

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **October 31, 2010**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **000-50346**

**COUNTERPATH CORPORATION**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**20-0004161**

(IRS Employer Identification No.)

**Suite 300, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada V7X 1M3**

(Address, including zip code, of principal executive offices)

**(604) 320-3344**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 33,161,802 shares of common stock issued and outstanding as of December 13, 2010.

**COUNTERPATH CORPORATION**  
**OCTOBER 31, 2010 QUARTERLY REPORT ON FORM 10-Q**

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**PART I**

**Item 1. Financial Statements.**

It is the opinion of management that the interim consolidated financial statements for the quarter ended October 31, 2010 include all adjustments necessary in order to ensure that the interim consolidated financial statements are not misleading.

The interim consolidated financial statements are stated in United States dollars and are prepared in accordance with generally accepted accounting principles in the United States of America.

**COUNTERPATH CORPORATION**  
**INDEX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 2010**  
**(Unaudited)**  
(Stated in U.S. Dollars)

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**COUNTERPATH CORPORATION**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Stated in U.S. Dollars)

|  | <b>October 31,<br/>2010</b> | <b>April 30,<br/>2010</b> |
|--|-----------------------------|---------------------------|
|  | <u>(Unaudited)</u>          | <u>Restated – Note 14</u> |
| <b>Assets</b>  |                             |                           |
| Current assets:  |                             |                           |
| Cash   | \$ 2,184,011                | \$ 1,556,813              |
| Accounts receivable (net of allowance for doubtful accounts of \$1,103,468 and \$1,116,119, respectively)    | 2,311,842                   | 2,345,633                 |
| Investment tax credits recoverable   | 29,445                      | 129,285                   |
| Other current assets   | 179,419                     | 221,041                   |
| Total current assets   | 4,704,717                   | 4,252,772                 |
| Deposits   | 100,943                     | 101,994                   |
| Equipment  | 113,782                     | 111,150                   |
| Intangible assets (net of accumulated amortization of \$4,668,285 and \$4,249,895, respectively) – Note 2(e) | 1,173,519                   | 1,674,359                 |
| Goodwill – Note 2(e)   | 8,625,777                   | 8,740,025                 |
| Other assets   | 43,910                      | 58,817                    |
| <b>Total Assets</b>  | <b>\$ 14,762,648</b>        | <b>\$ 14,939,117</b>      |
| <b>Liabilities and Stockholders' Equity</b>  |                             |                           |
| Current liabilities:   |                             |                           |
| Accounts payable and accrued liabilities   | \$ 2,211,092                | \$ 2,313,688              |
| Unearned revenue   | 766,912                     | 655,361                   |
| Customer deposits  | 2,018                       | 5,127                     |
| Accrued warranty   | 136,325                     | 120,963                   |
| Total current liabilities  | 3,116,347                   | 3,095,139                 |
| Deferred lease inducements   | 3,462                       | 4,677                     |
| Convertible debentures – Note 4  | 1,249,264                   | –                         |
| Unrecognized tax benefit   | 98,575                      | 98,575                    |
| Total liabilities  | 4,467,648                   | 3,198,391                 |
| Stockholders' equity:  |                             |                           |
| Preferred stock, \$0.001 par value   |                             |                           |
| Authorized: 100,000,000  |                             |                           |
| Issued and outstanding: October 31, 2010 – 1; April 30, 2010 – 1   | –                           | –                         |
| Common stock, \$0.001 par value – Note 6   |                             |                           |
| Authorized: 83,076,900   |                             |                           |
| Issued and outstanding:  |                             |                           |
| October 31, 2010 – 33,149,969; April 30, 2010 – 33,015,627   | 33,150                      | 33,016                    |
| Additional paid-in capital   | 52,933,447                  | 51,902,471                |
| Accumulated deficit  | (42,057,335)                | (39,781,079)              |
| Accumulated other comprehensive loss – currency translation adjustment                                       | (614,262)                   | (413,682)                 |
| Total stockholders' equity   | 10,295,000                  | 11,740,726                |
| <b>Liabilities and Stockholders' Equity</b>  | <b>\$ 14,762,648</b>        | <b>\$ 14,939,117</b>      |

Going concern – Note 2

Commitments and contingent liability – Notes 8 and 9

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE LOSS**

(Stated in U.S. Dollars)  
(Unaudited)

|   | Three Months Ended<br>October 31, |                       | Six Months Ended<br>October 31, |                       |
|---|-----------------------------------|-----------------------|---------------------------------|-----------------------|
|   | 2010                              | 2009                  | 2010                            | 2009                  |
|   |                                   | Restated – Note 14    |                                 | Restated – Note 14    |
| Revenue – Note 6:   |                                   |                       |                                 |                       |
| Software  | \$ 1,751,317                      | \$ 1,451,826          | \$ 3,570,469                    | \$ 2,593,169          |
| Service   | 816,346                           | 448,781               | 1,216,779                       | 1,357,895             |
| Total revenue   | <u>2,567,663</u>                  | <u>1,900,607</u>      | <u>4,787,248</u>                | <u>3,951,064</u>      |
| Operating expenses:   |                                   |                       |                                 |                       |
| Cost of sales (includes depreciation of \$9,654 and \$2,925 and amortization of intangible assets of \$418,392 and \$425,591 for six months ended October 31, 2010 and 2009 respectively – Note 2(e)) | 695,822                           | 701,391               | 1,444,684                       | 1,327,112             |
| Sales and marketing   | 900,264                           | 690,551               | 1,765,947                       | 1,449,556             |
| Research and development  | 1,096,115                         | 1,004,594             | 2,159,762                       | 1,824,722             |
| General and administrative  | 1,052,099                         | 1,272,904             | 2,047,561                       | 1,895,303             |
| Restructuring costs – Note 10   | –                                 | –                     | –                               | 44,912                |
| Total operating expenses  | <u>3,744,300</u>                  | <u>3,669,440</u>      | <u>7,417,954</u>                | <u>6,541,605</u>      |
| Loss from operations  | <u>(1,176,637)</u>                | <u>(1,768,833)</u>    | <u>(2,630,706)</u>              | <u>(2,590,541)</u>    |
| Interest and other income (expense), net:   |                                   |                       |                                 |                       |
| Interest income   | 42,709                            | 33,816                | 94,788                          | 61,574                |
| Interest expense  | (2,532)                           | (5)                   | (2,753)                         | (1,671)               |
| Foreign exchange gain (loss)  | 43,746                            | 7,952                 | 15,700                          | (421,761)             |
| Gain on settlement of debt – Note 12  | 246,715                           | –                     | 246,715                         | –                     |
| Net loss for the period   | <u>\$ (845,999)</u>               | <u>\$ (1,727,070)</u> | <u>\$ (2,276,256)</u>           | <u>\$ (2,952,399)</u> |
| Other comprehensive income (loss):  |                                   |                       |                                 |                       |
| Foreign currency translation adjustments  | 16,429                            | 254,725               | (200,580)                       | 1,684,397             |
| Comprehensive loss  | <u>\$ (829,570)</u>               | <u>\$ (1,472,345)</u> | <u>\$ (2,476,836)</u>           | <u>\$ (1,268,002)</u> |
| Net loss per share:   |                                   |                       |                                 |                       |
| Basic and diluted   | <u>\$ (0.03)</u>                  | <u>\$ (0.06)</u>      | <u>\$ (0.07)</u>                | <u>\$ (0.10)</u>      |
| Weighted average common shares outstanding:   | 33,113,474                        | 29,526,663            | 33,089,839                      | 29,247,497            |

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Stated in U.S. Dollars)  
(Unaudited)

|   | <b>Six Months Ended</b> |                     |
|---|-------------------------|---------------------|
|   | <b>October 31,</b>      |                     |
|   | <b>2010</b>             | <b>2009</b>         |
|   |                         | Restated – Note 14  |
| <b>Cash flows from operating activities:</b>                                |                         |                     |
| Net loss for the period   | \$ (2,276,256)          | \$ (2,952,399)      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                         |                     |
| Depreciation and amortization   | 69,311                  | 154,209             |
| Amortization of intangible assets   | 418,392                 | 422,591             |
| Stock-based compensation – Note 6   | 581,784                 | 410,402             |
| Share purchase warrants – Note 6  | 161,710                 | –                   |
| Shares issued as part of share purchase plan                                | 16,647                  | –                   |
| Foreign exchange loss (gain)  | (15,700)                | 421,761             |
| Changes in assets and liabilities:  |                         |                     |
| Accounts receivable   | 125,409                 | 687,217             |
| Other current assets  | 40,473                  | (492,291)           |
| Increase in other assets  | (7,117)                 | (8,071)             |
| Accounts payable and accrued liabilities                                    | (80,623)                | 84,593              |
| Unearned revenue  | 111,551                 | (185,608)           |
| Customer deposits   | (3,109)                 | (5,230)             |
| Accrued warranty  | 15,362                  | (28,594)            |
| Net cash used in operating activities                                       | <u>(842,166)</u>        | <u>(1,488,420)</u>  |
| <b>Cash flows from investing activities:</b>                                |                         |                     |
| Purchase of equipment   | (49,562)                | (43,725)            |
| Deposits  | 665                     | 26,517              |
| Net cash used in investing activities                                       | <u>(48,897)</u>         | <u>(17,208)</u>     |
| <b>Cash flows from financing activities:</b>                                |                         |                     |
| Common stock issued, net of transaction costs                               | 55,433                  | 1,865,104           |
| Convertible debentures issued   | 1,464,800               | –                   |
| Net cash provided by financing activities                                   | <u>1,520,233</u>        | <u>1,865,104</u>    |
| Foreign exchange effect on cash   | <u>(1,972)</u>          | <u>150,561</u>      |
| Increase in cash  | 627,198                 | 510,037             |
| Cash, beginning of the period   | 1,556,813               | 2,931,932           |
| Cash, end of the period   | <u>\$ 2,184,011</u>     | <u>\$ 3,441,969</u> |
| <b>Supplemental disclosure of cash flow information</b>                     |                         |                     |
| Cash paid for:  |                         |                     |
| Interest  | \$ 2,753                | \$ 1,666            |
| Taxes   | –                       | –                   |

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**for the Six Months Ended October 31, 2010**  
(Stated in U.S. Dollars)  
(Unaudited)

|   | Common shares          |                  | Preferred Shares       |             | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total                |
|---|------------------------|------------------|------------------------|-------------|----------------------------------|------------------------|---|----------------------|
|   | Number<br>of<br>Shares | Par Value        | Number<br>of<br>Shares | Par Value   |                                  |                        |   |                      |
| Balance, May 1, 2010  | 33,015,627             | \$ 33,016        | 1                      | \$ -        | \$ 51,902,471                    | \$ (39,781,079)        | \$ (413,682)                                  | \$ 11,740,726        |
| Shares issued:  |                        |                  |                        |             |                                  |                        |   |                      |
| Exercise of stock options   | 47,920                 | 48               | -                      | -           | 22,516                           | -                      | -   | 22,564               |
| Employee share purchase plan  | 36,422                 | 36               | -                      | -           | 49,480                           | -                      | -   | 49,516               |
| Exchange of subsidiary preferred shares –<br>Note 5                           | 50,000                 | 50               | -                      | -           | (50)                             | -                      | -   | -                    |
| Stock-based compensation – Note 6   | -                      | -                | -                      | -           | 581,784                          | -                      | -   | 581,784              |
| Discount on convertible debenture -<br>beneficial conversion feature – Note 4 | -                      | -                | -                      | -           | 215,536                          | -                      | -   | 215,536              |
| Share purchase warrants – Note 6  | -                      | -                | -                      | -           | 161,710                          | -                      | -   | 161,710              |
| Net loss for the period   | -                      | -                | -                      | -           | -                                | (2,276,256)            | -   | (2,276,256)          |
| Foreign currency translation adjustment                                       | -                      | -                | -                      | -           | -                                | -                      | (200,580)                                     | (200,580)            |
| Balance, October 31, 2010 (Unaudited)   | <u>33,149,969</u>      | <u>\$ 33,150</u> | <u>1</u>               | <u>\$ -</u> | <u>\$ 52,933,447</u>             | <u>\$ (42,057,335)</u> | <u>\$ (614,262)</u>                           | <u>\$ 10,295,000</u> |

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2010

(Unaudited)

**Note 1**      **Nature of Operations**

CounterPath Corporation (the "Company") was incorporated in the State of Nevada on April 18, 2003. The Company changed its name from CounterPath Solutions, Inc. to CounterPath Corporation on October 17, 2007. The Company's common shares are quoted for trading on the Over-The-Counter Bulletin Board in the United States of America and on the TSX Venture Exchange in Canada.

On August 2, 2007, the Company acquired all of the shares of NewHeights Software Corporation ("NewHeights") through the issuance of 7,680,168 shares of the Company's common stock and 369,836 preferred shares issued from a subsidiary of the Company that are exchangeable into 369,836 shares of common stock of the Company. For accounting purposes, the Company was deemed to be the acquirer of NewHeights based on certain factors including the number of common shares issued in the transaction as a proportion of the total common shares outstanding, and the composition of the board after the transaction.

On February 1, 2008, the Company acquired FirstHand Technologies Inc. ("FirstHand"), a private Ontario, Canada corporation, through the issuance of 5,900,014 shares of the Company's common stock. For accounting purposes, the Company was deemed to be the acquirer of FirstHand based on certain factors including the number of common shares issued in the transaction as a proportion of the total common shares outstanding, and the composition of the board after the transaction.

On February 1, 2008, the Company acquired BridgePort Networks, Inc. ("BridgePort"), a private Delaware corporation, by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort. For accounting purposes, the Company was deemed to be the acquirer of BridgePort based on certain factors primarily being the composition of the board after the transaction.

On February 5, 2008, the Company's wholly-owned subsidiaries, NewHeights and CounterPath Solutions R&D Inc. were merged as a wholly-owned subsidiary of the Company under the name CounterPath Technologies Inc.

On March 19, 2008, the Company's Board of Directors approved a five for one common stock consolidation. As a result, the Company's authorized capital decreased from 415,384,500 shares of common stock to 83,076,900 shares of common stock. The par value of the common stock was unaffected by the stock consolidation and remains at \$0.001 per share. All per share amounts and outstanding shares, including all common stock equivalents (stock options and warrants) have been retroactively adjusted in the Consolidated Financial Statements and in the Notes to the Consolidated Financial Statements for all periods presented to reflect the stock consolidation.

The Company focuses on the design, development, marketing and sales of desktop and mobile communications application software, gateway (server) software and related professional services, such as pre and post sales technical support and customization services. The Company's products are sold into the Voice over Internet Protocol (VoIP) market primarily to carriers, original equipment manufacturers and businesses in North America, Central and South America, Europe and Asia.

**Note 2**      **Significant Accounting Policies and Going Concern**

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and are stated in U.S. dollars except where otherwise disclosed. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for the period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may vary from these estimates.

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2010

(Unaudited)

**Note 2**      **Significant Accounting Policies and Going Concern - (cont'd)**

These interim consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities and commitments in the normal course of business. The continuation of the Company as a going concern is dependent upon the continued financial support from its stockholders, the ability of the Company to obtain necessary debt and equity financing to continue operations and to generate sustainable significant revenue. There is no guarantee that the Company will be able to raise any equity financing or generate profitable operations. As at October 31, 2010, the Company has not yet achieved profitable operations and had an accumulated deficit of \$42,057,335 since incorporation. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

Under its current operating plan the Company will require approximately \$12-\$13 million to fund ongoing operations and working capital requirements through October 31, 2011. Management is implementing a plan to address these uncertainties to enable the Company to continue as a going concern through the end of fiscal 2011 and beyond. This plan includes new equity financing in amounts sufficient to sustain operations, such as the private placement discussed in Note 3, and to increase revenues and decrease costs from operations.

Realizable values may be substantially different from carrying values as shown in these financial statements should the Company be unable to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The consolidated financial statements have been properly prepared within the framework of the significant accounting policies as follows:

a)      **Basis of Presentation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CounterPath Technologies Inc., a company existing under the laws of the province of British Columbia, Canada, FirstHand Technologies Inc., continued under laws of the province of British Columbia, BridgePort Networks, Inc. incorporated under the laws of the state of Delaware and 6789722 Canada Inc., incorporated under the Canada Business Corporations Act. The results of NewHeights Software Corporation (which subsequently merged with another subsidiary to become CounterPath Technologies Inc.) are included from August 2, 2007, the date of acquisition. The results of FirstHand Technologies Inc. and BridgePort Networks, Inc. are included from February 1, 2008, the date of acquisition. All inter-company transactions and balances have been eliminated.

b)      **Interim Reporting**

The information presented in the accompanying interim consolidated financial statements is without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with accounting principles generally accepted in the United States of America. Except where noted, these interim financial statements follow the same accounting policies and methods of their application as the Company's April 30, 2010 annual consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with the Company's amended April 30, 2010 annual consolidated financial statements.

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2010

(Unaudited)

**Note 2**      **Significant Accounting Policies and Going Concern - (cont'd)**

b)      Interim Reporting – (cont'd)

Operating results for the six months ended October 31, 2010 are not necessarily indicative of the results that can be expected for the year ending April 30, 2011.

c)      New Accounting Pronouncements

The Company has evaluated subsequent events for potential recognition and disclosure in the financial statements. This date represents the date the financial statements are available to be issued.

In October 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-13, “Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force”, (“ASU 2009-13”). ASU 2009-13 addresses the accounting for multiple-deliverable arrangements and requires that the overall arrangement consideration be allocated to each deliverable in a revenue arrangement based on an estimated selling price when vendor specific objective evidence or third-party evidence of fair value is not available. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. This will result in more revenue arrangements being separated into separate units of accounting. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. Companies can elect to apply this guidance (1) prospectively to new or materially modified arrangements after the effective date or (2) retrospectively for all periods presented. The Company is currently assessing the impact of adoption of ASU 2009-13 and does not currently plan to early adopt.

In October 2009, the FASB issued ASU No. 2009-14, “Certain Revenue Arrangements That Include Software Elements”, (“ASU 2009-14”). ASU 2009-14 changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing both software and non-software components that function together to deliver the product’s essential functionality will no longer be within the scope of ASC 985-605 “Software Revenue Recognition” (“ASC 985-605”). The entire product (including the software and non-software deliverables) will therefore be accounted for under accounting literature found in ASC 605. ASU 2009-14 is effective for fiscal years beginning on or after June 15, 2010. Companies can elect to apply this guidance (1) prospectively to new or materially modified arrangements after the effective date or (2) retrospectively for all periods presented. The Company is currently assessing the impact of adoption of ASU 2009-14 and does not currently plan to early adopt.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which is included in the ASC in Topic 820 (Fair Value Measurements and Disclosures). ASU 2010-06 requires new disclosures on the amount and reason for transfers in and out of Level 1 and 2 fair value measurements. ASU 2010-06 also requires disclosure of activities, including purchases, sales, issuances, and settlements within the Level 3 fair value measurements and clarifies existing disclosure requirements on levels of disaggregation and disclosures about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The Company is currently assessing the impact of adoption of ASU 2009-14 and does not currently plan to early adopt.

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2010

(Unaudited)

**Note 2**      **Significant Accounting Policies and Going Concern - (cont'd)**

d)      Derivative Instruments and Hedging Activities

ASC 815: The Company adopted the provisions of Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" ("SFAS 161"), effective at the beginning of the first quarter of fiscal year 2010. SFAS No. 161 was incorporated into ASC 815, *Derivatives and Hedging* ("ASC 815"). ASC 815 expands financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, results of operations and cash flows. ASC 815 also requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Because ASC 815 only requires additional disclosure, the adoption of ASC 815 did not impact the Company's financial position, results of operations, and cash flows (see Note 11, "Derivative Instruments and Hedging Activities," of the Notes to Interim Consolidated Financial Statements).

e)      Goodwill and Intangible Assets

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. Statement of Financial Accounting Standards ASC 350, "Goodwill and Other Intangible Assets" ("SFAS ASC 350") ASC 350 requires goodwill to be tested for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company's business enterprise below its carrying value. The impairment test requires management to estimate the fair value of the Company's overall business enterprise down to the reporting unit level which is CounterPath Corporation.

Goodwill of \$6,339,717 (CDN\$6,704,947), and \$2,083,960 (CDN\$2,083,752) was initially recorded in connection with the acquisition of NewHeights Software Corporation on August 2, 2007 and FirstHand Technologies Inc. on February 1, 2008. Translated to U.S. dollars using the period end rate, the goodwill balance at October 31, 2010 was \$6,580,906 (CDN\$6,704,947) (April 30, 2010-\$6,668,070) and \$2,044,871 (CDN\$2,083,752) (April 30, 2010-\$2,071,955), respectively. Management will perform its annual impairment test in its fiscal fourth quarter. No impairment charges were recorded for the six months ended October 31, 2010 and 2009.

The Company also evaluates goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit, which is measured based upon, among other factors, market multiples for comparable companies as well as a discounted cash flow analysis. Reporting units represent components of the Company for which discrete financial information is available that is regularly reviewed by management. Management has determined that the Company currently has one reporting unit. If the recorded value of the assets, including goodwill, and liabilities ("net book value") of the reporting unit exceeds its fair value, an impairment loss may be required.

In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", the carrying value of intangible assets and other long-lived assets are reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment.

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**Note 2**      **Significant Accounting Policies and Going Concern - (cont'd)**

e)      Goodwill and Intangible Assets – (cont'd)

The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

Intangible assets include the intangibles purchased in connection with the acquisition of NewHeights Software Corporation on August 2, 2007 and FirstHand Technologies Inc. and BridgePort Networks, Inc. on February 1, 2008.

The intangible assets of NewHeights are reported at acquisition cost and include amounts initially allocated to acquired technologies of \$3,454,839 (CDN\$3,678,100) and customer asset of \$2,283,908 (CDN\$2,431,500). The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of Management's estimate of the future cash flows from this asset over approximately five years, which is Management's estimate of the useful life of the customer asset.

The intangible assets of FirstHand are reported at acquisition cost and include amounts initially allocated to acquired technologies of \$2,804,700 (CDN\$2,804,700) and customer asset of \$587,000 (CDN\$587,000). The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of Management's estimate of the future cash flows from this asset over approximately five years, which is Management's estimate of the useful life of the customer asset.

The intangible assets of BridgePort are being carried and reported at acquisition cost and include amounts initially allocated to acquired technologies of \$476,703 and customer asset of \$43,594.

The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of Management's estimate of the future cash flows from this asset over approximately five years, which is Management's estimate of the useful life of the customer asset.

A summary of the Company's intangible assets, net, at October 31, 2010 is as follows:

|                       | <u>Cost</u>         | <u>Accumulated<br/>Amortization</u> | <u>Accumulated<br/>Impairment<br/>Charge</u> | <u>Net Carrying<br/>Amount</u> |
|-----------------------|---------------------|-------------------------------------|--|--------------------------------|
| Acquired technologies | \$ 6,288,163        | \$ 3,699,640                        | \$ 1,888,658                                 | \$ 699,865                     |
| Customer assets       | 2,658,327           | 968,645                             | 1,216,028                                    | 473,658                        |
| Intangible assets     | <u>\$ 8,946,490</u> | <u>\$ 4,668,285</u>                 | <u>\$ 3,104,686</u>                          | <u>\$ 1,173,519</u>            |

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**Note 3**      **Related Party Transactions**

The Company's Chairman is the Chairman and founding shareholder of Mitel Networks Corporation ("Mitel"). On July 31, 2008 the Company entered into a source code license agreement whereby the Company licensed to Mitel the source code for the Your Assistant product in consideration of a payment of \$650,000. Associated with the agreement are ongoing license fees to be paid by Mitel of \$13.50 per copy deployed, declining to \$9.00 per copy deployed after two years and declining from \$9.00 to nil after four years. In addition, the agreement provides Mitel with a first right to match any third party offer to purchase the source code software and related intellectual property. The Company's software license revenue for the three and six months ended October 31, 2010, pursuant to the terms of these agreements, was \$109,580 and \$262,325 (2009 - \$134,903 and \$269,141), respectively.

During the three and six months ended October 31, 2010, the Company provided consulting services totalling \$15,176 to Wesley Clover, a company controlled by the Chairman of the Company.

As at October 31, 2010, the Company had an accounts receivable balance from Mitel of \$98,979 (April 30, 2010 - \$170,802).

During the three and six months ended October 31, 2010, the Company through its wholly owned subsidiary, FirstHand Technologies Inc., paid \$19,615 and \$39,231 (2009 - \$18,642 and \$37,284) to Kanata Research Park Corporation ("KRP") for leased office space. KRP is controlled by the Company's Chairman.

In connection with a non-brokered private placement which closed on October 29, 2010, the Company issued a convertible debenture in the principal amount of \$490,750 (CDN\$500,000) to Wesley Clover, a company controlled by the Chairman of the Company. The debentures are convertible by the holder at any time prior to maturity, in whole or in part into common shares of the Company at a conversion price of \$1.37 per share. The convertible debenture is unsecured, bearing interest at the prime bank rate as quoted by the Bank of Montreal with interest payable monthly and maturing on July 30, 2012. During the three and six months ended October 31, 2010, the Company paid interest of \$81 and \$81 to Wesley Clover towards interest on convertible debentures.

In connection with a non-brokered private placement of 3,333,334 units which closed on October 29, 2009, Wesley Clover Corporation, a company controlled by the Chairman of the Company, purchased 1,666,667 units, at a price of \$0.56 (CDN\$0.60) per unit, for aggregate proceeds of \$933,881 (CDN\$1,000,000). Each unit consisted of one share of common stock and one-half of one non-transferable common share purchase warrant. Each whole warrant entitles the holder to purchase one share of common stock at a price of \$0.90 for a period of two years from the closing of the private placement.

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties.

**Note 4**      **Convertible Debentures**

On July 30, 2010 and October 29, 2010, the Company issued two convertible debentures in the principal amounts of \$483,300 and \$490,750, respectively, to an investor. The debentures are convertible by the holder, at any time prior to maturity, in whole or in part into common shares of the Company at a conversion price of \$1.00 per share. On October 29, 2010, the Company issued a third convertible debenture in the principal amount of \$490,750 to a company controlled by the Chairman of the Company. The debenture is convertible by the holder at any time prior to maturity, in whole or in part into common shares of the Company at a conversion price of \$1.37 per share. The three convertible debentures are unsecured, bearing interest at the prime bank rate as quoted by the Bank of Montreal with interest payable monthly and maturing on July 30, 2012.

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**Note 4**      **Convertible Debentures – (cont'd)**

The convertible debentures may all be prepaid in whole or in part by the Company by paying 105% of the principal to be prepaid together with accrued and unpaid interest on or before July 30, 2011, or by paying 102.5% of the principal to be prepaid together with accrued and unpaid interest between July 31, 2011 and April 30, 2012, or by paying 100% of the principal to be prepaid together with accrued and unpaid interest between May 1, 2012 and July 30, 2012.

The Company has considered the guidance in the Debt topic of the FASB Codification, and has determined that the convertible debentures issued on October 29, 2010 contain a beneficial conversion feature, as the fair value of the Company's common stock on the date of issuance was greater than the initial conversion price. Accordingly, the Company allocated \$765,964 to the convertible debentures and \$215,536 to the beneficial conversion feature. The amounts allocated to the beneficial conversion feature represent a discount on the debt financing which is accreted to income over the term of the debt.

The convertible debentures issued on July 30, 2010 did not contain a beneficial conversion feature, as the fair value of the Company's common stock on the date of issuance was equal to or less than the initial conversion price.

**Note 5**      **Exchangeable Shares**

On August 2, 2007, the Company entered into a voting and exchange trust agreement among its subsidiary, 6789722 Canada Inc., and Valiant Trust Company whereby the Company issued and deposited with Valiant Trust a special preferred voting share of the Company in order to enable Valiant Trust to execute certain voting and exchange rights as trustee from time to time for and on behalf of the registered holders of the preferred shares of 6789722 Canada Inc. Each preferred share of 6789722 Canada Inc. is exchangeable into one share of common stock of the Company at the election of the shareholder, or, in certain circumstances, of the Company.

On April 27, 2010, the Company issued 4,424 shares of common stock pursuant to a holder of 4,424 shares of exchangeable preferred shares of its subsidiary 6789722 Canada Inc. exercising their exchange rights. On May 14, 2010, the Company issued 50,000 shares of common stock pursuant to a holder of 50,000 shares of exchangeable preferred shares of its subsidiary 6789722 Canada Inc. exercising their exchange rights.

There were 10,871 outstanding exchangeable shares as of October 31, 2010 (April 30, 2009 – 60,871). As the exchangeable shares have already been recognized in connection with the acquisition of NewHeights, the value ascribed to these shares on exchange is \$nil.

**Note 6**      **Common Stock**

On March 19, 2008, the Company's Board of Directors approved a five for one common stock consolidation. As a result, the Company's authorized capital decreased from 415,384,500 shares of common stock to 83,076,900 shares of common stock. All per share amounts and outstanding shares, including all common stock equivalents (stock options and warrants) have been retroactively adjusted in the Consolidated Financial Statements and in the Notes to the Consolidated Financial Statements for all periods presented to reflect the stock consolidation.

**Stock Options**

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to employees, directors and consultants. Stock options entitle the holder to purchase common stock at a subscription price determined by the Board of Directors of the Company at the time of the grant. The options generally vest in the amount of 12.5% on the date which is six months from the date of grant and then beginning in the seventh month at 1/42 per month for 42 months, at which time the options are fully vested.

The maximum number of shares of common stock authorized by the stockholders and reserved for issuance by the Board of Directors of the Company under the 2010 Stock Option Plan is 5,860,000.

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**Note 6**      **Common Stock – (cont'd)**

Stock Options (cont'd)

The Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted. In accordance with ASC 718 for employees, the compensation expense is amortized on a straight-line basis over the requisite service period which approximates the vesting period. Compensation expense for stock options granted to non-employees is amortized over the vesting period or, if none exists, over the service period. Compensation associated with unvested options granted to non-employees is remeasured on each balance sheet date using the Black-Scholes option pricing model.

The expected volatility of options granted has been determined using the method described under ASC 718 using the historical stock price. The expected term of options granted to employees in the current fiscal period has been determined utilizing the “simplified” method as prescribed by ASC 718 Share-Based Payment. For non-employees, the expected term of the options approximates the full term of the options. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. The Company has not paid and does not anticipate paying dividends on its common stock; therefore, the expected dividend yield is assumed to be zero. In addition, ASC 718 requires companies to utilize an estimated forfeiture rate when calculating the expense for the period, whereas prior to the adoption of ASC 718 the Company recorded forfeitures based on actual forfeitures and recorded a compensation expense recovery in the period when the awards were forfeited. As a result, based on the Company’s experience, the Company applied an estimated forfeiture rate of 15% for the six month period ended October 31, 2010 and 2009 in determining the expense recorded in the accompanying consolidated statement of operations.

The weighted-average fair value of options granted during the six months ended October 31, 2010 was \$0.66 (2009 - \$nil). The weighted-average assumptions utilized to determine such values are presented in the following table:

|                             | <b>Six Months Ended<br/>October 31, 2010</b> | <b>Six Months Ended<br/>October 31, 2009</b> |
|-----------------------------|--|--|
| Risk-free interest rate     | 1.60%  | n/a  |
| Expected volatility         | 84.7%  | n/a  |
| Expected term               | 3.7 yrs                                      | n/a  |
| Dividend yield              | 0%   | n/a  |
| Weighted average fair value | \$ 0.66                                      | n/a  |

The following is a summary of the status of the Company’s stock options as of October 31, 2010 and the stock option activity during the six months ended October 31, 2010:

|                                 | <b>Number of<br/>Options</b> | <b>Weighted-average<br/>Exercise Price<br/>per Share</b> |
|---------------------------------|------------------------------|--|
| Outstanding at April 30, 2010   | 4,617,707                    | \$ 1.03  |
| Granted                         | 20,000                       | \$ 1.10  |
| Exercised                       | (47,920)                     | \$ 0.47  |
| Forfeited/Cancelled             | (754,728)                    | \$ 1.75  |
| Expired                         | (95,000)                     | \$ 1.09  |
| Outstanding at October 31, 2010 | <u>3,740,059</u>             | <u>\$ 0.89</u>   |
| Exercisable at October 31, 2010 | 2,358,566                    | \$ 1.08  |
| Exercisable at April 30, 2010   | 2,602,619                    | \$ 1.32  |

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**Note 6**      **Common Stock – (cont'd)**

**Stock Options – (cont'd)**

The following table summarizes information regarding stock purchase options outstanding as of October 31, 2010:

| Exercise Price   | Number of Options Outstanding | Aggregate Intrinsic Value | Expiry Date                           | Number of Options Exercisable | Aggregate Intrinsic Value |
|------------------|-------------------------------|---------------------------|---------------------------------------|-------------------------------|---------------------------|
| \$ 0.44          | 507,122                       | \$ 491,908                | December 15, 2013                     | 231,500                       | \$ 224,555                |
| \$ 0.45          | 66,667                        | 64,000                    | February 9, 2015                      | 33,333                        | 32,000                    |
| \$ 0.47          | 778,363                       | 731,661                   | January 1, 2011 to September 26, 2016 | 742,175                       | 697,645                   |
| \$ 0.49          | 20,000                        | 18,400                    | March 11, 2015                        | 2,917                         | 2,684                     |
| \$ 0.60          | 576,188                       | 466,712                   | December 14, 2014                     | 134,422                       | 108,882                   |
| \$ 0.62          | 850,000                       | 671,500                   | April 17, 2014                        | 318,750                       | 251,813                   |
| \$ 0.65          | 30,000                        | 22,800                    | April 27, 2015                        | 3,750                         | 2,850                     |
| \$ 1.10          | 20,000                        | 6,200                     | July 23, 2015                         | –                             | –                         |
| \$ 1.90          | 66,719                        | –                         | March 8, 2015                         | 66,719                        | –                         |
| \$ 1.95          | 339,000                       | –                         | September 7, 2010 to January 10, 2016 | 339,000                       | –                         |
| \$ 2.00          | 246,000                       | –                         | January 1, 2011 to February 28, 2015  | 246,000                       | –                         |
| \$ 2.15          | 240,000                       | –                         | September 7, 2016                     | 240,000                       | –                         |
| October 31, 2010 | <u>3,740,059</u>              | <u>\$ 2,473,181</u>       |                                       | <u>2,358,566</u>              | <u>\$ 1,320,429</u>       |
| April 30, 2010   | <u>4,617,707</u>              | <u>\$ 895,060</u>         |                                       | <u>2,602,619</u>              | <u>\$ 404,859</u>         |

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of \$1.41 per share as of October 31, 2010 (April 30, 2010 – \$0.82), which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options vested and exercisable as of October 31, 2010 was 1,466,847 (April 30, 2010 – 1,239,933). The total intrinsic value of options exercised during the six months ended October 31, 2010 was \$45,052 (2009 – \$3,289). The grant date fair value of options vested during the six months ended October 31, 2010 was \$204,364 (2009 – \$208,931).

The following table summarizes information regarding the non-vested stock purchase options outstanding as of October 31, 2010.

|  | Number of Options | Weighted Average Grant-Date Fair Value |
|--|-------------------|--|
| Non-vested options at April 30, 2010   | 2,015,088         | \$ 0.39                                |
| Granted                                | 20,000            | \$ 0.66                                |
| Vested                                 | (406,469)         | \$ 0.50                                |
| Forfeited/Cancelled                    | (247,126)         | \$ 0.52                                |
| Non-vested options at October 31, 2010 | <u>1,381,493</u>  | <u>\$ 0.34</u>                         |

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**Note 6**      **Common Stock – (cont'd)**

Stock Options – (cont'd)

As of October 31, 2010 there was \$421,189 (2009 – \$711,974 of total unrecognized compensation cost related to unvested share-based compensation awards. This unrecognized compensation cost is expected to be recognized over a weighted average period of 2.61 years (2009 – 1.15 years).

Employee and non-employee stock-based compensation amounts in respect of stock options classified in the Company's consolidated statements of operations for the three and six months ended October 31, 2010 and 2009 are as follows:

|                                       | <b>Three Months Ended</b> |                   | <b>Six Months Ended</b> |                   |
|---------------------------------------|---------------------------|-------------------|-------------------------|-------------------|
|                                       | <b>October 31,</b>        |                   | <b>October 31,</b>      |                   |
|                                       | <b>2010</b>               | <b>2009</b>       | <b>2010</b>             | <b>2009</b>       |
| Cost of sales                         | \$ 3,590                  | \$ 17,411         | \$ 10,341               | \$ 37,591         |
| Sales and marketing                   | 16,450                    | 17,724            | 39,479                  | 49,097            |
| Research and development              | 8,091                     | 23,896            | 16,551                  | 55,485            |
| General and administrative            | 39,819                    | 131,756           | 106,356                 | 268,229           |
| <b>Total stock-based compensation</b> | <b>\$ 67,950</b>          | <b>\$ 190,787</b> | <b>\$ 172,727</b>       | <b>\$ 410,402</b> |

Warrants

During the six months ended October 31, 2010, the Company entered into a warrant agreement, as amended with a customer whereby the Company issued 1,000,000 stock purchase warrants as part of a contract that the Company entered into with the customer. The warrants enable the holder thereof the right to purchase up to 1,000,000 shares of the Company's common stock, exercisable for two years at a price of \$1.50 per share until July 30, 2012. Under an amendment agreement, 50% of the warrants vest on a proportional basis to invoices delivered by the Company at the rate of one warrant for every \$3 invoiced and 50% vest on a change of control of the Company. As the likelihood of a change of control was not determinable at the time of revenue recognition, the value of the applicable warrants subject to vesting on change of control was deemed to be nil during the three months ended October 31, 2010. The warrants are held in trust and delivered once vested and payment, as applicable, has been received by the Company. The fair value of the 372,222 stock purchase warrants that was charged to revenue during the six months ended October 31, 2010 was \$161,710 (2009 –\$nil). The remaining 627,778 warrants will be valued and charged against revenue pro rata as the remaining revenue under the contract is recognized, or as a change of control of the Company occurs, as applicable. The assumptions utilized to determine such value of warrants issuable on a proportional basis to invoices delivered by the Company are presented in the following table:

|                             | <b>Six Months Ended</b> |             |
|-----------------------------|-------------------------|-------------|
|                             | <b>October 31,</b>      |             |
|                             | <b>2010</b>             | <b>2009</b> |
| Risk-free interest rate     | 0.34%                   | –           |
| Expected volatility         | 94.20%                  | –           |
| Expected term               | 1.75 yrs                | –           |
| Dividend yield              | 0%                      | –           |
| Weighted average fair value | \$ 0.64                 | –           |

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**Note 6**      **Common Stock – (cont'd)**

Warrants (cont'd)

The following table summarizes information regarding the warrants outstanding as of October 31, 2010:

|                              | <b>Number of<br/>Warrants</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Expiry Dates</b>               |
|------------------------------|-------------------------------|--|-----------------------------------|
| Warrants at April 30, 2010   | 2,932,088                     | \$ 1.50  | July 31, 2010 to October 29, 2011 |
| Granted                      | 1,000,000                     | \$ 1.50  | July 30, 2012                     |
| Expired                      | (1,265,421)                   | \$ 2.25  | July 31, 2010 to October 28, 2010 |
| Warrants at October 31, 2010 | <u>2,666,667</u>              | <u>\$ 1.12</u>                                 | October 29, 2011 to July 30, 2012 |

Employee Stock Purchase Plan

Under the terms of the Employee Stock Purchase Plan (ESPP), all regular salaried (non-probationary) employees may purchase up to 6% of their base salary in shares of common stock of the Company at market price. The Company matches 50% of the shares purchased by issuing up to 3% of the respective employee's base salary in shares.

A total of 700,000 shares have been reserved for issuance under the ESPP. As of October 31, 2010, a total of 575,570 shares were available for issuance under the ESPP. During the six months ended October 31, 2010, 36,422 shares were sold or issued to employees under the ESPP.

Deferred Share Unit Plan

Under the terms of the Deferred Share Unit Plan (DSUP), each deferred share unit is equivalent to one share of common stock. The maximum number of shares of common stock that may be reserved for issuance to any one participant pursuant to deferred share units granted under the DSUP and any share compensation arrangement is 5% of the number of shares of common stock of the Company outstanding at the time of reservation and, as applicable, any grants of deferred share units to any one participant may not exceed a value of \$100,000 per annum on the date of grant without prior approval of the TSX Venture Exchange. A deferred share unit (DSU) granted to a participant who is a director of the board of the Company vests immediately on the award date. A deferred share unit granted to a participant other than a director generally vests as to one-third (1/3) of the number of deferred share units granted on the first, second and third anniversaries of the award date. Fair value of the DSU's, which is based on the closing price of the Company's common stock on the date of grant, is recorded as compensation expense in the period of grant.

A total of 2,000,000 shares have been reserved for issuance under the DSUP. During the six months ended October 31, 2010, 822,500 deferred share units were issued under the DSUP, of which 650,000 were granted to officers and 172,500 were granted to non-employee directors. As of October 31, 2010, a total of 657,339 shares were available for issuance under the DSUP.

The following table summarizes the Company's outstanding DSU awards as of October 31, 2010, and changes during the period then ended:

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**Note 6**      **Common Stock – (cont'd)**

Deferred Share Unit Plan – (cont'd)

|                                       | Number of DSU's | Weighted Average Grant<br>Date Fair Value Per Unit |
|---------------------------------------|-----------------|--|
| DSU's outstanding at April 30, 2010   | 520,161         | \$ 0.60  |
| Granted                               | 822,500         | \$ 0.68  |
| DSU's outstanding at October 31, 2010 | 1,342,661       | \$ 0.65  |

As of October 31, 2010 there was \$272,574 (2009 – \$nil) of total unrecognized compensation cost related to unvested deferred share units awards. This unrecognized compensation cost is expected to be recognized over a weighted average period of 2.49 years (2009 – nil).

Employee and non-employee deferred share unit based compensation amounts classified in the Company's consolidated statements of operations for the three and six months ended October 31, 2010 and 2009 are as follows:

|  | Three Months Ended<br>October 31, |      | Six Months Ended<br>October 31, |      |
|--|-----------------------------------|------|---------------------------------|------|
|  | 2010                              | 2009 | 2010                            | 2009 |
| General and administrative                   | \$ 213,349                        | \$ – | \$ 409,057                      | \$ – |
| Total deferred share unit-based compensation | \$ 213,349                        | \$ – | \$ 409,057                      | \$ – |

**Note 7**      **Segmented Information**

The Company's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by desegregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. Accordingly, the Company has concluded that it has one reportable operating segment.

Foreign revenues are based on the country in which the customer is located. The following is a summary of total revenues by geographic area for the three and six months ended October 31, 2010 and 2009:

|                 | Three Months Ended<br>October 31, |              | Six Months Ended<br>October 31, |              |
|-----------------|-----------------------------------|--------------|---------------------------------|--------------|
|                 | 2010                              | 2009         | 2010                            | 2009         |
| North America   | \$ 1,576,454                      | \$ 1,147,134 | \$ 2,954,050                    | \$ 2,396,333 |
| Europe          | 640,810                           | 509,036      | 1,260,440                       | 951,004      |
| Asia and Africa | 117,337                           | 138,561      | 235,742                         | 377,821      |
| Latin America   | 233,062                           | 105,876      | 337,016                         | 225,906      |
|                 | \$ 2,567,663                      | \$ 1,900,607 | \$ 4,787,248                    | \$ 3,951,064 |

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**Note 7**      **Segmented Information – (cont'd)**

Contained within the results of North America for the three and six months ended October 31, 2010 are revenues from the United States of \$1,260,862 and \$2,433,408 (2009 - \$992,735 and \$2,079,841) respectively and from Canada of \$315,592 and \$520,642 (2009 - \$154,399 and \$316,492) respectively.

Contained within the results of Europe for the three and six months ended October 31, 2010 are revenues from the United Kingdom of \$386,705 and \$795,118 (2009 - \$114,942 and \$173,219) respectively, from Germany of \$33,549 and \$84,235 (2009 - \$72,054 and \$204,916) respectively, and from Italy of \$45,527 and \$55,808 (2009 - \$22,784 and \$32,646) respectively.

Contained within the results of Asia and Africa for the three and six months ended October 31, 2010 are revenues from Japan of \$57,423 and \$60,246 (2009 - \$14,645 and \$24,858) respectively, from Australia of \$20,792 and \$43,473 (2009 - \$14,917 and \$26,181) respectively, and from China of \$1,760 and \$41,303 (2009 - \$8,288 and \$17,063) respectively.

Contained within the results of Latin America for the three and six months ended October 31, 2010 are revenues from Chile of \$115,527 and \$121,598 (2009 - \$3,926 and \$9,008) respectively, from Mexico of \$78,428 and \$116,499 (2009 - \$49,689 and \$121,431) respectively, and from Colombia of \$11,982 and \$23,493 (2009 - \$11,387 and \$32,013) respectively.

All of the Company's long-lived assets, which include equipment, intangible assets, goodwill and other assets, are located in Canada and the United States as follows:

|               | As at            |                |
|---------------|------------------|----------------|
|               | October 31, 2010 | April 30, 2010 |
| Canada        | \$ 9,915,388     | \$ 10,568,931  |
| United States | 41,600           | 15,420         |
| Total         | \$ 9,956,988     | \$ 10,584,351  |

Revenue from significant customers for the three months ended October 31, 2010 and 2009 is summarized as follows:

|            | Three Months Ended<br>October 31, |      | Six Months Ended<br>October 31, |      |
|------------|-----------------------------------|------|---------------------------------|------|
|            | 2010                              | 2009 | 2010                            | 2009 |
| Customer A | 17%                               | 2%   | 19%                             | 9%   |
| Customer B | 13%                               | –%   | 14%                             | –%   |
| Customer C | 8%                                | 16%  | 5%                              | 8%   |
|            | 38%                               | 18%  | 38%                             | 17%  |

Accounts receivable balance for Customer A was \$453,279 as at October 31, 2010 (April 30, 2010 - \$1,000,975). Accounts receivable balance for Customer B was \$350,000 as at October 31, 2010 (April 30, 2010 - \$nil). Accounts receivable balance for Customer C was \$235,000 as at October 31, 2010 (April 30, 2010 - \$30,000).

**COUNTERPATH CORPORATION**  
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(Unaudited)

**Note 8**      **Commitments**

- a) On March 14, 2008 the Company entered into a lease for accommodation which commenced on April 1, 2008 and expired on March 31, 2009. On January 14, 2010, the Company entered into extension agreement on this lease for the third time which commenced on April 1, 2010 and expires March 31, 2011. The monthly lease payment under the extension agreement is \$2,339.
- b) On April 29, 2005, the Company entered into a lease for office premises, which commenced on October 1, 2005 and expires on September 30, 2012 for which a deposit of \$9,745 was made. The monthly lease payment under this agreement is \$9,745 plus \$8,538 in operating costs. The Company is subleasing part of these premises for a monthly charge of \$7,367. The sublease commenced on August 1, 2007 and expires on September 30, 2012. On July 17, 2009, the Company signed a new subleasing agreement for another part of these premises, which commenced on August 1, 2009 and expires September 30, 2012. The monthly charge under this subleasing agreement is \$3,156 (CDN\$3,216) plus \$3,112 (CDN\$3,171) in operating costs.
- c) On July 10, 2006, the Company entered into a lease for our head office premises of 15,559 square feet, which commenced on December 1, 2006 and expires on September 29, 2011 for which a deposit of \$81,293 was made. The monthly lease payment under this agreement is \$22,907 plus \$21,558 in operating costs. Management believes that this office space is adequate for the operations of the Company for the foreseeable future.
- d) On May 1, 2009 the Company modified its existing lease agreement for office premises, as a result of which it surrendered a substantial part of the previously leased area. The new agreement commenced on May 1, 2009 and expires on April 20, 2012. The monthly lease payment under this agreement is \$6,538. This lease expense is a related party transaction as it was incurred with a company with a director in common with the Company.
- e) On March 12, 2009, the Company and its wholly-owned subsidiary, CounterPath Technologies Inc., entered into a settlement agreement with a founder and former officer of the Company. Under the settlement agreement, the Company will pay a total of \$485,843 (CDN\$495,000) over 45 months at a rate of CDN\$11,000 per month and pay for health benefits for 21 months from the date of the agreement.
- f) On July 29, 2010, the Company entered into extension of an existing lease agreement which commenced on August 1, 2010 and expires on July 31, 2011. The monthly lease payment under the new extension agreement is \$7,275.

Total payable over the term of the agreements for the years ended April 30 are as follows:

|      | <b>Office Leases –<br/>Related Party</b> | <b>Office Leases<br/>– Unrelated<br/>Party</b> | <b>Sub Lease<br/>Income</b> | <b>Total Office<br/>Leases</b> | <b>Settlement<br/>Agreement</b> |
|------|--|--|-----------------------------|--------------------------------|---------------------------------|
| 2011 | \$ 39,231                                | \$ 431,831                                     | \$ (81,815)                 | \$ 389,247                     | \$ 64,779                       |
| 2012 | 78,461                                   | 463,546  | (163,629)                   | 378,378                        | 129,558                         |
| 2013 | –  | 91,416   | (68,179)                    | 23,237                         | 80,974                          |
|      | <u>\$ 117,692</u>                        | <u>\$ 986,793</u>                              | <u>\$ (313,623)</u>         | <u>\$ 790,862</u>              | <u>\$ 275,311</u>               |

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 9**      **Contingent Liability**

On February 17, 2006, a competitor filed a statement of claim in the Supreme Court of British Columbia claiming among other things, general, punitive and aggravated damages of unspecified amounts with respect to alleged business ethics matters. Management of the Company believes that the claim is without foundation or merit. Any loss as a result of this claim will be recorded in the period that the loss is probable and measurable.

**Note 10**      **Restructuring**

The Company incurred no restructuring costs for the three and six months ended October 31, 2010. The Company incurred restructuring costs of \$44,912 during the six months ended October 31, 2009, as a result of the Company's post acquisition activities. Restructuring costs were related to employee severance arrangements as a result of the consolidation of administrative, sales, marketing, and research and development departments after the close of acquisitions of NewHeights Software Corporation, FirstHand Technologies Inc. and BridgePort Networks, Inc. These charges are shown as a separate line item in the consolidated statement of operations.

**Note 11**      **Derivative Instruments and Hedging Activities**

In the normal course of business, the Company is exposed to fluctuations in interest rates and the exchange rates associated with foreign currencies. The Company's primary objective for holding derivative financial instruments is to manage foreign currency exchange rate risk.

Foreign Currency Exchange Rate Risk

A majority of the Company's revenue activities are transacted in U.S. dollars. However, the Company is exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to its operations for the six months ended October 31, 2010 is the Canadian dollar. The Company is primarily exposed to a strengthening Canadian dollar as its operating expenses are primarily denominated in Canadian dollars while its revenues are primarily denominated in U.S. dollars. The Company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, the Company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of operations as the impact of the hedged transaction.

Volume of Derivative Activity

Total gross notional amounts for foreign currency forward contracts, presented by currency, are as follows:

|                 | <b>Six Months Ended</b> |             |
|-----------------|-------------------------|-------------|
|                 | <b>October 31,</b>      |             |
|                 | <b>2010</b>             | <b>2009</b> |
| In U.S. dollars |                         |             |
| Canadian dollar | \$ —                    | \$ 500,000  |
| Total           | \$ —                    | \$ 500,000  |

The fair value of forward contracts as of October 31, 2010 was \$nil, as all forward contracts have since been settled.

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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(Unaudited)

**Note 12**      **Gain on Settlement of Debt**

During the six-month period ended October 31, 2010, the Company recorded a gain on settlement of debt of \$246,715 as a result of the transfer of certain of non-core intellectual property rights licensed from an institution (having no book value) in settlement of a \$246,715 liability for research fees performed by the institution.

**Note 13**      **Subsequent Event**

On December 14, 2010, the Company granted 685,000 stock options pursuant to its 2010 Stock Option Plan. Of the stock options, 40,000 options were issued each to two directors and a total of 605,000 options were issued to various employees and contractors. Each stock option entitles the holder thereof the right to purchase one share of common stock at \$ 1.90 under the terms and conditions of the plan. The options vest in the amount of 12.5% on the date which is six months from the date of grant and then beginning in the seventh month at 1/42 per month for 42 months, at which time the options are fully vested.

**Note 14**      **Restatement**

As a result of an internal review by the management, audit committee and auditors, the Company has restated its annual audited consolidated financial statements as at April 30, 2009 and 2010 and for the years then ended and its unaudited interim consolidated financial statements for the three and six-month period ended October 31, 2009 to correct a computational error in accounting for intangible assets and the accounting for the over-accrual for certain estimated costs. These combined changes did not affect the basic and diluted loss per share, and the cash flow of the Company for the three and six months ended October 31, 2010.

a)      **Foreign Currency Translation of Intangible Assets**

Subsequent to the issue of the April 30, 2010 consolidated financial statements, the Company has corrected a computational error in translating Canadian dollar denominated intangible assets to United States dollar denominated assets and the related revision to the impairment of intangible assets charge taken in fiscal year 2009. These adjustments result in an increase in cost of sales and net loss of \$1,560 and \$3,035 for the three and six months ending October 31, 2009. The adjustments also result in a decrease in the foreign currency translation adjustment of \$87,674 and \$768,898 for the three and six-month periods ended October 31, 2009. In addition the adjustments resulted in an increase in comprehensive loss of \$89,234 and \$771,933 for the three and six months ended October 31, 2009.

b)      **Overstatement of Accrued Liabilities**

Subsequent to the issue of the April 30, 2010 consolidated financial statements, the Company determined that it overstated the accrual of its estimated royalty costs for certain third party software. Therefore, the Company has corrected the error in recording the cost of sales and the related accrued liabilities. These adjustments result in a decrease in cost of sales, net loss and comprehensive loss of \$28,043 and \$46,525 for the three and six-month periods ended October 31, 2009.

**COUNTERPATH CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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(Unaudited)

**Note 14**      **Restatement – (cont'd)**

The following represents the effect of the restatements to the interim consolidated statements of operations and comprehensive loss for the three and six-month periods ended October 31, 2009:

| <b>For the six months ended October 31, 2009</b> | <b>As Previously</b> | <b>Adjustment</b> |             | <b>As Restated</b> |
|--|----------------------|-------------------|-------------|--------------------|
|  | <b>Recorded</b>      | <b>(a)</b>        | <b>(b)</b>  |                    |
| Cost of sales                                    | \$ 1,370,602         | \$ 3,035          | \$ (46,525) | \$ 1,327,112       |
| Loss from operations                             | (2,634,031)          | (3,035)           | 46,525      | (2,590,541)        |
| Net loss for the period                          | (2,995,889)          | (3,035)           | 46,525      | (2,952,399)        |
| Foreign currency translation adjustment          | 2,453,295            | (768,898)         | –           | 1,684,397          |
| Comprehensive loss                               | (542,594)            | (771,933)         | 46,525      | (1,268,002)        |

| <b>For the three months ended October 31, 2009</b> | <b>As Previously</b> | <b>Adjustment</b> |             | <b>As Restated</b> |
|--|----------------------|-------------------|-------------|--------------------|
|  | <b>Recorded</b>      | <b>(a)</b>        | <b>(b)</b>  |                    |
| Cost of sales                                      | \$ 727,874           | \$ 1,560          | \$ (28,043) | \$ 701,391         |
| Loss from operations                               | (1,795,316)          | (1,560)           | 28,043      | (1,768,833)        |
| Net loss for the period                            | (1,753,553)          | (1,560)           | 28,043      | (1,727,070)        |
| Foreign currency translation adjustment            | 342,399              | (87,674)          | –           | 254,725            |
| Comprehensive loss                                 | (1,411,154)          | (89,234)          | 28,043      | (1,472,345)        |

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **Forward-Looking Statements**

This quarterly report contains forward-looking statements as that term is defined in Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “should”, “intends”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential”, or “continue” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors”, which may cause our or our industry’s actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity or performance. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States dollars and are prepared in accordance with United States generally accepted accounting principles. All references to “common shares” refer to our shares of common stock. As used in this quarterly report, the terms “we”, “us” and “our” means CounterPath Corporation, unless otherwise indicated.

The following discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information appearing elsewhere in this quarterly report. This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions.

### ***Background***

We were incorporated under the laws of the State of Nevada on April 18, 2003. Following incorporation, we commenced the business of operating an entertainment advertising website. On April 30, 2004, we changed our business following the merger of our company with Xten Networks, Inc., a private Nevada company. Xten Networks was incorporated under the laws of the State of Nevada on October 28, 2002. As a result of the merger, we acquired all of the issued and outstanding shares in Xten Networks in exchange for agreeing to issue 3,600,000 shares of our common stock to the stockholders of Xten Networks. The stockholders of Xten Networks were entitled to receive two shares of our common stock for each one share of Xten Networks.

On August 26, 2005, we entered into an agreement and plan of merger with Ineen, Inc., our wholly-owned subsidiary, whereby Ineen merged with and into our company, with our company carrying on as the surviving corporation under the name CounterPath Solutions, Inc.

On August 2, 2007, we acquired all of the shares of NewHeights Software Corporation through the issuance of 7,680,168 shares of our common stock and 369,836 preferred shares issued from a subsidiary of our company, which preferred shares are exchangeable into 369,836 shares of common stock. For accounting purposes, our company was deemed to be the acquirer of NewHeights based on certain factors including the number of common shares issued in the transaction as a proportion of the total common shares outstanding, and the composition of the board after the transaction.

On October 17, 2007, we changed our name from CounterPath Solutions, Inc. to CounterPath Corporation.

On February 1, 2008, we acquired all of the shares of FirstHand Technologies Inc. through the issuance of 5,900,014 shares of our common stock. For accounting purposes, our company was deemed to be the acquirer of FirstHand based on certain factors including the number of common shares issued in the transaction as a proportion of the total common shares outstanding, and the composition of the board after the transaction.

On February 1, 2008, we acquired BridgePort Networks, Inc. a private Delaware corporation, by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort. For accounting purposes, our company was deemed to be the acquirer of BridgePort based on certain factors primarily being the composition of the board after the transaction.

On February 5, 2008, our company's wholly-owned subsidiaries, NewHeights and CounterPath Solutions R&D Inc. were merged as a wholly-owned subsidiary of our company under the name CounterPath Technologies Inc.

On March 19, 2008, our board of directors approved a five for one common stock consolidation. As a result, our authorized capital decreased from 415,384,500 shares of common stock to 83,076,900 shares of common stock. The par value of the common stock was unaffected by the stock consolidation and remains at \$0.001 per share. All per share amounts and outstanding shares, including all common stock equivalents (stock options and warrants) have been retroactively adjusted in the consolidated financial statements and in the notes to the consolidated financial statements for all periods presented to reflect the stock consolidation.

Our common shares are quoted for trading on the Over-The-Counter Bulletin Board in the United States of America and on the TSX Venture Exchange in Canada.

### ***Business of CounterPath***

Our business focuses on the design, development, marketing and sales of desktop and mobile application software, gateway server software and related professional services, such as pre and post sales technical support and customization services. Our software products are sold into the telecommunications sector, specifically the voice over Internet protocol (VoIP), unified communications and fixed-mobile convergence markets primarily to carriers, original equipment manufacturers and businesses in North America, Central and South America, Europe and Asia. VoIP, unified communications and fixed-mobile convergence are general terms for technologies that use Internet or mobile protocols for the transmission of packets of data which may include voice, video, text, fax, and other forms of information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone network.

Our strategy is to sell our software to our customers to allow such customers to deliver session initiation protocol and voice over Internet protocol (VoIP) services. Customers that we are targeting include: (1) large incumbent telecommunications service providers, Internet telephony service providers and content providers, (2) original equipment manufacturers serving the telecommunication market, (3) small, medium and large sized businesses and (4) end users. Our software enables voice communication from the end user through the network to another end user and enables the service provider to deliver other streaming content to end users such as video, radio or the weather. Our acquisitions of FirstHand Technologies Inc. and BridgePort Networks, Inc. in February 2008 expanded our product portfolio of our company to include fixed-mobile-convergence applications for the enterprise and telecom service provider markets.

### ***Revenue***

We derive revenue from the sale of software licenses and software customization and services associated with software such as technical support services, implementation and training. We recognize software and services revenue at the time of delivery, provided all other revenue recognition criteria have been met.

Post contract customer support services include e-mail and telephone support, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis, and are recognized ratably over the term of the service period, which is generally twelve months.

We offer our products and services directly through our sales force and indirectly through distribution partners. Our distribution partners include networking and telecommunications equipment vendors throughout the world.

The amount of product configuration and customization, which reflects the requested features, determines the price for each sale. The number of software licenses purchased will have a direct impact on the average selling price. Services may vary depending upon a customer's requirements for technical support, implementation and training.

We believe that our revenue and results of operations may vary significantly from quarter to quarter as a result of long sales and deployment cycles, new product introductions and variations in customer ordering patterns.

### ***Operating Expenses***

Operating expenses consist of cost of sales, sales and marketing, research and development, general and administrative expenses, and restructuring costs. Personnel-related costs are generally the most significant component of each of these expense categories.

Cost of sales primarily consists of: (a) salaries and related personnel costs including stock-based compensation, (b) related overhead, (c) amortization of intangible assets, (d) billable and non-billable travel, lodging, and other out-of-pocket expenses, (e) payments to third party vendors for compression/decompression software known as codecs, (f) amortization of capitalized software that is implemented into our products and (g) warranty expense. Amortization of intangible assets consists of the amortization expense related to the intangible assets acquired from NewHeights Software Corporation, FirstHand Technologies Inc. and BridgePort Networks, Inc. comprising acquired technologies and customer assets. The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of management's estimate of the future cash flows from this asset over approximately five years, which is management's estimate of the useful life of the customer asset.

Sales and marketing expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) commissions, (c) travel, lodging and other out-of-pocket expenses, (d) marketing programs such as trade shows and (e) other related overhead. Commissions are recorded as expense when earned by the employee. We expect increases in sales and marketing expense for the foreseeable future as we further increase the number of sales professionals and increase our marketing activities with the intent to grow our revenue. We expect sales and marketing expense to decrease as a percentage of total revenue, however, as we leverage our current sales and marketing personnel as well as our distribution partnerships.

Research and development expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) payments to suppliers for design and consulting services, (c) costs relating to the design and development of new products and enhancement of existing products, (d) quality assurance and testing and (e) other related overhead. To date, all of our research and development costs have been expensed as incurred.

General and administrative expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation related to our executive, finance, human resource and information technology functions, (b) accounting, legal and regulatory fees and (c) other related overhead.

Restructuring costs are post acquisition activities related to the acquisition of NewHeights Software Corporation, FirstHand Technologies Inc. and Bridgeport Networks, Inc. We incurred restructuring costs related to employee severance agreements as a result of post acquisition consolidation of administration, sales and marketing and research and development departments. At October 31, 2010 we have a restructuring accrual for severance of \$nil.

### **Application of Critical Accounting Policies and Use of Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates under different assumptions or conditions. There have been no material changes to these estimates for the periods presented in this quarterly report.

We believe that of our significant accounting policies, which are described in Note 2 to our annual financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, the following policies are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

### ***Basis of Presentation***

The consolidated financial statements include the accounts of our company and our wholly-owned subsidiaries, CounterPath Technologies Inc., a company existing under the laws of the province of British Columbia, Canada, FirstHand Technologies Inc., continued under laws of the province of British Columbia, BridgePort Networks, Inc. incorporated under the laws of the state of Delaware and 6789722 Canada Inc., incorporated under the Canada Business Corporations Act. The results of NewHeights Software Corporation (which subsequently merged with another subsidiary to become CounterPath Technologies Inc.) are included from August 2, 2007, the date of acquisition. The results of FirstHand Technologies Inc. and BridgePort Networks, Inc. are included from February 1, 2008, the date of acquisition. All inter-company transactions and balances have been eliminated.

### ***Interim Reporting***

The information presented in the accompanying interim consolidated financial statements is without audit pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in the interim consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with accounting principles generally accepted in the United States of America. Except where noted, the interim consolidated financial statements follow the same accounting policies and methods of their application as our April 30, 2010 annual consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim consolidated financial statements be read in conjunction with our April 30, 2010 amended annual consolidated financial statements.

Operating results for the six months ended October 31, 2010 are not necessarily indicative of the results that can be expected for the year ending April 30, 2011.

### ***Revenue Recognition***

We recognize revenue in accordance with the American Institute of Certified Public Accountants (AICPA) ASC 985-605 "Software Revenue Recognition", as amended by SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions".

In all of our arrangements, we do not recognize any revenue until we can determine that persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and we deem collection to be probable. For distribution and reseller arrangements, fees are fixed or determinable and collection probable when there are no rights to exchange or return and fees are not dependable upon payment from the end-user. If any of these criteria are not met, revenue is deferred until such time that all criteria have been met.

A substantial percentage of our revenue is generated by multiple-element arrangements, such as products, maintenance and support, professional services and training. When arrangements include multiple elements, we allocate the total fee among the various elements using the residual method. Under the residual method, revenue is recognized when vendor-specific objective evidence, or VSOE, of fair value exists for all of the undelivered elements of the arrangement, but does not exist for one or more of the delivered elements of the arrangement. Each arrangement requires us to analyze the individual elements in the transaction and to estimate the fair value of each undelivered element, which typically includes maintenance and services. Revenue is allocated to each of the undelivered elements based on its respective fair value, with the fair value determined by the price charged when that element is sold separately.

For contracts with elements related to customized network solutions and certain network build-outs, we apply FASB Emerging Issues Task Force Issue ASC 605-25, "Revenue Arrangements with Multiple Deliverables" and revenues are recognized under ASC 605-35, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", generally using the percentage-of-completion method.

In using the percentage-of-completion method, revenues are generally recorded based on a completion of milestones as described in the agreement. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known.

Post contract customer support (PCS) services include e-mail and telephone support, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis, and are recognized ratably over the term of the service period, which is generally twelve months.

PCS service revenue generally is deferred until the related product has been accepted and all other revenue recognition criteria have been met. Professional services and training revenue is recognized as the related service is performed.

We have set up a warranty provision in the amount of 2% of software sales, which is amortized over a twelve-month term. We recognize this deferred revenue evenly over a twelve-month period from the date of the sale.

### ***Stock-Based Compensation***

Stock options granted are accounted for under ASC 718 "Share-Based Payment" and are recognized at the fair value of the options as determined by an option pricing model as the related services are provided and the options earned. ASC 178 replaces existing requirements under FAS 123 and APB 25, and requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the fair value of those instruments on the measurement date which generally is the grant date, with limited exceptions.

Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee consultants. We measure stock-based compensation cost at measurement date, based on the estimated fair value of the award, and generally recognize the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period or the period during which the related services are provided by the non-employee consultants and the options are earned. We estimate the fair value of stock options using a Black-Scholes option valuation model.

The expected volatility of options granted has been determined using the volatility of our company's stock. The expected life of options granted after April 30, 2006 has been determined utilizing the "simplified" method as prescribed by the SEC's Staff Accounting Bulletin No. 107, Share-Based Payment. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. In addition, ASC 718 requires companies to utilize an estimated forfeiture rate when calculating the expense for the period. We applied an estimated forfeiture rate of 15.0% in the six months ended October 31, 2010 in determining the expense recorded in our consolidated statement of operations.

Cost of sales and operating expenses include stock-based compensation expense, and deferred share unit plan expense. For the six months ended October 31, 2010, we recorded an expense of \$581,784 in connection with share-based payment awards. A future expense of non-vested options of \$421,189 is expected to be recognized over a weighted-average period of 2.61 years. A future expense of non-vested deferred share units of \$272,574 is expected to be recognized over a weighted-average period of 2.49 years.

### ***Research and Development Expense for Software Products***

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. We have determined that technological feasibility is established at the time a working model of software is completed. Because we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

### ***Accounts Receivable and Allowance for Doubtful Accounts***

We extend credit to our customers based on evaluation of an individual customer's financial condition and collateral is generally not required. Accounts outstanding beyond the contractual payment terms are considered past due. We determine our allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are beyond the contractual payment terms, our previous loss history, and a customer's current ability to pay its obligation to us. We write-off accounts receivable when they are identified as uncollectible. All outstanding accounts receivable accounts are periodically reviewed for collectability on an individual basis.

### ***Goodwill and Intangible Assets***

We have a significant amount of goodwill and intangible assets on our balance sheet related to the acquisitions of NewHeights Software Corporation, FirstHand Technologies Inc. and BridgePort Networks, Inc. Intangible assets are carried and reported at acquisition cost, net of accumulated amortization subsequent to acquisition. The intangible assets acquired are comprised of acquired technologies and customer assets relating to customer relationships. The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of management's estimate of the future cash flows from this asset over approximately five years, which is management's estimate of the useful life of the customer assets. The intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist in accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets." Projected undiscounted net cash flows expected to be derived from the use of those assets are compared to the respective net carrying amounts to determine whether any impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

The determination of the net carrying value of goodwill and intangible assets and the extent to which, if any, there is impairment, are dependent on material estimates and judgments on our part, including the useful life over which the intangible assets are to be amortized and the estimates of the value of future net cash flows, which are based upon further estimates of future revenues, expenses and operating margins.

### ***Goodwill and Intangible Assets—Impairment Assessments***

We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with ASC 350, *Goodwill and Other Intangible Assets*. The provisions of ASC 350 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of our reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of our reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

Determining the fair value of our reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for our reporting unit. Our most recent annual goodwill impairment analysis, which was performed during the fourth quarter of fiscal 2010, did not result in an impairment charge, nor did we record any goodwill impairment for the six months ending October 31, 2010.

We make judgments about the recoverability of purchased intangible assets whenever events or changes in circumstances indicate that an other- than-temporary impairment may exist. Each period we evaluate the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Assumptions and estimates about future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows and risk adjusted discounted rates and future economic and market conditions. During the fourth quarter of fiscal 2009, we recorded an impairment charge of \$3.10 million consisting of \$2.01 million for the intangible assets of NewHeights and \$1.09 million for the intangible assets of FirstHand. During the fiscal year ended April 30, 2010 and the most recent quarter ended October 31, 2010, management concluded that there was no further impairment charge related to our intangible assets.

#### *Use of Estimates*

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires our management to make estimates and assumptions which affect the amounts reported in these consolidated financial statements, the notes thereto, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

#### **Results of Operations**

Our operating activities during the three and six months ended October 31, 2010 consisted primarily of selling our IP telephony software and related services to service providers and original equipment manufacturers serving the telecom industry, and the continued development of our IP telephony software products.

#### *Selected Consolidated Financial Information*

The following tables set out selected consolidated unaudited financial information for the periods indicated. The selected consolidated financial information set out below for the three and six months ended October 31, 2010 and 2009, and as at October 31, 2010 and April 30, 2010 has been derived from the consolidated unaudited financial statements and accompanying notes for the three and six months ended October 31, 2010 and 2009 and fiscal year ended April 30, 2010. Each investor should read the following information in conjunction with those statements and the related notes thereto. We believe the presentation of non-GAAP operating expenses provides useful information to our investors. In particular, we disclose that we utilize non-GAAP operating expenses to internally measure our operating performance and also present such measure to allow investors to analyze our operating performance utilizing the same measure as used by our management.

**Selected Consolidated Statements of Operations Data**
**Three Months Ended October 31,**

|  | 2010         |                          | 2009          |                          |
|--|--------------|--------------------------|---------------|--------------------------|
|  | (Unaudited)  |                          | (Unaudited)   |                          |
|  | Amount       | Percent of Total Revenue | Amount        | Percent of Total Revenue |
| Revenue                                    | \$ 2,567,663 | 100%                     | \$ 1,900,607  | 100%                     |
| Non-GAAP operating expenses <sup>1</sup>   | 3,253,081    | 127%                     | 3,260,509     | 172%                     |
| Stock-based compensation                   | 281,299      | 11%                      | 190,787       | 10%                      |
| Amortization of intangible assets          | 209,920      | 8%                       | 218,144       | 11%                      |
| GAAP operating expenses                    | 3,744,300    | 146%                     | 3,669,440     | 193%                     |
| Loss from operations                       | (1,176,637)  | (46%)                    | (1,768,833)   | (93%)                    |
| Interest and other income, net             | 286,892      | 11%                      | 33,811        | 2%                       |
| Foreign exchange gain (loss)               | 43,746       | 2%                       | 7,952         | —%                       |
| Net loss                                   | (\$845,999)  | (33%)                    | (\$1,727,070) | (91%)                    |
| Loss per share                             | (\$0.03)     |                          | (\$0.06)      |                          |
| Weighted average common shares outstanding | 33,113,474   |                          | 29,526,663    |                          |

1. Non-GAAP operating expense is equal to GAAP operating expense less stock-based compensation and amortization of intangible assets.

**Selected Consolidated Statements of Operations Data**
**Six Months Ended October 31,**

|  | 2010          |                          | 2009          |                          |
|--|---------------|--------------------------|---------------|--------------------------|
|  | (Unaudited)   |                          | (Unaudited)   |                          |
|  | Amount        | Percent of Total Revenue | Amount        | Percent of Total Revenue |
| Revenue                                    | \$ 4,787,248  | 100%                     | \$ 3,951,064  | 100%                     |
| Non-GAAP operating expenses <sup>1</sup>   | 6,417,778     | 134%                     | 5,705,612     | 144%                     |
| Stock-based compensation                   | 581,784       | 12%                      | 410,402       | 10%                      |
| Amortization of intangible assets          | 418,392       | 9%                       | 425,591       | 11%                      |
| GAAP operating expenses                    | 7,417,954     | 155%                     | 6,541,605     | 166%                     |
| Loss from operations                       | (2,630,706)   | 55%                      | (2,590,541)   | (66%)                    |
| Interest and other income, net             | 338,750       | 7%                       | 59,903        | 2%                       |
| Foreign exchange gain (loss)               | 15,700        | —%                       | (421,761)     | (11%)                    |
| Net loss                                   | (\$2,276,256) | 48%                      | (\$2,952,399) | (75%)                    |
| Loss per share                             | (\$0.07)      |                          | (\$0.10)      |                          |
| Weighted average common shares outstanding | 33,089,839    |                          | 29,247,497    |                          |

1. Non-GAAP operating expense is equal to GAAP operating expense less stock-based compensation and amortization of intangible assets.

| Selected Consolidated Balance Sheet Data | October 31, 2010<br>(Unaudited) |            | April 30, 2010 |
|--|---------------------------------|------------|----------------|
|  |                                 |            |                |
| Cash                                     | \$                              | 2,184,011  | \$ 1,556,813   |
| Current assets                           |                                 | 4,704,717  | 4,252,772      |
| Current liabilities                      |                                 | 3,116,347  | 3,095,139      |
| Total liabilities                        |                                 | 4,467,648  | 3,198,391      |
| Total assets                             | \$                              | 14,762,648 | \$ 14,939,117  |

### Revenue

|                          | Three Months Ended October 31, |                          |                     |                          |                         |                               |
|--------------------------|--------------------------------|--------------------------|---------------------|--------------------------|-------------------------|-------------------------------|
|                          | 2010<br>(Unaudited)            |                          | 2009<br>(Unaudited) |                          | Period-to-Period Change |                               |
|                          | Amount                         | Percent of Total Revenue | Amount              | Percent of Total Revenue | Amount                  | Percent Increase / (Decrease) |
| <b>Revenue by Type</b>   |                                |                          |                     |                          |                         |                               |
| Software                 | \$ 1,751,317                   | 68%                      | \$ 1,451,826        | 76%                      | \$ 299,491              | 21%                           |
| Service                  | 816,346                        | 32%                      | 448,781             | 24%                      | 367,565                 | 82%                           |
| Total revenue            | \$ 2,567,663                   | 100%                     | \$ 1,900,607        | 100%                     | \$ 667,056              | 35%                           |
| <b>Revenue by Region</b> |                                |                          |                     |                          |                         |                               |
| International            | \$ 991,209                     | 39%                      | \$ 753,473          | 40%                      | \$ 237,736              | 32%                           |
| North America            | 1,576,454                      | 61%                      | 1,147,134           | 60%                      | 429,320                 | 37%                           |
| Total revenue            | \$ 2,567,663                   | 100%                     | \$ 1,900,607        | 100%                     | \$ 667,056              | 35%                           |

For the three months ended October 31, 2010, we generated \$2,567,663 in revenue compared to \$1,900,607 for the three months ended October 31, 2009. This represents an increase of \$667,056 or 35% from the same period last year. Revenues of \$2,567,663 are net of a \$24,776 non-cash charge representing the fair value of 38,889 warrants that were charged against revenue during the quarter. In total, 1,000,000 warrants with a term of two years were issued to a customer as part of a contract entered into on July 30, 2010, enabling the customer to acquire shares of common stock for a period of up to two years at an exercise price of \$1.50 per share of common stock. The warrants were valued using methodology as outlined in note 6 to the consolidated unaudited financial statements. We generated \$1,751,317 in software revenue for the three months ended October 31, 2010 compared to \$1,451,826 for the three months ended October 31, 2009, representing an increase of \$299,491 or 21%. The increase in software revenue was primarily due to increases in sales of our products to original equipment manufacturers. For the three months ended October 31, 2010, service revenue was \$816,346 compared to \$448,781 for the three months ended October 31, 2009. The increase of \$367,565 in service revenue was primarily due to the increase in sales of professional engineering and customization work which typically grows as software sales grow. In addition, we provided professional engineering services worth approximately \$325,000 to one customer during the three months ended October 31, 2010. International revenue outside of North America increased by 32% during the three months ended October 31, 2010 compared to the three months ended October 31, 2009, due to an overall increase in sales in the period. North American revenue increased by 37%, compared to the three months ended October 31, 2009, due primarily to an increase in sales of software and services to North American original equipment manufacturers.

|                        | Six Months Ended October 31, |                          |                     |                          |                         |                               |
|------------------------|------------------------------|--------------------------|---------------------|--------------------------|-------------------------|-------------------------------|
|                        | 2010<br>(Unaudited)          |                          | 2009<br>(Unaudited) |                          | Period-to-Period Change |                               |
|                        | Amount                       | Percent of Total Revenue | Amount              | Percent of Total Revenue | Amount                  | Percent Increase / (Decrease) |
| <b>Revenue by Type</b> |                              |                          |                     |                          |                         |                               |
| Software               | \$ 3,570,469                 | 75%                      | \$ 2,593,169        | 66%                      | \$ 977,300              | 38%                           |
| Service                | 1,216,779                    | 25%                      | 1,357,895           | 34%                      | (141,116)               | (10%)                         |
| Total revenue          | \$ 4,787,248                 | 100%                     | \$ 3,951,064        | 100%                     | \$ 836,184              | 21%                           |

**Six Months Ended October 31,**

|                          | 2010<br>(Unaudited) |                                | 2009<br>(Unaudited) |                                | Period-to-Period Change |                                     |
|--------------------------|---------------------|--------------------------------|---------------------|--------------------------------|-------------------------|-------------------------------------|
|                          | Amount              | Percent<br>of Total<br>Revenue | Amount              | Percent<br>of Total<br>Revenue | Amount                  | Percent<br>Increase /<br>(Decrease) |
|                          |                     |                                |                     |                                |                         |                                     |
| <b>Revenue by Region</b> |                     |                                |                     |                                |                         |                                     |
| International            | \$ 1,833,198        | 38%                            | \$ 1,554,731        | 39%                            | \$ 278,467              | 18%                                 |
| North America            | 2,954,050           | 62%                            | 2,396,333           | 61%                            | 557,717                 | 23%                                 |
| Total revenue            | \$ 4,787,248        | 100%                           | \$ 3,951,064        | 100%                           | \$ 836,184              | 21%                                 |

For the six months ended October 31, 2010, we generated \$4,787,248 in revenue compared to \$3,951,064 for the six months ended October 31, 2009. This represents an increase of \$836,184 or 21% from the same period last year. Revenues of \$4,787,248 are net of a \$161,710 non-cash charge representing the fair value of 372,222 warrants that were charged against revenue during the six months ended October 31, 2010. In total, 1,000,000 warrants with a term of two years were issued to a customer as part of a contract entered into on July 30, 2010, enabling the customer to acquire shares of common stock for a period of up to two years at an exercise price of \$1.50 per share of common stock. The warrants were valued using the methodology as outlined in note 6 to the consolidated unaudited financial statements. We generated \$3,570,469 in software revenue for the six months ended October 31, 2010 compared to \$2,593,169 for the six months ended October 31, 2009, representing an increase of \$977,300 or 38%. The increase in software revenue was primarily due to increases in sales of our products to original equipment manufacturers. For the six months ended October 31, 2010, service revenue was \$1,216,779 compared to \$1,357,895 for the six months ended October 31, 2009. The decrease of \$141,116 in service revenue was primarily due to the disproportionately high amount of professional engineering and customization work incurred in the first quarter of fiscal 2009, relative to software sales. International revenue outside of North America increased by 18% during the six months ended October 31, 2010 compared to the six months ended October 31, 2009, due to an overall increase in sales in the period. North American revenue increased by 23%, compared to the six months ended October 31, 2009, due primarily to an increase in sales of software and services to North American original equipment manufacturers.

**Operating Expenses**

*Cost of Sales*

Cost of sales for the three and six months ended October 31, 2010 and 2009 were as follows:

|                    | October 31, 2010<br>(Unaudited) |                          | October 31, 2009<br>Restated – Note 14<br>(Unaudited) |                          | Period-to-Period Change |                                     |
|--------------------|---------------------------------|--------------------------|---|--------------------------|-------------------------|-------------------------------------|
|                    | Amount                          | Percent<br>of<br>Revenue | Amount  | Percent<br>of<br>Revenue | Amount                  | Percent<br>Increase /<br>(Decrease) |
|                    |                                 |                          |   |                          |                         |                                     |
| Three months ended | \$ 695,822                      | 27%                      | \$ 701,391  | 37%                      | (\$5,569)               | (1%)                                |
| Six months ended   | \$ 1,444,684                    | 30%                      | \$ 1,327,112  | 34%                      | \$ 117,572              | 9%                                  |

Cost of sales was \$695,822 for the three months ended October 31, 2010 compared to \$701,391 for the three months ended October 31, 2009. The decrease of \$5,569 was primarily attributable to a decrease in licences and permits of approximately \$92,000. This was offset by increases in wages and benefits of approximately \$72,000. Cost of sales for the three months ended October 31, 2010 includes \$209,920 (2009 – \$218,144) representing the non-cash amortization of the intangible assets as a result of the acquisitions of NewHeights Software in August 2007 and FirstHand Technologies in February 2008.

Cost of sales was \$1,444,684 for the six months ended October 31, 2010 compared to \$1,327,112 for the six months ended October 31, 2009. The increase of \$117,572 was primarily attributable to an increase in wages and benefits of approximately \$109,000 as new employees were hired during the period. Additionally, there was an increase in warranty expense of approximately \$44,000 as a result of the overall increase in revenue. Office rent increased by approximately \$10,000. This was offset by a decrease in license costs of approximately \$56,000 as fewer royalty bearing codecs and USB sticks were sold. Cost of sales for the six months ended October 31, 2010 includes \$418,392 (2009 – \$425,591) representing the non-cash amortization of the intangible assets as a result of the acquisitions of NewHeights Software in August 2007 and FirstHand Technologies in February 2008.

## Sales and Marketing

Sales and marketing expenses for the three and six months ended October 31, 2010 and 2009 were as follows:

|                    | October 31, 2010<br>(Unaudited) |                    | October 31, 2009<br>(Unaudited) |                    | Period-to-Period Change |                               |
|--------------------|---------------------------------|--------------------|---------------------------------|--------------------|-------------------------|-------------------------------|
|                    | Amount                          | Percent of Revenue | Amount                          | Percent of Revenue | Amount                  | Percent Increase / (Decrease) |
| Three months ended | \$ 900,264                      | 35%                | \$ 690,551                      | 36%                | \$ 209,713              | 30%                           |
| Six months ended   | \$ 1,765,947                    | 37%                | \$ 1,449,556                    | 37%                | \$ 316,391              | 22%                           |

Sales and marketing expenses were \$900,264 for the three months ended October 31, 2010 compared to \$690,551 for the three months ended October 31, 2009. The increase of \$209,713 was primarily a result of an increase of approximately \$165,000 in wages and benefits due to new employees hired. There was also an increase in professional and consulting fees of approximately \$21,000 resulting from a combination of new hires and consulting fee increases to the existing consultants. Other sales and marketing expenses, which include office related expenses, increased by approximately \$21,000.

Sales and marketing expenses were \$1,765,947 for the six months ended October 31, 2010 compared to \$1,449,556 for the six months ended October 31, 2009. The increase of \$316,391 was primarily a result of an increase of approximately \$217,000 in wages in benefits due to new employees hired. There was also an increase in professional and consulting fees of approximately \$44,000 resulting from a combination of new hires and consulting fee increases to the existing consultants. Sales and marketing related travel expenses increased by approximately \$44,000 during the period. There was also an increase in commissions of approximately \$14,000 as a result of higher sales for the period.

## Research and Development

Research and development expenses for the three and six months ended October 31, 2010 and 2009 were as follows:

|                    | October 31, 2010<br>(Unaudited) |                    | October 31, 2009<br>(Unaudited) |                    | Period-to-Period Change |                               |
|--------------------|---------------------------------|--------------------|---------------------------------|--------------------|-------------------------|-------------------------------|
|                    | Amount                          | Percent of Revenue | Amount                          | Percent of Revenue | Amount                  | Percent Increase / (Decrease) |
| Three months ended | \$ 1,096,115                    | 43%                | \$ 1,004,594                    | 53%                | \$ 91,521               | 9%                            |
| Six months ended   | \$ 2,159,762                    | 45%                | \$ 1,824,722                    | 46%                | \$ 335,040              | 18%                           |

Research and development expenses were \$1,096,115 for the three months ended October 31, 2010 compared to \$1,004,594 for the three months ended October 31, 2009. The increase of \$91,521 was primarily a result of an increase of approximately \$53,000 in wages and benefits as a result of new employee hires. There was also an increase of approximately \$32,000 in license costs related to research and development. Professional services also increased by approximately \$7,000 due to a combination of new hires and consulting fee increases to the existing consultants.

Research and development expenses were \$2,159,762 for the six months ended October 31, 2010 compared to \$1,824,722 for the six months ended October 31, 2009. The increase of \$335,040 was primarily a result of an increase of approximately \$146,000 in wages and benefits as new employees were hired during the period. Professional services also increased by approximately \$26,000 due to a combination of new hires and consulting fee increases to the existing consultants. There was also an increase of approximately \$36,000 in license costs and \$147,000 in dues and subscriptions.

## General and Administrative

General and administrative expenses for the three and six months ended October 31, 2010 and 2009 were as follows:

|                    | October 31, 2010<br>(Unaudited) |                    | October 31, 2009<br>(Unaudited) |                    | Period-to-Period Change |                               |
|--------------------|---------------------------------|--------------------|---------------------------------|--------------------|-------------------------|-------------------------------|
|                    | Amount                          | Percent of Revenue | Amount                          | Percent of Revenue | Amount                  | Percent Increase / (Decrease) |
| Three months ended | \$ 1,052,099                    | 41%                | \$ 1,272,904                    | 67%                | (\$220,805)             | (17%)                         |
| Six months ended   | \$ 2,047,561                    | 43%                | \$ 1,895,303                    | 48%                | \$ 152,258              | 8%                            |

General and administrative expenses were \$1,052,099 for the three months ended October 31, 2010 compared to \$1,272,904 for the three months ended October 31, 2009. The decrease of \$220,805 in general and administrative expenses was primarily a result of a decrease in bad debts by \$400,000. This decrease was partially offset by an increase of approximately \$121,000 in stock based compensation, \$26,000 in patent expenses, \$29,000 in investor relations expenses, and \$33,000 in other office related expenses.

General and administrative expenses were \$2,047,561 for the six months ended October 31, 2010 compared to \$1,895,303 for the six months ended October 31, 2009. The increase of \$152,258 in general and administrative expenses was primarily a result of an increase of approximately \$247,000 in stock based compensation and approximately \$113,000 in patent expenses. There was also an increase in investor relations expenses of approximately \$51,000. The above mentioned increases were partially offset by a decrease of approximately \$250,000 in bad debts.

## Restructuring Charges

Restructuring charges for the three and six months ended October 31, 2010 and 2009 were as follows:

|                    | October 31, 2010<br>(Unaudited) |                    | October 31, 2009<br>(Unaudited) |                    | Period-to-Period Change |                               |
|--------------------|---------------------------------|--------------------|---------------------------------|--------------------|-------------------------|-------------------------------|
|                    | Amount                          | Percent of Revenue | Amount                          | Percent of Revenue | Amount                  | Percent Increase / (Decrease) |
| Three months ended | \$ nil                          | n/a                | \$ nil                          | n/a                | \$ nil                  | n/a                           |
| Six months ended   | \$ nil                          | n/a                | \$ 44,912                       | 1%                 | (\$44,912)              | (100%)                        |

There were no restructuring charges for the three months ended October 31, 2010 (\$nil - 2009).

Restructuring charges for the six months ended October 31, 2010 were \$nil compared to \$44,912 for the six months ended October 31, 2009. The restructuring charges for the six months ended October 31, 2009 pertain to the employee restructuring activity as a result of the consolidation of administrative, sales, marketing, research and development departments after the close of acquisitions of NewHeights, FirstHand and BridgePort.

## Interest and Other Income

Interest income for the three months ended October 31, 2010 was \$42,079 compared to \$33,816 for the three months ended October 31, 2009. Interest expense for the three months ended October 31, 2010 was \$2,532 compared to \$5 for the three months ended October 31, 2009.

Interest income for the six months ended October 31, 2010 was \$94,788 compared to \$61,574 for the six months ended October 31, 2009. Interest expense for the six months ended October 31, 2010 was \$2,753 compared to \$1,671 for the six months ended October 31, 2009.

Foreign exchange gain for the three months ended October 31, 2010 was \$43,746 compared to a gain of \$7,952 for the three months ended October 31, 2009. The foreign exchange gain or loss represents the gain or loss on account of translation of the inter company accounts of our subsidiaries who maintain their records in currencies other than U.S. dollars as well as transactional losses and gains.

Foreign exchange gain for the six months ended October 31, 2010 was \$15,700 compared to a loss of \$421,761 for the six months ended October 31, 2009. The foreign exchange gain or loss represents the gain or loss on account of translation of the inter company accounts of our subsidiaries who maintain their records in currencies other than U.S. dollars as well as transactional losses and gains.

During the six months ended October 31, 2010 we recorded a gain on settlement of debt of \$246,715 as a result of the transfer of certain of our non-core intellectual property rights licensed from an institution in settlement of a \$246,715 liability for research fees performed by the institution.

### **Liquidity and Capital Resources**

As of October 31, 2010, we had \$2,184,011 in cash compared to \$1,556,813 at April 30, 2010, representing an increase of \$627,198. Our working capital was \$1,588,370 at October 31, 2010 compared to \$1,157,633 at April 30, 2010, representing an increase of \$430,737.

Presently, our cash flow generated from operations is not sufficient to meet our operating and capital expenses. We have incurred operating losses since inception, and we project this to continue for the next nine to twelve months. At October 31, 2010, we had cash of approximately \$2.18 million and working capital of approximately \$1.59 million; however, our management projects that under our current operating plan, we will require approximately \$12-13 million to fund our ongoing operating expenses and working capital requirements for the next twelve months. We anticipate that this will be funded through cash flow generated from operations, working capital, external financing and potential rationalization.

### ***Operating Activities***

Our operating activities resulted in a net cash outflow of \$842,166 for the six months ended October 31, 2010. This compares to a net cash outflow of \$1,488,420 for the same period last year and represents a decrease of \$646,254 in cash outflow from operations compared to the same period last year. The net cash outflow from operating activities for the six months ended October 31, 2010 was primarily a result of a net loss of \$2,276,256 and an \$80,623 decrease in accounts payable and accrued liabilities partially offset by a \$125,409 decrease in accounts receivable and a \$111,551 increase in unearned revenue. The net cash outflow was further offset by adjustments for non-cash expenses including \$581,784 for stock-based compensation, \$418,392 for amortization of intangible assets, \$161,710 for a warrants issued and \$69,311 for depreciation and amortization.

The net cash outflow from operating activities for the six months ended October 31, 2009 was primarily a result of a net loss of \$2,952,399, a \$492,291 decrease in other assets related to a forward contract settlement and a \$185,608 decrease in unearned revenue partially offset by a \$687,217 decrease in accounts receivable and an \$84,593 increase in accounts payable. Included in the accounts payable was a \$496,707 cash inflow related to a forward contract settlement. The net cash outflow was further offset by adjustments for non-cash expenses including \$421,761 for foreign exchange loss, \$410,402 for stock-based compensation, \$422,591 for amortization of intangible assets and \$154,209 for depreciation and amortization.

### ***Investing Activities***

Investing activities resulted in a net cash outflow of \$48,897 for the six months ended October 31, 2010 primarily as a result of purchases of equipment. This compares with a net cash outflow from investing activities of \$17,208 for the same period last year primarily as a result of equipment. At October 31, 2010, we did not have any material commitments for future capital expenditures.

## **Financing Activities**

Financing activities resulted in a net cash inflow of \$1,520,233 for the six months ended October 31, 2010 compared to a net cash inflow of \$1,865,104 for the six months ended October 31, 2009.

On July 30, 2010 and October 29, 2010, we issued two convertible debentures in the principal amount of \$483,300 and \$490,500, respectively. The debentures are convertible by the holder, at any time prior to maturity, in whole or in part into common shares of our Company at a conversion price of \$1.00 per share. On October 29, 2010, we issued a third convertible debenture in the principal amount of \$490,750. The debenture is convertible by the holder at any time prior to maturity, in whole or in part into common shares of our Company at a conversion price of \$1.37 per share.

We intend to seek additional funding through public or private financings to fund our operations through fiscal 2011 and beyond. However, if we are unable to raise additional capital when required or on acceptable terms, or achieve cash flow positive operations, we may have to significantly delay product development and scale back operations both of which may affect our ability to continue as a going concern. There is no assurance that we will be able to obtain financing on terms deemed acceptable to our company.

## **Off-Balance Sheet Arrangements**

We do not have, and do not have any present plans to implement, any off-balance sheet arrangements.

## **New Accounting Pronouncements**

In October 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-13, “Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force”, (“ASU 2009-13”). ASU 2009-13 addresses the accounting for multiple-deliverable arrangements and requires that the overall arrangement consideration be allocated to each deliverable in a revenue arrangement based on an estimated selling price when vendor specific objective evidence or third-party evidence of fair value is not available. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated to all deliverables using the relative selling price method. This will result in more revenue arrangements being separated into separate units of accounting. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. Companies can elect to apply this guidance (1) prospectively to new or materially modified arrangements after the effective date or (2) retrospectively for all periods presented. The Company is currently assessing the impact of adoption of ASU 2009-13 and does not currently plan to early adopt.

In October 2009, the FASB issued ASU No. 2009-14, “Certain Revenue Arrangements That Include Software Elements”, (“ASU 2009-14”). ASU 2009-14 changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing both software and non-software components that function together to deliver the product’s essential functionality will no longer be within the scope of ASC 985-605 “Software Revenue Recognition” (“ASC 985-605”). The entire product (including the software and non-software deliverables) will therefore be accounted for under accounting literature found in ASC 605. ASU 2009-14 is effective for fiscal years beginning on or after June 15, 2010. Companies can elect to apply this guidance (1) prospectively to new or materially modified arrangements after the effective date or (2) retrospectively for all periods presented. The Company is currently assessing the impact of adoption of ASU 2009-14 and does not currently plan to early adopt.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which is included in the ASC in Topic 820 (Fair Value Measurements and Disclosures). ASU 2010-06 requires new disclosures on the amount and reason for transfers in and out of Level 1 and 2 fair value measurements. ASU 2010-06 also requires disclosure of activities, including purchases, sales, issuances, and settlements within the Level 3 fair value measurements and clarifies existing disclosure requirements on levels of disaggregation and disclosures about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The Company is currently assessing the impact of adoption of ASU 2009-14 and does not currently plan to early adopt.

#### **Item 4T. Controls and Procedures.**

##### ***Disclosure Controls and Procedures***

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

In connection with this quarterly report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our company's Chief Executive Officer and Chief Financial Officer concluded that as of October 31, 2010, our disclosure controls and procedures were not effective as at the end of the period covered by this report.

On December 3, 2010, our company announced that following an internal review by our company and our auditors, our company would restate certain of its historical financial statements. Our conclusion to restate such financial statements resulted in the company recognizing that its disclosure controls and procedures, and, as a result, its internal control over financial reporting, were not effective as of the period ended July 31, 2009 and 2010 and constituted a material weakness.

To address this material weakness, we performed additional analyses and other procedures to ensure that our financial statements fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

To remediate the material weakness in our disclosure controls and procedures, and the resultant deficiency in our internal control over financial reporting, identified above, in addition to working with our independent auditors, we have continued to refine our internal procedures to alleviate this weakness and have added human resources with experience in generally accepted accounting principles (GAAP) and are committed to ongoing education in this area as well as a defined process to prepare such calculations.

##### ***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the quarter ended October 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Subsequent to the quarter ended October 31, 2010, in connection with restatement described above and the steps to remediate our disclosure controls and procedures, we made the following changes: (i) we added human resources with experience in generally accepted accounting principles and made a commitment for ongoing education in this area; and (ii) we implemented a defined process to prepare calculations. The changes are designed to, among other things, address the material weakness in our internal control over financial reporting.

## **PART II**

#### **Item 1. Legal Proceedings.**

None.

## Item 1A. Risk Factors.

Much of the information included in this quarterly report includes or is based upon estimates, projections or other “forward looking statements”. Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumption or other future performance suggested herein.

Such estimates, projections or other “forward looking statements” involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other “forward looking statements”.

### Risks Associated with our Business and Industry

*Lack of cash flow which may affect our ability to continue as a going concern.*

Since inception, our company has had negative cash flows from operations. Our business plan calls for continued research and development of our products and expansion of our market share. We will require additional financing to finance working capital and pay for operating expenses and capital requirements until we achieve a positive cash flow. However, there is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that:

- we incur delays and additional expenses as a result of technology failure;
- we are unable to create a substantial market for our products; or
- we incur any significant unanticipated expenses.

The occurrence of any of the aforementioned events could adversely affect our ability to meet our proposed business plans.

We depend on a mix of revenues and outside capital to pay for the continued development of our technology and the marketing of our products. Such outside capital may include the sale of additional stock and/or commercial borrowing. There can be no assurance that capital will continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to us. Disruptions in financial markets and challenging economic conditions have and may continue to affect our ability to raise capital. The issuance of additional equity securities by us would result in a dilution, possibly a significant dilution, in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, our business and future success may be adversely affected and, as indicated in the audit report included in our amended annual report on Form 10-K/A for the year ended April 30, 2010 filed with the SEC on December 3, 2010, raise substantial doubt on our ability to continue as a going concern. Our financial statements included in this Form 10-Q do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

*The current economic environment has adversely affected business spending patterns, which may have an adverse effect on our business.*

The disruptions in the financial markets and challenging economic conditions have adversely affected the United States and world economy, and in particular, reduced consumer spending and reduced spending by businesses. Turmoil in global credit markets and recent turmoil in the geopolitical environment in many parts of the world and other disruptions, such as changes in energy costs are and may continue to put pressure on global economic conditions. Our operating results in one or more segments may also be affected by uncertain or changing economic conditions particularly germane to that segment or to particular customer markets within that segment. The challenges we have seen in the United States have expanded overseas. If our customers delay or cancel spending on their IT infrastructure, that decision could result in reductions in sales of our products, longer sales cycles and increased price competition. There can be no assurances that government responses to the disruptions in the financial markets will restore spending to previous levels. If global economic and market conditions, or economic conditions in the United States or other key markets, remain uncertain or persist, spread, or deteriorate further, we may experience material impacts on our business, operating results, and financial condition.

*We are subject to the credit risk of our customers, which could have a material adverse effect on our financial condition, results of operations and liquidity.*

We are subject to the credit risk of our customers. Businesses that are good credit risks at the time of sale may become bad credit risks over time. In times of economic recession, the number of our customers who default on payments owed to us tends to increase. If we fail to adequately assess and monitor our credit risks, we could experience longer payment cycles, increased collection costs and higher bad debt expense. Additionally, to the degree that the ongoing turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

*A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.*

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been partially financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

*The majority of our directors and officers are located outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or some of our directors or officers.*

The majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, investors may be effectively prevented from pursuing remedies under United States federal securities laws against some of our directors or officers.

*We may in the future be subject to damaging and disruptive intellectual property litigation that could materially and adversely affect our business, results of operations and financial condition, as well as the continued viability of our company.*

We may be unaware of filed patent applications and issued patents that could relate to our products and services. Intellectual property litigation, if determined against us, could:

- result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;
- cause us to lose access to key distribution channels;

- result in substantial employee layoffs or risk the permanent loss of highly-valued employees;
- materially and adversely affect our brand in the market place and cause a substantial loss of goodwill;
- cause our stock price to decline significantly; and
- lead to the bankruptcy or liquidation of our company.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our services and could cause us to pay substantial royalties, licensing fees or damages. The defense of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims.

*We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.*

Our success and ability to compete depends to a significant degree on our proprietary technology incorporated in our software. If any of our competitors' copies or otherwise gains access to our proprietary technology or develops similar technologies independently, we would not be able to compete as effectively. We also consider our family of registered and unregistered trademarks including CounterPath, Bria, eyeBeam, X-Pro and X-Lite, invaluable to our ability to continue to develop and maintain the goodwill and recognition associated with our brand. The measures we take to protect the proprietary technology software, and other intellectual property rights, which presently are based upon a combination of patents, patents pending, copyright, trade secret and trademark laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights.

We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding any rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our website or other of our technologies.

*Our products may become obsolete and unmarketable if we are unable to respond adequately to rapidly changing technology and customer demands.*

Our industry is characterized by rapid changes in technology and customer demands. As a result, our products may quickly become obsolete and unmarketable. Our future success will depend on our ability to adapt to technological advances, anticipate customer demands, develop new products and enhance our current products on a timely and cost-effective basis. Further, our products must remain competitive with those of other companies with substantially greater resources. We may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, we may not be able to adapt new or enhanced services to emerging industry standards, and our new products may not be favorably received.

*Unless we can establish market acceptance of our current products, our potential revenues may be significantly reduced.*

We expect that a substantial portion of our future revenue will be derived from the sale of our software products. We expect that these product offerings and their extensions and derivatives will account for a majority of our revenue for the foreseeable future. Broad market acceptance of our software products is, therefore, critical to our future success and our ability to continue to generate revenues. Failure to achieve broad market acceptance of our software products as a result of competition, technological change, or otherwise, would significantly harm our business. Our future financial performance will depend primarily on the continued market acceptance of our current software product offerings and on the development, introduction and market acceptance of any future enhancements. There can be no assurance that we will be successful in marketing our current product offerings or any new product offerings, applications or enhancements, and any failure to do so would significantly harm our business.

*We face larger and better-financed competitors, which may affect our ability to operate our business and achieve profitability.*

Management is aware of similar products which compete directly with our products and some of the companies developing these similar products are larger and better-financed than us and may develop products superior to those of our company. Such competition will potentially affect our chances of achieving profitability and ultimately adversely affect our ability to continue as a going concern.

*Any prolonged activity in respect of the integration of the recently acquired businesses with our business could be time consuming and costly and adversely affect our financial results and stock price.*

We completed the acquisition of NewHeights Software Corporation, a private Canada corporation, FirstHand Technologies Inc., a private Ontario corporation, and BridgePort Networks, Inc., a private Delaware corporation. The integration of the business of each respective company with our business has been, and will continue to be, a time consuming and expensive process. Any prolonged activity in respect of the integration of the acquired businesses with our business could divert financial and other resources from our planned operations, which could negatively affect our results of operations, lower employee morale, and result in customers cancelling existing orders or choosing not to place new ones. In addition, the combined operations of our company and the acquired businesses may not achieve anticipated synergies or other benefits. If the anticipated benefits of the combined operations are not realized or do not meet the expectations of financial or industry analysts, the market price of our common stock may decline.

### **Risks Associated with our Common Stock**

*If we issue additional shares of common stock in the future this may result in dilution to our existing stockholders.*

We are authorized to issue 83,076,900 shares of common stock. Our board of directors has the authority to issue additional shares of common stock up to the authorized capital stated in the certificate of incorporation. Our board of directors may choose to issue some or all of such shares to acquire one or more businesses or to provide additional financing in the future. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we do issue any such additional shares, such issuance will cause a reduction in the proportionate ownership and voting power of all other stockholders. Further, any such issuance may result in a change of control of our corporation.

*Penny stock rules will limit the ability of our stockholders to sell their shares of common stock.*

The SEC has adopted regulations which generally define “penny stock” to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and “accredited investors”. The term “accredited investor” refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

*The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements, which may limit a stockholder's ability to buy and/or sell shares of our common stock.*

In addition to the "penny stock" rules described above, the FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for its shares.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On July 30, 2010, we issued warrants to a customer to purchase 1,000,000 shares of our common stock at an exercise price of \$1.50 per share, exercisable for a period of two years. The warrants were issued from the available option pool under the 2010 Stock Option Plan. On October 30, 2010, we amended the terms of the warrants such that 500,000 warrants vest on a change of control of our company and 500,000 warrants vest on a proportional basis to invoices delivered by our company and the warrants will be held in trust and delivered once payment has been received by our company. We issued the warrants to a non-U.S. person (as that term is defined in Regulation S of the Securities Act of 1933) in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

On December 14, 2010, we granted stock options to employees and to two non-employee directors to purchase an aggregate of 685,000 shares of our common stock at an exercise price of \$1.90 per share, exercisable for a period of five years pursuant to our 2010 Stock Option Plan. The options vest in the amount of 12.5% on the date which is six months from the date of grant and then beginning in the seventh month at 1/42 per month for 42 months, at which time the options are fully vested. We issued 195,000 of the stock options to U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933) in reliance upon Rule 506 of Regulation D and/or Section 4(2) of the Securities Act of 1933, as applicable. We issued 490,000 of the stock options to non-U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933) in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

## **Item 3. Defaults Upon Senior Securities.**

None.

## **Item 4. [Removed and Reserved]**

## **Item 5. Other Information.**

None.

**Item 6. Exhibits.**

**Exhibits required by Item 601 of Regulation S-B**

**(3) Articles of Incorporation and By-laws**

- 3.1 Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).
- 3.2 Bylaws (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).
- 3.3 Amended Bylaws (incorporated by reference from our Registration Statement on Form SB-2/A filed on September 3, 2003).
- 3.4 Articles of Merger (incorporated by reference from our Current Report on Form 8-K filed on September 15, 2005).
- 3.5 Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on April 28, 2006).
- 3.6 Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on April 22, 2008).

**(10) Material Contracts**

- 10.1 2004 Stock Option Plan effective May 18, 2004 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).
- 10.2 Form of Stock Option Agreement for 2004 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).
- 10.3 2005 Stock Option Plan effective March 4, 2005 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).
- 10.4 Form of Stock Option Agreement for 2005 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).
- 10.5 Form of Amended & Restated Stock Option and Subscription Agreement (Canadian) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005).
- 10.6 Form of Amended & Restated Stock Option and Subscription Agreement (US) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005).
- 10.7 Employment Agreement between CounterPath Solutions, Inc. and David Karp dated September 11, 2006 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2006).
- 10.8 Arrangement Agreement among CounterPath Solutions, Inc., 6789722 Canada Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. and NewHeights Software Corporation dated as of June 15, 2007 (incorporated by reference from our Current Report on Form 8-K filed on June 18, 2007).
- 10.9 Exchangeable Share Support Agreement between CounterPath Solutions, Inc. and 6789722 Canada Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).

- 10.10 Voting and Exchange Trust Agreement among CounterPath Solutions, Inc., 6789722 Canada Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. and Valiant Trust Company dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).
- 10.11 Piggyback Registrations Rights Agreement among our company and various shareholders, dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).
- 10.12 Form of Stock Option and Subscription Agreement dated August 2, 2007, between our company and each of the former optionees of NewHeights Software Corporation (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).
- 10.13 Amended Employment Agreement between Donovan Jones and CounterPath Solutions R&D Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. dated September 13, 2007 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2007).
- 10.14 Share Exchange Agreement dated January 28, 2008 among CounterPath Corporation, FirstHand Technologies Inc. and certain shareholders of FirstHand Technologies Inc. (incorporated by reference from our Current Report on Form 8-K filed on January 29, 2008).
- 10.15 Escrow Agreement dated February 1, 2008 among CounterPath Corporation, FirstHand Technologies Inc. and certain shareholders of FirstHand Technologies Inc. (incorporated by reference from our Current Report on Form 8-K filed on February 5, 2008).
- 10.16 Agreement of Merger and Plan of Reorganization dated February 1, 2008 among our company, CounterPath Acquisition Corp., BridgePort Networks, Inc. and certain shareholders of BridgePort Networks, Inc. (incorporated by reference from our Current Report on Form 8-K filed on February 5, 2008).
- 10.17 Form of Subscription Agreement dated July 31, 2008 between our company and various investors (incorporated by reference from our Quarterly Report on Form 10-Q filed on September 15, 2008).
- 10.18 Form of Subscription Agreement dated October 28, 2008 between our company and an investor (incorporated by reference from our Quarterly Report on Form 10-Q filed on December 15, 2008).
- 10.19 Settlement Agreement amongst Greg Pelling, CounterPath Corporation and CounterPath Technologies Inc. dated October 31, 2008 (incorporated by reference from our Quarterly Report on Form 10-Q filed on December 15, 2008).
- 10.20 2005 Amended and Restated Stock Option Plan effective January 10, 2006 (incorporated by reference from our Post-Effective Amendment No.1 to the Registration Statement on Form S-8 filed on January 30, 2009).
- 10.21 Employee Share Purchase Plan adopted October 1, 2008, and amended November 6, 2008 (incorporated by reference from our Registration Statement on Form S-8 filed on January 30, 2009).
- 10.22 Settlement Agreement amongst Mark Bruk, CounterPath Corporation, and CounterPath Technologies Inc. dated March 12, 2009 (incorporated by reference from our Quarterly Report on Form 10-Q filed on March 12, 2009).
- 10.23 Form of Debt Conversion Agreement dated July 17, 2009 between our company and The Trustees of Columbia University in the City of New York (incorporated by reference from our Annual Report on Form 10-K filed on July 28, 2009).

- 10.24 Deferred Share Unit Plan effective October 22, 2009 (incorporated by reference from our Definitive Proxy Statement on Schedule 14A filed on September 8, 2009).
- 10.25 Form of Subscription Agreement dated October 29, 2009 between our company and various investors (incorporated by reference from our Current Report on Form 8-K filed on November 4, 2009).
- 10.26 Form of Subscription Agreement dated July 30, 2010 between our company and various investors (incorporated by reference from our Current Report on Form 8-K filed on August 4, 2010).
- 10.27 2010 Stock Option Plan effective September 27, 2010 (incorporated by reference from our Definitive Proxy Statement filed on August 31, 2010).

**(14) Code of Ethics**

- 14.1 Code of Business Conduct and Ethics (incorporated by reference from our Annual Report on Form 10-KSB filed on July 29, 2004).
- 14.2 Code of Business Conduct and Ethics and Compliance Program (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 15, 2008).

**(21) Subsidiaries of CounterPath Corporation**

CounterPath Technologies Inc. (incorporated in the Province of British Columbia, Canada)  
6789722 Canada Inc. (incorporated in Canada)  
FirstHand Technologies Inc. (continued into the Province of British Columbia, Canada)  
BridgePort Networks, Inc. (incorporated in the state of Delaware)  
BridgePort Networks (Europe) Ltd. (incorporated in the United Kingdom)

**(31) Section 302 Certifications**

- [31.1 Section 302 Certification of Donovan Jones \(filed herewith\).](#)
- [31.2 Section 302 Certification of David Karp \(filed herewith\).](#)

**(32) Section 906 Certifications**

[Section 906 Certification of Donovan Jones \(filed herewith\).](#)  
[Section 906 Certification of David Karp \(filed herewith\).](#)

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### COUNTERPATH CORPORATION

By: /s/ Donovan Jones  
Donovan Jones  
President, Chief Executive Officer and Director  
Date: December 14, 2010

/s/ David Karp  
David Karp  
Chief Financial Officer, Treasurer and Secretary  
Date: December 14, 2010

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donovan Jones, certify that:

1. I have reviewed this Quarterly Report on Form 10Q for the three months ended October 31, 2010 of CounterPath Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the quarterly report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2010

/s/ Donovan Jones  
Donovan Jones  
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Karp, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three months ended October 31, 2010 of CounterPath Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the quarterly report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2010

/s/ David Karp

David Karp  
Chief Financial Officer, Treasurer and Secretary

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT  
TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Donovan Jones, Chief Executive Officer of CounterPath Corporation (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report of the Company on Form 10-Q for the three months ended October 31, 2010, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Donovan Jones

Donovan Jones  
President and Chief Executive Officer

December 14, 2010

I, David Karp, Chief Financial Officer of CounterPath Corporation (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report of the Company on Form 10-Q for the three months ended October 31, 2010, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Karp

David Karp  
Chief Financial Officer, Treasurer and Secretary

December 14, 2010