SANGOMA TECHNOLOGIES CORPORATION

ANNUAL REPORT
YEAR ENDED JUNE 30 2003

INDEX

MESSAGE TO SHAREHOLDERS

While the telecommunications industry as measured by statistics such as total subscribers, Internet users, or cell phone usage has continued to grow steadily, the expenditure on infrastructure has been more erratic, with a boom in the late 1990s followed by a slump . The DJ Fixed-Line Communications Index appears to have bottomed out in late 2002 after a steep drop over the previous two years. Thus Sangoma has been operating in a more favorable environment than in the previous financial year. If there was no significant market growth, at least the market was no longer contracting.

Your company recorded a growth in sales of 19% in spite of the large gain in the Canadian/US Dollar exchange rate, which directly affects our top line. Net income, cash flow from operations and working capital all increased during the year, giving us a sound basis for the pursuit of new marketing and product initiatives.

During the past financial year, the company paid its first dividend as a public company. It is intended that this will become a regular occurrence, with the dividends increasing as revenues grow.

A new Vice President of Sales and Marketing was appointed, tasked with improving the size and number of our major sales partners. New distribution and sales channels were set up in Europe, Scandinavia, the Far East, and Southern Africa. Because of long equipment sales cycles the effects of these initiatives have not yet fully been reflected in revenues.

New public relations initiatives have begun to bear fruit in the form of increased exposure, particularly in the technical media.

We have forged a series of partnerships with companies that market complementary products. We expect that these partnerships will be mutually beneficial, providing all partners with new opportunities for expansion.

Sangoma released its first products in the ATM (Asynchronous Transfer Mode) market. ATM is expected to become the line protocol of choice for both voice and data. Sangoma's products introduce a new standard of cost/performance in the industry. Existing products were re-engineered to reduce costs, allowing for the maintenance of historically high gross profit margins in spite of competitive pricing pressures and the drop in the value of the US Dollar. We have continued to improve our software base for our existing hardware and are in the process of designing new hardware that is based on revolutionary concepts. The new designs will achieve significant gains in cost/performance ratio.

We look forward to the future with confidence and anticipation, and believe that we have the pieces in place to grow with the telecommunications recovery. While we will continue to watch expenses closely, we see expanding revenues providing us with the means to increase necessary investment in market infrastructure, product development and operations.

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 patience and support.

"David Mandelstam"
President and CEO

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 and drivers and utilities. Sangoma's Wide Area Network products include WANPIPE® internal routing solutions for Linux, FreeBSD, Windows and other operating systems. Sangoma also provides communication toolkits that allow third parties to build in WAN access into their own products. All Sangoma products are based on Sangoma's range of communication adapters that support T1, E1, ADSL, serial and 56kbps DDS line interfaces.

Sangoma's products are in use worldwide in many industry segments. 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 IP data over WAN interfaces using our **WANPIPE®** suite, much of our business is tied to the support of older legacy protocols for customers such as the US military, OKI of Japan, and the US Federal Aviation Administration.

OPERATIONS

It is critical for growth that Sangoma be selected for larger OEM (Original Equipment Manufacturer) opportunities. This is usually an extended process that involves engineering specification, testing and development before the project can be considered a 'design win'. Then the project moves into lengthy production and marketing phases that need to be completed before revenues from the project become significant.

Sangoma has implemented several new initiatives during the year to improve our performance in this market. We have brought experienced sales staff on board, both locally and in Europe. We are in the process of a revolutionary change in our total hardware and software product range to make them more suitable for OEM deployment. We have implemented an aggressive, targeted marketing and sales efforts aimed at larger opportunities, and have forged alliances with companies producing complementary products. Because of the time lags involved, these efforts have not had an impact on sales during the 2003-2003 financial year, but our record of design wins bodes well for the coming year and beyond.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

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, 2003 were $3.04 million as compared with $2.55 million for the financial year ended June 30, 2002, an increase of 19%. Sangoma's products are priced in US Dollars, so that revenues were directly affected by the approximately 18% revaluation of the Canadian Dollar with respect to the US Dollar that occurred during the year.

The largest increase in revenue occurred in foreign countries other than the US, where sales increased 38%. Europe, the Far East and Southern Africa present particularly exciting opportunities that we expect to continue to expand as our new sales representation gains traction.

Cost of Sales and Gross Profit

The cost of sales for the year ended June 30, 2003 was $0.87 million (28% of sales, gross profit margin of 72%) as compared with $0.73 million (28% of sales, gross profit margin of 72%) in 2002. Gross profit margins were held steady despite the revaluation of the Canadian Dollar which had the effect of squeezing margins between revenues in $US and cost of sales that are largely in $Canadian.

It is expected 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%.

Administration Expenses

General and administration expenses were $0.72 million for the year ended June 30, 2003 as compared with $0.62 million for the year ended June 30, 2002, an increase of 17%. Two items were responsible for the bulk of the increase. A foreign exchange loss was recorded, reflecting the difference between the US Dollar/Canadian Dollar exchange rate that existed at the time that a sale was made, and the exchange rate that existed at the time that the actual foreign exchange transaction was executed some days or weeks later. In a time of rapid revaluation of local currency such as occurred particularly in the latter part of the financial year, this difference in timing does have a material effect. The second item was the management bonus payable as part of employment contracts negotiated in 2000 at the time of the public offering (See Note 5 to the Consolidated Financial Statements). The other items of Administration Expenses were, in aggregate, lower than for the year ended June 30, 2002.

Selling and Marketing Expenses

Selling and marketing expenses increased to $0.36 million for the year ended June 30, 2003 as compared with $0.29 million for the year ended June 30, 2002, an increase of 24%. The increase is almost entirely due to an increase in sales salaries and commissions, which was due to additions to Sangoma's sales staffing during the year.

Selling and marketing initiatives will be expanded, so these expenses can be expected to increase in the future.

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, 2003 as compared with $0.57 million for the year ended June 30, 2002, an increase of 23%. Most of the increase was due to the addition of a hardware designer to our R&D team.

Sangoma is entitled to total investment tax credits of $0.28 million in the year ended June 30, 2003 ($0.38 million for the year ended June 30, 2002), and these credits reduce the net deferred development costs to $0.42 million ($0.19 million for the year ended June 30, 2002).

The development costs amortized during the year ended June 30, 2003 were $0.37 million ($0.29 million for the year ended June 30, 2002), and capitalized development costs totaled $0.41 million as of June 30, 2003.

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

Net Income

Income before income taxes was $0.68 million ($0.025 per share) in the year ended June 30, 2003, compared to income before income taxes in the prior year in the amount of $0.58 million ($0.022 per share). After taking into account income tax, the net income was $0.87 million ($0.032 per share) compared to net income after tax of $0.66 million ($0.024 per share) in the year ended June 30, 2002, an increase of 32%.

Cash flow from operations was $1.4 million in 2002-2003 compared to $1.04 million in the previous year.

Liquidity and Capital Resources

The company completed the financial year ended June 30, 2003 with current assets of $1.87 million and current liabilities of $0.41 million, resulting in working capital of $1.46 million, compared to $1.27 million in the prior year. The company continues to be profitable and to generate a positive cash flow. 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 company for the foreseeable future.

Events subsequent to June 30, 2003

Since June 30, 2003, Sangoma has announced the appointment of a sales representative with overall responsibility for Europe, as well as new distributors for Southern Africa and Norway and Denmark.

"David Mandelstam"
President and CEO

"David Macdonald"
Chairman

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2003 AND 2002

Wasserman
Ramsay

Chartered Accountants

5140 Yonge Street, Suite 2250, Toronto, Ontario, Canada M2N 6L7
Tel. (416) 226-4631 Fax (416) 226-9562
email: wram@wassermanramsay.ca

AUDITORS' REPORT

To the Shareholders of
Sangoma Technologies Corporation:

We have audited the consolidated balance sheets of Sangoma Technologies Corporation as at June 30, 2003 and 2002 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, 2003 and 2002 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 26, 2003

Chartered Accountants

SANGOMA TECHNOLOGIES CORPORATION

(Continued under the Ontario Business Corporation Act)
(Incorporated under The Business Corporations Act - Alberta)

CONSOLIDATED BALANCE SHEETS - YEARS ENDED JUNE 30, 2003 AND 2002

ASSETS

	2003	2002
Current		
Cash and equivalents	$ 1,062,657	$ 643,742
Accounts receivable	190,577	372,008
Income taxes receivable	99,000	83,910
Inventory *(Note 2)*	486,948	409,622
Prepaid and deposits	31,366	51,958
	1,870,548	1,561,240
Future income taxes	750,000	379,000
Capital assets *(Note 3)*	134,833	144,252
Development costs	413,488	371,607
Goodwill, net	5,542,849	5,542,849
	$ 8,711,718	$ 7,998,948

LIABILITIES

	2003	2002
Current		
Accounts payable and accrued liabilities	$ 133,751	$ 65,823
Due to shareholders *(Note 5)*	200,000	200,000
Management bonus payable *(Note 5)*	68,171	-
Current portion of obligation under capital lease *(Note 6)*	10,763	26,597
	412,685	292,420
Long-term debt		
Obligation under capital lease *(Note 6)*	-	8,456

SHAREHOLDERS' EQUITY

	2003	2002
Stated capital *(Note 7)*	12,903,373	12,903,373
Deficit	(4,604,340)	(5,205,301)
	8,299,033	7,698,072
	$ 8,711,718	$ 7,998,948

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, 2003 AND 2002

	2003	2002
Sales	$ 3,041,563	$ 2,548,786
Cost of sales	865,324	725,444
Gross profit	2,176,239	1,823,342
Expenses:		
General and administration expenses *(Page 5)*	723,352	620,573
Selling and marketing expenses *(Page 5)*	362,452	293,224
Amortization - development costs	376,335	294,748
Amortization - capital assets	32,389	32,514
	1,494,528	1,241,059
Income before provision for income tax	681,711	582,283
Income tax provision		
Current	225,000	154,058
Future income taxes	(415,000)	(231,000)
	(190,000)	(76,942)
Net income for the year	$ 871,711	$ 659,225
Basic and diluted income per share	$ 0.03	$ 0.02
Weighted average number of shares outstanding - basic and diluted	27,075,000	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, 2003 AND 2002

	2003	2002
Deficit, beginning of year	$ (5,205,301)	$ (1,814,526)
Write down of goodwill *(Note 4)*	-	(4,050,000)
Opening balance restated	(5,205,301)	(5,864,526)
Net income for the year	871,711	659,225
Dividend	(270,750)	-
Deficit, end of year	$ (4,604,340)	$ (5,205,301)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
Cash provided by (used in) the following activities:		
Operations:		
Net income for the year	$ 871,711	$ 659,225
Add items not requiring an outlay of cash		
Amortization	408,724	327,262
Future income taxes related to operations	(143,500)	-
	1,136,935	986,487
Net change in non-cash working capital balances related to operations	260,796	50,895
Cash flow from operations	1,397,731	1,037,382
Financing:		
Obligations under capital lease	(24,290)	(24,350)
Repayment to shareholders	-	(200,000)
Dividend paid	(270,750)	-
	(295,040)	(224,350)
Investing:		
Deferred development costs before investment tax credits	(698,216)	(573,825)
Investment tax credits	280,000	379,000
Purchase of capital and other assets	(22,970)	(18,489)
Net change in non-cash working capital related to investments	(242,590)	(450,460)
	(683,776)	(663,774)
Increase in cash and cash equivalents during the year	418,915	149,258
Cash and equivalents, beginning of year	643,742	494,484
Cash and equivalents, end of year	$ 1,062,657	$ 643,742

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, 2003 AND 2002

	2003	2002
Administration expenses:		
Bad debts	$ 2,024	$ 6,577
Bank charges and interest *(Note 5)*	33,539	44,673
Employee benefits	73,617	59,987
Foreign exchange loss	58,851	-
Insurance	54,976	48,249
Interest on long term debt *(Note 6)*	1,963	4,290
Management fees and salaries	124,376	119,777
Management bonus *(Note 5)*	68,171	-
Office and general	13,136	11,535
Office salaries	109,615	129,750
Professional fees	55,928	80,467
Rent and occupancy	84,032	83,218
Shareholder information	38,851	24,268
Telephone and internet	27,506	18,958
	746,585	631,749
Investment income	(23,233)	(11,176)
	$ 723,352	$ 620,573

	2003	2002
Selling and marketing expenses:		
Advertising and promotion	$ 165,916	$ 161,398
Sales salaries and commissions	133,371	69,983
Travel, entertainment and trade shows	63,165	61,843
	$ 362,452	$ 293,224

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

1. Summary of significant accounting policies:

(a) Basis of presentation

These consolidated financial statements, for the years ended June 30, 2003 and 2002, include the accounts of the Company's wholly-owned subsidiary, Sangoma Technologies Inc.

On October 18, 2001 the Company filed articles of amendment to change its name to Sangoma Technologies Corporation from Sangoma.com Inc.

(b) Capital assets:

Capital assets are recorded at cost. Amortization is provided using the declining balance method at the rate of 20% per annum.

(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 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:

Commencing July 1, 2001 the Company 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 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 4).

1. Summary of significant accounting policies (continued):

(i) Stock-based compensation plan:

Effective January 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870, Stock based compensation and other stock-based payments. This section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the statements of income and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. None of the Company's plans qualify as direct awards of stock or as plans that create liabilities based on the price of the company's stock, and as a result, the implementation of the section has no impact on the financial statements. 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 after January 1, 2002 (see Note 7). The Company records no compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of the options is credited to capital stock.

(j) Income taxes:

Commencing January 1, 2000 the Company adopted 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 bases of assets and liabilities as well as for the benefit of losses available to be carried forward to 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. The revised recommendations have been applied retroactively with restatement of prior periods.

(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, note receivable and amount due from (to) directors. 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.

SANGOMA TECHNOLOGIES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

2. Inventory:

Inventory at year end consists of the following:

	2003	2002
Finished goods	$ 352,430	$ 269,011
Parts	134,518	140,611
	$ 486,948	$ 409,622

3. Capital assets:

	Cost	Accumulated Depreciation	2003 Net	2002 Net
Office furniture, fixtures and equipment	$ 300,265	$ 210,248	$ 90,017	$ 89,229
Office furniture under capital lease	78,693	33,877	44,816	55,023
	$ 378,958	$ 244,125	$ 134,833	$ 144,252

4. Goodwill write down:

Under the new provision of Handbook Section 3062 the Company is required to assess the value of goodwill on an annual basis, including a transitional impairment test. The Company has recorded a transitional impairment charge in the prior year in the amount of $4.05 Million. Under the provisions of the new Handbook section this transitional impairment charge is charged to the prior years opening retained earnings without restatement of prior years comparative figures. The Company has also evaluated goodwill at year end under the normal impairment test and has determined that no further write down is required at this time.

5. 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 (2002- $29,318) in interest on these promissory notes is included under bank charges and interest. Included in accounts payable and accrued liabilities is $4,488 (2002- $9,370) 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.

6. Obligation under capital lease:

During a prior year the Company entered into a capital lease for office furniture. The lease, payable in minimum installments in the amount of $2,387, bearing interest at 9% per annum, and maturing in October, 2003, after which time these assets can be purchased for a nominal amount.

The minimum lease payments over the next fiscal year is as follows:

2004	$ 10,978
Less: Amounts representing interest	215
Principal portion of obligations under capital lease	10,763
Less: current portion	10,763
Long-term portion	$ -

The above capital lease obligations are secured by liens on the equipment financed. Interest paid on this lease in the year totalled $1,963 (2002- $4,290).

7. 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, 2001	28,150,000	$ 12,903,373
Less: Performance shares cancelled	(1,075,000)	-
Balance June 30, 2002 and 2003	27,075,000	$ 12,903,373

Escrow Shares

All timed release escrowed shares were released from escrow during the prior year, the performance release escrowed shares, totalling 1,075,000, were cancelled during the prior year. As no value was attributed to these shares when they were issued no value has been deducted upon their cancellation.

Stock-based compensation plan:

The Company has a common share purchase option plan (the "Plan") for directors, officers, and employees. Options granted under the Plan have a five-year term and vest immediately. Options are granted at a price no lower than the market price of the common shares at the time of the grant.

A summary of the Company's options at June 30, 2003 and 2002 and the changes for the years then ended is presented below:

	Options Outstanding	Weighted-Average Exercise price
At June 30, 2001	1,890,000	$ 0.57
Exercised	(105,000)	$ (0.40)
Expired	(450,000)	$ (0.80)
At June 30, 2002	1,335,000	$ 0.50
Granted	280,000	$ 0.25
At June 30, 2003	1,615,000	$ 0.46

The following table summarizes information about the options outstanding at June 30, 2003:

Exercise Price	Options outstanding and exercisable	Remaining contractual life
$ 0.25	795,000	2.8 years
$ 0.65	790,000	2.0 years
$ 0.80	30,000	2.3 years
	1,615,000	2.4 years

7. Stated capital (cont'd):

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:

	2003	Per share
Net income as reported	$ 871,711	$ 0.03
Stock-based compensation expense	(18,144)	-
Pro forma net income	$ 853,567	$ 0.03

In determining the above 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 28 months.

8. Commitments

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

2004	$ 48,300
2005	44,310
	$ 92,610

In addition, as disclosed in Note 5, 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.

9. 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, 2003	$ 2,265,730	$ 59,963	$ 715,870	$ 3,041,563
June 30, 2002	$ 1,936,212	$ 94,003	$ 518,571	$ 2,548,786

10. Income taxes

The Company has approximately $400,000 in non-capital losses which are available to reduce future taxable income. The losses will expire, if unused, in the fiscal years ending in 2005-2009.

In addition, the Company has available for income tax purposes, scientific research and development costs ("SR&D") of approximately $800,000 which can be carried forward and utilized in future years with no expiry.

During the current year, the potential tax benefits related to the non-capital losses was recognized in the consolidated financial statements.

Income tax expense, in the 2003 year end at -27.9% (2002 -13.2%) varies from the amount that would be computed by applying the basic combined statutory federal and provincial income tax rates of 35% (2002 rates was 39%) to income before income taxes due to the recognition of previously unrecognized loss carryforwards and SR&D expenditures.

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

	2003	2002
Tax benefit of loss carryforwards	$ 143,500	$ -
Capital assets	(17,400)	(17,500)
Deferred development costs	133,000	81,500
SR&D Investment Tax Credits	490,900	315,000
	$ 750,000	$ 379,000

11. Contingencies:

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