



SANGOMA TECHNOLOGIES CORPORATION

ANNUAL REPORT YEAR ENDED JUNE 30 2005

INDEX

i	MESSAGE TO SHAREHOLDERS
ii	MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
1	AUDITORS' REPORT
2	FINANCIAL STATEMENTS
6	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MESSAGE TO SHAREHOLDERS

We are pleased to report that the financial year 2004-2005 was one in we began to see returns on our hard work and investment of previous years. The results represent the best ever annual financial results for your company, with a 35% increase in sales revenue and 185% increase in net profit on a year over year basis.

As foreseen last year, OEM consumers of our data products began to implement rollouts of their projects as the general business climate for data communications recovered. These OEMs include large internet service providers, manufacturers of hardened routers, and manufacturers of security systems. Although revenues were significant in 2004-2005, many of these projects are in early stages, allowing for considerable growth in the future.

Your company began to supply significant volumes of products to the high-growth voice industry. These voice-related products are based on the Advanced, Flexible Communications (AFT) series of cards built on programmable hardware technology. Sangoma's AFT cards are growing in popularity and acceptance for use in telephony gateways for PC-based Private Branch Exchange (PBX) Voice over IP (VoIP) and Interactive Voice Response (IVR) technologies. The industry acceptance has been enhanced by our long standing reputation for quality and customer support. This success has prompted us to engineer new products that increase the breadth of our telephony offerings, all based on the same technology.

With a growing customer base, growing product line and new partnerships, Sangoma is well positioned to aggressively pursue new markets and opportunities in the coming months, as well as increasing our share of existing markets.

Sangoma's most important asset is our group of talented and committed employees who deserve to be acknowledged for their hard work and enthusiasm. We would also like to take this opportunity to thank our shareholders for their continued interest and support.

David Mandelstam
President and CEO

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

October 24, 2005

INTRODUCTION

The management's discussion and analysis ("MD&A") provides a detailed analysis of the financial condition and results of operations of Sangoma Technologies Corporation (hereinafter referred to as "Sangoma" or the "Corporation") and compares the financial year ended June 30, 2005 financial results with those of previous years. The MD&A should be read in conjunction with Sangoma's consolidated financial statements and related notes for the year ended June 30, 2005, which have been prepared in accordance with generally accepted accounting principles in Canada (the "Financial Statements").

Additional information about Sangoma is available at www.sedar.com.

FORWARD-LOOKING STATEMENTS

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

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

Although Sangoma believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Forward-looking statements are based on the opinions and estimates of management at the date that the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in forward-looking statements. Sangoma undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

DESCRIPTION OF THE BUSINESS

Sangoma manufactures hardware and software to allow computers with PCI interface slots (mainly PC servers) to communicate with high speed Wide Area networks (WANs) and telephony networks. These products consist of hardware cards, drivers and utilities. Sangoma's WAN products include WANPIPE[®] internal routing and telephony solutions for Linux, FreeBSD, Windows and other operating systems, which allow traditional WAN routing functions to be handled without the cost and complexity of an external router, as well as providing voice access to standard telephone systems. Sangoma is investing in the development and certification of a new range of products designed specifically to provide traditional telephone access for PC based Private Branch Exchange (PBX), Integrated Voice Response (IVR) and Voice over IP (VoIP) systems.

Sangoma also provides communication toolkits that allow third parties to build WAN access into their own products. Most Sangoma products are based on Sangoma's range of communication adapters that support standard telephony interfaces such as T3, E3, T1, E1, ADSL, serial and 56kbps DDS, or industry standard serial interfaces such as RS232, V.35 and X.21. Sangoma also provides PCI cards to support specialized non-standard interfaces, notably interfaces to legacy cash register systems.

Sangoma's products are in use worldwide in many industry segments such as telecommunications, Internet services, government and military, banking, retail, entertainment, medical and manufacturing. Most installations are in PC servers running the Linux operating system, although some of Sangoma's larger opportunities use Windows or FreeBSD.

While the large growth opportunity is in the routing of voice, video or IP data over WAN interfaces using Sangoma's WANPIPE[®] suite, much of Sangoma's business is related to the support of older legacy protocols.

Sangoma is developing products to enhance voice transport and control to serve emerging market segments such as PC-based PBX, VoIP and IVR technology. This initiative includes support of the inter-switch telephony market by the development of the SS7 protocol. Sangoma's existing voice related products have been well received, and the development of new products has been driven by customer demand.

Sangoma is also moving into higher speed data communications for voice, data and video, including products supporting multi-megabit per second T3 and E3 for larger telephony and data connections.

OVERALL PERFORMANCE

Sales for the financial year ended June 30, 2005 were \$3.44 million as compared with \$2.55 million for the financial year ended June 30, 2004, an increase of 35%. Expenses for the financial year ended June 30, 2005 were held to virtually the same dollar value as for the previous financial year, and gross margins were identical, leading to significant increases in net earnings as compared to the 2003-2004 financial year. Net income was \$0.66 million (\$0.0245 per share) compared to net income of \$0.23 million (\$0.009 per share) in the year ended June 30, 2004, an increase of 185%.

The slump in the telecom industry as a whole bottomed out in 2004-2005. Sangoma's sales began to improve in the fourth quarter ended June 30, 2004. The first quarter of the 2004-2005 financial year produced a modest quarter over quarter increase in sales but it was in the subsequent quarters that sales increased markedly. For the last three quarters of the financial year ended June 30, 2005, the Corporation experienced an average quarter over quarter growth rate of 31%.

Sangoma's traditional data business grew as Original Equipment Manufacturers (OEMs) that had designed Sangoma's cards into their own products and systems began substantial rollouts. In addition, Sangoma's new cost effective, intelligent Advanced, Flexible Communications (AFT) cards began to find application in the software-based telephony market, one with substantial growth potential. Sangoma is able to capitalize on its long standing reputation for high quality hardware to be able to successfully compete in this new market. Sangoma's new voice products provide an entry into the burgeoning market for VoIP gateway equipment which is expected to grow from approximately \$1.71 billion (US) globally in 2004 to approximately \$5.9 billion in 2008, according to Infonetics Research.

Sangoma diverted a portion of its development resources to the voice market in response to the positive customer response to the existing products. Because the Corporation had designed the AFT range of cards around Field Programmable Array (FPGA) technology, it was able to easily modify the AFT hardware to provide superior performance in soft telephony systems. The knowledge the Corporation acquired in working with voice technology allowed it to develop innovative routines for manipulating telephony streams. A patent has been applied for the EDAC technique that Sangoma developed to optimize the use of expensive echo cancellation in telephony systems. Work continues on new products specifically designed for the voice market, and for which there appears to be substantial demand.

Sangoma was represented at and gave presentations to several trade shows during the year, both in North America and Europe. These trade show events have been cost effective in recruiting new customers.

During the year, new distributors were set up in Eastern Europe and Turkey, both of which are performing well.

Sangoma's non-US foreign sales appear to be an attractive area of growth, with the percentage of sales to non-North American markets showing steady growth. Sangoma has therefore increased the emphasis on offshore sales both from a product development and sales/marketing perspective.

In 2004-2005, Sangoma began new programs of print advertising on a limited basis. While print has not been considered cost effective in past years, the Corporation believes that the new markets and product lines are more suited to this medium, particularly when the advertisements are based on cooperative partnerships with suppliers and/or resellers.

SELECTED ANNUAL INFORMATION

	Fiscal year ended June 30		
	2005	2004	2003
	(\$000's, except per share amounts)		
Operating Results			
Net sales	\$3,438	\$2,551	\$3,042
Net earnings (loss)	\$662	\$232	\$872
Net earnings (loss) per share:			
- non-diluted basis	\$0.02	\$0.01	\$0.03
- fully diluted basis	\$0.02	\$0.01	\$0.03
Financial Position			
Total assets	\$8,934	\$8,673	\$8,712
Long term debt	nil	nil	nil
Shareholders' Equity	\$8,619	\$8,241	\$8,299
Cash dividends declared per share	0.011	0.011	0.010

RESULTS OF OPERATIONS

Sales

Sales for the year were derived almost entirely from the sale of WAN and telephony adapter cards. Sales for the year ended June 30, 2005 were \$3.44 million as compared with \$2.55 million for the financial year ended June 30, 2004, an increase of 35%. The rise in sales occurred despite the approximately 7% increase in the value of the Canadian Dollar relative to the US Dollar, Sangoma's working currency, over the 2004-2005 financial year. The increase in sales revenue was due to the rollout of projects that had been the results of design wins in previous years, as well as the opening up of the new telephony market. In October 2004, the Corporation announced that the Sangoma AFT series cards had been selected by a large Asian telecommunications provider to support its network roll-out. This rollout was responsible for a significant fraction of the increase in sales in the last half of the year ended June 30, 2005. This project is still ongoing, and has been expanded by the customer.

The largest increase in sales occurred in non-North American sales which increased from \$0.72 million in the year ended June 30, 2004, to \$1.94 million in the year ended June 30, 2005, an increase of 171%. It is company policy that all substantial non-North American sales are paid for before shipment, are covered by a letter of credit or are covered by receivables insurance.

In contrast, sales in the United States decreased from \$1.75 million in the year ended June 30, 2004 to \$1.30 million in the year ended June 30, 2005, a decrease of 26%, while Canadian sales increased by 80% from \$0.08 million to \$0.15 million during the same period. The reduction in sales to the United States occurred during the first two quarters of the year ended June 30, 2005, with sales recovering during the last two quarters.

Sangoma is expected to continue to experience growth in the coming quarters, particularly as newly developed products reach the market.

Cost of Sales and Gross Profit

The cost of sales for the year ended June 30, 2005 was \$0.92 million (27% of sales, gross profit margin of 73%), the same gross margin percentage as for the year ended June 30, 2004. Because gross margins did not change, the gross profit for the year ended June 30, 2005 increased by the same percentage as sales i.e., 35% relative to the gross profit the previous year (\$2.52 million as compared to \$1.86 million).

As sales grow Sangoma expects the gross margin percentage to fall somewhat, particularly if it is successful in attracting new OEM customers.

Administration Expenses

General and administration expenses were \$0.73 million for the year ended June 30, 2005 as compared with \$0.58 million for the year ended June 30, 2004, an increase of 25%. Significant increases occurred in the areas of management bonus as profits increased, professional fees because of legal work required to register a patent, foreign exchange loss due to the continued rise of the Canadian Dollar and a non-cash entry reflecting the issue of stock options to employees.

Administration expenses can be expected to increase in the future as staffing levels grow and activities increase. There will be offsetting savings in the order of 5% of administration expenses because of a reduction in bank charges and interest due to the repayment of a loan from shareholders, and a reduction in rent and occupancy and shareholder information costs due to changes in their respective agreements.

Selling and Marketing Expenses

Selling and marketing expenses were approximately the same at \$0.44 million for the year ended June 30, 2005 as compared with \$0.46 million for the year ended June 30, 2004.

Sangoma continually monitors its marketing return on investment. The Corporation believes that its current product set is well suited to the marketing strategy adopted during the latter part of this year. The mix includes electronic media, selected print advertising, support for open source development initiatives, participation in trade shows and public relations activity.

Sangoma can expect marketing costs to increase significantly in the coming year due to increases in sales commissions and general marketing activity as sales continue to grow.

Development Costs

Continuous product development is crucial to maintaining Sangoma's competitive position in the fast-moving data communications market. The Corporation's expenditure on research and development is therefore relatively high for a company of this size.

All development costs are amortized on a straight-line basis over three years (See Note 1(f) to the Financial Statements). Actual cash expenditure on development was \$0.73 million in the year ended June 30, 2005, as compared to \$0.70 million for the year ended June 30, 2004. The small increase is due to an increase in salaries plus additional expenditure on equipment. Sangoma has a stable research and development environment with no staff turnover in the past several years.

Sangoma is entitled to total investment tax credits of \$0.31 million in the year ended June 30, 2005 (\$0.29 million in the year ended June 30, 2004), and these credits reduce the net deferred development costs to \$0.42 million (\$0.41 million in the year ended June 30, 2004).

The development costs amortized during the year ended June 30, 2005 were \$0.36 million (\$0.42 million in the year ended June 30, 2004).

Development expenditure is expected to remain at these levels or increase in the future as staffing levels increase.

Total Expenses

Total expenses were \$1.56 million in the year ended June 30, 2005 as compared to \$1.50 million in the year ended June 30, 2004, an increase of 4%.

Net Income

Because revenues increased markedly without significant increase in total expenses, the increase in net income in 2004-2005 as compared to 2003-2004 was substantial. Income before income taxes was \$0.96 million (\$0.035 per share) for the year ended June 30, 2005, as compared to

income before income taxes for the prior year in the amount of \$0.37 million (\$0.014 per share), an increase of 162 %. After taking into account current and future income taxes, the net income was \$0.66 million (\$0.025 per share) the year ended June 30, 2005 as compared to net income after tax of \$0.23 million (\$0.009 per share) for the year ended June 30, 2004, a increase of 185%.

Cash flow from operations before non-cash working capital balances was \$1.13 million in 2004-2005 as compared to \$0.71 million in the previous year, an increase of 58%. The cash was mostly absorbed in increased inventory and accounts receivables due to the increased level of business, the payback of a loan from shareholders in the sum of \$200,000 and the payment of dividends.

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of selected unaudited quarterly consolidated financial information of the Corporation for each of the eight most recently completed quarters ended June 30, 2005 (\$000's except per share data):

2005	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	\$450	\$897	\$1070	\$1,021	\$3,438
Net earnings (loss)	\$23	\$211	\$288	\$140	\$662
Net earnings (loss) per share:					
- non-diluted basis	\$0.001	\$0.008	\$0.011	\$0.005	\$0.0245
- fully diluted basis	\$0.001	\$0.008	\$0.011	\$0.005	\$0.0245
2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	\$703	\$943	\$508	\$397	\$2,551
Net earnings (loss)	\$103	\$212	(\$19)	(\$62)	\$232
Net earnings (loss) per share:					
- non-diluted basis	\$0.004	\$0.008	(\$0.0007)	(\$0.0023)	\$0.01
- fully diluted basis	\$0.004	\$0.008	(\$0.0007)	(\$0.0023)	\$0.01

The sales on a quarterly basis show strong growth during the year ended June 30, 2005, the Corporation having experienced an average quarter over quarter growth rate of 31% between Q1 and Q4 2004-2005. It was only after the end of the second quarter that the development of voice-related products began to generate significant sales volume. Revenues in each quarter increased at a faster rate than sales as a result of a constant gross margin percentage and virtually constant expenses.

LIQUIDITY

The Corporation completed the financial year ended June 30, 2005 with current assets of \$2.11million and current liabilities of \$0.31 million, resulting in working capital of \$1.79 million, compared to \$1.37 million in the prior year, an increase of 30%. The increase was largely due to a

reduction in current liabilities due to the repayment of a loan from shareholders, and an increase in receivables. The increase in receivables is a natural effect of the increase in sales and does not reflect any change in collection policy or risk of default by trade debtors.

The Corporation continues to be profitable with positive cash flow. Sangoma has neither long term debt nor significant capital leases. There are no existing or anticipated defaults or arrears on dividend payments, lease payments, or interest. Management of the Corporation believes that the current working capital and funds generated from operations will be sufficient to meet the operating and planned capital expenditures of the Corporation for the foreseeable future.

CAPITAL RESOURCES

There are no planned commitments for unusual capital expenditures at this time, nor are there any sources of financing that have been arranged but not yet used.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

There was balance due to shareholders consisting of two promissory notes in the amount of \$100,000 each that were repaid in June 2005. A management bonus is payable to two individuals who are senior officers and shareholders of the Corporation and is payable under their employment contracts which entitle them to a bonus in the amount of 5% each (10% in total) of pretax profits of the Corporation. The employment contracts expired on May 1 2005.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

Short-term financial instruments

Cash and cash equivalents, other receivables, accounts payable and accrued liabilities are short-term financial instruments whose fair value approximates their carrying amount on the balance sheet due to their near-term maturities.

FOURTH QUARTER

Sales were \$1.02 million for the quarter ended June 30, 2005, as compared to \$0.40 million for the quarter ended June 30, 2004, an increase of 157%. The gross margin was 72% during the quarter as compared to 79% for the quarter ended June 30, 2004, resulting in gross profit of \$0.73 million for the quarter ended June 30, 2005 as compared to gross profit of \$0.32 million for the quarter ended June 30, 2004.

The income before provision for income taxes for the quarter ended June 30, 2005 was \$0.18 million as compared to a loss before provision for income taxes of \$0.07 million for the quarter ended June 30, 2004. The net income for the quarter ended June 30, 2005 was \$0.14 million as compared to a net loss of \$0.06 million for the quarter ended June 30, 2004.

Cash flow was negative during the quarter ended June 30, 2005, cash decreasing by \$0.27 million. This was largely due to the repayment of an outstanding loan due to shareholders in the amount of \$200,000, and increases in accounts receivable. During the period stock was purchased for cancellation in the amount of \$7,800.

EVENTS SUBSEQUENT TO JUNE 30, 2005

In August 2005, it was announced that Sangoma's hardware had been selected by Pandora Networks as an integral part of on demand IP communications solution, including VoIP, Virtual PBX, and IP messaging. Also in August, Sangoma's then CTO Gideon Hack relocated to Israel, where he continues to provide services to Sangoma.

In September 2005, it was announced that Sangoma Technologies had registered a patent application for an echo detection and control system.

OUTSTANDING SHARE DATA

As at October 15, 2005, the Corporation has 27,075,000 currently issued and outstanding common shares and options to purchase 1,570,000 common shares.

DISCLOSURE CONTROLS AND PROCEDURES

With the advice of its advisors, the Corporation has maintained an informal policy relating to the determination and dissemination of material information and the circumstances under which confidentiality of information is to be maintained. The Board of Directors of the Corporation is in the process of adopting a formal Corporate Disclosure Policy relating to such disclosure controls and procedures. This policy will extend to the conduct of directors, officers, spokespersons and other employees and agents of the Corporation, and all methods that the Corporation uses to communicate to the public.

Management has evaluated the effectiveness of Sangoma's disclosure controls and procedures, and believes that they have been effective as of the end of fiscal 2005. The Corporation believes that it was in compliance with its informal disclosure policy during fiscal 2005 and that the disclosure of all material information occurred in a timely manner.

All relevant information related to the Corporation is filed electronically at www.sedar.com.

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

AUDITORS' REPORT

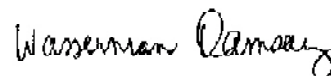
To the Shareholders of
Sangoma Technologies Corporation:

We have audited the consolidated balance sheets of Sangoma Technologies Corporation as at June 30, 2005 and 2004 and the consolidated statements of income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2005 and 2004 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
August 25, 2005



Chartered Accountants

SANGOMA TECHNOLOGIES CORPORATION

(Continued under the Ontario Business Corporation Act)

CONSOLIDATED BALANCE SHEETS - YEARS ENDED JUNE 30, 2005 AND 2004

	ASSETS	
	2005	2004
Current		
Cash and equivalents	\$ 983,953	\$ 936,146
Accounts receivable	479,896	268,196
Income taxes recoverable	76,730	103,000
Inventory (Note 3)	506,782	465,548
Prepaid and deposits	59,432	33,123
	<u>2,106,793</u>	<u>1,806,013</u>
Future income taxes (Note 9)	<u>739,737</u>	<u>804,073</u>
Property, plant and equipment (Note 4)	<u>85,504</u>	<u>115,711</u>
Development costs	<u>459,260</u>	<u>404,749</u>
Goodwill, net	<u>5,542,849</u>	<u>5,542,849</u>
	<u>\$ 8,934,143</u>	<u>\$ 8,673,395</u>
	LIABILITIES	
Current		
Accounts payable and accrued liabilities	\$ 218,974	\$ 195,531
Due to shareholders (Note 5)	-	200,000
Management bonus payable (Note 5)	95,862	36,582
	<u>314,836</u>	<u>432,113</u>
	SHAREHOLDERS' EQUITY	
Stated capital (Note 6)	12,903,073	12,910,873
Contributed surplus	82,644	-
Deficit	<u>(4,366,410)</u>	<u>(4,669,591)</u>
	<u>8,619,307</u>	<u>8,241,282</u>
	<u>\$ 8,934,143</u>	<u>\$ 8,673,395</u>

Approved on behalf of the Board:

(signed) "David Mandelstam"
David Mandelstam, Director

(signed) "David Macdonald"
David Macdonald, Director

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

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Sales	\$ 3,438,132	\$ 2,551,729
Cost of sales	<u>916,612</u>	<u>689,008</u>
Gross profit	<u>2,521,520</u>	<u>1,862,721</u>
Expenses:		
General and administration expenses <i>(Page 5)</i>	725,687	582,103
Selling and marketing expenses <i>(Page 5)</i>	441,771	463,179
Amortization - development costs	365,240	415,867
Amortization - property, plant and equipment	<u>30,207</u>	<u>35,747</u>
	<u>1,562,905</u>	<u>1,496,896</u>
Income before provision for income tax	958,615	365,825
Future income taxes	<u>296,635</u>	<u>133,251</u>
Net income for the year	<u>\$ 661,980</u>	<u>\$ 232,574</u>
Basic and diluted income per share	<u>\$ 0.02</u>	<u>\$ 0.01</u>
Weighted average number of shares outstanding - basic	<u>27,103,599</u>	<u>27,084,123</u>
Weighted average number of shares outstanding - diluted	<u>27,170,038</u>	<u>27,084,123</u>

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

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED STATEMENTS OF DEFICIT

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Deficit, beginning of year	\$ (4,669,591)	\$ (4,604,340)
Stock based compensation <i>(Note 12)</i>	<u>(60,644)</u>	<u>-</u>
Opening balance restated	(4,730,235)	(4,604,340)
Net income for the year	661,980	232,574
Dividend paid	<u>(298,155)</u>	<u>(297,825)</u>
Deficit, end of year	<u>\$ (4,366,410)</u>	<u>\$ (4,669,591)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash provided by (used in) the following activities:		
Operations:		
Net income for the year	\$ 661,980	\$ 232,574
Add items not requiring an outlay of cash		
Amortization	395,447	451,614
Future income taxes related to operations	46,500	28,000
Stock based compensation	<u>22,000</u>	<u>-</u>
	1,125,927	712,188
Net change in non-cash working capital balances related to operations <i>(Note 13)</i>	<u>(196,520)</u>	<u>(27,785)</u>
Cash flow from operations	<u>929,407</u>	<u>684,403</u>
Financing:		
Issuance of capital stock	-	7,500
Shares purchased for cancellation	(7,800)	-
Obligations under capital lease	-	(10,763)
Repayment to shareholders	(200,000)	-
Dividend paid	<u>(298,155)</u>	<u>(297,825)</u>
	<u>(505,955)</u>	<u>(301,088)</u>
Investing:		
Deferred development costs before investment tax credits	(728,361)	(697,128)
Investment tax credits	308,610	290,000
Purchase of property, plant and equipment	-	(16,625)
Future income taxes related to investments	17,836	(82,073)
Net change in non-cash working capital related to investments <i>(Note 13)</i>	<u>26,270</u>	<u>(4,000)</u>
	<u>(375,645)</u>	<u>(509,826)</u>
Increase (decrease) in cash and cash equivalents during the year	47,807	(126,511)
Cash and equivalents, beginning of year	<u>936,146</u>	<u>1,062,657</u>
Cash and equivalents, end of year	<u>\$ 983,953</u>	<u>\$ 936,146</u>

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

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED SCHEDULE OF EXPENSES

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Administration expenses:		
Bad debts (recovery)	\$ 6,762	\$ (1,427)
Bank charges and interest <i>(Note 5)</i>	40,948	31,103
Employee benefits	83,014	76,275
Foreign exchange loss (income)	16,192	(5,639)
Insurance	61,998	61,736
Interest on long term debt	-	232
Management fees and salaries	122,232	122,552
Management bonus <i>(Note 5)</i>	95,862	36,582
Office and general	10,416	12,579
Office salaries	69,815	68,536
Professional fees	70,362	52,859
Rent and occupancy	91,589	90,522
Shareholder information	38,875	36,171
Stock based compensation <i>(Note 12)</i>	22,000	-
Telephone and Internet	<u>15,360</u>	<u>25,544</u>
	745,425	607,625
Investment income	<u>(19,738)</u>	<u>(25,522)</u>
	<u>\$ 725,687</u>	<u>\$ 582,103</u>

Selling and marketing expenses:

Advertising and promotion	\$ 146,948	\$ 180,943
Sales salaries and commissions	192,895	191,271
Travel, entertainment and trade shows	<u>101,928</u>	<u>90,965</u>
	<u>\$ 441,771</u>	<u>\$ 463,179</u>

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

SANGOMA TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

1. Description of operations:

Sangoma Technologies Corporation (the "Company") is a publicly held corporation continued under the Ontario Business Corporations Act. Sangoma Technologies Inc. (the operating company) was incorporated on March 12, 1984 and became public via a reverse takeover of a public company on May 1, 2000. The Company is engaged in the manufacturing, distribution and support of PCI cards for the telephony and wide area network industry.

2. Summary of significant accounting policies:

The financial statements of Sangoma Technologies Corporation [the "Company"] have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Basis of presentation

These consolidated financial statements, for the years ended June 30, 2005 and 2004, include the accounts of the Company's wholly-owned subsidiary, Sangoma Technologies Inc.

(b) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Amortization is provided using the declining balance method at the rate of 20% per annum.

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset.

(c) Foreign currency:

Current monetary assets and current monetary liabilities in foreign funds have been translated to Canadian funds at the rate of exchange applicable at the balance sheet date. Revenues and expenses in foreign funds have been translated to Canadian funds using the actual weekly average rate of exchange during the year.

(d) Revenue Recognition:

The Company recognizes revenue from the sale of computer adapter cards and associated software when the risks and benefits of ownership are transferred to the customer, which is upon shipment or customer pick-up. No right of return or exchange privileges are granted, and accordingly, no provision for sales allowances or returns is recorded.

(e) Inventory:

Inventory is valued at the lower of cost or net realizable value.

(f) Research and development:

Research costs are expensed in the period in which they are incurred. Development costs which meet generally accepted criteria, including reasonable assurance regarding future benefits, are deferred and amortized over three years on a straight line basis. Costs are reduced by government grants and investment tax credits, where applicable.

(g) Leases:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are recorded as assets and are depreciated on the declining balance method using rates based on the estimated life of the asset. The related capitalized lease obligation is classified as long-term debt. All other leases are accounted for as operating leases and the related lease payments are charged to rental expense as incurred.

SANGOMA TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

2. Summary of significant accounting policies (continued):

(h) Goodwill:

The Company has adopted the provisions of accounting for goodwill as outlined in Section 3062 of the Handbook of the Canadian Institute of Chartered Accountants (the "Handbook"). Under this method goodwill is not amortized and will be assessed for impairment on an annual basis in accordance with the standards, including a transitional impairment test, which is charged to retained earnings. Management had recorded a transitional impairment charge in the amount of \$4.05 million, charged to opening retained earnings in a prior year, as required by the transitional provisions of the Handbook section.

(i) Stock-based compensation plan:

The Company has a stock-based compensation plan that is described in Note 6. The CICA Handbook, Section 3870, establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments for goods and or services. The Section requires that awards of stock be measured at fair value. The Section permitted entities to provide pro-forma disclosure for options granted to employees, and officers and directors for periods beginning prior to January 31, 2004. The Company had chosen to avail itself of this option and to only disclose pro-forma information for options granted to employees, and officers and directors. Effective July 1, 2004, the Company no longer had the option of disclosing pro-forma information for employee, officers and directors options, that is, all awards must be recorded in the financial statements at fair value. (see Note 12)

(j) Income taxes:

The Company uses the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants. Under this method, current income taxes are recognized for the estimated taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to a future year for tax purposes that are likely to be realized.

(k) Earnings per share:

The Company has adopted the recommendations of the CICA Handbook section 3500, Earning per Share ("EPS"). The revised section requires the presentation of both basic and diluted EPS on the face of the income statement regardless of the materiality of the difference between them. In addition, the new recommendations require the use of the treasury stock method to compute the dilutive effects of options, warrants and similar instruments as opposed to the previous method used which was the imputed earnings approach. The section also requires the disclosure of a reconciliation of the difference, if any, between basic and diluted EPS.

(l) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

(m) Financial instruments:

The Company's financial instruments recognized in the balance sheet consists of accounts receivable, accounts payable and accrued liabilities, income taxes recoverable, due to shareholders and management bonus payable. The fair value of these financial instruments approximate their carrying value due to the short maturity or current market rate associated with these instruments.

Concentration of credit risk in accounts receivable is limited, due to the large number of customers the Company services. The Company performs ongoing credit evaluations of its customers, but does not require collateral to support customer accounts receivable. The Company establishes an allowance for doubtful accounts based on the credit risk applicable to particular customers, historical and other information.

A large percentage of the Company's transactions occur in foreign currencies (mainly U.S. dollars) and therefore the Company is exposed to risk from currency fluctuations.

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

SANGOMA TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

3. Inventory:

Inventory at year end consists of the following:	<u>2005</u>	<u>2004</u>
Finished goods	\$ 149,127	\$ 274,611
Parts	<u>357,655</u>	<u>190,937</u>
	<u>\$ 506,782</u>	<u>\$ 465,548</u>

4. Property, plant and equipment:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2005 Net</u>	<u>2004 Net</u>
Office furniture, fixtures and equipment	<u>\$ 395,583</u>	<u>\$ 310,079</u>	<u>\$ 85,504</u>	<u>\$ 115,711</u>

5. Related party balances and transactions:

During the current year the Company paid the balance due to shareholders which consisted of two promissory notes in the amount of \$100,000 each. The promissory notes incurred interest at 9% per annum. The promissory notes were secured by a first charge over all assets owned by the Company. A total of \$18,000 (2004- \$18,000) in interest on these promissory notes is included under bank charges and interest. Included in accounts payable and accrued liabilities is \$nil (2004- \$4,488) in unpaid interest relating to this debt.

The management bonus payable is payable to two individuals who are senior officers and shareholders of the Company and is payable under their employment contracts which entitle them to a bonus in the amount of 5% each (10% in total) of pretax profits of the Company. The employment contracts with these individuals expired in May 2005.

6. Stated capital:

Authorized capital

The Company is authorized to issue an unlimited number of common shares. The following common shares are outstanding:

	<u># shares</u>	<u>\$ value</u>
Balance June 30, 2003	27,075,000	\$ 12,903,373
Exercise of options	<u>30,000</u>	<u>7,500</u>
Balance June 30, 2004	27,105,000	\$ 12,910,873
Shares purchased for cancellation	<u>(30,000)</u>	<u>(7,800)</u>
Balance June 30, 2005	<u>27,075,000</u>	<u>\$ 12,903,073</u>

Normal course issuer bid

Effective November 8, 2004, the Company received approval from the TSX-V to purchase its own common shares up to a maximum of 5% of the issued and outstanding common shares being 1,355,250 common shares of the 27,105,000 previously issued and outstanding. The Company's bid may continue until no later than November 8, 2005.

Stock-based compensation plan:

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

SANGOMA TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

6. Stated capital (cont'd):

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

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

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

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

A summary of the Company's options at June 30, 2005 and 2004 and the changes for the years then ended is presented below:

	Options Outstanding	Weighted-Average Exercise price
At June 30, 2003	1,615,000	\$ 0.46
Granted	650,000	\$ 0.33
Expired	(140,000)	\$ (0.39)
Exercised	(30,000)	\$ (0.25)
	2,095,000	\$ 0.42
At June 30, 2004	2,095,000	\$ 0.42
Granted	215,000	\$ 0.30
Expired	(740,000)	\$ (0.65)
	1,570,000	\$ 0.30
At June 30, 2005	1,570,000	\$ 0.30

The following table summarizes information about the options outstanding at June 30, 2005:

Exercise Price	Options outstanding and exercisable	Remaining contractual life
\$ 0.43	200,000	3.4 years
\$ 0.28	450,000	3.4 years
\$ 0.25	675,000	0.9 year
\$ 0.80	30,000	0.3 year
\$ 0.30	215,000	4.8 years
	1,570,000	2.5 years

The following table summarizes information about the options outstanding at June 30, 2004:

Exercise Price	Options outstanding and exercisable	Remaining contractual life
\$ 0.43	200,000	4.4 years
\$ 0.28	450,000	4.4 years
\$ 0.25	675,000	1.9 year
\$ 0.65	740,000	0.8 year
\$ 0.80	30,000	1.3 years
	2,095,000	2.3 years

SANGOMA TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

7. Commitments

The Company is committed to annual minimum lease payments on leased premises to May, 2010 as follows:

2006	\$ 40,000
2007	41,000
2008	42,000
2009	43,000
2010	<u>44,000</u>
	<u>\$ 166,000</u>

In addition, as disclosed in Note 5, the Company was committed to pay annually, 10% of net profit before tax to two individuals (5% each) who are senior officers and shareholders of the Company. The employment contracts, under which this obligation arose, expired in May 2005.

8. Segment disclosure

The Company operates in one industry segment, manufacturing, distribution and support of PCI cards for the telephony and wide area network industry. All of the Company's assets are located in Canada. The Company sells into four major geographic centres, the United States, Canada, Asia and other foreign countries. The sales, in Canadian dollars, in each of these geographic locations are as follows:

	<u>United States</u>	<u>Canada</u>	<u>Asia</u>	<u>Other foreign countries</u>	<u>Total</u>
June 30, 2005	<u>\$ 1,350,394</u>	<u>\$ 148,124</u>	<u>\$ 978,161</u>	<u>\$ 961,453</u>	<u>\$ 3,438,132</u>
June 30, 2004	<u>\$ 1,754,449</u>	<u>\$ 82,102</u>	<u>\$ -</u>	<u>\$ 715,178</u>	<u>\$ 2,551,729</u>

9. Income taxes

The Company has approximately \$223,000 in non-capital losses which are available to reduce future taxable income. The losses will expire, if unused, in the fiscal years ending in 2008-2009. The benefit associated with these losses has been recognized in these financial statements.

In addition, the Company has available scientific research and development costs ("SR&D") of approximately \$1,146,000 for federal purposes, and \$442,000 for provincial purposes, which can be carried forward and utilized in future years with no expiry and "SR&D" investment tax credits of approximately \$700,000 available to reduce income taxes payable to expiry in 2012.

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

	<u>2005</u>	<u>2004</u>
Statutory tax rate	35.00 %	35.00 %
Tax effect of non-deductible expenses	<u>-</u>	<u>-</u>
Effective tax rate	<u>35.00 %</u>	<u>35.00 %</u>

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

	<u>2005</u>	<u>2004</u>
Tax benefit of loss carry-forwards	\$ 76,200	\$ 115,500
Capital assets	(13,000)	(17,100)
Deferred development costs	141,200	243,673
SR&D Investment Tax Credits	<u>535,337</u>	<u>462,000</u>
	<u>\$ 739,737</u>	<u>\$ 804,073</u>

SANGOMA TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

10. Contingencies:

The Company has no contingencies of a material amount at this time.

11. Contributed surplus:

Contributed surplus consists of the following:

Balance June 30, 2004	\$	-
Stock-based compensation - current year		22,000
Restatement relating to prior year's stock based-compensation		<u>60,644</u>
	\$	<u>82,644</u>

12. Change in accounting policy:

As disclosed in Note 2 (i) the Company had previously chosen to disclose stock-based compensation for employee stock options on a pro-forma basis. Effective July 31, 2004 this option was no longer available. The change in accounting policy has been applied retroactively without restatement. As a result of this change in accounting policy, the deficit balance as at July 1, 2004 has been increased by \$60,644 and contributed surplus has been increased by the same amount. This change in accounting policy has decreased net income in the current year by \$22,000.

In determining the stock-based compensation expense, the fair value of the options were estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 1.1% (2004 - 0%), expected volatility of 37% (2004 - 37%), risk-free interest rate of 3.5% (2004 - 3.5%) and expected life of 5 years.

13. Supplemental cash flow information:

Net change in non-cash working capital related to operations:

	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ (211,700)	\$ (77,619)
Inventory	(41,234)	21,400
Prepaid expenses	(26,309)	(1,757)
Accounts payable and accrued liabilities	23,443	61,780
Management bonus payable	<u>59,280</u>	<u>(31,589)</u>
	\$ <u>(196,520)</u>	\$ <u>(27,785)</u>

Net change in non-cash working capital related to investments:

Income taxes recoverable	\$ <u>26,270</u>	\$ <u>(4,000)</u>
Cash paid for interest	\$ <u>18,000</u>	\$ <u>18,232</u>