financial liabilities

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

The Company is not party to any derivative financial instruments.

Goodwill

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

The Company preformed the annual impairment test and determined there was no impairment in the value of goodwill.

New accounting standards

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

Canadian standards

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

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

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

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

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The Company will begin reporting its consolidated financial statements in accordance with IFRS on July 1, 2011.

In December 2009, the CICA issued Emerging Issues Committee (EIC) 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and the consideration allocated; (2) require, in situations where a vendor does not have VSOE or third party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's period of adoption. The Company is currently assessing the future impact of these amendments on its consolidated financial statements and has not yet determined the timing and method of their adoption.

3 Cash and equivalents

	2010 $	2009 $
Cash	4,394,246	524,813
Demand money market funds	3,350,350	6,349,311
	7,744,596	6,874,124

4 Inventory

Inventory at year-end consists of the following:

	2010 $	2009 $
Finished goods	842,071	1,209,627
Parts	806,781	434,778
	1,648,852	1,644,405

5 Property, plant and equipment

			2010
	Cost $	Accumulated amortization $	Net $
Office furniture, fixtures and equipment	1,207,190	759,450	447,740

			2009
	Cost $	Accumulated amortization $	Net $
Office furniture, fixtures and equipment	1,035,774	619,281	416,493

6 Development costs

	2010 $	2009 $
Balance - Beginning of year	1,033,340	682,196
Additions	2,473,453	1,735,547
Investments tax credits	(509,210)	(574,154)
Amortization	(839,362)	(810,249)
Balance - End of year	2,158,221	1,033,340

7 Intangible assets

Acquired intangible assets for the year ended June 30 are as follows:

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

			2009
	Gross carrying amount $	Accumulated amortization $	Net $
Copyright to software	2,948,461	294,846	2,653,615
Patent rights	1,587,633	79,381	1,508,252
Trademarks	45,012	1,991	43,021
	4,581,106	376,218	4,204,888

8 Term loan

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

Principal repayments to be made over future years are as follows:

	$
2011	34,072
2012	34,072
2013	34,072
2014	17,035
	119,251

9 Stated capital

Authorized capital

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

Normal course issuer bid

Effective December 11, 2008, the Company received approval from the TSX Venture Exchange to purchase its own common shares up to a maximum of 5% of the issued and outstanding common shares, being 1,456,904 common shares of the 29,138,084 previously issued and outstanding. The Company's normal course issuer bid expired on December 10, 2009. Since December 11, 2008, the Company has purchased and cancelled 763,000 common shares for $359,190 under the normal course issuer bid.

Stock-based compensation plan

The Company has a stock option plan (the plan) for directors, officers, employees and consultants of the Company. The number of common shares that may be set aside for issue under the plan (and under all other management stock option and employee stock option plans) is limited to 2,798,000 common shares of the Company, provided that the board of directors has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company and provided that the Company complies with the provisions of policies, rules and regulations of applicable securities legislation.

The maximum number of common shares that may be reserved for issuance to any one person under the plan is 5% of the common shares outstanding at the time of grant (calculated on a non-diluted basis) less the number of common shares reserved for issuance to such person under any stock option to purchase common shares granted as a compensation or incentive mechanism. Any common shares subject to a stock option, which for any reason is cancelled or terminated prior to exercise, will be available for a subsequent grant under the plan, subject to applicable regulatory requirements.

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

The plan contains provisions for adjustment in the number of common shares issuable thereunder in the event of the subdivision, consolidation, reclassification or change of the common shares, a merger or other relevant changes in the Company's capitalization.

The board of directors may, from time to time, amend or revise the terms of the plan or may terminate the plan at any time.

Stock options were granted on July 14, 2008, vesting after three years on July 14, 2011.

Stock options were granted on May 19, 2009, with 25% vesting on each of May 19, 2009, May 19, 2010, May 19, 2011 and May 19, 2012. Stock-based compensation expense has been recorded for the stock options vesting during the year. In determining the stock-based compensation expense, fair values of the stock options were estimated using the Black-Scholes option pricing model with the following assumptions used for grants as follows: dividend yield of 0%; expected volatility of 113%; risk-free interest rate of 2%; and expected life of five years.

The weighted average fair value of stock options granted and vested during the years ended June 30, 2010 and 2009 are $0.52.

A summary of the Company's stock options as at June 30, 2010 and 2009 and the changes for the years then ended are presented below:

	Number of stock options outstanding	**Weighted average exercise price $**
Balance - June 30, 2008	1,255,000	0.69
Granted	720,000	0.79
Exercised	(230,000)	0.30
Expired	(120,000)	0.43
Cancelled	(6,650)	1.10
Balance - June 30, 2009	1,618,350	0.81
Exercised	(181,550)	0.37
Cancelled	(67,850)	0.98
Balance - June 30, 2010	1,368,950	0.86

The following table summarizes the stock options outstanding as at June 30, 2010:

Exercise price	**Number of stock options outstanding and exercisable**	**Remaining contractual life (years)**
$		
0.62	280,000	1.3
0.65	50,000	1.5
1.13	170,000	2.0
1.25	200,000	2.3
1.10	195,850	3.0
0.65	473,100	4.1
	1,368,950	2.8

The following table summarizes the stock options outstanding as at June 30, 2009:

Exercise price	**Number of stock options outstanding and exercisable**	**Remaining contractual life (years)**
$		
0.30	145,000	1.2
0.62	310,000	2.6
0.65	50,000	2.8
1.13	200,000	3.3
1.25	200,000	3.6
1.10	213,350	4.2
0.65	500,000	4.9
	1,618,350	3.4

10 Commitments

Pursuant to an acquisition agreement dated July 7, 2008, the Company is committed to issuing the remaining 778,086 common shares to former shareholders of Paraxip on July 14, 2010, at a deemed issue price of $959,847, subject to set-off for any claim for indemnification. The Company did issue such shares and there was no set-off.

The Company is committed to lease payments as follows:

	$
2011	281,501
2012	326,655
2013	326,655
2014	253,374
2015	216,735
	1,404,920

11 Segment disclosures

The Company operates in one industry segment, development, manufacturing, distribution and support of voice and data connectivity components for software-based communication applications. All of the Company's assets are located in Canada. The Company sells into three major geographic centres: the United States, Canada and other foreign countries. The sales, in Canadian dollars, in each of these geographic locations are as follows:

	United States $	**Canada** $	**Other foreign countries** $	**Total** $
June 30, 2010	6,507,781	1,207,563	4,795,171	12,510,515
June 30, 2009	5,272,788	1,178,214	4,673,323	11,124,325

12 Income taxes

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

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

Year of investment	Year of expiration	Carry-forward credits $
2003	2013	15,385
2004	2014	820
2005	2015	355
2006	2026	2,681
2007	2027	2,605
2008	2028	3,009
2009	2029	138,101
2010	2030	183,765
		346,721

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

	Federal $	Provincial $
SR&ED expenditures carried forward	1,048,487	1,748,768

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

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

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

	2010 %	2009 %
Statutory income tax rate	32.7	34.0
Income tax effect of non-deductible expenses	5.2	0.5
Other miscellaneous differences	(22.3)	3.2
Effective income tax rate	15.6	37.7

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

	2010 $	2009 $
Property, plant and equipment	(62,980)	(51,218)
Deferred development costs	(632,222)	(149,423)
SR&ED investment tax credits	129,173	(4,554)
Loss carry-forwards	152,927	315,128
Deferred income	22,355	-
SR&ED expenditure pools	375,861	-
Future income tax (liability) asset	(14,886)	109,933

13 Contingencies

The Company has no contingencies of a material amount as at June 30, 2010.

14 Supplemental cash flow information

	2010 $	2009 $
Net change in non-cash working capital balances related to operations		
Accounts receivable	(93,611)	139,116
Investment tax credits receivable	42,208	-
Income taxes payable/receivable	(1,437,903)	236,779
Inventory	(4,449)	362,299
Prepaid expenses and deposits	64,305	77,037
Accounts payable and accrued liabilities	338,922	158,565
Term loan	(17,036)	-
Deferred income	7,676	(10,478)
	(1,099,888)	963,318
Net change in non-cash items related to acquisition of Paraxip		
Intangible assets	-	(2,670,000)
Shares issued or to be issued for acquisition of Paraxip	-	2,879,542
Assumption of term loan	-	136,287
Property, plant and equipment	-	(12,287)
Development costs	-	(65,735)
	-	267,807
Non-cash investing and financing activities		
Contributed surplus transferred to common shares on exercise of stock options	62,060	81,577
Cash paid for income taxes	1,274,782	1,470,657

15 Financial instruments

Fair values of financial assets and financial liabilities

The carrying amounts and fair values of financial assets and financial liabilities as at June 30, 2010 are summarized as follows:

	Carrying amount $	Fair value $
Held-to-maturity	7,744,596	7,744,596
Loans and receivables	2,165,635	2,165,635
Other financial liabilities	1,361,596	1,361,596

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

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

Credit risk and concentration of credit risk

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

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

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

Currency risk

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

Liquidity risk

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

16 Capital management

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

There were no changes in the Company's approach to capital management during the year.

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

17 Paraxip acquisition

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

The aggregate purchase price was $4,780,383, payable as to $1,900,835 in cash and 2,334,259 common shares at a deemed issue price of $1.2336. The cash consideration was paid to sellers on closing along with 778,084 common shares. An additional 778,089 common shares were issued on July 14, 2009. The balance of 778,086 common shares will be issued to the sellers on or about July 14, 2010. This number of common shares to be issued may be reduced to satisfy any claims for indemnification by the Company under the terms of the acquisition agreement. The value of the common shares issued was determined based on the average market price of Sangoma's shares for the period from June 6, 2008 to July 4, 2008. In addition, the Company has granted stock options to purchase 220,000 common shares at $1.10 per share to employees of Paraxip, subject to vesting at three years.

Allocation of the purchase price is as follows:

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

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

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

18 Subsequent event

On July 14, 2010, the Company issued the remaining 778,086 common shares required by the Paraxip acquisition agreement and no set-off for indemnification was made.

19 Comparative figures

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