SANGOMA TECHNOLOGIES CORPORATION

ANNUAL REPORT
YEAR ENDED JUNE 30, 2004

INDEX

MESSAGE TO SHAREHOLDERS

The 2003-2004 financial year proved to be a difficult one for your Company, as we experienced a reduction in sales relative to the previous year. The DJ Fixed-Line Communications Index, the index that most closely measures the performance of Sangoma's industry segment, has remained mired around the 110 level for more than two years, down two thirds from the 1999-2000 highs. Thus expected recoveries have not materialized, and our results were affected by the delay or cancellation of larger projects for which Sangoma products had previously been chosen. Our sales were also adversely affected by the continued decrease in the value of the US Dollar, which is our primary trading currency. Our sales were also affected by the fact that there were delays in the launch of our new range of intelligent hardware products, leaving us less competitive in the fast changing environment in which we operate.

Late in the year, we released the Advanced, Flexible Communications (AFT) Series of cards based on programmable hardware, and began to develop for the newly emerging market of Time Division Multiplexed (TDM) voice. The ability to handle voice over the telecommunications standard T1 and E1 lines has allowed us to support security-related voice applications as well as providing telephone system gateways for a new range of PC-based Private Branch Exchange (PBX) Voice over IP (VoIP) and Interactive Voice Response (IVR) implementations. Another important voice related application was the development of the SS7 protocol which is used to transfer call data between telephone switches. However, these developments were introduced too late to affect the 2003-2004 sales figures.

Sangoma has continued to seek out new partnerships, strengthen existing ones and terminate those that are not working. Our move into the voice processing market has brought us a new range of potential partnerships, some of which look very promising. We have moved our marketing emphasis away from traditional print and hard copy advertising to electronic media. Electronic media marketing not only appears to provide better results, but also provides far better mechanisms for measuring those results. Aggressive public relations efforts have resulted in greater coverage of Sangoma and its products.

Our new products have been well received by existing customers, as well as a new customer base. We see them beginning to achieve traction in the marketplace. We also expect to see an increase in business from our traditional customers as the telecom industry recovers.

Once again, we would like to take this opportunity to thank our highly talented employees for their loyalty, commitment and hard work, and our shareholders and directors for their support.

David Mandelstam
President and CEO

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

November 17, 2004

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, 2004 financial results with those of the previous year. The MD&A should be read in conjunction with Sangoma's Financial Statements and related notes for the year ended June 30, 2004, which have been prepared in accordance with generally, accepted accounting principles in Canada. 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, exploration and 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 devices with PCI interface slots (mainly PC servers) to communicate with high speed Wide Area networks (WANs). These consist of hardware cards, drivers and utilities. Sangoma's Wide Area Network products include WANPIPE® internal routing 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. Sangoma also provides communication toolkits that allow third parties to build WAN access into their own products. All Sangoma products are based on Sangoma's range of communication adapters that support standard T1, E1, ADSL, serial and 56kbps DDS line interfaces. A new market with great potential has been opened up since the development of cards with the ability to break out individual time-slots of voice and data from Time Division Multiplexed (TDM) signals, in particular the standard T1 and E1 TDM signals traditionally used for voice transport.

Sangoma's products are in use worldwide in many industry segments, such as telecommunications, government and military, banking, retail, entertainment, medical and manufacturing. Most new installations are in PC servers running the Linux operating system, although some of our 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 our WANPIPE® suite, much of our business is related to the support of older legacy protocols for customers such as the US military, OKI of Japan, and the US Federal Aviation Administration.

Sangoma is developing products for newly emerging market segments such as the support of Time Division Multiplexed (TDM) voice support over T1 and E1 to support PC-based Private Branch Exchange (PBX), Voice over IP (VoIP) and Interactive Voice Response (IVR) technology. Sangoma is also supporting the inter-switch telephony market by the development of the SS7 protocol. Sangoma's new voice related products have been well received.

Sangoma is also moving into higher speed data communications for voice, data and video, notably by the development of T3/E3 support for Telco connections in the multi-megabit per second range.

OVERALL PERFORMANCE

Sales for the year ended June 30, 2004 were $2.55 million as compared with $3.04 million for the financial year ended June 30, 2003, a decrease of 16 %. Sales are approximately the same as they were in the year ended June 30, 2002, albeit with quite different valuations of the Canadian Dollar. The telecom industry has remained depressed for over two years, leading to delay or cancellation of larger projects for which Sangoma products had previously been chosen. Sales were also adversely affected by the continued decrease in the value of the US Dollar, which is Sangoma's primary trading currency. Net income was $0.23 million ($0.009 per share) compared to net income after tax of $0.87 million ($0.032 per share) in the year ended June 30, 2003, a decrease of 73%, over half of which is due to non-cash treatment of future income taxes.

The data communications market is competitive and fast changing. We believe that part of our reduced sales figures result from the fact that new products were not introduced fast enough to replace the revenue from older products as they fade into obsolescence. We are now focusing our development efforts more on leading edge products with future growth potential. We see new markets emerging in the support of voice and data based applications based on our new cost effective, intelligent Advanced, Flexible Communications (AFT) cards. These market opportunities include support of PBX and Interactive Voice Response (IVR) systems, monitoring of voice and data communications as part of security systems, and the control of larger telephone and cellular switch equipment.

During the year, we established new distribution channels in Europe, South Africa and India. An agency structure was set up in Europe, which ultimately we found to be inefficient in that it added an extra layer between ourselves and our distributors.

Our non-US foreign sales appear to be an attractive area of growth for us, with the percentage of sales to non North American markets showing steady growth. We have put major emphasis on India as a new market, appointing a new distributor and having Sangoma sales presence at Supercomm, the main Indian telecommunications tradeshow.

In 2003-2004 we moved from print advertising, which has a hard-to-measure rate of return to more emphasis on electronic marketing where the return on investment can be more easily quantified. Our web site was redesigned, our public relations efforts were increased and traditional marketing received less emphasis. We have forged new alliances with companies producing complementary products and terminated some partnerships that were non-productive.

SELECTED ANNUAL INFORMATION

	Fiscal year ended June 30		
	2004[(1)]	**2003[(1)]**	**2002**
	($000's, except per share amounts)		
Operating Results			
Net sales	$2,551	$3,042	$2,549
Net earnings (loss)	$232	$872	$659
Net earnings (loss) per share:			
- non-diluted basis	$0.01	$0.032	$0.024
- fully diluted basis	$0.01	$0.032	$0.024
Financial Position			
Total assets	$8,673	$8,712	$7,999
Long term debt	nil	nil	nil
Shareholders' Equity	$8,673	$8,299	$7,698
Cash dividends declared per share	0.011	0.01	nil

Note:

(1) Commencing July 1, 2003, the Corporation adopted the new provisions of accounting for goodwill as outlined in Section 3062 of the Handbook of the Canadian Institute of Chartered Accountants (the "Handbook"). The change in method of accounting for goodwill was treated as a change in accounting policy and was applied prospectively without restatement of prior year financial statements. Under this method goodwill is no longer amortized and will be assessed for impairment on an annual basis in accordance with the new standards, including a transitional impairment test, which is charged to retained earnings. Management of the Corporation has recorded a transitional impairment charge in the amount of $4.05 million, charged to opening retained earnings, as required by the transitional provisions of the new Handbook section (see Note 5).

As required by the Handbook, the Corporation must disclose income (loss) per share in the transitional periods for income (loss) adjusted to exclude amortization expenses recognized in those periods for goodwill that is no longer amortized. Adjusted loss for 2003 (the transitional year) would be $847,150. The adjusted loss per share is shown on the face of the income statement.

RESULTS OF OPERATIONS

Sales

Sales for the year were derived almost entirely from the sale of Wide Area Network adapter cards. Sales for the year ended June 30, 2004 were $2.55 million as compared with $3.04 million for the financial year ended June 30, 2003, a decrease of 16 %. Sangoma's products are priced in

US Dollars, and therefore revenues were directly affected by the approximately 7 % revaluation of the Canadian Dollar with respect to the US Dollar that occurred over the year. Sales were affected by the delay or cancellation of larger projects for which Sangoma products had previously been chosen. The reduction in revenue occurred entirely in sales to the US, where sales decreased by 22%. Sales in other parts of the world remained the same or increased during the year. We expect foreign non-US sales to become relatively more important in the future.

Cost of Sales and Gross Profit

The cost of sales for the year ended June 30, 2004 was $0.69 million (27% of sales, gross profit margin of 73%) as compared with $0.87 million (28% of sales, gross profit margin of 73%) in 2003. Gross profit for the year ended June 30, 2004 declined by 14% relative to the gross profit the previous year ($1.86 million vs. $2.18 million).

We expect that if we are successful in increasing OEM sales, gross margin percentages will decrease from current levels. Historically, Sangoma's gross margins have been between 60% and 65%, as opposed to the margins of over 70% we have achieved over the past few years.

Administration Expenses

General and administration expenses were $0.58 million for the year ended June 30, 2004 as compared with $0.72 million for the year ended June 30, 2003, a decrease of 20%. The bulk of the decrease was due to reductions in office salaries because of a staffing reduction and replacement of staff, as well as a reduction in the management bonus payable.

Selling and Marketing Expenses

Selling and marketing expenses increased to $0.46 million for the year ended June 30, 2004 as compared with $0.36 million for the year ended June 30, 2003, an increase of 28%. The increase occurred in all aspects of sales and marketing as Sangoma expanded its marketing presence during the year.

We continually monitor our marketing return on investment and have curtailed some activities as revenues were reduced. We expect marketing costs to shift in emphasis and content but overall sales and marketing expenditure can be expected to continue at these levels.

Development Costs

Continuous product development is crucial to maintaining Sangoma's competitive position in the fast-moving data communications market. Our expenditure on R & D 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 Consolidated Financial Statements). Actual cash expenditure on development was $0.70 million in the year ended June 30, 2004, virtually identical to those for the year ended June 30, 2003. This reflects a stable R&D environment, a full list of worthwhile projects and a development team with no turnover during the last two years.

Sangoma is entitled to total investment tax credits of $0.29 million in the year ended June 30, 2004 ($0.28 million in the year ended June 30, 2003), and these credits reduce the net deferred development costs to $0.41 million ($0.42 million for the year ended June 30, 2003).

The development costs amortized during the year ended June 30, 2004 were $0.42 million ($0.38 million for the year ended June 30, 2003), almost exactly balancing the net deferred development costs for the year. It would therefore make almost no difference to the accounts if development expenses were expensed, rather than handled on a deferred basis.

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

Total Expenses

Increases in selling and marketing expenses and amortization of development costs were almost exactly offset by the decrease in administration expense. The result was that total expenses of $1.50 million in the year ended June 30, 2004 were almost identical to the expenses of $1.49 million in the year ended June 30, 2003.

Net Income

Income before income taxes was $0.37 million ($0.014 per share) in the year ended June 30, 2004, compared to income before income taxes in the prior year in the amount of $0.68 million ($0.025 per share), a decrease of 46%. After taking into account current and future income taxes, the net income was $0.23 million ($0.009 per share) compared to net income after tax of $0.87 million ($0.032 per share) in the year ended June 30, 2003, a decrease of 73%, much of which is due to non-cash treatment of future income taxes.

Cash flow from operations before non-cash working capital balances was $0.71 million in 2003-2004 as compared to $1.14 million in the previous year, the difference being due mainly to the difference in before-tax profitability between the two periods.

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, 2004 ($000's except per share data):

2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$711	$934	$510	$400	$2,552
Net earnings (loss)	$103	$212	($19)	($62)	$233
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
2003	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Year**
Net sales	$806	$674	$902	$660	$3,042
Net earnings (loss)	$289	$180	$249	$154	$872
Net earnings (loss) per share:					
- non-diluted basis	$0.011	$0.0066	$0.0092	$0.0052	$0.032
- fully diluted basis	$0.011	$0.0066	$0.0092	$0.0052	$0.032

The sales on a quarterly basis show a lack of orders from larger customers during the third and fourth quarters of the financial year ended June 30, 2004. This is due to delays and cancellations of projects for which Sangoma products have been chosen at the time of project development. The differences in net earnings between the quarters of the year ended June 30, 2004 and the year ended June 30, 2003 are to a large extent the result of non-cash tax related transactions.

LIQUIDITY

The Corporation completed the financial year ended June 30, 2004 with current assets of $1.81 million and current liabilities of $0.43 million, resulting in working capital of $1.38 million, compared to $1.46 million in the prior year, a reduction of 6%. The Corporation continues to be profitable and cash flow, although slightly negative in the year ended June 30, 2004 is expected to return to being positive in the coming months. Sangoma has no long term debt, nor significant capital leases. There are no existing or anticipated defaults or arrears on dividend payments, lease payments, or interest. It is believed 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 is balance due to shareholders consisting of two promissory notes in the amount of $100,000 each. The promissory notes bear interest at 9% per annum and are due 30 days after demand. Security includes a first charge over all assets owned by the Corporation. A total of $18,000 (2003- $18,000) in interest on these promissory notes is included under bank charges and interest. Included in accounts payable and accrued liabilities is $4,488 (2003- $4,488) in unpaid interest relating to this debt.

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 with these individuals expire in May 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 $0.40 million for the quarter ended June 30, 2004, as compared to $0.66 million for the quarter ended June 30, 2003, a decline of 39%. This reduction in sales volume was primarily due to the absence of larger volume sales during the quarter. A high gross margin (79%) during the quarter resulted in gross profit of $0.32 million for the quarter as compared to $0.49 million for the quarter ended June 30, 2003. The loss before provision for income taxes for the quarter ended June 30, 2004 was $0.07 million as compared to a loss before provision for income taxes of $0.08 million for the quarter ended June 30, 2003. The net loss for the quarter ended June 30, 2004 was $0.06 million as compared to a net profit of $0.15 million for the quarter ended June 30, 2003, the difference being entirely due to non-cash, tax related transactions.

EVENTS SUBSEQUENT TO JUNE 30, 2004

In July 2004 it was announced that Emergecore Networks, a manufacturer of server appliances, had chosen Sangoma products to support their offerings.

In November 2004 a substantial sale of Sangoma’s internal WAN routing products to a large Asian telecommunications group was announced. During the same month it was announced that Teleca, one of the largest suppliers of equipment to the cellular telephone industry, has chosen Sangoma to provide SS7 support for their new product lines.

In November 2004, Sangoma announced that the TSXV had approved a notice of intention to make a normal course issuer bid. Pursuant to the terms of the bid, Sangoma will purchase its own common shares for cancellation through the facilities of the TSXV at the prevailing market price of the common shares. The number of common shares purchased by Sangoma will in no event be in excess of 5% of the issued and outstanding common shares at the date the bid commences, being 1,355,250 common shares of the 27,105,000 currently issued and outstanding common shares. Sangoma became eligible to begin the bid on or after November 9, 2004 and the bid may continue until no later than November 8, 2005.

OUTSTANDING SHARE DATA

As at November 17, 2004, there are 27,105,000 currently issued and outstanding common shares of Sangoma and 2,095,000 outstanding options to acquire commons shares.

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

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

Wasserman
Ramsay

Chartered Accountants

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AUDITORS' REPORT

To the Shareholders of
Sangoma Technologies Corporation:

We have audited the consolidated balance sheets of Sangoma Technologies Corporation as at June 30, 2004 and 2003 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, 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Wasserman Ramsay

Toronto, Ontario
August 25, 2004

Chartered Accountants

SANGOMA TECHNOLOGIES CORPORATION
(Continued under the Ontario Business Corporation Act)

CONSOLIDATED BALANCE SHEETS - YEARS ENDED JUNE 30, 2004 AND 2003

ASSETS

	2004	2003
Current		
Cash and equivalents	$ 936,146	$ 1,062,657
Accounts receivable	268,196	190,577
Income taxes recoverable	103,000	99,000
Inventory *(Note 2)*	465,548	486,948
Prepaid and deposits	33,123	31,366
	1,806,013	1,870,548
Future income taxes	804,073	750,000
Property, plant and equipment *(Note 3)*	115,711	134,833
Development costs	404,749	413,488
Goodwill, net	5,542,849	5,542,849
	$ 8,673,395	$ 8,711,718

LIABILITIES

	2004	2003
Current		
Accounts payable and accrued liabilities	$ 195,531	$ 133,751
Due to shareholders *(Note 4)*	200,000	200,000
Management bonus payable *(Note 4)*	36,582	68,171
Current portion of obligation under capital lease *(Note 5)*	-	10,763
	432,113	412,685

SHAREHOLDERS' EQUITY

	2004	2003
Stated capital *(Note 6)*	12,910,873	12,903,373
Deficit	(4,669,591)	(4,604,340)
	8,241,282	8,299,033
	$ 8,673,395	$ 8,711,718

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, 2004 AND 2003

	2004	2003
Sales	$ 2,551,729	$ 3,041,563
Cost of sales	689,008	865,324
Gross profit	1,862,721	2,176,239
Expenses:		
General and administration expenses *(Page 5)*	582,103	723,352
Selling and marketing expenses *(Page 5)*	463,179	362,452
Amortization - development costs	415,867	376,335
Amortization - property, plant and equipment	35,747	32,389
	1,496,896	1,494,528
Income before provision for income tax	365,825	681,711
Income tax provision		
Current	-	225,000
Future income taxes	133,251	(415,000)
	133,251	(190,000)
Net income for the year	$ 232,574	$ 871,711
Basic and diluted income per share	$ 0.01	$ 0.03
Weighted average number of shares outstanding - basic and diluted	27,084,123	27,075,000

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, 2004 AND 2003

	2004	2003
Deficit, beginning of year	$ (4,604,340)	$ (5,205,301)
Net income for the year	232,574	871,711
Dividend paid	(297,825)	(270,750)
Deficit, end of year	$ (4,669,591)	$ (4,604,340)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Cash provided by (used in) the following activities:		
Operations:		
Net income for the year	$ 232,574	$ 871,711
Add items not requiring an outlay of cash		
Amortization	451,614	408,724
Future income taxes related to operations	28,000	(143,500)
	712,188	1,136,935
Net change in non-cash working capital balances related to operations	(27,785)	260,796
Cash flow from operations	684,403	1,397,731
Financing:		
Issue of capital stock	7,500	-
Obligations under capital lease	(10,763)	(24,290)
Dividend paid	(297,825)	(270,750)
	(301,088)	(295,040)
Investing:		
Deferred development costs before investment tax credits	(697,128)	(698,216)
Investment tax credits	290,000	280,000
Purchase of property, plant and equipment	(16,625)	(22,970)
Future income taxes related to investments	(82,073)	(227,500)
Net change in non-cash working capital related to investments	(4,000)	(15,090)
	(509,826)	(683,776)
Increase (decrease) in cash and cash equivalents during the year	(126,511)	418,915
Cash and equivalents, beginning of year	1,062,657	643,742
Cash and equivalents, end of year	$ 936,146	$ 1,062,657

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, 2004 AND 2003

Administration expenses:

	2004	2003
Bad debts (recovery)	$ (1,427)	$ 2,024
Bank charges and interest *(Note 4)*	31,103	33,539
Employee benefits	76,275	73,617
Foreign exchange loss (income)	(5,639)	58,851
Insurance	61,736	54,976
Interest on long term debt *(Note 5)*	232	1,963
Management fees and salaries	122,552	124,376
Management bonus *(Note 4)*	36,582	68,171
Office and general	12,579	13,136
Office salaries	68,536	109,615
Professional fees	52,859	55,928
Rent and occupancy	90,522	84,032
Shareholder information	36,171	38,851
Telephone and Internet	25,544	27,506
	607,625	746,585
Investment income	(25,522)	(23,233)
	$ 582,103	$ 723,352

Selling and marketing expenses:

	2004	2003
Advertising and promotion	$ 180,943	$ 165,916
Sales salaries and commissions	191,271	133,371
Travel, entertainment and trade shows	90,965	63,165
	$ 463,179	$ 362,452

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, 2004 AND 2003

1. Summary of significant accounting policies:

(a) Basis of presentation

These consolidated financial statements, for the years ended June 30, 2004 and 2003, 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.

(h) Goodwill:

The Company has adopted the new 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 no longer amortized and will be assessed for impairment on an annual basis in accordance with the new 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.

1. Summary of significant accounting policies (continued):

(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 currently permits entities to provide pro-forma disclosure for options granted to employees, and officers and directors. The Company has chosen not to use the fair value method to account for stock-based employee compensation plans, but to disclose pro-forma information for options granted (see Note 6).

As required by the Handbook Section, effective for fiscal periods beginning after January 1, 2004, entities will no longer have 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. This change will be reflected in the Company's June 30, 2005 financial statements.

(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:

Effective January 1, 2002, the Company adopted the new 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 receivable and due to shareholders. 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.

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

2. Inventory:

Inventory at year end consists of the following:	2004	2003
Finished goods	$ 274,611	$ 352,430
Parts	190,937	134,518
	$ 465,548	$ 486,948

3. Property, plant and equipment:

	Cost	Accumulated Depreciation	2004 Net	2003 Net
Office furniture, fixtures and equipment	$ 395,583	$ 279,872	$ 115,711	$ 134,833

4. Related party balances and transactions:

The balance due to shareholders consists of two promissory notes in the amount of $100,000 each. The promissory notes bear interest at 9% per annum and are due 30 days after demand. Security includes a first charge over all assets owned by the Company. A total of $18,000 (2003- $18,000) in interest on these promissory notes is included under bank charges and interest. Included in accounts payable and accrued liabilities is $4,488 (2003- $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 expire in May 2005.

5. Obligation under capital lease:

During a prior year the Company entered into a capital lease for office furniture. The lease matured in October, 2003, at which time these assets were purchased for $3,814.

The capital lease obligations were secured by liens on the equipment financed. Interest paid on this lease in the year totaled $232 (2003- $1,963).

6. Stated capital:

Authorized capital

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

	# shares	$ value
Balance June 30, 2002 and 2003	27,075,000	$ 12,903,373
Exercise of options	30,000	7,500
Balance June 30, 2004	27,105,000	$ 12,910,873

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.

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.

6. Stated capital (cont'd):

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, 2004 and 2003 and the changes for the years then ended is presented below:

	Options Outstanding	Weighted-Average Exercise price
At June 30, 2002	1,335,000	$ 0.50
Granted	280,000	$ 0.25
At June 30, 2003	1,615,000	$ 0.46
Granted	650,000	$ 0.33
Expired	(140,000)	$ (0.39)
Exercised	(30,000)	$ (0.25)
At June 30, 2004	2,095,000	$ 0.42

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	1.6 years
$ 0.65	740,000	0.8 years
$ 0.80	30,000	1.3 years
	2,095,000	2.3 years

Had stock-based compensation for options granted under the Plan since June 30, 2002 been determined on the basis of fair value at the date of the grant in accordance with the fair value method of accounting for stock-based compensation, the Company's pro forma net income and basic earnings per share would be as follows:

	2004	2004 Per share	2003	2003 Per share
Net income as reported	$ 232,574	$ 0.01	$ 871,711	$ 0.03
Stock-based compensation expense	(42,500)	-	(18,144)	-
Pro forma net income	$ 190,074	$ 0.01	$ 853,567	$ 0.03

In determining the stock-based compensation expense, the fair value of the options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants as follows: dividend yield of 0%, expected volatility of 37%, risk-free interest rate of 3.5% and expected life of 33 months.

7. Commitments

The Company is committed to annual minimum lease payments on leased premises of $44,310 to May, 2005

In addition, as disclosed in Note 4, the Company is 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 arises, expire in May 2005.

8. Segment disclosure

The Company operates in one industry segment, the sale of computer adapter cards and associated software. All of the Company's assets are located in Canada. The Company sells into three major geographic centres, the United States, Canada and other foreign countries. The sales, in Canadian dollars, in each of these geographic locations are as follows:

	United States	Canada	Other foreign countries	Total
June 30, 2004	$ 1,754,449	$ 82,102	$ 715,178	$ 2,551,729
June 30, 2003	$ 2,265,730	$ 59,963	$ 715,870	$ 3,041,563

9. Income taxes

The Company has approximately $330,000 in non-capital losses which are available to reduce future taxable income. The losses will expire, if unused, in the fiscal years ending in 2006-2009.

In addition, the Company has available scientific research and development costs ("SR&D") of approximately $1,282,000 for federal purposes, and $886,000 for provincial purposes, which can be carried forward and utilized in future years with no expiry and "SR&D" investment tax credits of approximately $592,000 available to reduce income taxes payable to expiry in 2010.

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

	2004	2003
Statutory tax rate	35.00%	35.00%
Tax effect of loss carry-forwards recognized	-	(63.00)
Effective tax rate	35.00%	(28.00)%

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

	2004	2003
Tax benefit of loss carry-forwards	$ 115,500	$ 143,500
Capital assets	(17,100)	(17,400)
Deferred development costs	113,673	133,000
SR&D Investment Tax Credits	592,000	490,900
	$ 804,073	$ 750,000

10. Contingencies:

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