

March 5, 2008

RESEARCH NOTE:

SANGOMA TECHNOLOGIES CORPORATION - (TSXV: STC)

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TODAY IN HISTORY:

1900 - The United States and the United Kingdom sign treaty for Panama Canal

1958 - A hydrogen bomb known as the Tybee Bomb is lost by the US Air Force off the coast of Savannah, Georgia, never to be recovered.

1988 - Manuel Noriega is indicted on drug smuggling and money laundering charges.

SANGOMA TECHNOLOGIES CORPORATION

Equity Research | Technology

Please see important disclosures at the end of this document

Ticker

TSXV:STC
\$1.24

Recommendation

STRONG BUY
(was Under Review)

12-month Target

\$3.60
(was Under Review)

A Solid Value in the High Growth Open Source PBX Market

March 5, 2008

Market Data

52-week High-Low	\$1.72-\$0.71
Shares Outstanding	
– Basic	27.8 million
– Fully diluted	28.5 million
Market Capitalization	\$35.3 million
Cash	\$3.8 million
Enterprise Value	\$31.5 million
Total Debt	Nil
Fiscal Year End	June 30
Major shareholders	Insiders: 23%

Financial Data

(000, except EPS)	FY06A	FY07E	FY08E	FY09E
Revenue	\$4,776	\$8,223	\$13,484	\$18,800
Net Income	\$1,008	\$1,988	\$3,675	\$5,846
EPS (FD)	\$0.04	\$0.07	\$0.13	\$0.21
P/S	7.4x	4.3x	2.6x	1.9x
P/E	33.6x	17.9x	9.6x	6.0x

Investor Risk Tolerance Scale



Company Description

Sangoma Technologies Corporation provides connectivity hardware and software products for PBX and LAN/WAN infrastructure. The Company's products, in combination with open source software products, can enable industry standard PCs and servers to perform routing and PBX functions. Sangoma's products are distributed globally through its network of regional distribution partners and integrators that service local businesses.

Event

Transitioning coverage.

Highlights

Sangoma Technologies produces and sells hardware PC add-on solutions that enable open source alternatives to expensive, proprietary routing and PBX products. The Company's PBX products have experienced rapid growth over the last few years and management estimates its product growth has exceeded that of the open source PBX market.

The PBX market is in a state of flux as software vendors are turning the PBX hardware into a commodity. Both Microsoft and IBM have launched Unified Communications software solutions that integrate with existing email systems. The net effect is that the PBX hardware itself is becoming less relevant, while the software becomes the main purchasing consideration. Management estimates that its PBX hardware products have been growing at 80% annually for the last several years, higher than the open source PBX market, which has experienced annual growth of approximately 50% over the same timeframe.

Sangoma is an exceptionally well-run company with industry leading gross margins in the low 70% range and revenue growth over the last 12 months in excess of 80%. The Company's products are distributed globally through its network of regional dealers and integrators that service local businesses.

Sangoma has experienced strong revenue growth over the past several years, with F2007 revenue of \$8.2 million, up 72% year-over-year and we anticipate robust growth to continue in F2008 with sales of \$13.5 million, up 64% year-over-year.

Investment Conclusion

We are transitioning coverage on Sangoma Technologies Corporation with a **STRONG BUY** recommendation and a **12-month target price of \$3.60**, based on a P/E multiple of 15 times our EPS forecast of \$0.24 for the 12 months ended March 31, 2009.

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Investment Thesis

Sangoma Technologies produces and sells hardware PC add-on solutions that enable open source alternatives to expensive, proprietary routing and PBX (Private Branch eXchange) products. The routing products are used with an industry standard server or PC to operate as a router and are easily expandable as a company grows. The PBX products also allow for industry standard PC server hardware to operate as an office PBX when used in conjunction with open source software.

Sangoma's routing hardware sales have historically been a stable business for the Company, while management estimates its PBX products have been growing at over 80% per year for the past several years. The open source PBX market overall has experienced strong growth in recent years as popular open source packages, such as Asterisk, have become increasingly stable and are seen as a viable alternative to costly, proprietary PBX solutions. Microsoft and IBM's entry in the PBX market can also be viewed as the beginning of a shift towards the de-emphasis of proprietary hardware in the PBX purchasing decision and the greater reliance of the software platform. Sangoma's PBX add-on boards enable open source PBX systems and can be used with Microsoft's Unified Communications software to enable external connections to the public telephone system.

In terms of Sangoma's financials, the Company is extremely well run, with what we consider to be industry-leading gross margins in the low 70% range. Very few hardware technology companies have margins at the same level as Sangoma, particularly in the small cap space. Sangoma has experienced strong revenue growth over the past several years with F2007 sales of \$8.2 million, up 72% year-over-year and we anticipate the strong growth to continue in F2008 with sales of \$13.5 million, up 64% year-over-year.

Sangoma has industry- leading gross margins above 70%

Transitioning coverage with a STRONG BUY rating and \$3.60 target price

We are transitioning coverage on Sangoma with a STRONG BUY rating and \$3.60 target price. Our target is based on a P/E multiple of 15 times our EPS forecast of \$0.24 for the 12 months ending March 31, 2009.

Company Overview

Sangoma Technologies produces and sells hardware products that enable PBX and WAN (Wide Area Networking) functions on low cost standard PC and server hardware. The PBX products are mainly used in open source installations, where the software is Linux-based and typically free, or purchased by the user at a relatively low cost. The WAN products can be used in a variety of applications, including low cost PC-based routing and retail POS (Point of Sale) applications. Sangoma's products are sold to a range of small to medium sized business and customers even include some Fortune 500 companies.

Sangoma was founded in 1984 and is based in Markham, Ontario. The Company has 19 employees and sells its products worldwide. In May of 2000, Sangoma completed a reverse takeover of a CPC and is now traded on the TSX Venture exchange under the symbol STC.

Industry

WAN Market for SMBs (small and medium businesses)

Use of the Internet in every day business activities has become essential for all sizes of businesses regardless of the industry. Several connection options are available for businesses, depending on the company’s size and needs, including dial-up, T1, E1, T3, OC3, etc., as shown in Table 1. For most SMBs a T1 or even dial-up options are used with the T1 line offering the always-on broadband connection. The T1 and greater bandwidth connections allow for both data and voice communication as well as enable WANs (wide area networks) to connect together several offices for the purpose of shared storage and managing enterprise-wide communications.

Table 1: Internet Connection Options

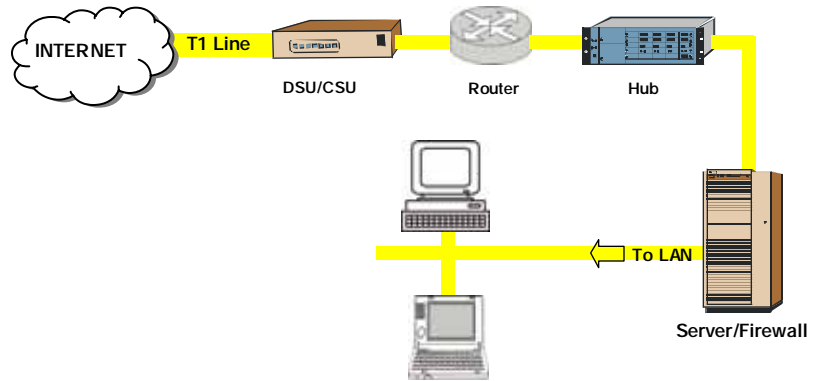
CONNECTION	BANDWIDTH	DESCRIPTION
DS0 (Digital Signal 0)	64 Kb/s	▪ Single voice circuit
ISDN (Integrated Services Digital Network)	128 Kb/s	▪ Standard for voice and data equivalent to two DS0 lines
ADSL (Asymmetric Digital Subscriber Line)	1.024 Mb/s	▪ Enables faster data transmission over copper telephone lines
T1	1.544 Mb/s	▪ Fiber optic connection to businesses equivalent to 24 DS0 lines
J1	1.544 Mb/s	▪ Equivalent to T1 and used in Japan
E1	2.048 Mb/s	▪ Operates over two separate sets of wires, usually coaxial cable. Used outside of North America and Japan
E3	34.4 Mb/s	▪ Equivalent to 16 E1s
T3	43.232 Mb/s	▪ Equivalent to 28 T1s
OC1 (Optical Carrier)	51.84 Mb/s	▪ Synchronous optical networking for use on a SONET network
OC3	155 Mb/s	▪ Contains 84 T1s
OC12	622 Mb/s	▪ Contains 4 OC3s
OC48	2.5 Gb/s	▪ Contains 4 OC12s
OC192	9.6 Gb/s	▪ Contains 4 OC48s

Source: Howstuffworks.com, dcbnet.com, NSI

Dedicated data routers can be expensive to install and maintain for SMBs

Networking within an office or in a WAN among multiple offices of a small business is a necessary and relatively costly capital expense for SMBs. Dedicated data routers can cost several thousand dollars and in many cases, as a small business expands to become an even larger enterprise, the dedicated router may require to be scrapped in favour of a larger and more expensive router. Often, the expense of having a data router goes well beyond the cost to purchase and can include maintenance contracts as well as additional employee training costs to ensure the router runs smoothly. An illustration of a dedicated data router system is shown in Figure 1.

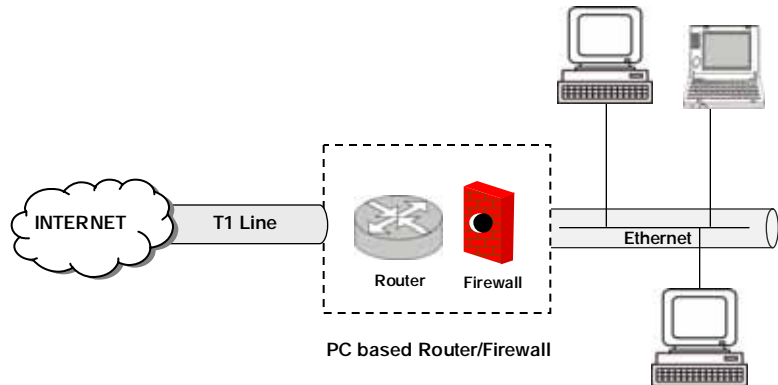
Figure 1: Dedicated Router-based WAN System



Source: Company reports

PC-based routers have been around for some time and provide a relatively low cost solution for SMBs to provide a data network within the office as well as to connect multiple offices together. The same scenario is true for the retail environment as the requirement is to connect multiple POS (point of sale) systems together and link them to the inventory management and order systems. The PC-based system uses a standard PC running the Linux operating system and specialized PCI or PCI Express card slotted into the back of the machine. The overall cost of a PC-based router is, in most cases, lower than a dedicated router and includes lower costs to service, maintain and support the router. A typical PC-based WAN network is illustrated in Figure 2.

Figure 2: PC-based WAN System



Source: Company reports

PBX Market for SMBs (small and medium businesses)

A traditional analog PBX system consisted of proprietary hardware and software usually sold by larger telecom companies and targeted at large enterprises due to the higher cost and complexity. Small businesses had few options in the way of low cost systems as the initial cost of the system, lack of flexibility and on-going system maintenance were generally major barriers.

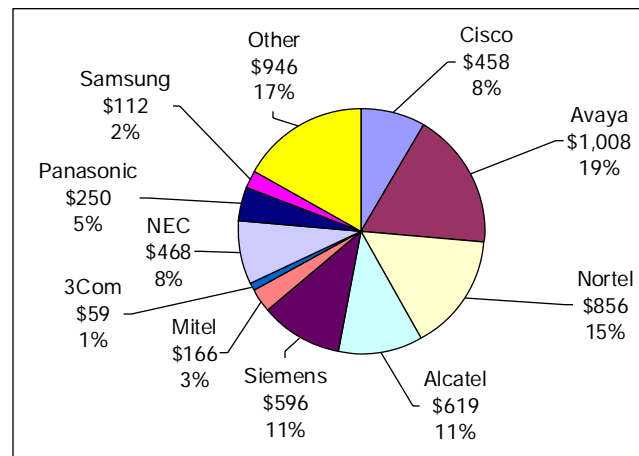
A standalone PBX is nothing more than a specially built server with a unique set of interface cards attached to the main board, running custom PBX software. If the PBX system required expansion, a high priced, specialized card could be purchased from the PBX vendor and installed into the system, which usually required specially trained

The total PBX market is approximately \$5.5 billion with the majority of the system sales from large, proprietary technology vendors

personnel. As the cost of standard PCs dropped dramatically in the late 1990s and with the release of one of the most popular open source PBX software systems, Asterisk, it started to make more sense to move many of the PBX's functions to a standard PC with a specialized add-in board. The PC-based systems required little in the way of upfront capital, with the specialized add-in boards costing only \$1,000 to \$2,500; set-up and configuration required some skill but not overly complex and the software is essentially free.

The total market for PBX systems globally is approximately \$5.5 billion with the majority of sales being traditional PBX systems from the established, large vendors such as Nortel, Avaya, Cisco and Alcatel-Lucent as illustrated in Figure 3. The PBX market has shifted from analog/digital systems towards IP (Internet Protocol) based systems or hybrid IP systems that are capable of handling both analog/digital and IP-based systems. IP-based PBX systems have an advantage over their older counterparts as it has become easier to integrate advanced features into the system. These advanced features are commonly known as Unified Communications, or the unification of communications means such as email, voice, instant messaging and video conferencing. Few organizations can make use of all the available features although it does make it easier to perform common tasks, such as calling from personal directories, conference calls and call forwarding, to ensure important calls are not missed.

Figure 3: Total 2005 Worldwide SMB PBX Market



Source: AMI Partners, NSI

Microsoft and IBM are transforming the traditional, proprietary PBX system into commodity hardware

The PBX market is currently in somewhat of a state of flux as software vendors are now making the PBX hardware a commodity. Microsoft launched its Unified Communications strategy in July of 2006 in cooperation with Nortel Networks but did not officially release its Office Communications Server 2007 until October of last year. IBM has a similar strategy to coincide with its Lotus Notes email package and has struck similar partnerships with industry leading PBX manufacturers such as Nortel Networks, Avaya and Cisco. The net effect of these strategic moves is that the PBX hardware itself is becoming less relevant while the software becomes the main purchasing consideration.

The Open Source PBX Market

The PC-based PBX market, based on open source software code, is a niche market serving mainly smaller businesses and educational institutions that require some of the features of larger companies but on a tighter budget. The majority of the installations run on Linux-based systems, although some open source PBX software can run on Windows. The most popular open source PBX software platform is Asterisk, which was developed in 1999 by a company called Linux Support Systems that later changed its name to Digium. A list of several of the most popular open source PBX software platforms are listed in Table 2.

Table 2: Open Source PBX Software Platforms

Asterisk www.asterisk.org	<ul style="list-style-type: none"> ▪ Developed by Digium Inc. in 1999 ▪ Runs on Linux, BSD, Windows, and MacOS X ▪ Capable of voicemail services with directory, call conferencing, interactive voice response, call queuing, three-way calling, caller ID services
CallWeaver www.calweaver.org	<ul style="list-style-type: none"> ▪ Supports Linux, FreeBSD, NetBSD, OpenBSD, MacOS X/Darwin, Open/Solaris ▪ Supports analog and digital PSTN telephony, multi-protocol voice over IP telephony, fax, software-fax, T.38 fax over IP and many telephony applications
FreeSWITCH www.freeswitch.org	<ul style="list-style-type: none"> ▪ FreeSWITCH runs on Windows, Max OS X, Linux, BSD and Solaris on both 32 and 64 bit platforms ▪ Supports various communication technologies such as SIP, H.323, IAX2 and GoogleTalk ▪ Features include Recording, Voicemail, Jabber IM, Google Talk, Proxy, Media gateway, Soft-PBX, IVR
Yate www.yate.null.ro	<ul style="list-style-type: none"> ▪ Yate can be used for VoIP (SIP, H323, IAX) - PSTN gateways, PC2Phone prepaid or postpaid calling systems, calling card applications, and call centers ▪ Runs on Linux, BSD, Windows and Solaris ▪ Features include FAX, IVR, Conference, Music on Hold, Radius and many others

Source: Company websites, NSI

Historically, open source software platforms have had some large successes and managed to become the standard in the marketplace. Several examples of successful open source software applications include Linux, Apache and JBoss. Linux comes in several forms that have been slightly tweaked and are offered as an operating system in mainframes and workstations by several companies, including IBM (AIX) and Sun (Solaris). The Apache web server is the most commonly used web server on the Internet and the JBoss middleware platform became so popular that it was acquired by RedHat in April 2006 for US\$420 million.

Much of the success of these open source products came as a result of their support from large corporations in order to provide a viable alternative to a monopolistic competitor, such as Microsoft's Windows or Netscape's Enterprise Server. The open source PBX software has

yet to gain support from a large industry incumbent such as Nortel, Avaya or Alcatel-Lucent although the industry is moving towards a more standardized, software-based PBX environment under the unified communications push from Microsoft and IBM, as an attempt to integrate PBX functionality with the Outlook or Lotus Notes email packages. Open source solutions may become more widely adopted if they are viewed more as an alternative to the dominant positions of IBM or Microsoft as opposed to the low cost solution.

Products

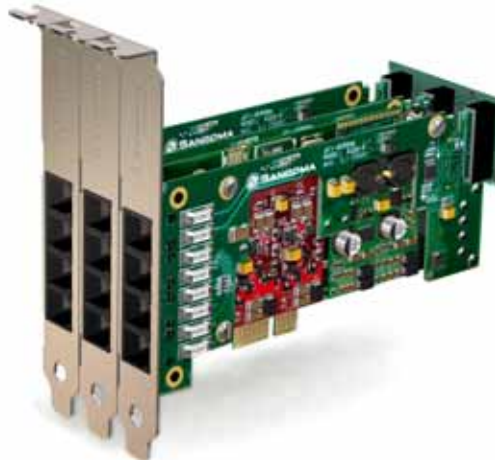
Sangoma's products are sold through a network of distributors in Africa, Asia, Europe, Australia, North America, and South America

Sangoma's products are all PC-based and connect to the PCI or PCI express slot in the back of a standard PC or server. In total, there are 13 different products although several have up to four variants, depending on the option the user chooses, including slot type (PCI or PCI express) and echo cancellation for the voice cards. All products come with either a three-year or five-year warranty and are field upgradeable via a firmware upgrade if required. Sangoma sells its products through several regional distributors located around the world that also, in many cases, provide integration services as well.

Analog Telephony

The analog telephony line includes two main products, the A200 and A400. The A200 is expandable from 2 to 24 ports and is able to support a maximum of 24 external calls simultaneously. The A400 expands from 2 to 48 ports and can support a maximum of 48 external calls simultaneously. Both products are expandable through the use of a separate bridge connector as pictured in Figure 4, which connects each additional board to the main one that is attached to the PCI express or PCI slot. The boards are also hardware upgradeable with optional DSP daughter boards that enable echo cancellation.

Figure 4: Sangoma's Analog Telephony Cards



Source: Company reports

Voice and Data

Sangoma's AFT (Advanced Flexible Telecommunications) series come in several configurations with options up to 8 ports per card. Each port is capable of handling up to 30 simultaneous calls or 4.1 Mbps of full duplex data over T1, E1, or J1 lines. Within the AFT line is

the A500 BRI interface card (pictured in Figure 5), which can be expanded up to 24 ports to handle up to 48 simultaneous calls over 24 ISDN BRI lines. As with the analog line of products, the voice and data cards are software and hardware upgradeable, including optional Telco-grade hardware echo cancellation – an option with which the higher-end A10Xd/d-X cards already come equipped.

Figure 5: Sangoma's A500 BRI Voice and Data Card



Source: Company reports

Data Only Products

Sangoma's data only products are used primarily as a replacement for expensive external routers. Like Sangoma's other data and voice products, the data products connect to the PC or server through the PCI slot and support 56K, ADSL, T3 and E3 links. The A56 is intended for rugged or remote environments where a leased DDS line from a telco operator is the only or best choice available. The S518 (pictured in Figure 6) connects to the Internet via an ADSL connection and is intended for a router replacement for small business, while the A301 is intended for medium sized businesses with increased data requirements and supports T3 or E3 data links.

Figure 4: Sangoma's A500 BRI Voice and Data Card



Source: Company reports

Management

David Mandelstam, *President and Chief Executive Officer*

Mr. Mandelstam is the founder, President and CEO of Sangoma. Prior to founding Sangoma, Mr. Mandelstam acted as the CEO to Entropy Control, a company involved with energy conservation engineering. Mr. Mandelstam also held positions previously at Spar Aerospace and South African Airlines.

Doug Vilim, *Vice President, Sales and Marketing*

Mr. Vilim joined Sangoma Technologies in 2002, with previous experience as the Business Development Manager at 01 Communique (TSX:ONE) as well as the US Sales Manager for Eicon Network's WAN and Voice Products division. Prior to Eicon, Mr. Vilim spent a combined 10 years at NEC and Compaq, where he held various account executive and technical sales positions.

Competition

Table 3: Open Source Equipment Competitors

<p>Aculab Privately Held www.aculab.com</p>	<ul style="list-style-type: none"> ▪ Company creates products for use within telco or enterprise solutions include media processing resources, speech processing, fax, conferencing and echo cancellation - in both PSTN and IP environments – and digital network access including VoIP and SS7 ▪ The company has five offices supporting its customers in different regions and 180 employees
<p>Dialogic Corporation Privately Held www.dialogic.com</p>	<ul style="list-style-type: none"> ▪ Dialogic is privately held and based in Montreal, Canada ▪ Dialogic provides open systems platforms to the enterprise and service provider markets that allow the delivery of services, content and applications using multimedia processing and signaling technologies. ▪ The company's products include media gateways that can bridge legacy PBX and PSTN networks to next generation, VoIP-based applications and services.
<p>Digium Inc. Privately Held www.digium.com</p>	<ul style="list-style-type: none"> ▪ Digium Inc. was founded in 1999 and is located in Huntsville, Alabama. ▪ Digium first developed Asterisk in 1999 and was the industry's first open source telephony platform. ▪ The company provides hardware and software products including: AsteriskNOW, Asterisk Business Edition and Asterisk Appliance.
<p>OpenVox Communication Co. Ltd. Privately Held www.openvox.com.cn</p>	<ul style="list-style-type: none"> ▪ Headquartered in Shenzhen, China ▪ Produce open source PCI cards supporting ISDN, FSO, FSX and E1/T1 ▪ The company has resellers throughout the world and also sells direct and ships from their location in Shenzhen
<p>Rhino Equipment Corp. Privately Held www.rhinoequipment.com</p>	<ul style="list-style-type: none"> ▪ Headquartered in Temple, Arizona ▪ Rhino Equipment is an OEM manufacturer that produces telephony plug-in cards and channel banks to resellers that service the traditional and Asterisk PBX markets
<p>One Stop Systems Privately Held www.onestopsystems.com</p>	<ul style="list-style-type: none"> ▪ Founded in 1998 and headquartered in Escondido, California ▪ The company provides a wide range of products for the military and defense markets as well as small business and enterprise ▪ Products include PCI and PCI express WAN cards, PCI express over COAX extenders, PCI express interface boards and backplanes

Source: Company reports, NSI

Financial Results and Forecast

Sangoma has experienced strong growth over the past four years on the back of strength in the overall open source PBX market

For F2008 we are forecasting total sales of \$13.5 million, up 64% y/y

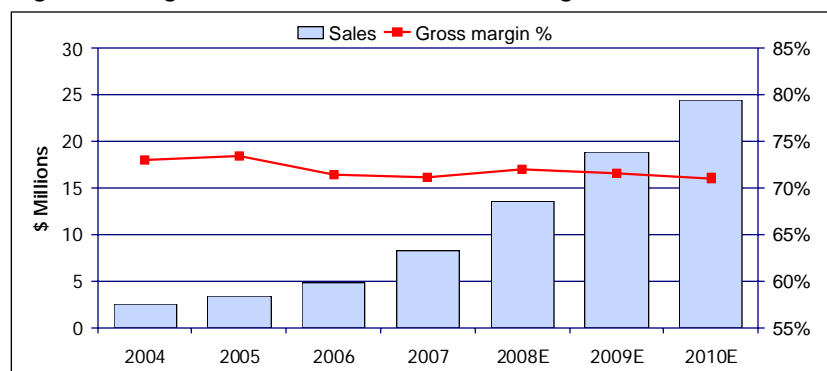
Revenue and Gross Margin

Sangoma has maintained a significant rate of growth for the past four years on the back of growth in the open source PBX market as well as increased demands for its networking products. Much of the growth in F2007 was the result of stronger sales in its PBX hardware as the market for open source PBX solutions grew throughout the year and Sangoma earned a reputation amongst its customers for quality products that are relatively easy to set-up and maintain. The WAN market was also strong in F2007 as we estimate that approximately 50% of the Company's revenue came from this sector, although we believe it to be growing much slower than the PBX market.

Sangoma maintains very strong gross margins, which we consider to be somewhat unusual for a hardware company. Gross margins have been above 70% for the past four years but are slowly drifting lower, which is a trend we expect to continue. Sangoma outsources the production of its add-in boards to local contract manufacturers and buys and sells the boards in US dollars, such that gross margins are largely unaffected by fluctuations in the US to Canadian dollar exchange rate.

In the Company's last reported quarter, Q2-08 (ending December 31) revenue was \$3.1 million, up 9% sequentially or up 70% year-over-year. Gross margin was 72%, up marginally from 71.5% in Q1-08 and up from 71.1% reported in Q1-07. For the remainder of F2008, we are forecasting margins to remain flat at 71.9% and decline marginally in F2009. For F2008, we are forecasting revenue of \$13.5 million, up 64% y/y and for F2009 we are forecasting revenue of \$18.8 million, up 39.4% y/y. Sangoma's annual sales and gross margin are illustrated in Figure 4.

Figure 4: Sangoma Annual Sales and Gross Margin



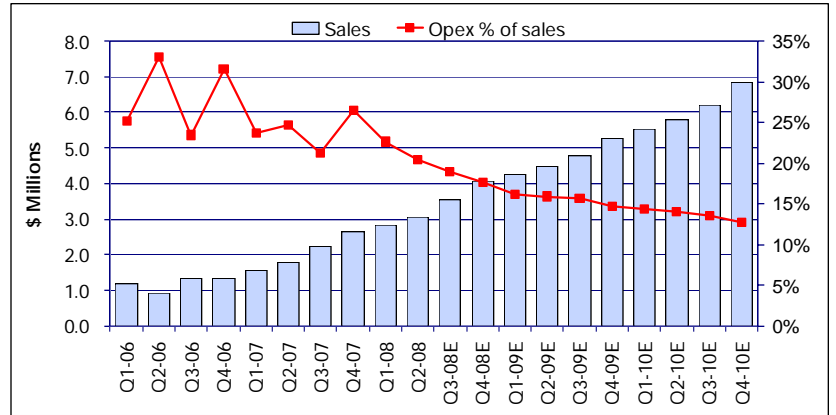
Source: Company reports, NSI

Operating Expenses

Over the past four years Sangoma's operating expenses have increased but at a much lower rate than the growth in sales. As a result, operating expenses as a percentage of sales have been trending lower and we expect this to continue over the next few years as sales growth continues to outpace growth in expenses. In Q2-08, operating expenses were \$625,692 (20.4% of sales), down 2% sequentially or up 40.5% year-over-year and for F2008 we are forecasting total operating expenses of \$2.7 million (20% of sales), up

33.3% year-over-year. Sangoma's annual sales and operating expenses are presented in Figure 5.

Figure 5: Sangoma's Sales and Operating Expenses



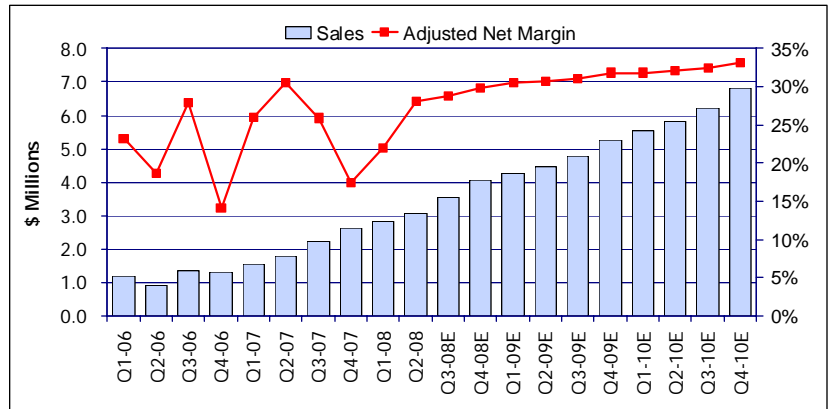
Source: Company reports, NSI

Net Income

Over the past four years, adjusted net margins have increased from 9.1% to 24.2%

Over the past four years, Sangoma has grown its adjusted net margins (excluding stock option expenses) from 9.1% in F2004 to 24.2% in F2007. The growth in net earnings has been a result of strong revenue growth, coupled with tight expense management. For F2008 we are forecasting adjusted net income of \$3.7 million (27.3% net margin), up 88% year-over-year and for F2009 we are forecasting adjusted net income of \$5.8 million (31.1% net margin), up 59% year-over-year. Sangoma's sales and adjusted net margin are presented in Figure 6.

Figure 6: Sangoma's Sales and Adjusted Net Margin



Source: Company reports, NSI

Risks

Highly Competitive, Fragmented Market

As the open source PBX market continues to gain more traction the market may become more attractive for new entrants in the hardware space. Currently, Sangoma is well recognized in the market for its high quality, reasonably priced products. However, competition from low-cost regions such as China may erode margins.

Foreign Currency

Sangoma's revenue is predominantly denominated in US dollars, although much of the Company's fixed costs are in Canadian dollars, which is the reporting currency. Over the last year as the Canadian dollar has gained substantially against the US dollar, the Company has experienced foreign exchange losses. However, Sangoma buys its products from third party manufacturers in US dollars and resells products in US dollars, allowing for a natural hedge, which is primarily the reason gross margins have not significantly declined over the past year.

Price Competition from Traditional PBX Vendors

One of the main advantages of an open source PBX system is the cost advantage over traditional proprietary solutions. If Microsoft or IBM, through their Unified Communications PBX software push, decides to focus more intently on the SMB market, they may lower prices to compete more effectively with open source systems.

Valuation and Recommendation

Sangoma is an exceptionally well-run small company, focusing on PC-based products for the SMB PBX and WAN market. The Company has experienced strong revenue growth over the past four years on the back of rising demand in the overall open source PBX market. Sangoma has established itself as a leader in service and quality in the open source PBX market and has a strong position in the PC-based WAN market.

In terms of financials, we consider Sangoma's gross margins to be industry-leading at over 70%, while net margins of greater than 20% are extremely rare for a hardware technology company. Sangoma subcontracts the production of its boards to local third parties but maintains an in-house design and development team for the hardware and associated software and drivers. The rise in the Canadian dollar has had some negative impact on the Company in the form of foreign exchange losses, but has had minimal impact on gross margins, as its products and most of its components are bought and resold in US dollars.

As a result of the Company's strong financial position and strong market position, we believe that the Company warrants a premium over others in its space. The majority of Sangoma's direct competitors are private companies; however, there are several public companies in the telecom equipment space that we have used in our comparables as illustrated in Table 4. For a high-growth, technology company, we typically use a multiple between 20 and 25 times. However, as the group average stands at around 13 times, we have chosen to value Sangoma on a more conservative 15 times P/E due to the Company's lower liquidity and smaller market capitalization.

Sangoma's strong financial position and strong market position warrant the Company receiving a premium multiple over others in its space

Table 4: Telecom Equipment Comparables

Company	Symbol	Recent		F2007		F2008		F2009	
		Share Price	Mkt Cap	P/SALES	P/E	P/SALES	P/E	P/SALES	P/E
Aastra Technologies Ltd	AAH	\$31.27	\$500.9	0.8x	15.2x	0.8x	13.7x	0.9x	12.0x
AudioCodes Ltd	AUDC	\$4.16	\$165.9	1.0x	21.9x	0.9x	11.9x	0.8x	9.0x
DiTech Networks Inc	DITC	\$2.80	\$72.7	0.9x	9.7x	2.1x	n/a	1.9x	n/a
Polycom Inc	PLCM	\$21.35	\$1,937.9	1.8x	15.6x	1.6x	13.0x	1.4x	11.1x
RuggedCom Inc	RCM	\$13.10	\$151.3	5.1x	n/a	3.8x	35.4x	n/a	19.3x
Average						1.5x	18.5x	1.2x	12.8x
Sangoma Technologies Corp	STC	\$1.24	\$35.3	4.3x	17.9x	2.6x	9.6x	1.9x	6.0x

Source: Bloomberg, NSI

We are transitioning coverage with a STRONG BUY rating and \$3.60 target price

We are transitioning coverage on Sangoma with a STRONG BUY rating and \$3.60 target price. Our target is based on a P/E multiple of 15 times our EPS forecast of \$0.24 for the 12 months ending March 31, 2009.

Financial Statements

Sangoma Technologies Corporation												
Statement of Operations												
(FYE Jun 30)	2006	Q1-07	Q2-07	Q3-07	Q4-07	2007	Q1-08	Q2-08	Q3-08E	Q4-08E	2008E	2009E
Sales	\$4,775,579	\$1,546,492	\$1,801,587	\$2,237,699	\$2,637,438	\$8,223,216	\$2,822,188	\$3,070,476	\$3,531,047	\$4,060,705	\$13,484,416	\$18,800,321
y/y	38.9%	28.7%	95.4%	68.3%	99.5%	72.2%	82.5%	70.4%	57.8%	54.0%	64.0%	39.4%
q/q		17.0%	16.5%	24.2%	17.9%		7.0%	8.8%	15.0%	15.0%		
Cost of Sales	1,367,964	446,551	450,858	710,939	763,682	2,372,030	803,809	858,941	987,782	1,135,949	3,786,482	5,353,240
Gross margin	3,407,615	1,099,941	1,350,729	1,526,760	1,873,756	5,851,186	2,018,379	2,211,535	2,543,265	2,924,755	9,697,934	13,447,080
Gross margin %	71.4%	71.1%	75.0%	68.2%	71.0%	71.2%	71.5%	72.0%	72.0%	72.0%	71.9%	71.5%
Expenses												
Administration	689,203	169,706	185,103	229,976	358,099	942,884	172,727	226,251	260,189	299,217	958,384	1,096,213
% of sales	14.4%	11.0%	10.3%	10.3%	13.6%	11.5%	6.1%	7.4%	7.4%	7.4%	7.1%	5.8%
y/y	7.4%	14.4%	19.4%	53.7%	51.6%	36.8%	1.8%	22.2%	13.1%	-16.4%	1.6%	14.4%
q/q		-28.1%	9.1%	24.2%	55.7%		-51.8%	31.0%	15.0%	15.0%		
Selling and Marketing	647,363	195,952	260,166	246,627	339,710	1,042,455	465,645	399,441	407,430	415,578	1,688,094	1,825,466
% of sales	13.6%	12.7%	14.4%	11.0%	12.9%	12.7%	16.5%	13.0%	11.5%	10.2%	12.5%	9.7%
y/y	46.5%	26.5%	74.2%	52.1%	87.7%	61.0%	137.6%	53.5%	65.2%	22.3%	61.9%	8.1%
q/q		n/a	32.8%	-5.2%	37.7%		37.1%	2.0%	2.0%	2.0%		
Amortization	462,911	127,545	130,905	131,966	148,177	538,593	121,869	145,944	145,944	145,944	559,701	583,776
Foreign Exchange	108,472	-7,550	-73,270	28,946	285,673	233,799	292,138	15,935	15,935	15,935	339,943	63,740
EBT	1,499,666	614,288	779,575	889,245	544,297	2,827,405	800,390	1,278,814	1,534,926	1,869,239	5,483,368	9,162,517
Reported Taxes	492,000	213,000	275,000	310,000	212,000	1,010,000	311,000	522,000	626,542	763,006	2,222,548	3,740,055
Tax rate	32.8%	34.7%	35.3%	34.9%	38.9%	35.7%	38.9%	40.8%	40.8%	40.8%	40.5%	40.8%
Adjusted Taxes	492,000	213,000	299,076	310,000	282,962	1,105,038	345,933	595,002	699,544	836,008	2,476,487	4,032,061
Tax rate	32.8%	34.7%	35.3%	34.9%	38.1%	35.7%	35.8%	40.8%	40.8%	40.8%	40.3%	40.8%
Net Income	1,007,666	401,288	504,575	579,245	332,297	1,817,405	489,390	756,814	908,383	1,106,233	3,260,820	5,422,463
Margin	21.1%	25.9%	28.0%	25.9%	12.6%	22.1%	17.3%	24.6%	25.7%	27.2%	24.2%	28.8%
y/y	52.2%	11.6%	50.9%	-7.3%	-10.4%	80.4%	-33.2%	-12.0%	-0.6%	116.2%	79.4%	66.3%
q/q		115.8%	25.7%	14.8%	-42.6%		-73.1%	54.6%	20.0%	21.8%		
Adjusted Net Income	1,007,666	401,288	548,749	579,245	459,135	1,988,417	620,067	862,654	1,014,224	1,212,073	3,675,326	5,845,824
Margin	21.1%	25.9%	30.5%	25.9%	17.4%	24.2%	22.0%	28.1%	28.7%	29.8%	27.3%	31.1%
y/y	48.8%	43.6%	220.6%	56.0%	146.9%	97.3%	-15.3%	-7.8%	11.0%	71.5%	84.8%	59.1%
q/q		115.8%	36.7%	5.6%	-20.7%		-68.8%	39.1%	17.6%	19.5%		
EPS (basic)	\$0.04	\$0.01	\$0.02	\$0.02	\$0.02	\$0.07	\$0.02	\$0.03	\$0.04	\$0.04	\$0.13	\$0.21
EPS (f.d.)	\$0.04	\$0.01	\$0.02	\$0.02	\$0.02	\$0.07	\$0.02	\$0.03	\$0.04	\$0.04	\$0.13	\$0.21
Shares o/s - basic	27,211,725	27,670,000	27,691,342	27,710,000	27,702,941	27,702,941	27,817,829	27,817,879	27,817,929	27,817,979	27,817,904	27,818,104
Shares o/s - F.D.	27,312,614	28,172,000	28,047,842	28,588,533	28,633,142	28,633,142	28,468,079	28,468,129	28,468,179	28,468,229	28,468,154	28,468,354

Source: Company reports, NSI estimates

Sangoma Technologies Corporation												
Balance Sheet												
	2006	Q1-07	Q2-07	Q3-07	Q4-07	2007	Q1-08	Q2-08	Q3-08E	Q4-08E	2008E	2009E
(FYE Jun 30)												
Current Assets												
Cash and equivalents	\$1,427,457	\$1,547,148	\$1,245,500	\$2,085,900	\$3,097,849	\$3,097,849	\$2,730,840	\$3,824,462	\$4,086,616	\$4,650,569	\$4,650,569	\$8,973,945
Accounts receivable	788,554	1,162,960	1,383,337	1,623,303	1,497,243	1,497,243	2,132,707	2,084,174	2,515,267	2,892,557	2,892,557	3,753,504
Inventory	939,121	907,632	1,780,315	1,621,479	1,543,284	1,543,284	1,630,541	1,721,073	1,948,502	2,178,533	2,178,533	2,548,630
Prepaid and deposits	82,510	90,713	86,813	123,607	134,298	134,298	98,923	182,380	182,380	182,380	182,380	182,380
Total current assets	3,365,372	3,708,453	4,495,965	5,454,289	6,272,674	6,272,674	6,593,011	7,812,089	8,732,764	9,904,039	9,904,039	15,458,459
Future income taxes	516,737	430,737	303,737	156,737	87,737	87,737	0	0	0	0	0	0
Property, plant and Equipment	108,677	114,751	145,207	157,445	184,474	184,474	242,316	323,511	341,709	359,907	359,907	432,699
Development costs	471,397	450,420	444,500	462,634	514,171	514,171	598,394	624,004	624,004	624,004	624,004	624,004
Goodwill	5,542,849	5,542,849	5,542,849	5,542,849	5,542,849	5,542,849	5,542,849	5,542,849	5,542,849	5,542,849	5,542,849	5,542,849
Total Assets	10,005,032	10,247,210	10,932,258	11,773,954	12,601,905	12,601,905	12,976,570	14,302,453	15,241,326	16,430,799	16,430,799	22,058,011
Current liabilities												
Accounts payable	459,356	297,177	399,383	583,834	620,460	620,460	473,662	524,444	554,934	638,174	638,174	842,923
Income taxes payable	0	3,069	76,069	154,069	260,397	260,397	107,397	34,242	34,242	34,242	34,242	34,242
Management bonus payable	74,983	74,983	0	0	100,000	100,000	0	0	0	0	0	0
Total Liabilities	534,339	375,229	475,452	737,903	980,857	980,857	581,059	558,686	589,176	672,416	672,416	877,165
Shareholders' Equity												
Stated capital	13,046,873	13,046,873	13,058,873	13,058,873	13,140,273	13,140,273	13,261,379	13,510,061	13,510,061	13,510,061	13,510,061	13,510,061
Contributed surplus	82,644	82,644	150,894	150,894	322,194	322,194	448,898	535,658	535,658	535,658	535,658	535,658
Deficit	-3,658,824	-3,257,536	-2,752,961	-2,173,716	-1,841,419	-1,841,419	-1,352,029	-595,215	313,168	1,419,401	1,419,401	6,841,864
	9,470,693	9,871,981	10,456,806	11,036,051	11,621,048	11,621,048	12,358,248	13,450,504	14,358,887	15,465,120	15,465,120	20,887,583
Total liabilities and share equity	10,005,032	10,247,210	10,932,258	11,773,954	12,601,905	12,601,905	12,976,570	14,302,453	15,241,326	16,430,799	16,430,799	22,058,011
Cash per share	\$0.05	\$0.05	\$0.04	\$0.07	\$0.11	\$0.11	\$0.10	\$0.13	\$0.14	\$0.16	\$0.16	\$0.32

Source: Company reports, NSI estimates

Sangoma Technologies Corporation Statement of Cash Flow												
	2006	Q1-07	Q2-07	Q3-07	Q4-07	2007	Q1-08	Q2-08	Q3-08E	Q4-08E	2008E	2009E
(FYE Jun 30)												
Net Income	\$1,007,666	\$401,288	\$504,575	\$579,245	\$332,297	\$1,817,405	\$489,390	\$756,814	\$908,383	\$1,106,233	\$3,260,820	\$5,422,463
Cash flows from operations:												
Amortization	462,911	127,545	130,905	131,966	148,177	538,593	121,869	145,944	21,802	21,802	311,417	87,208
Stock-based compensation	0	0	68,250	0	197,800	266,050	165,610	178,842	0	0	344,452	0
Changes in non-cash working cap:	531,911	288,545	326,155	278,966	339,977	1,233,643	412,479	580,786	21,802	21,802	1,036,869	87,208
Accounts receivable	-308,658	-374,406	-220,377	-239,966	126,060	-708,689	-635,464	48,533	-431,093	-377,290	-1,395,314	-860,948
Prepaid	-23,078	-8,203	3,900	-36,794	-10,691	-51,788	35,375	-83,457	0	0	-48,082	0
Inventory	-432,339	31,489	-872,683	158,836	78,195	-604,163	-87,257	-90,532	-227,429	-230,031	-635,249	-370,097
Accounts payable	240,382	-162,179	102,206	184,451	36,626	161,104	-146,798	50,782	30,490	83,240	17,714	204,749
	-544,571	-382,500	-988,937	144,527	436,516	-790,394	-1,087,144	-147,829	-628,032	-524,081	-2,060,931	-1,026,295
Cash flows from operations	995,006	307,333	-158,207	1,002,738	1,108,790	2,260,654	-185,275	1,189,771	302,154	603,953	2,236,758	4,483,376
Cash flows from financing												
Issuance (repurchase) of common shares	143,800	0	12,000	0	54,900	66,900	82,200	156,600	0	0	238,800	0
Dividend paid	-300,080	0	0	0	0	0	0	0	0	0	0	0
Cash flows from financing	-156,280	0	12,000	0	54,900	66,900	82,200	156,600	0	0	238,800	0
Cash flows from investing activities												
Deferred development costs	-764,356	-174,499	-190,703	-224,534	-269,817	-859,553	-268,303	-228,752	0	0	-497,055	0
Investment tax credits	320,000	75,000	75,000	85,000	83,000	318,000	79,000	79,000	0	0	158,000	0
Property and equipment	-53,866	-13,143	-39,738	-22,804	-39,924	-115,609	-74,631	-102,997	-40,000	-40,000	-257,628	-160,000
Future income taxes related to investments	103,000	-75,000	0	0	75,000	0	0	0	0	0	0	0
Cash flows from investing activities	-395,222	-187,642	-155,441	-162,338	-151,741	-657,162	-263,934	-252,749	-40,000	-40,000	-596,683	-160,000
Increase in cash and equiv	443,504	119,691	-301,648	840,400	1,011,949	1,670,392	-367,009	1,093,622	262,154	563,953	1,878,875	4,323,376
Cash at beginning of period	983,953	1,427,457	1,547,148	1,245,500	2,085,900	1,427,457	3,097,849	2,730,840	3,824,462	4,086,616	3,097,849	4,650,569
Change	443,504	119,691	-301,648	840,400	1,011,949	1,670,392	-367,009	1,093,622	262,154	563,953	1,878,875	4,323,376
Ending Cash	1,427,457	1,547,148	1,245,500	2,085,900	3,097,849	3,097,849	2,730,840	3,824,462	4,086,616	4,650,569	4,976,724	8,973,945

Source: Company reports, NSI estimates

Applicable disclosures:

Sangoma Technologies Corporation 8

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