SANGOMA TECHNOLOGIES CORPORATION

ANNUAL REPORT
YEAR ENDED JUNE 30 2006

INDEX

MESSAGE TO SHAREHOLDERS

It is with great pleasure that I am able to report to you that the financial year 2005-2006 marked a period of rapid growth for Sangoma, with sales increasing by 39% and net income increasing by 52% over the year.

This performance results from general improvement in the telecommunications industry, but it is also due to the enthusiastic reception of your company's voice-related products by the PC-based telephony market.

Sangoma is seeing the results of the complete redesign of the Sangoma product range two to three years ago. At that time, the WAN cards Sangoma had been supplying were superseded by the Advanced and Flexible Telecommunications (AFT) technology that is the core of Sangoma product set today. It was the AFT designs, which were built with an eye to supporting voice as well as data that have allowed us to benefit from the burgeoning PC telephony market, in particular the Open Source telephony (OST) movement.

PC-based telephony is still in its infancy as an industry, characterized by many small players building custom systems for specific projects. However, signs of consolidation are appearing, and volume-based businesses are starting to emerge and become profitable. Sangoma has been able to capitalize on its long standing reputation for high quality hardware to be able to appeal to these serious, well funded and well managed companies, resulting in a move by volume OEMs to standardize on Sangoma products. As the industry matures we expect that Sangoma's quality proposition will become more and more compelling.

The year financial year 2005-2006 was one of solid achievement for Sangoma. Four major new hardware development projects were concluded including the redesign of all our products to support PCI-Express, the new standard for PC architecture. Our intellectual property is being increasingly protected as patents were applied for. New dealer, distributor and OEM links were forged, which should provide significant returns in the future. Increasingly, company spokesmen were invited to deliver addresses at conferences and trade shows. Aggressive public relations efforts have resulted in greater coverage of Sangoma and its products. The dedication and talent of our employees has enabled us to meet or exceed expectations at all times, resulting in satisfied customers who represent our most important marketing resource.

The investment community began to take notice of the opportunities represented by Sangoma, as fund managers such as Hummingbird Management LLC acquired large holdings in the company during the year.

Sangoma is moving to consolidate its gains in data and voice transport by moving into markets not serviced by open source projects. This requires investment of time and resources into expanding Sangoma's own software offerings to provide easy-to use building blocks on which new customers can base their products. Coherent, well planned marketing strategies will be executed to enhance the Sangoma brand, as well as educate potential customers about our solutions.

With discipline, innovation and hard work we see Sangoma as well positioned to see growth in shareholder value as we take exploit our competitive advantages in the vibrant, growing and exciting market segments that we service.

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

October 25, 2006

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, 2006 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, 2006, 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 that enables computing devices with PCI interface slots, mainly PC servers, to communicate with high speed Wide Area networks (WANs) and telephone networks. These products consist of hardware cards, and software drivers and utilities. Sangoma continues to invest in the development and certification of new of products supporting voice and data transport.

Sangoma's hardware and software supports voice transport to the Public Switched Telephone Network (PSTN), allowing PC servers to be used in Voice over IP (VoIP) gateways, PBX devices, call center systems and other telephony applications. Many of the voice applications supported by Sangoma products are run under Open Source Telephony (OST) applications such as the popular Asterisk™ system. Other related projects include 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.

Non-voice data transport products include WANPIPE® internal routing solutions for popular 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. 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 PBX, call center, and voice monitoring systems as well as 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 or telephone interfaces, some of Sangoma's business is related to the support of older legacy protocols like X.25, HDLC and BSC.

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, 2006 were $4.78 million as compared with $3.44 million for the financial year ended June 30, 2005 an increase of 39%. Gross margins were close to those of the previous year at 71%, and expenses for the financial year ended June 30, 2006 were 49% higher than for the previous financial year at $1.91 million. Net income was $1.01 million ($0.037 per share) compared to net income of $0.66 million ($0.0245 per share) for the year ended June 30, 2005, an increase of 51%.

The high growth market for voice-based PCI products is providing new business opportunities, as Sangoma products are recognized as the quality leader in this space. The market itself is growing at roughly 40% per year according to Infonetics Research, and Sangoma's market share of this segment is growing as well.

At the same time, Sangoma's traditional data business is increasing as the data market continues its growth, recovering from the telecom recession that bottomed out in late 2004. Original Equipment Manufacturers (OEMs) that have designed Sangoma's cards into their own products and systems began substantial rollouts during the year ended June 30, 2006.

PC-based telephony is still in its infancy as an industry, characterized by many small players building custom systems. However, signs of consolidation are appearing, and volume-based businesses are starting to emerge and become profitable. Sangoma has been able to capitalize on its long standing reputation for high quality hardware to be able to appeal to these companies, resulting in a move by serious volume OEMs to standardize on Sangoma products. As the industry matures, we expect that Sangoma's market share of this segment will increase further.

Sangoma continues to innovate. During the year ended June 30, 2006, the Corporation released the first products designed specifically and exclusively for voice support. These products included the A200 series of analog voice cards that connect to standard telephones and standard telephone lines, as well as a range of echo cancellation modules designed to eliminate troublesome echo on VoIP systems. A patent application was filed for an innovative method of mounting indicator lights on voice and data equipment.

Sangoma's marketing efforts increased both in activity and associated costs. We have found that the OST market is well suited to trade show marketing. Our trade show representation increased during the year, both in North America and Europe, with positive results. As experts in the field Sangoma personnel are being called on increasingly to present papers at conferences, provide expert articles for on-line and print magazines and act as effective spokespersons for the industry. We also continue to develop our web presence.

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.

SELECTED ANNUAL INFORMATION

	Fiscal year ended June 30		
	2006	**2005**	**2004**
	($000's, except per share amounts)		
Operating Results			
Net sales	$4,776	$3,438	$2,551
Net earnings (loss)	$1,008	$662	$232
Net earnings (loss) per share:			
- non-diluted basis	$0.037	$0.025	$0.01
- fully diluted basis	$0.037	$0.025	$0.01
Financial Position			
Total assets	$10,005	$8,934	$8,673
Long term debt	nil	nil	nil
Shareholders' Equity	$9,471	$8,619	$8,241
Cash dividends declared per share	0.011	0.011	0.011

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, 2006 were $4.78 million as compared with $3.44 million for the financial year ended June 30, 2005, an increase of 39%. The rise in sales occurred despite the continued increase in the value of the Canadian dollar relative to the US Dollar, Sangoma's working currency, over the 2005-2006 financial year. The increase in sales revenue was due to higher OEM sales of cards for data transport as well as new voice-related business. The voice market is growing strongly, and Sangoma's market share is increasing.

Sales increased in all geographic markets. The largest percentage increase in sales occurred in Canadian sales which increased more than threefold from $0.15 million for the year ended June 30, 2005 to $ 0.48 million for the year ended June 30, 2006, representing over 10% of total worldwide sales. Sales in the United States grew 67% from $1.35 million for the year ended June 30, 2005 to $2.26 million for the year ended June 30, 2006. Sales in Europe, Asia and Africa grew 5% from $1.94 million for the year ended June 30, 2005 to $2.04 million for the year ended June 30, 2006.

The relatively low growth rate in Europe, Asia and Africa was due to the fact that a large Asian OEM that had been responsible for considerable business for the Corporation for the year ended June 30, 2005, failed to place significant orders for the year ended June 30, 2006.

Sangoma is expected to continue to experience accelerating 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, 2006 was $1.37 million (29% of sales, gross profit margin of 71%), as compared to was $0.92 million (27% of sales, gross profit margin of 73%) for the year ended June 30, 2005. Gross profit for the year ended June 30, 2006 was $3.41 million, as compared to $2.52 million for the year ended June 30, 2005, an increase of 35%.

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

Administration Expenses

General and administration expenses were $0.80 million for the year ended June 30, 2006 as compared to $0.73 million for the year ended June 30, 2005, an increase of 10%. The biggest increase occurred in the area of foreign exchange loss due to the continued rise of the Canadian dollar. Other increases in office salaries, employment benefits and office related expenses were offset by savings in management bonus and professional fees.

Administration expenses can be expected to increase in the future as staffing levels grow and activities increase.

Selling and Marketing Expenses

Selling and marketing expenses were $0.65 million for the year ended June 30, 2006 as compared to $0.44 million for the year ended June 30, 2005, an increase of 47%. All areas of selling and marketing expenses increased as Sangoma's marketing program has expanded and sales increased, which in turn increased sales commissions.

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

Marketing costs will increase as sales continue to grow and marketing becomes more aggressive.

Development Costs

Continuous product development is crucial to maintaining Sangoma's competitive position in the fast-moving data communications and voice 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 2(g) to the Financial Statements). Actual cash expenditure on development was $0.76 million for the year ended June 30, 2006, as compared to $0.73 million for the year ended June 30, 2005. The small increase is due to an increase in salaries and staffing levels plus additional expenditure on equipment. Sangoma has a stable research and development environment with no staff turnover in the past several years, and has added new R&D personnel during the past year.

Sangoma is entitled to total investment tax credits of $0.32 million for the year ended June 30, 2006 ($0.31 million in the year ended June 30, 2005) which reduce the net deferred development costs to $0.44 million ($0.42 million for the year ended June 30, 2005).

The development costs amortized during the year ended June 30, 2006 were $0.43 million ($0.37 million for the year ended June 30, 2005).

Development expenditure is expected to increase in the future as staffing levels increase.

Total Expenses

Total expenses were $1.91 million for the year ended June 30, 2006 as compared to $1.56 million for the year ended June 30, 2005, an increase of 22%.

Net Income

Income before income taxes was $1.50 million ($0.055 per share) for the year ended June 30, 2006, as compared to income before income taxes for the prior year in the amount of $0.96 million ($0.035 per share), an increase of 56%. After taking into account current and future income taxes, the net income was $1.01 million ($0.037 per share) the for year ended June 30, 2006 as compared to net income after tax of $0.66 million ($0.025 per share) for the year ended June 30, 2005, a increase of 52%.

Cash flow from operations before non-cash working capital balances was $1.54 million in 2005-2006 as compared to $1.13 million in the previous year, an increase of 36%. The cash was mostly absorbed in increased inventory and accounts receivables due to the increased level of business. Inventory was also inflated beyond normal levels because of the Removal of Hazardous

Substances (RoHS) initiative of the European Union (EU) that came into effect in July 2006. This initiative has required the Corporation to hold double inventory of both leaded and lead free parts while the RoHS changeover occurs.

Cash was also expended on the payment of dividends and the purchase of common shares in the capital of the Corporation pursuant to a normal course issuer bid. Cash was received as options were exercised.

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, 2006 ($000's except per share data):

2006	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Year**
Net sales	$1,202	$922	$1,330	$1,322	$4,776
Net earnings (loss)	$279	$171	$371	$186	$1,008
Net earnings (loss) per share: - non-diluted basis - fully diluted basis	 $0.010 $0.010	 $0.006 $0.006	 $0.014 $0.014	 $0.007 $0.007	 $0.037 $0.037
2005	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Year**
Net sales	$450	$897	$1,070	$1,021	$3,438
Net earnings (loss)	$23	$211	$288	$140	$662
Net earnings (loss) per share: - non-diluted basis - fully diluted basis	 $0.001 $0.001	 $0.008 $0.008	 $0.011 $0.011	 $0.005 $0.005	 $0.0245 $0.0245

The sales show continued strong growth on a quarter by quarter basis. The growth rate in sales has averaged 17% quarter-over-quarter during the past eight quarters. Net earnings have increased at an average of over 70% quarter-over-quarter during the same period.

Management of the Corporation believes that this trend will continue and likely accelerate during the coming quarters, with quarterly sales records being surpassed on a regular basis.

LIQUIDITY

The Corporation completed the financial year ended June 30, 2006 with current assets of $3.37 million and current liabilities of $0.53 million, resulting in working capital of $2.84 million, compared to $1.79 million in the prior year, representing an increase of 58%. All components of current assets increased, with the largest increases being cash, which increased by 45% to $1.43 million and inventory which increased by 85% to $0.94 million.

Inventory levels were increased beyond those required by the normal course of business as Sangoma is required to comply with the RoHS regulations of the EU designed to reduce the level of heavy metals in the environment.

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

A discretionary management bonus agreed to by the compensation committee of the Board of Directors of the Corporation will be paid to the Chief Executive Officer of the Corporation in accordance with the terms of a new employment agreement currently being negotiated with the corporation.

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 $1.32 million for the quarter ended June 30, 2006, as compared to $1.02 million for the quarter ended June 30, 2005, an increase of 30%. The gross margin was 69% during the quarter ended June 30, 2006, as compared to 72% for the quarter ended June 30, 2005, resulting in gross profit of $0.91 million for the quarter ended June 30, 2006 as compared to gross profit of $0.73 million for the quarter ended June 30, 2005. Expenses for the quarter ended June 30, 2006 were $6.2 million, as compared to $0.55 million for the quarter ended June 30, 2005, an increase of 12%.

The income before provision for income taxes for the quarter ended June 30, 2006 was $0.30 million as compared to income before provision for income taxes of $0.18 million for the quarter ended June 30, 2005. The net income for the quarter ended June 30, 2006 was $0.19 million as compared to $0.14 million for the quarter ended June 30, 2005.

Cash flow was positive by $0.44 million during the quarter ended June 30, 2006, cash increasing from $0.98 million to $1.43 million during the quarter. Cash flow was increased from proceeds from the exercise of options to purchase common shares in the capital of the Corporation by certain option holders during the quarter.

EVENTS SUBSEQUENT TO JUNE 30, 2006

In July 2006, it was announced that Sangoma's hardware had received telecom certification in the Russian Republic. In the same month, Sangoma's analog product offerings received the Internet Telephony Magazine TMC Innovation award. In August 2006 Sangoma and the Null Team of Romania announced the release of a Windows version of the popular Yate telephony project using Sangoma telephony cards. In September 2006, Sangoma announced the release of a complete line of hardware supporting the latest PCI Express bus that is now used on all high performance servers.

OUTSTANDING SHARE DATA

As at October 24, 2006, the Corporation has 27,387,142 currently issued and outstanding common shares and options to purchase 695,000 common shares.

DISCLOSURE CONTROLS AND PROCEDURES

The Board of Directors of the Corporation has adopted a formal Corporate Disclosure Policy relating to disclosure controls and procedures. This policy extends 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. The disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management of the Corporation, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management has evaluated the effectiveness of Sangoma's disclosure controls and procedures, and believes that, as of the end of fiscal 2006, they have been effective to provide reasonable assurance that information required to be disclosed in Sangoma's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Corporation, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

SANGOMA TECHNOLOGIES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

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, 2006 and 2005 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, 2006 and 2005 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
September 15, 2006

Chartered Accountants

SANGOMA TECHNOLOGIES CORPORATION

(Continued under the Ontario Business Corporation Act)

CONSOLIDATED BALANCE SHEETS - YEARS ENDED JUNE 30, 2006 AND 2005

ASSETS

	2006	2005
Current		
Cash and equivalents	$ 1,427,457	$ 983,953
Accounts receivable	788,554	480,882
Income taxes recoverable	127,730	76,730
Inventory *(Note 3)*	939,121	506,782
Prepaid and deposits	82,510	58,445
	3,365,372	2,106,792
Future income taxes *(Note 9)*	516,737	739,737
Property, plant and equipment *(Note 4)*	108,677	85,504
Development costs	471,397	459,260
Goodwill, net	5,542,849	5,542,849
	$ 10,005,032	$ 8,934,142

LIABILITIES

	2006	2005
Current		
Accounts payable and accrued liabilities	$ 459,356	$ 218,973
Management bonus payable *(Note 5)*	74,983	95,862
	534,339	314,835

SHAREHOLDERS' EQUITY

	2006	2005
Stated capital *(Note 6)*	13,046,873	12,903,073
Contributed surplus *(Note 11)*	82,644	82,644
Deficit	(3,658,824)	(4,366,410)
	9,470,693	8,619,307
	$ 10,005,032	$ 8,934,142

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, 2006 AND 2005

	2006	2005
Sales	$ 4,775,579	$ 3,438,132
Cost of sales	1,367,964	916,611
Gross profit	3,407,615	2,521,521
Expenses:		
General and administration expenses *(Page 5)*	797,675	725,689
Selling and marketing expenses *(Page 5)*	647,363	441,770
Amortization - development costs	432,218	365,240
Amortization - property, plant and equipment	30,693	30,207
	1,907,949	1,562,906
Income before provision for income tax	1,499,666	958,615
Future income taxes	492,000	296,635
Net income for the year	$ 1,007,666	$ 661,980
Basic income per share	$ 0.04	$ 0.02
Fully diluted income per share	$ 0.04	$ 0.02
Weighted average number of shares outstanding - basic	27,211,725	27,103,599
Weighted average number of shares outstanding - diluted	27,312,614	27,170,038

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, 2006 AND 2005

	2006	2005
Deficit, beginning of year	$ (4,366,410)	$ (4,669,591)
Stock based compensation *(Note 12)*	-	(60,644)
Opening balance restated	(4,366,410)	(4,730,235)
Net income for the year	1,007,666	661,980
Dividend paid	(300,080)	(298,155)
Deficit, end of year	$ (3,658,824)	$ (4,366,410)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Cash provided by (used in) the following activities:		
Operations:		
Net income for the year	$ 1,007,666	$ 661,980
Add items not requiring an outlay of cash		
Amortization	462,911	395,447
Future income taxes related to operations	69,000	46,500
Stock based compensation	-	22,000
	1,539,577	1,125,927
Net change in non-cash working capital balances related to operations *(Note 13)*	(544,571)	(196,520)
Cash flow from operations	995,006	929,407
Financing:		
Issuance of capital stock	160,000	-
Shares purchased for cancellation	(16,200)	(7,800)
Repayment to shareholders	-	(200,000)
Dividend paid	(300,080)	(298,155)
	(156,280)	(505,955)
Investing:		
Deferred development costs before investment tax credits	(764,356)	(728,361)
Investment tax credits	320,000	308,610
Purchase of property, plant and equipment	(53,866)	-
Future income taxes related to investments	154,000	17,836
Net change in non-cash working capital related to investments *(Note 13)*	(51,000)	26,270
	(395,222)	(375,645)
Increase in cash and cash equivalents during the year	443,504	47,807
Cash and equivalents, beginning of year	983,953	936,146
Cash and equivalents, end of year	$ 1,427,457	$ 983,953

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, 2006 AND 2005

	2006	2005
Administration expenses:		
Bad debts	$ 4,975	$ 6,762
Bank charges and interest	35,376	40,948
Employee benefits	109,727	83,014
Foreign exchange loss	108,472	16,192
Insurance	58,220	61,998
Management salaries *(Note 5)*	121,385	122,332
Management bonus *(Note 5)*	74,983	95,862
Office and general	21,172	10,416
Office salaries	88,918	69,815
Professional fees	51,281	70,362
Rent and occupancy	86,267	91,589
Shareholder information	48,919	38,875
Stock based compensation *(Note 12)*	-	22,000
Telephone and Internet	16,913	15,360
	826,608	745,525
Investment income	(28,933)	(19,836)
	$ 797,675	$ 725,689

	2006	2005
Selling and marketing expenses:		
Advertising and promotion	$ 207,641	$ 146,947
Sales salaries and commissions	274,021	192,895
Travel, entertainment and trade shows	165,701	101,928
	$ 647,363	$ 441,770

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, 2006 AND 2005

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, 2006 and 2005, 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.

(c) Long-lived assets:

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.

(d) 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.

(e) 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.

(f) Inventory:

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

(g) 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.

(h) 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.

2. Summary of significant accounting policies (continued):

(i) 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.

(j) 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)

(k) 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.

(l) Earnings per share:

The Company has adopted the recommendations of the CICA Handbook section 3500, Earning per Share ("EPS"). The 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.

(m) 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.

(n) 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.

3. Inventory:

Inventory at year end consists of the following:	2006	2005
Finished goods	$ 269,496	$ 149,127
Parts	669,625	357,655
	$ 939,121	$ 506,782

4. Property, plant and equipment:

	Cost	Accumulated Depreciation	2006 Net	2005 Net
Office furniture, fixtures and equipment	$ 449,449	$ 340,772	$ 108,677	$ 85,504

5. Related party balances and transactions:

The management bonus payable in the prior year was payable to two individuals who were senior officers and shareholders of the Company and was payable under their employment contracts which entitled 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. A new employment contract with a senior officer and shareholder is effective July 1, 2006 with a bonus entitlement of 5% of pre-tax profits to a maximum of $100,000 and will expire June 30, 2011. The current year's management bonus in the amount of $74,983 is discretionary and has been approved by the Company's Compensation Committee.

Included in administrative expenses is $14,160 which is an allowance to reimburse expenses incurred by an employee who is a senior officer and shareholder for expenses incurred in relocating overseas.

During the year, management salaries in the amount of $226,595 (2005 - $397,495) were paid to these two senior officers and shareholders. A portion of these costs in the amount of $105,210 (2005 - $275,163) have been deferred in Development costs and are being amortized on a straight line basis over a period of three years.

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, 2004	27,105,000	$ 12,910,873
Shares purchased for cancellation	(30,000)	(7,800)
Balance June 30, 2005	27,075,000	$ 12,903,073
Shares purchased for cancellation	(45,000)	(16,200)
Exercise of options	640,000	160,000
Balance June 30, 2006	27,670,000	$ 13,046,873

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 expired November 8, 2005. Since November 8, 2004, the Company has purchased 75,000 shares for $24,000 under the bid.

6. Stated capital (cont'd):

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.

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, 2006 and 2005 and the changes for the years then ended is presented below:

	Options Outstanding	Weighted-Average Exercise price
At June 30, 2004	2,095,000	$ 0.42
Granted	215,000	$ 0.30
Expired	(740,000)	$ (0.65)
At June 30, 2005	1,570,000	$ 0.30
Expired	(235,000)	$ (0.35)
Exercised	(640,000)	$ (0.25)
At June 30, 2006	695,000	$ 0.32

The following table summarizes information about the options outstanding at June 30, 2006:

Exercise Price	Options outstanding and exercisable	Remaining contractual life
$ 0.43	180,000	2.4 years
$ 0.28	300,000	2.4 years
$ 0.30	215,000	3.8 years
	695,000	2.6 years

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

7. Commitments

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

2007	$ 42,000
2008	43,000
2009	44,000
2010	8,000
	$ 137,000

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 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, 2006	$ 2,256,756	$ 478,024	$ 2,040,799	$ 4,775,579
June 30, 2005	$ 1,350,394	$ 148,124	$ 1,939,614	$ 3,438,132

9. Income taxes

The Company has available scientific research and development costs ("SR&D") of approximately $387,000 for federal purposes, and $Nil for provincial purposes, which can be carried forward and utilized in future years with no expiry and "SR&D" investment tax credits of approximately $800,000 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:

	2006	2005
Statutory tax rate	35.00 %	35.00 %
Effective tax rate	35.00 %	35.00 %

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

	2006	2005
Tax benefit of loss carry-forwards	$ -	$ 76,200
Capital assets	(12,000)	(13,000)
Deferred development costs	(93,000)	141,200
SR&D Investment Tax Credits	621,737	535,337
	$ 516,737	$ 739,737

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 - June 30, 2005		22,000
Restatement relating to prior year's stock based-compensation *(Note 12)*		60,644
Balance June 30, 2005 and 2006	$	82,644

12. Change in accounting policy:

As disclosed in Note 2(j) 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 prior 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:

	2006	2005
Accounts receivable	$ (307,672)	$ (211,700)
Inventory	(432,339)	(41,234)
Prepaid expenses	(24,065)	(26,309)
Accounts payable and accrued liabilities	240,384	23,443
Management bonus payable	(20,879)	59,280
	$ (544,571)	$ (196,520)

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

	2006	2005
Income taxes recoverable	$ (51,000)	$ 26,270
Cash paid for interest	$ -	$ 18,000

14. Subsequent events:

Subsequent to year end the Company granted options to purchase 650,000 common shares at a price to be determined to employees, and senior officers and directors of the Company.

As disclosed in Note 5, subsequent to year end the Company entered into an employment contract with a senior officer and shareholder effective July 1, 2006 under which the senior officer and shareholder is entitled to an annual bonus in the amount of 5% of pre-tax profits to an annual maximum of $100,000, expiring June 30, 2011.