ADEPTRON TECHNOLOGIES CORPORATION

ANNUAL REPORT 2005

TSX – 'ATQ'

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MESSAGE FROM THE PRESIDENT AND CEO

Year 2005

By many measures, in this past year Adeptron Technologies Corporation ("Adeptron" or the "Company") took a large step forward on the path to success. Adeptron enters 2006 looking forward to increased revenue and profitability on a consistent basis.

For the first three quarters of 2005 each quarter showed a smaller loss than the immediately preceding quarter. By the third quarter the Company essentially broke even. In the fourth quarter Adeptron achieved a profit of $153,000, the Company's first profit in five and three-quarter years. This was a result of increased revenue, improved manufacturing efficiency allowing increases in gross margin and the gross margin percentage, and the reduction of Sales, General & Administrative expenses ("SG&A"). In addition, the Company's operating activities, excluding changes in non-cash working capital balances, generated $637,000 of cash for the year. This was a major reversal of $1,747,000 compared to the $1,110,000 of cash used in operating activities, excluding changes in non-cash working capital balances, in 2004.

Based on currently available information with respect to customer orders, indications of further orders, and general business conditions, management expects that Adeptron will improve on its operating results in 2006 over those achieved in 2005.

During 2005, revenue rose each consecutive quarter to reach $10.65 million in the fourth quarter and $38.20 million for the year. This was the Company's highest quarterly revenue since the second quarter of 2001 and the highest annual revenue since the year 2001. The annual revenue grew $4.73 million, or 14%, over the 2004 level of $33.47 million. This growth was due to both increased orders from existing customers and the introduction of new business.

Even more compelling than the 2005 revenue increase was the increase in the Company's gross margin and gross margin percentage (expressed as a percentage of revenue) over 2004. Gross margin rose each consecutive quarter to reach $1.66 million in the fourth quarter and $5.27 million for the year. This was the highest quarterly gross margin since the second quarter of 2001 and the highest annual level since the year 2001. The annual gross margin grew $2.44 million, or 86%, over the 2004 level of $2.84 million.

In 2005 I am particularly proud of the success achieved by the entire team that works with me in increasing the proportion of each sales dollar (after paying for labour, raw materials and related manufacturing overhead costs) that contributed to our gross margin. This can best be appreciated when comparing the gross margin percentages (expressed as a percentage of revenue) from 2004 and 2005. The gross margin percentage for the year 2004 was 8.5%. In the first quarter of 2005 this moved to 11%, rose to 13.8% and 14.3% in the second and third quarters respectively and peaked for the year at 15.6% in the fourth quarter. The weighted average gross margin for 2005 of 13.8% was an improvement of 62% over the previously mentioned 8.5% in 2004.

The achievements enumerated above for revenue, gross margin and gross margin percentage are all the more dramatic when viewed in the context of the continuing appreciation of the $CDN versus the $US in 2005 as compared to the prevailing exchange rates during 2004. Adeptron's level of exposure to $US denominated revenue has been well documented over the last three years in quarterly results press releases, notes to the quarterly and annual financial statements, and the quarterly and annual Management's Discussion & Analysis (MD&A) documents. One of the major reasons the Company was able to buck the headwind of the adverse exchange rate changes in 2005 was the completion, in the middle of the first quarter of 2005, of the integration of the Ottawa operations acquired by Adeptron in early 2004. In particular, having Ottawa fully migrated on to the Information Technology ("IT") platform employed by our Markham head office location allowed for rationalization and redeployment of personnel.

As 2006 unfolds the Company expects further refinements to its systems and processes to cost efficiently handle higher levels of revenue. It is the Company's aim to continue to decrease the proportion of manufacturing overhead expenses and SG&A as a proportion of revenue. Also, 2006 will see a continuing focus on reducing the total cost of acquisition of raw materials of all types. As a hypothetical example, based on raw material purchases of $25 million, even an average cost reduction of 2% would result in reduced costs of $500,000. By attending to the details of each and every cost and expense area of the business, the Company expects to further refine and improve its performance in delivering the highest of quality product to its customers and improved operating results to the shareholders.

Amidst the many positive developments of 2005 was also the unfortunate fact that the Company was not able to repay its obligation to holders of its 18-month 12% subordinated notes payable upon the original due date of August 4, 2005. As previously publicly disclosed, the Company pursued a tax assisted financing that was intended to raise up to $4 million in gross proceeds. This financing was terminated on December 29th 2005 and as a result, the Company was unable to meet its repayment obligation as at the year-end as previously negotiated with the note holders. Expenses representing various professional fees amounting to $180,000 and related to this attempted financing were charged as expenses in SG&A in the fourth quarter of 2005.

Subsequent to year-end the note holders have again agreed to extend the repayment date of their notes to April 30, 2006. The Company continues to diligently pursue refinancing initiatives to meet its repayment obligations. Given the history of positive developments in the overall financial results of the Company throughout 2005 and its outlook for the future, management is hopeful of successfully closing a financing that will allow the repayment of the notes and the accumulated interest thereon. However, management cannot guarantee the success of its financing efforts.

As for all public companies today, shareholders look to the Board of Directors to advance the interests of the shareholders. In 2005 Adeptron's Board of Directors experienced an appropriate level of continuity and infusion of new blood. In October I was fortunate to announce the addition of Dr. Luke Chan to the Board. As stated in the press release at the time, he will aid us in our continuing evolution of Asia related strategies and the execution thereof. In the same press release I advised of the departure from the Board of long serving Bob Blackshaw. Bob was a positive influence during his tenure on the Board, particularly during and immediately after the Company's most difficult times during the "high-tech implosion" of 2001 and the next couple of years. All of us at Adeptron wish him well as he goes forward in life.

The Board has struck a new committee called the Strategy and Business Development Committee. The membership of this committee is made up of Bill McClean, Luke Chan, Peter Kirsch and myself. I expect that the Company will benefit from the insights of these proven leaders of strategic vision in their respective organizations.

I wish to thank all the Board members for their efforts and dedication to their roles.

I also wish to acknowledge the skills, dedication of effort, and tenacity in grappling with all issues that confronted us this year, that were displayed by all members of the Adeptron team. I am thankful to have the privilege of working alongside our great team.

There are three individuals, George Tepelenas, CFO, Geoff Beale, VP Operations, and Frank Piccolo, VP Quality Assurance, who along with me currently form the senior management team. I am especially grateful for their continued and loyal support of Adeptron and myself. Their single mindedness of purpose, shared vision, and the execution of their duties contributed to Adeptron's step forward on the path to success in 2005. I look forward to greater shared successes as we continue the journey along this path.

I look forward to meeting shareholders throughout the upcoming year and especially at our AGM scheduled for June 21, 2006.

It is with confidence and continued fervor that all of us at Adeptron work at making the Company a success as I expressed it at the opening of this message. Our efforts are focussed on growing the Company's revenue and providing consistently increasing profitability, measured on an annual basis.

Signed

"F. Michael Marti"

F. Michael Marti
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2005:

The following discussion of the financial condition and results of operations of Adeptron Technologies Corporation ("Adeptron" or the "Company") should be read in conjunction with the Company's Financial Statements for the Year-ended December 31, 2005. All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

Certain statements contained in the following Management's Discussion and Analysis, and elsewhere in Adeptron's Annual Report, including, without limitation, statements containing the words believes, anticipates, estimates, expects, and words of similar import, constitute forward-looking statements within the meaning of applicable laws and regulations. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties which could cause actual results to differ materially from those anticipated in these forward-looking statements. These risks and uncertainties include, but are not limited to: foreign currency fluctuations; variability of quarterly and annual operating results; intense competitive pressures; fluctuations in global industry conditions; narrow margins; risks related to human resources recruiting and retention; vulnerability of management information systems; indebtedness of the Company; product-related risks; revenue concentration risks; risks related to the availability of future financing; component shortages and sublease-related credit risks. These and other risks and uncertainties and factors are discussed in the Company's filings with applicable Canadian securities regulators, including the Company's Annual Information Form dated March 30, 2005 and other documents filed by the Company with Canadian securities regulators from time to time. Additional information related to the company is available on SEDAR at www.sedar.com.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should read this Annual Report and Management's Discussion and Analysis with the understanding that Adeptron's actual future results may be materially different from what we expect. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Date

This Management's Discussion and Analysis ("MD&A") is dated as of March 13, 2006.

Overview and Business of the Company

Adeptron was organized by amalgamating Adeptron Technologies Corporation with its two wholly-owned subsidiaries, J.F.B. Technologies Inc. and Continuum Technologies Inc. on January 1, 2003 under the *Business Corporations Act* (Alberta). The Company was previously known as Electronics Manufacturing Group Inc. ("EMG") until December 31, 2002.

Adeptron's head office is located in Markham, Ontario, a suburb of Toronto. The Company operates out of two adjacent leased facilities in Markham, Ontario comprising approximately 55,000 square feet in total and a 56,000 square foot leased facility in Ottawa, Ontario that was added in February of 2004.

Adeptron provides its customers with an array of electronics manufacturing services ("EMS") in relation to third party electronic products and assemblies. Adeptron derives all of its revenues from the provision of these services. Adeptron services the North American electronics industry with a focus on low and medium volume, high complexity, commercial and industrial electronic products. Adeptron produces electronic assemblies under both turnkey and labour-only build contracts for customers whose products and end users represent a wide variety of markets.

The Company also provides many additional services related to the printed circuit board assembly process either on a stand-alone basis or as value-added services to Adeptron's customers. In all aspects of its EMS business including raw materials procurement, flexible supply arrangements and design-

related services, Adeptron continuously strives to achieve cost reductions and optimal quality outcomes for its customers.

Overall Performance

In the quarter ended March 31, 2004, Adeptron engaged in two significant and related transactions described in the section "Significant Transactions". The first transaction was a financing for gross proceeds of $3.25 million from the issuance of equity and debt. The second transaction was to acquire certain operating assets of Prestec Electronics Ltd. in Ottawa, Ontario. These assets are utilized by Adeptron in Ottawa and will be referred to as the "Ottawa operations" throughout this MD&A.

Prior to the acquisition of the Ottawa operations, Adeptron provided services exclusively out of its head office and manufacturing facilities in Markham, Ontario. With the acquisition, Adeptron was now able to provide additional complementary services such as cable and harness assembly, back-plane and mid-plane assembly, and complex product integration. The Company presently has approximately 225 employees in Markham and 110 in Ottawa.

The Company experienced significant growth in revenue in 2004 as a result of organic growth from existing customers as well as the addition of incremental sales arising from the Ottawa acquisition. In total, revenue increased by 122% to $33.5 million in 2004 from $15.1 million in 2003.

In 2005, the Company continued this upward trend as revenue increased by 14% to $38.2 million. In addition, revenue increased sequentially in each quarter throughout 2005 peaking at $10.6 million in the fourth quarter.

Adeptron's net loss for 2005 of $411,000 represented a significant improvement in comparison to the prior year's net loss of $3.2 million. The Company recorded depreciation and amortization expense of $540,000 in the year. In addition, the Company also recorded $403,000 in non cash interest expense, $78,000 in non cash stock based compensation expense and $27,000 in amortization of lease costs in 2005. Excluding changes in non cash working capital balances, the Company generated $637,000 in cash from operating activities in 2005.

At the same time as revenues were increasing, the strengthening of the Canadian dollar ("CDN$") relative to the US dollar ("US$") during 2005, when compared to the prior year, had a negative effect on the Company's revenue. This negative foreign exchange trend reduced the Company's sales and gross margin, when compared to the sales and gross margin that Adeptron would have achieved had the 2004 exchange rate prevailed in 2005. Without the positive effects of new customer development and new business development from existing customers muting its effect, this adverse foreign exchange trend would have more severely adversely impacted Adeptron's overall results.

The strengthening of the CDN$ relative to the US$ has had a negative impact on the Company over the last few years. As a result, in 2004, the Company had identified three main opportunities realistically available to it to mitigate the adverse effects of the current US$ trend. First, denominate as many of the Company's expenses as possible in US$, to drive the expenses lower when converted to CDN$. Second, eliminate or reduce expenses, regardless of the currency they were originally incurred in. Third, continue to grow revenue with positive contribution margin, to take advantage of available capacity.

During 2004, Adeptron had made progress on the first opportunity and beginning in the fourth quarter of 2004, the Company made significant strides relating to the second opportunity by eliminating certain ongoing historical costs, which resulted in immediate cost structure improvements. In 2005, the Company implemented additional cost reduction initiatives which when taken with other costs from 2004 that were either non-recurring or declining by their nature, resulted in a significant improvement to Adeptron's cost structure in 2005. Management also continues to explore other strategies that will enhance our competitive position within today's extremely dynamic business environment.

However, management's primary emphasis in its approach to managing the effect of the $US trend on Adeptron has been and continues to be on generating revenue growth. Adeptron has proven to be successful in this regard as revenue grew by 14% in 2005. Adeptron's objective continues to be to develop significant customer relationships that are enduring and have meaningful revenue growth potential. Having a core business offering that offers compelling value to existing and prospective customers is crucial to achieving this result and to this end, the Adeptron team remains committed to its goal of ongoing operational improvement initiated several years ago.

Entering 2005, the Company had long-term liabilities totalling $376,000 comprised largely of the restructuring accrual. The current and long term restructuring accrual at 2005 year-end is $216,000 and $80,000 respectively. In 2004, the Company raised $2.25 million through the issuance of subordinated notes that was originally due in August 2005. With accrued interest, the debt totals $2.77 million at December 31, 2005 and is classified as current in the Company's balance sheet. Beginning in August of 2005, the holders of the subordinated notes granted the Company a series of extensions to the maturity date. The final extension approved in 2005 by the holders of the subordinated notes extended the maturity date to December 31, 2005. As at December 31, 2005, the Company was unable to repay the outstanding debt and therefore, was in default of its obligations under the debenture agreement.

Subsequent to year-end, the Company was able to extend the maturity date of the subordinated notes. Under the terms of the extension, approved on February 9, 2006 by the necessary majority of the holders of the subordinated notes, the maturity date has been extended to April 30, 2006. In return for the extension, the Company has agreed to capitalize all interest accrued and not paid up to and as at December 31, 2005 and to begin accruing interest at a rate of 12% per annum based, effective January 1, 2006, on the combined amount of original principal and the unpaid interest to December 31, 2005. The Company has also reduced the exercise price of the outstanding common share purchase warrants from $0.35 to $0.25 and extended the term of the warrants held by Note holders to August 31, 2007.

At 2005 year-end, the Company's bank operating loan balance was $4.43 million which was below its borrowing limit based on accounts receivable margining conditions in its agreement with its senior lender

The Company had deferred income tax assets of approximately $8.2 million at 2005 year-end, which were offset with an equivalent valuation allowance. These deferred income tax assets are available to offset income taxes payable on profits that may be earned in the future and thus future positive cash flows would be enhanced.

Selected Consolidated Financial Information (as at and for the years ended December 31 and in thousands of dollars, except per share information)

	2005	2004	2003
Sales	$38,202	$33,465	$15,095
Gross margin	$5,274	$2,836	$1,077
Net loss	$411	$3,180	$2,021
Basic and diluted loss per share[1]	$0.01	$0.09	$0.07
Current assets	$12,008	$9,738	$5,758
Total assets	$19,770	$17,905	$13,719
Current liabilities	$14,068	$11,740	$5,628
Long term liabilities [2]	$240	$376	$570

Notes:
(1) Diluted loss per share equals basic loss per share, as the effect of options and warrants is anti-dilutive.
(2) Does not include current portion of long term debt.

2003: Organic Sales Growth and Significant Impact of Foreign Exchange Trends

2003 saw four consecutive quarterly increases in sales. Sales for the year were $15.1 million. However, 2003 was also a troubling year for firms with $US denominated sales, and who reported their results in $CDN, due to the dramatic appreciation of the $CDN relative to the $US dollar throughout the year. During 2003, Adeptron had US dollar sales of $US5.3 million, with more than half of these sales occurring in the second half of the year at a time when the $US was reaching its lowest levels versus the $CDN in many years.

Gross margin fell, compared to the previous year, due mainly to the adverse foreign exchange effect on sales. Primarily as a result of the reduced gross margins and a much smaller income tax recovery than in 2002 of $58,000, the net loss grew to $2.0 million. The Company recorded depreciation and amortization of $1.7 million for the 2003 year. The Company was able to adjust selling prices of significant revenue generating programs in the first quarter of 2004, which resulted in improved gross margins beginning in the second quarter of 2004.

The Company ended 2003 with current assets of $5.8 million, which represented 104% of current liabilities of $5.6 million. Current assets were higher than the previous year as a result of higher accounts receivable and inventory due to the highest level of sales in the last six quarters occurring in the fourth quarter of 2003. Inventory was building in advance of the anticipated increase in 2004 first quarter sales. Non-current assets again decreased primarily by the amount of depreciation recorded against capital assets. Long-term liabilities fell from the previous year-end by $0.1 million to $0.6 million.

2004: Continued Revenue Growth, New Financing and Acquisition

2004 saw continued revenue growth as revenue increased sequentially in the first two quarters consistent with 2003 quarterly sequential growth. In addition, revenue increased in every quarter of 2004 when compared to the corresponding quarter of the prior year. Total revenue generated in 2004 grew by over 120% to $33.5 million. The acquisition of the Ottawa operations was a large part of the growth story in 2004 as it contributed $10.5 million in revenues. However, organic growth accounted for $7.9 million or 52% of the total year over year revenue increase.

As noted in "significant transactions" discussed above, the Company purchased the Ottawa operations in early 2004. The Company experienced immediate benefits in the form of added revenue and gross margin as well as expanding the range of service offerings the Company can provide. The acquisition of the Ottawa operations and related working capital requirements was financed through the issuance of debt and equity, also discussed in the "significant transactions" section.

The Company recorded a loss from operations in 2004, as the gains in revenue and gross margin were not enough to offset adverse foreign exchange movements and increases in expenses. The Company continues to target increases in revenues as the most effective strategy to bring the Company to profitability.

2005: Improved Operating Results and Fourth Quarter Profitability

The current year proved to be a turnaround year for the Company from an operating results perspective. As in 2004, the Company continued to grow top line revenue, in this case, by 14% over the prior year even though the strengthening of the CDN$ relative to the US$ during 2005 was having a negative effect on overall revenue.

More importantly, the Company made significant improvements in its gross margin and gross margin percentage in 2005. Gross margin percentage increased to 13.8% in 2005 from 8.5% in 2004 while gross margin increased by $2.5 million, or over 85%, to $5.3 million in 2005. Furthermore, even with revenue increasing in 2005, the Company was able to lower Selling, General and Administrative expenses in 2005 compared to 2004.

The net result of the revenue growth, improved gross margins and reductions in Selling, General and Administrative expenses was a significant improvement in the Company's operating performance. The net loss for 2005 was $411,000 compared to a loss of $3.2 million in 2004. The Company's results improved progressively in each quarter culminating in a net income of $153,000 in the fourth quarter of 2005.

Results of Operations

Revenue

Revenue for the year ended December 31, 2005 was $38.2 million compared to $33.5 million for the year ended December 31, 2004, representing an increase of $4.7 million, or 14%. The total increase is made up of $2.3 million contributed by the Ottawa operations acquired in the first quarter of 2004 and $2.4 million from the Company's operations in Markham. New customer acquisitions as well as the fact that the prior year total represented approximately 11 months of operations were the primary factors for the increase in the Ottawa operations revenue. The majority of the organic growth in Markham is attributable to the customer base existing at the end of 2004.

In 2005, the majority of Adeptron's revenue was derived from USA-based and domestic-based customers with sales denominated in US$. Since US$ revenues are converted to CDN$ using the appropriate average exchange rate for the period, fluctuations in exchange rates between the CDN$ and US$ have a direct impact on the Company's reported revenue and gross margin. The strengthening of the CDN$ in 2005 when compared to the prior year, had a negative effect on the Company's revenue and, consequently, gross margins. The average annual exchange rate for 2005 declined by 7% when compared to the annual average exchange rate in 2004. This continued the trend of declining annual average exchange rates that began in 2002. If the effect of the change in currency rates were removed, the increase in revenue in 2005 in comparison to 2004 would have been even greater.

Cost of Goods Sold and Gross Margin

Cost of goods sold for the year ended December 31, 2005 was $32.9 million compared to $30.6 million for the year ended December 31, 2004, an increase of $2.3 million, or 7.5%, from 2004. The increase in cost of goods sold of 7.5% was proportionately less than the increase in revenue of 14%. Gross margin for the year ended December 31, 2005 was $5.3 million compared to gross margin of $2.8 million for the year ended December 31, 2004, an increase of $2.5 million, or over 85%. Gross margin, expressed as a percentage of revenue for the year ended December 31, 2005, was 13.8% compared to 8.5% for the year ended December 31, 2004. The increase in gross margin dollars and percentage in 2005 in comparison to 2004 in spite of the adverse foreign exchange fluctuations, is attributable to several factors including: 1) increase in revenues during 2005 2) changes in product and customer mix resulting in lower material cost as a percentage of revenue 3) continued improvement in manufacturing efficiencies 4) a decrease in depreciation expense included in cost of sales as discussed below.

Depreciation of $438,000 has been allocated between cost of goods sold and other expenses in 2005 compared to $1,046,000 in 2004. The depreciation on manufacturing assets that have been employed to generate the revenue reported for the year is allocated to cost of goods sold and the depreciation on non-manufacturing assets that have been employed in selling, general and administrative areas of the business is not included in gross margin.

Depreciation of $368,000 has been allocated to cost of goods sold in 2005, compared to $924,000 in 2004. The remainder of the depreciation has been charged to expenses below the gross margin line. The decrease in total depreciation is due to the fact that effective July 1, 2004 the Company undertook an evaluation of the remaining useful lives of the plant and equipment. After considering a number of factors, the estimated remaining useful life of certain plant and equipment was extended from one year to five years. The factors considered by the Company included, but were not limited to: 1) the property and equipment have been under-utilized historically 2) the Company employs an extensive equipment maintenance program 3) the existence of a large re-sale market for similar equipment 4) the equipment

has remained compatible and is expected to continue to be compatible with EMS industry requirements. This change in estimate has been applied on a prospective basis.

Adeptron's management does expect an increase in capital expenditures in 2006 over the levels incurred in 2005 as a direct result of a new customer project that specifically justifies such a purchase. This expected increase in the level of capital expenditures in 2006 will result in an increase in depreciation expense charged to cost of sales in 2006 in comparison to the amounts expensed in 2005.

Selling, General and Administrative Expense

Selling, General and Administrative ("SG&A") expenses for the year ended December 31, 2005 were $4.7 million, a decrease of approximately $700,000 from $5.4 million for the prior year. The decrease in SG&A expenses is the direct result of the expense reductions implemented in the fourth quarter of 2004 and continued in the early part of 2005. In particular, 2005 payroll and benefit costs, including stock based compensation expense, decreased by more than $600,000 in comparison to the prior year. In addition, the Company experienced decreases in recruiting costs, travel and living expenses, office supplies and foreign currency exchange losses. Conversely, in 2005, the Company incurred approximately $213,000 in financing related expenses that partially offset the overall decline in SG&A costs. The majority of the financing costs were legal and other professional services relating to the previously announced tax assisted financing transaction that was terminated in December of 2005 and were expensed in the fourth quarter.

It is important to note that even though SG&A expenses on a year to date basis have decreased, revenue and gross margins have increased during this same period. The Company has taken great care to ensure that any expense reductions implemented will not hamper its ability to continue to increase revenue and gross margins in future periods. This is consistent with management's strategy of growing top line revenue, both organically and through acquisition, while minimizing SG&A expense increases.

Management believes that it has taken and will continue to take reasonable measures to progressively minimize this category of expenses. However, management must also take care to mitigate the potential negative implications to the business in both the short and long term that might otherwise result from excessive or imprudent cost reductions. These potential impairments could include reduced asset protection; inadequate staffing; insufficient compliance controls or lack of capability to service existing and near term prospective customers.

Interest on Subordinated Notes

Interest on subordinated notes for the year ended December 31, 2005 was $403,000 compared to $440,000 for the year ended December 31, 2004, a decrease of $37,000. In February of 2004, the Company completed a financing that gave rise to new debt in the form of subordinated notes. This transaction is more fully described in the section entitled "Significant Transactions". The $2.25 million of proceeds resulting from this subordinated note and warrant issuance has been split between subordinated notes and equity based on the residual method used to estimate the fair values of the subordinated notes and the warrants issued with the debt. Interest on the subordinated notes accrued at the effective rate of 16% per annum over the original 18-month term and was charged to earnings as incurred. The Company was able to extend the term of the subordinated notes to December 31, 2005 and has accrued interest at the stated rate of 12% per annum for the period between the original maturity date and December 31, 2005. The interest also includes the amortization of deferred financing relating to the outstanding debt, which was fully amortized over the original 18-month term.

Other Interest

Other interest is primarily the interest and associated loan fees paid on the bank operating loan. Interest for the year ended December 31, 2005 was $398,000 compared to $302,000 for the year ended December 31, 2004, an increase of $96,000 or 32%. The increase in bank operating loan borrowing

costs is directly attributable to increases in interest rates during 2005 as well as the fact that the Company experienced consistently higher bank borrowing levels in 2005 in comparison to 2004.

Depreciation

Depreciation on non-manufacturing Company assets for the year ended December 31, 2005 was $172,000 compared to $214,000 for the year ended December 31, 2004, a decrease of $42,000. Depreciation of manufacturing assets is included in cost of goods sold and is discussed above in "Results of Operations – Cost of Goods Sold and Gross Margin".

Management expects the charge for depreciation on non-manufacturing Company assets in 2006 to be similar to that charged in 2005.

Restructuring

During 2005, the Company did not incur any additional restructuring costs or record a recovery of previously incurred restructuring costs. In 2004, the Company reduced its restructuring accrual by $204,000. This reduction was the result of an extension to the term of a sublease agreement that was negotiated by the Company related to a leased building in Calgary that it left vacant as a result of consolidating its operations into Markham.

Income Tax Provision

For the years ended December 31, 2005 and 2004, the Company did not record any income tax provision in its financial statements. The Company has approximately $18.1 million of non-capital loss carryforwards available to apply against income of future periods.

Balance Sheet

Cash at December 31, 2005 and 2004 was virtually nil. The Company applies all cash receipts against its Bank operating loan balance.

Restricted cash at 2005 year-end was approximately $322,000 which is slightly higher than the 2004 year-end balance because of the interest earned during 2004 was minimal. This is cash that is held by the Company's current senior lender as security for the Company's obligations and is releasable to the Company upon the attainment of certain financial goals.

Working capital at 2005 year-end was a deficit of $2.1 million, which remained relatively unchanged from the year-end 2004 balance of $2.0 million. The year-end working capital deficit balance represents an improvement over previously reported 2005 quarterly working capital deficits that ranged between $2.3 million and $2.4 million. The deficit position in working capital originated in 2004 as a result of the inclusion in current liabilities of the subordinated notes in the amount of $2.25 million plus accrued interest. The principal amount of the subordinated notes plus accrued interest was originally due in August 2005. As discussed previously, the holders of the subordinated notes granted the Company a series of extensions to the maturity date and as a result, the total obligation is now due on April 30, 2006. The Company has been actively pursuing securing alternative financing to fund the repayment of the subordinated notes but has not been successful to this point in time. Management is continuing its efforts directed at securing alternative financing and believes it will ultimately be successful, however, management cannot provide any assurance that they will be successful in this regard. As a result, the Company's ability to continue as a going concern is uncertain and is dependent upon its ability to generate sufficient future cash flow and obtain sufficient financing to meet its short term obligations.

Accounts receivable at 2005 year-end were approximately $6.8 million compared to approximately $5.6 million at 2004 year-end, an increase of $1.2 million. This was due to significantly higher sales generated in the fourth quarter of 2005 compared to the same period in 2004.

Inventory at 2005 year-end was approximately $4.4 million compared to approximately $3.4 million at 2004 year-end, an increase of approximately $1.0 million. This increase is expected to support a higher level of revenue in the first quarter of 2006 than that experienced in the first quarter of 2005. The Company continues to closely monitor inventory levels to ensure its investment in inventory is optimized.

Accounts payable and accrued liabilities at 2005 year-end were approximately $6.8 million, compared to approximately $5.2 million at 2004 year-end, an increase of $1.6 million. The increase in accounts payable and accrued liabilities is directly related to increases in working capital assets, primarily Accounts receivable and Inventory. As noted previously, the Company expects higher revenues in the first quarter of 2006 versus the first quarter of 2005 which resulted in increased purchasing activity and taking in of inventory in the fourth quarter of 2005 to support this growth.

The current portion of the restructuring accrual at 2005 year-end was $80,000 compared to $149,000 at 2004 year-end. The long-term portion of the restructuring accrual at 2005 year-end was $216,000 compared to approximately $287,000 at 2004 year-end. For current and long-term combined, the amounts were $296,000 at 2005 year-end compared to $436,000 at 2004 year-end, a decrease of $140,000 from 2004. The decrease in 2005 is the result of $53,000 in payments made to cover a reduction in its workforce related to the Ottawa operations acquisition and $87,000 due to lease payments made, net of amounts received.

The restructuring accrual originally recorded in 2001 included amounts for employee severance costs related to the staff reductions as a result of the Calgary shutdown, moving costs for equipment and other items, and amongst other things, the estimated costs of subsidization of sub-leases for two buildings in Calgary for which the Company was liable due to its long-term leases with the respective landlords.

The 2005 year-end restructuring accrual (current and long-term) relates to the subsidization of the Calgary sub-leases and will be paid out over the remaining lease periods, which extend through to December 31, 2011.

Summary of Quarterly Results (in thousands of dollars, except per share information)

	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	$10,645	$9,694	$9,396	$8,467	$8,457	$9,447	$9,612	$5,949
Gross Margin	$1,663	$1,383	$1,296	$932	$576	$1,194	$965	$101
Net Income (Loss)	$153	($11)	($90)	($463)	($987)	($438)	($629)	($1,126)
Basic & Diluted Loss Per Share	$0.00	$0.00	$0.00	($0.01)	($0.03)	($0.01)	($0.02)	($0.03)

Adeptron's results of operations for the most recent eight fiscal quarters are primarily affected by the volume of sales but are also influenced by other factors such as fluctuating foreign exchange rates between the $CDN and $US and the mix of sales between various customers and between turnkey and labour-only. The Company has not been able to determine any specific seasonality or other cyclical influences that affect the predictability of its revenues and results of operations. Instead, the Company performance is more closely tied to the general economic conditions prevailing in the electronics products sector.

Beginning in the first quarter of 2003, the Company began to see the effects of new customer revenue and the firming of demand from existing customers, after a series of particularly weak years in 2001 and 2002. In the first two quarters of 2004, the Company continued to experience quarter over quarter sales

growth that began in the first quarter of 2003. This resulted in sales growth in 6 consecutive quarters. The majority of the revenue growth in 2004 was due to the acquisition of the Ottawa operations in early 2004. The increase in revenues also resulted in an increase in gross margin and gross margin percentage in 2004 compared to 2003. However, significant increases in SG&A expenses and the cost of borrowing more than offset any increases in gross margin. As a result, the Company incurred a net loss in each of the four quarters of 2004.

The Company entered 2005 with expectations of continued revenue growth on an annual basis. First quarter revenue was relatively flat in comparison to the prior quarter, however, the Company began seeing increased demand from long standing customers as well as newly introduced customers. Quarterly revenues increased sequentially throughout 2005 and peaked at $10.6 million in the fourth quarter. At the same time, the cost reduction initiatives that had been implemented, beginning in the fourth quarter of 2004, were complemented with additional expense reductions in early 2005 that created a much improved cost structure for the business. As a result, the Company's quarterly operating results improved not only in comparison to the corresponding quarter of the prior year, but also sequentially throughout 2005. The net result was a $153,000 profit in the fourth quarter. This was the Company's first quarterly profit in over five years.

The Company continues to focus its efforts on revenue growth in its pursuit of continuing the profitability it reached in the fourth quarter of 2005. Opportunities for further operational cost containment of a significant nature would be difficult without resorting to a fundamental restructuring of the business. Given the current prospects for future business in the near and medium term, management does not believe that such a restructuring is in the best interest of the Company. However, the Company continues to monitor expense levels both in cost of goods sold and SG&A and has made and will continue to make adjustments that result in more efficient operations.

Liquidity

The Company's operating activities, before changes in non-cash working capital balances, generated $637,000 in cash in 2005 compared to utilizing $1.1 million in 2004. Including changes in non-cash working capital items, cash utilized in 2005 was $240,000 compared to $1.9 million in 2004. The improvement in cash used in operating activities is due to the significant decrease in the Company's net loss in 2005. The Company used $1.2 million and $1.0 million, respectively, to support increased accounts receivable and inventory in 2005. In 2004, accounts receivable increases resulted in cash usage of $2.8 million while inventory cash usage was nil. The Company continued to take advantage of attractive payment and credit terms as well as higher credit limits offered from its vendors and thus increases in accounts payable and accrued liabilities provided $1.6 million during 2005 to support the Company's activities.

During 2005, the Company utilized approximately $214,000 in investing activities in comparison to a usage of $2.4 million in 2004. The entire cash usage in investing activities in 2005 was the result of the purchase of property, plant and equipment. In 2004, the vast majority of the cash usage in investing activities was due to the fact that the Company paid $2.3 million to acquire various assets as part of the acquisition of the Ottawa operations. The Company utilized the majority of the proceeds generated from the issuance of debt and equity, as described in the section "Significant Transactions", to finance the acquisition of the Ottawa operations in 2004. In addition, the Company acquired $136,000 of property, plant and equipment to support its manufacturing activities in 2004.

In April 2004, the Company and its senior secured lender executed an agreement whereby the operating line of credit provided to the Company by this lender, secured by a general security agreement, was increased from $3.0 million to a maximum of $4.0 million. In September 2004, the Company and its senior secured lender revised the credit facility agreement to increase the credit available to the Company to $4.5 million. The effective credit limit under this facility is established based on certain terms and conditions, including the amount of accounts receivable available to secure the operating line. At year-end 2005 the Company's operating loan balance of $4.4 million was within its borrowing limit based on accounts receivable margining conditions in its agreement with its senior lender. The increase in the

operating loan balance of $527,000 was used by the Company to fund its operations. In 2004, the Company used increases in the operating loan balance of $1.2 million to fund operations. In addition, there were no changes to the credit facility agreement during 2005.

The subordinated notes issued in early 2004, as described in the section "Significant Transactions", are classified as current liabilities on the balance sheet. The principal amount of $2.25 million and accrued interest at 12% was originally due in August of 2005. As discussed previously, the maturity date has been extended several times and the entire obligation is now due on April 30, 2006. The Company is actively pursuing securing alternative financing to fund the repayment of the subordinated notes.

At year-end 2005, the Company had no capital lease obligations or long-term debts outstanding and the total amount of its restructuring accrual was $296,000, payable during the period 2006 to 2011.

As at December 31, 2005 the contractual obligations for restructuring accrual and all Company operating lease future payments were as follows:

($ in thousands)	Total	2006	2007	2008	2009	2010	Beyond
Restructuring Accrual	296	80	64	59	68	25	—
Operating Leases	5,420	802	773	776	798	795	1,476
Total Contractual Obligations	5,716	882	837	853	866	820	1,476

In addition, certain key Ottawa managers signed non-competition and non-solicitation agreements, which apply whether their employment or consulting engagement is terminated either by the individual or by Adeptron. The agreements also provide for the payment of consideration to these individuals, based on the ongoing performance of the Ottawa facility during the first three years after the acquisition. If earned, this compensation will be payable beginning in the second year after the acquisition transaction and ending after the fourth year after the transaction. The amount of compensation payable, if earned, will depend on a specified percentage of gross margin for the Ottawa facility, ranging from 6% to 10% of gross margin and increasing as gross margin increases. Compensation is only payable under this arrangement if specified minimum gross margin and revenue thresholds are met. The total of all such compensation paid to all recipients over the course of the potential compensation period cannot exceed $3 million. For this maximum amount of compensation to be earned, the Ottawa operations would need to have achieved over $30 million in gross margin during the applicable three-year calculation period. No amounts have been recorded in 2005 and 2004 as the performance targets have not been met.

The Company expects to fund the cash outlays required by the commitments shown above by cash generated from operations in future periods, in combination with additional debt or equity financing.

Capital Resources

Under an agreement entered into in 2002, the Company had an operating line of credit up to a maximum of $3.0 million based on certain terms and conditions that is secured by a general security agreement. The Company used its line of credit to finance working capital. In April 2004, the Company reached an agreement with its lender to increase the maximum available line of credit to $4.0 million, subject to substantially the same terms and conditions as its existing credit facility, including the interest rate. In September 2004, the Company revised the agreement once again to increase the maximum available line of credit to $4.5 million. The availability of credit under this agreement is tied directly to the amount of certain accounts receivable at the end of each reporting period.

At December 31, 2005 the Company continues to estimate that it could increase its 2005 level of sales of $38.2 million to approximately $150 million per annum, based on turnkey sales, without requiring significant investment in capital assets. The Company currently operates, with some exceptions, on a single shift basis. The Company expects that as revenue increases in the future it will lead to more optimal utilization of its five high-speed automated surface mount lines, sophisticated test platforms and

other equipment. The only foreseeable major reason to incur any significant capital expenditures in the normal course of business over the next two fiscal years is the execution of a supply contract with a customer having sufficient sales volume and margin to cost justify the expenditure for types of equipment not already owned.

During the first quarter of 2004, the Company acquired the Ottawa operations. Although the assets purchased in this transaction include additional automated surface mount equipment and thereby increase the Company's capacity even further, the primary purpose of the transaction was to add a complementary suite of services to those already offered by the Company. The Company cannot state with certainty that capital resources in the form of debt, including capital lease debt, or equity, in sufficient amount and on reasonable terms, will be available in the event that funding for capital expenditures should become necessary.

The Company has incurred significant cumulative net losses since inception and has negative working capital and an accumulated deficit as at December 31, 2005. Furthermore, the Company has subordinated notes and related accrued interest amounting to $2.8 million due on April 30, 2006. As a result, the Company's ability to continue as a going concern is uncertain and is dependent upon its ability to generate sufficient future cash flow and obtain sufficient financing to fund its business to the point that it consistently achieves profitable operations.

The Company is seeking alternative financing and has implemented a strategy to increase revenues and reduce its net cash outflows with the objective of achieving sustainable positive net cash flow. The Company believes it will be successful in implementing this strategy and securing alternative financing and as a result the Company believes it will be able to meet its short-term cash flow requirements. However, the outcome of this strategy cannot be predicted at this time.

The associated audited financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the associated financial statements.

Related Party Transactions

During the year, there were no related party transactions. During 2004, the Company received advisory services amounting to $44,000 provided by an entity to which a director of the Company was related. The transaction was recorded at the exchange amount. The individual is no longer a director of the Company.

Fourth Quarter

Revenue for the fourth quarter of 2005 was approximately $10.6 million, an increase of $2.1 million, or 25%, from approximately $8.5 million in the corresponding quarter of the prior year. In comparison to the third quarter of the current year, revenue increased by over $900,000. The dramatic increase in fourth quarter sales in comparison to the prior year is consistent with the general increase in sales in 2005. The gross margin for the fourth quarter of 2005, expressed as a percentage of revenue, increased to 15.6% compared to 6.8% in 2004. This increase is largely due to higher revenues generated in the current quarter, which along with positive customer mix, resulted in favourable material variances and other manufacturing efficiencies. In addition, gross margin percentage in the current quarter was higher than the third quarter gross margin of 14.2%. The increase in gross margin and gross margin percentage compared to the third quarter is also the result of higher revenues, which resulted in a higher absorption of fixed costs in the current quarter, thus increasing the gross margin percentage.

SG&A expenses in the fourth quarter of 2005 were $1.3 million, which is consistent with the corresponding quarter of 2004. Even though the total amount of SG&A expenses did not change, there were changes in the spending levels of various components in this category of expense. In particular,

there were decreases in payroll and benefit costs, office supplies, travel and living expenses and bad debt expense in fourth quarter 2005 compared to 2004. These decreases were offset by increased financing related costs of $178,000 incurred in the fourth quarter of 2005.

Interest on subordinated notes in the fourth quarter of 2005 decreased in comparison to the same period in the prior year. This decrease is due to the fact that the deferred financing costs were fully amortized by the end of the third quarter in 2005. Therefore, there was no interest expense recorded for the deferred financing costs in the fourth quarter. In addition, interest was accrued at the stated rate of 12% per annum in the fourth quarter, rather than the effective rate of 16%, which had been used to the original maturity in August 2005. On the other hand, interest on the bank operating loan was higher in the fourth quarter of the current year due to the fact that interest rates were higher in the current period and the Company had higher borrowing levels in 2005 when compared to 2004.

Adeptron experienced no extraordinary items, or material adjustments during the quarter or at year-end, other than the kind anticipated in the normal course of business or as discussed above.

Significant Transactions

Adeptron concluded two related significant transactions during 2004.

On February 4, 2004, Adeptron acquired certain Ottawa-based operating assets ("Ottawa operations") of Prestec Electronics Ltd. ("Prestec"), including all of Prestec's inventory, manufacturing equipment, intangibles and the open balance of Prestec's customer purchase orders. Adeptron acquired these assets from an agent, appointed by the senior secured creditor of Prestec to enforce the creditor's security over Prestec assets, for a cash purchase price of $1.7 million. Concurrently with the acquisition, Adeptron also hired Prestec's former workforce of roughly 115 employees. Adeptron also subsequently negotiated a 10-year lease for suitable manufacturing and office space for its Ottawa operations, with Prestec's former landlord.

The addition of Adeptron's Ottawa operations has expanded the Company's range of service offerings by adding expertise and equipment in the areas of cable and harness assembly, as well as mid-plane and back-plane assembly and box build. The acquisition also complements the existing Markham operations by increasing Adeptron's visibility in the marketplace through increasing the size of the business and range of services offered, adding sales and marketing human resources and allowing for enhanced disaster recovery planning opportunities due to greater operational redundancy of SMT and through-hole capabilities.

In the medium and longer term, Adeptron expects to experience sales and marketing benefits from this increased visibility in the marketplace and deeper sales and marketing strength. Over time, Adeptron also expects that the cross-marketing of services between its Markham and Ottawa facilities as well as the continuing integration of Adeptron's Ottawa and Markham operations will generally enhance the Company's overall competitiveness in the EMS marketplace.

In the short term, Adeptron has added to its pre-acquisition revenue base and its overall gross margins by successfully earning the business of many former Prestec customers. In addition, the transaction increased the diversity of the Company's customer base and the industry sector distribution of that customer base.

Adeptron also raised gross proceeds of $3.25 million during the quarter ended March 31, 2004, through a private placement financing transaction, primarily to finance the acquisition cost and immediate post-acquisition working capital requirements of the Ottawa operations. Of the total gross proceeds, $2.25 million was raised through the sale of units each consisting of one 12% Subordinated 18-month Note with a face value of $100 and warrants to purchase 70 common shares of the Company for a purchase price of $0.35 each. The Notes were repayable in full on maturity, with interest accruing at a rate of 12% per annum to the date of maturity. The warrants issued to investors in the units were originally exercisable for a period of 24 months after issuance and were to expire automatically after the 24-month term. As

previously discussed, the terms of the subordinated notes and common share purchase warrants have subsequently been revised. The other $1 million was raised concurrently, through the sale of common shares at a price of $0.35 each. In addition, the Company's agent for the financing transaction was issued a warrant entitling the agent to acquire up to a maximum of 557,000 common shares at a price of $0.35 for a 24-month period. The terms of the warrant issued to the Company's agent for the financing were not changed and it expired during February 2006.

Disclosure Controls

The Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure procedures and controls are effective, based on their evaluation of the effectiveness of these procedures and controls as of the end of the period covered by this report.

Outstanding Share Data

Adeptron has one class of voting or equity securities for which there are securities outstanding: common shares. As at the date of this Management's Discussion and Analysis, there are 34,613,000 common shares issued and outstanding.

Adeptron also has stock options outstanding that have been granted pursuant to its stock option plan for directors, officers, employees and consultants. As at the date of this Management's Discussion and Analysis, there are 2,404,000 such stock options outstanding, each exercisable for one common share, with various vesting and expiry dates and exercise prices ranging from $0.18 to $0.92. Accordingly, up to 2,404,000 common shares are issuable on exercise of the foregoing stock options.

Adeptron also has a total of 1,540,000 warrants outstanding, as at the date of this Management's Discussion and Analysis, each entitling the holder to purchase one Adeptron common share for $0.25. The warrants expire on August 31, 2007. Accordingly, up to 1,540,000 common shares are issuable on exercise of the foregoing warrants.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Note 3 to the 2005 audited Financial Statements discloses the significant accounting policies and methods used by Adeptron in the preparation of its financial statements. Estimates and assumptions are assessed regularly by Adeptron in light of historical results, information currently available and perceptions regarding future developments. Actual results may differ materially from these estimates and assumptions. The Company has identified the critical accounting policies affecting its Audited Financial Statements below. These policies are affected by the assumptions, judgements and estimates used by management in the preparation of these statements.

Revenue Recognition

Adeptron's revenue is derived from the sale of electronics based assemblies and sub-assemblies that have been built to customer specifications. Revenue from product sales is recognized upon shipment, when title has passed to the customer, persuasive evidence of an arrangement exists, performance has occurred, specified test criteria have been met and the earnings process is complete. The Company has no further performance obligations other than its standard manufacturing warranty.

Allowance for Doubtful Accounts

Adeptron records an allowance for doubtful accounts related to accounts receivable considered by management to be impaired. The assessment of the potential or actual impairment of accounts

receivable is performed on each individual customer account and reflects the Company's knowledge of the financial condition of the customer, historical payment patterns, the ageing of the account, and any other information pertinent to the assessment. Material changes in any of the assessment parameters could affect the allowance for doubtful accounts and the provision for bad debts recorded in the statements of operations and deficit.

Inventory Valuation

Inventories comprise raw materials, work-in-process and finished goods, which are valued at the lower of cost or market value, on a first-in first-out basis. Cost for work-in-process and finished goods includes the cost of materials, principally electronic components, direct labour and an allocation of overheads. Market value for raw materials inventory is replacement cost, and for work-in-process and finished goods is net realizable value. In determining market value, the Company considers factors, such as shrinkage, the ageing and future demand of the inventory, past experience with specific customers and the ability to redistribute inventory to other programs or return inventory to suppliers. A change to these assumptions may affect the valuation of inventory and gross margins.

Income Tax Valuation Allowance

Adeptron records a valuation allowance against deferred income tax assets until management believes it is more likely than not that the deferred income tax asset will be realized. In light of this year's loss and the Company's history of losses, and the lack of certainty of future profitability, Adeptron has recorded a valuation allowance for the full amount of its deferred income tax assets. A material change to profitability could affect the estimated income tax valuation and related income tax expense.

Goodwill

Adeptron performs its goodwill impairment test annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Initially, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired. The second step is carried out if the carrying amount of a reporting unit exceeds its fair value. In this case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss. The exercise of determining fair values is subject to management's expectations of future results for such items as revenues and expenses, cash flows and discount rates. In the prior year, management determined the fair value of the reporting unit based on the Company's market capitalization. The impact of this change in determining the fair value of the reporting unit had no effect on the financial statements. Adeptron recorded no impairment losses in 2005 and 2004. The Company has one reporting unit at December 31, 2005. Future goodwill impairment charges may result from future goodwill impairment tests.

Long-Lived Assets

The valuation of long-lived assets (capital assets) is based on the Company's expectations regarding the future cash flows to be generated by such assets. These cash flow expectations are affected by the Company's assumptions regarding specific customer and general industry conditions and the revenue streams of future periods correlating to the expected useful lives of such assets. Adeptron recorded no long-lived asset impairment losses in 2005 and 2004. Material changes to these assumptions could affect the estimated useful lives or valuation of such assets resulting in changes to depreciation charges or the recording of asset impairment charges.

Accounting Developments – Changes in Accounting Policies Including Initial Adoption

Financial Instruments – Recognition and Measurement

In January of 2005, the CICA released CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", and two related standards, Section 3865, "Hedges" and Section 1531, "Comprehensive Income". These standards reflect the view that fair value, not historical cost, is the appropriate way for measuring financial instruments. This new section is expected to be effective for the 2007 fiscal year. Under the new standards, the only financial instruments that can be carried at historical costs are items such as trade receivables, trade payables and certain financial liabilities. Otherwise, financial instruments should generally be classified as " trading", "held to maturity" or "available for sale". Financial instruments that are classified as trading will generally be stated at fair value, with unrealized gains and losses being recorded through income. Financial instruments that are classified as " held to maturity" should be carried at amortized cost. Financial instruments that are designated as "available for sale" must also be stated as fair value, but unrealized gains and losses will be applied directly to shareholders, equity in a new category called "other comprehensive income". Realized gains and losses and impairments in values on "available for sale" securities will continue to be reflected through income. Equity accounted investment will continue to be accounted for based on the principles of equity accounting. Furthermore, Section 3865 restricts which hedging relationships qualify for hedge accounting. For example, it restricts the ability to designate a non-derivative financial instrument as the hedging instrument to hedge certain foreign currency risks. The Company is currently evaluating the impact of applying the new standards.

CORPORATE GOVERNANCE

Adeptron Technologies Corporation is an Alberta Corporation. The Business Corporations Act (Alberta) states that it is the responsibility of the Board of Directors to manage the business and affairs of the Company. The Board discharges this responsibility by selecting and holding accountable the management to whom the Board delegates operations. Business and operations are to be managed in the best interest of the Company with the long-term goal of maximizing shareholder value.

FINANCIAL STATEMENTS OF ADEPTRON TECHNOLOGIES CORPORATION

December 31, 2005 and 2004

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and in other sections of the Annual Report.

The Company maintains appropriate internal controls and processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies, which management believes are appropriate for the Company, are described in Note 3 to the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Board appoints an Audit Committee of three independent Directors.

The Audit Committee reviews the financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Board of Directors prior to the approval of the audited financial statements for publication.

The Shareholders have appointed Ernst & Young LLP as the external auditors of the Company and, in that capacity, they have audited the financial statements to enable them to express their opinion to the shareholders. Their report is presented herein.

F. Michael Marti,
President and Chief Executive Officer

AUDITORS' REPORT

To the Shareholders of
Adeptron Technologies Corporation

We have audited the balance sheets of **Adeptron Technologies Corporation** as at December 31, 2005 and 2004 and the statements of operations and 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 financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
March 8, 2006.

Chartered Accountants

Adeptron Technologies Corporation

BALANCE SHEETS

[in thousands of dollars]
[See note 2 - Going Concern]

As at December 31

	2005	**2004**
	$	$
ASSETS *[note 8]*		
Current assets		
Cash	**1**	1
Restricted cash *[note 8]*	**322**	314
Accounts receivable *[notes 8, 17[b] and 17[c]]*	**6,800**	5,590
Inventories *[note 5]*	**4,462**	3,430
Prepaid expenses and deposits	**423**	403
Total current assets	**12,008**	9,738
Property, plant and equipment *[note 6]*	**1,982**	2,205
Other assets *[note 7]*	**249**	431
Goodwill	**5,531**	5,531
	19,770	17,905
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank operating loan *[note 8]*	**4,428**	3,901
Accounts payable and accrued liabilities *[notes 11 and 17[c]]*	**6,787**	5,235
Current portion of restructuring accruals *[notes 9 and 13]*	**80**	149
Subordinated notes *[note 10]*	**2,773**	2,455
Total current liabilities	**14,068**	11,740
Restructuring accruals *[notes 9 and 13]*	**216**	287
Other long-term liabilities *[note 11]*	**24**	89
	14,308	12,116
Commitments and contingencies *[notes 4[c] and 13]*		
Shareholders' equity		
Share capital *[note 12[b]]*	**35,058**	35,058
Contributed surplus *[note 12[c]]*	**787**	709
Warrants *[note 10]*	**112**	106
Deficit	**(30,495)**	(30,084)
Total shareholders' equity	**5,462**	5,789
	19,770	17,905

See accompanying notes

On behalf of the Board:

"F. Michael Marti" Director　　*"A.J. Robertson"* Director

Adeptron Technologies Corporation

STATEMENTS OF OPERATIONS AND DEFICIT

[in thousands of dollars, except per share information]

Years ended December 31

	2005	**2004**
	$	$
Sales *[notes 17[b] and 17[c]]*	**38,202**	33,465
Cost of goods sold *[note 6]*	**32,928**	30,629
	5,274	2,836
Expenses (recoveries) *[note 17[c]]*		
Selling, general and administrative *[note 12]*	**4,712**	5,388
Interest on subordinated notes	**403**	440
Other interest	**398**	302
Depreciation and amortization	**172**	214
Other income	—	(124)
Restructuring *[notes 9 and 13]*	—	(204)
	5,685	6,016
Loss for the year	**(411)**	(3,180)
Deficit, beginning of year	**(30,084)**	(26,904)
Deficit, end of year	**(30,495)**	(30,084)
Basic and diluted loss per share	**(0.01)**	(0.09)
Weighted average number of shares outstanding *[note 15]*		
Basic and diluted [000's]	**34,613**	34,220

See accompanying notes

Adeptron Technologies Corporation

STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended December 31

	2005 $	2004 $
OPERATING ACTIVITIES		
Loss for the year	**(411)**	(3,180)
Add items not involving cash:		
Depreciation and amortization	**540**	1,138
Stock-based compensation *[notes 12[b] and [c]]*	**78**	389
Non-cash interest expense	**403**	440
Amortization of lease costs	**27**	103
	637	(1,110)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	**(1,210)**	(2,764)
Income taxes recoverable	**—**	20
Inventories	**(1,032)**	(15)
Prepaid expenses and deposits	**(47)**	(72)
Accounts payable and accrued liabilities	**1,552**	2,397
Restructuring accruals	**(140)**	(310)
Cash used in operating activities	**(240)**	(1,854)
FINANCING ACTIVITIES		
Interest earned on restricted cash	**(8)**	(7)
Increase in bank operating loan	**527**	1,165
Issuance of subordinated notes, net of issuance costs	**—**	1,935
Repayment of other long-term liabilities	**(65)**	(60)
Issuance of common shares and warrants, net of issuance costs	**—**	1,060
Cash provided by financing activities	**454**	4,093
INVESTING ACTIVITIES		
Acquisition *[note 4]*	**—**	(2,299)
Purchase of property, plant and equipment	**(214)**	(136)
Cash used in investing activities	**(214)**	(2,435)
Decrease in cash during the year	**—**	(196)
Cash, beginning of year	**1**	197
Cash, end of year	**1**	1
Supplemental cash flow information		
Interest paid	**315**	247
Income taxes received	**—**	20

See accompanying notes

Adeptron Technologies Corporation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, except as noted]

December 31, 2005

1. DESCRIPTION OF THE BUSINESS

Adeptron Technologies Corporation [the "Company"] is a public company traded on the Toronto Stock Exchange under the symbol ATQ and was formed under the Business Corporations Act (Alberta). The Company's principal business activities include providing a full range of electronics manufacturing services to the global electronics market. Substantially all of the Company's identifiable assets are located in Canada and all of the Company's sales are in Canada and the United States.

2. GOING CONCERN

These financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future.

The Company has incurred significant cumulative net losses since inception and has negative working capital and an accumulated deficit as at December 31, 2005. Furthermore, the Company has subordinated notes and related accrued interest amounting to $2,773 due on April 30, 2006 *[note 19]*. As a result, the Company's ability to continue as a going concern is uncertain and is dependent upon its ability to generate sufficient future cash flow and obtain sufficient financing to fund its business to the point that it achieves profitable operations.

The Company is seeking alternative financing and has implemented a strategy to increase revenues and reduce its net cash outflows with the objective of achieving sustainable positive net cash flow. The Company believes it will be successful in implementing this strategy and securing alternative financing and as a result the Company believes it will be able to meet its short-term cash flow requirements. However, the outcome of this strategy cannot be predicted at this time.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management on the historical cost basis in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. The most significant assumptions made by management in the preparation of the Company's financial statements include, but are not limited to, the allowance for doubtful accounts, inventory valuation, valuation allowances for income taxes, restructuring accruals, the useful lives and recoverability of property, plant and equipment and the valuation of goodwill. Actual results could differ from those estimates.

Inventories

Inventories comprise raw materials, work-in-process and finished goods, which are valued at the lower of cost or market value, on a first-in, first-out basis.

Cost for work-in-process and finished goods includes the cost of materials, principally electronic components, direct labour and an allocation of overhead.

Market value for raw materials inventory is replacement cost, and for work-in-process and finished goods is net realizable value. In determining market value, the Company considers factors, such as shrinkage, the aging and future demand of the inventory, past experience with specific customers and the ability to redistribute inventory to other programs or return inventory to suppliers.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method, commencing when the assets become available for productive use, based on the following estimated useful lives:

Manufacturing equipment	5 to 10 years
Computer hardware and software	3 years
Furniture and office equipment	5 years
Vehicles	5 years
Leasehold improvements	Term of lease

The Company reviews the recoverability of property, plant and equipment annually or more frequently, if events or circumstances indicate that the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amounts of a group of assets to future undiscounted cash flows expected to be generated by that group of assets. When an asset is not recoverable, the impairment loss recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and intangible assets acquired at the date of acquisition.

Goodwill is not amortized and is tested for impairment annually. The impairment test is carried out in two steps.

In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is not required. The fair value of the reporting unit is based on management's estimates of future discounted cash flows. In the prior year, management determined the fair value of the reporting unit based on the Company’s market capitalization. The impact of this change in determining the fair value of the reporting unit had no effect on the financial statements.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase consideration. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

The Company is also required to evaluate goodwill for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Certain indicators of potential impairment that could impact the Company's reporting unit include, but are not limited to, the following: [a] a significant long-term adverse change in the global electronics business industry that is expected to cause a substantial decline in sales and/or gross margins and [b] a significant technological change that results in a substantially more cost-effective method of production and [c] the continued appreciation of the Canadian dollar relative to the U.S. dollar may result in reduced contributions.

As at December 31, 2005, the Company has one reporting unit. The Company has calculated the fair value of its reporting unit as at December 31, 2005 and 2004 and compared this to the carrying amount and determined that no impairment of goodwill existed.

Other assets

Other assets consist of up-front lease costs, customer relationships and deferred financing costs.

Up-front lease costs represent lump sum amounts paid on the initiation of operating leases and are amortized on a straight-line basis over the life of the related lease.

Deferred financing costs represent the costs related to the issuance of the Company's subordinated notes. The costs are being amortized over the expected term of the subordinated notes. Upon early settlement of the subordinated notes, the unamortized balance of deferred financing costs is written off.

Customer relationships are carried at cost less accumulated amortization and are amortized on a straight-line basis over their economic life, which is estimated to be three years. The cost of customer relationships represents the fair value of customer relationships acquired as part of a business acquisition. Internal costs incurred on developing customer relationships are expensed as incurred. Management periodically reviews the carrying value of the customer relationships whenever events or changes in circumstances indicate that the carrying amount of the customer relationships may not be recoverable which is determined by comparing the carrying amount to the estimated undiscounted future net cash flows. The Company writes down the costs associated with customer relationships to their fair value when the value is determined to be impaired.

Revenue recognition

Revenue is derived from the sale of electronics based assemblies and sub-assemblies that have been built to customer specifications. Revenue from product sales is recognized upon shipment, when title has passed to the customer, persuasive evidence of an arrangement exists, performance has occurred, specified test criteria have been met and the earnings process is complete. The Company has no further performance obligations other than its standard manufacturing warranty.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the future tax assets or liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. Future tax assets and liabilities are measured using the substantively enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse.

Stock-based compensation plan

The Company has a stock-based compensation plan which is described in note 12[c].

Stock options and warrants awarded to non-employees are accounted for using the fair value method. Stock options awarded to employees on or after January 1, 2003 are accounted for using the fair value method. The fair value of stock options granted is recognized on a straight-line basis over the applicable stock option vesting period as compensation expense included in selling, general and administrative expenses in the statements of operations and deficit and contributed surplus within shareholders' equity on the balance sheets. On the exercise of stock options, the total of the consideration received and the accumulated contributed surplus is credited to share capital.

For stock options awarded to employees prior to January 1, 2003, pro forma disclosure of net loss and loss per share is provided as if these awards were accounted for using the fair value method.

Fair value is calculated using the Black-Scholes option pricing model with the assumptions described in note 12[c].

Loss per share

Basic loss per share is computed using the weighted average number of shares outstanding during the year. Diluted loss per share is computed in accordance with the treasury stock method. Diluted loss per share reflects the dilution that would occur if outstanding stock options and warrants were exercised or converted into common shares using the treasury stock method. For the years ended December 31, 2005 and 2004, the inclusion of the Company's stock options and warrants in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and therefore options and warrants are excluded from the computation.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using exchange rates at the year end. Revenue and expenses are translated into Canadian dollars at the rates of exchange in effect on the dates of the transactions. Gains or losses arising from the translation of foreign currencies are included in the statements of operations and deficit.

4. ACQUISITION

[a] Business combination

During the first quarter of 2004, the Company acquired certain operating assets of Prestec Electronics Ltd. [the "Ottawa Operations"], a Canadian electronics manufacturing services company headquartered in Ottawa, Ontario. The acquisition has been recorded as a business combination, and accordingly, the purchase method of accounting has been applied. The Company's operating results reflect the revenue and expenses of the acquired operations from the date of acquisition.

The purchase price of $2,299 was financed with cash which was raised by debt and equity financing *[note 10]* and the assumption of certain liabilities.

The Company estimated the value of the amortizable intangible asset acquired on the acquisition of the Ottawa Operations to be $243. The intangible asset represents customer relationships acquired as a result of the acquisition of the Ottawa Operations. This asset is being amortized over a three-year term.

Details of the net assets acquired, at estimated fair value, are as follows:

	$
Inventories	1,311
Property, plant and equipment	815
Customer relationships	243
Restructuring liability *[note 9]*	(70)
Total purchase consideration	2,299

[b] Restructuring

In connection with the acquisition, the Company had taken actions to reduce its workforce. The Company recorded a liability amounting to $70 for the severance amounts that were to be paid to the terminated employees as part of the purchase price *[note 9]*. As at December 31, 2005, the entire amount has been paid in respect of this restructuring as employment termination-related compensation to terminated employees.

[c] Contingent consideration

In connection with the acquisition of the Ottawa Operations, certain key managers signed non-competition and non-solicitation agreements, which apply whether their employment or consulting engagement is terminated either by the individual or by the Company. The agreements also provide for the payment of consideration to these individuals, based on the ongoing performance of the Ottawa Operations during the first three years after the acquisition. If earned, this compensation will be payable beginning in the second year after the acquisition transaction and ending after the fourth year after the transaction. The amount of compensation payable, if earned, will depend on a specified percentage of gross margin for the Ottawa Operations, ranging from 6% to 10% of gross margin and increasing as gross margin increases. Compensation is only payable under this arrangement if specified minimum gross margin and revenue thresholds are met. The total of all such compensation paid to all recipients over the course of the potential compensation period cannot exceed $3,000. For this maximum amount of compensation to be earned, the Ottawa Operations would need to have achieved over $30,000 in gross margin in aggregate during the applicable three-year calculation period. No amounts have been recorded for the year ended December 31, 2005 as the performance targets have not been met.

Adeptron Technologies Corporation

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, except as noted]

December 31, 2005

5. INVENTORIES

Inventories consist of the following:

	2005 $	**2004** $
Raw materials	**2,447**	1,934
Work-in-process	**1,687**	1,104
Finished goods	**328**	392
	4,462	3,430

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2005		
	Cost $	**Accumulated depreciation** $	**Net book value** $
Manufacturing equipment	**10,620**	**8,945**	**1,675**
Computer hardware and software	**598**	**507**	**91**
Furniture and office equipment	**285**	**261**	**24**
Vehicles	**28**	**17**	**11**
Leasehold improvements	**447**	**266**	**181**
	11,978	**9,996**	**1,982**

	2004		
	Cost $	**Accumulated depreciation** $	**Net book value** $
Manufacturing equipment	10,556	8,592	1,964
Computer hardware and software	505	476	29
Furniture and office equipment	283	240	43
Vehicles	28	12	16
Leasehold improvements	392	239	153
	11,764	9,559	2,205

Effective July 1, 2004, the Company undertook an evaluation of the remaining useful lives of the property, plant and equipment. After considering a number of factors including that the property, plant and equipment have been under-utilized historically, the estimated remaining useful life of certain manufacturing equipment was extended from one year to five years. This change in estimate has been applied on a prospective basis.

Depreciation of property, plant and equipment during the year ended December 31, 2005 amounted to $438 [2004 - $1,046], of which $368 [2004 - $924] is recorded in cost of goods sold.

7. OTHER ASSETS

Other assets consist of the following:

	2005 $	**2004** $
Up-front lease costs	**161**	182
Customer relationships *[note 4[a]]*	**88**	169
Deferred financing costs *[note 10]*	**—**	80
	249	431

Up-front lease costs are net of accumulated amortization of $39, of which $21 [2004 - $18] was recorded as amortization expense in the statements of operations and deficit in 2005.

Customer relationships are net of accumulated amortization of $155, of which $81 [2004 - $74] was recorded as amortization expense in the statements of operations and deficit in 2005.

Deferred financing costs are net of accumulated amortization of $206, of which $80 [2004 - $126] was recorded as interest on subordinated notes in the statements of operations and deficit in 2005.

8. BANK OPERATING LOAN

On April 29, 2004, the Company entered into an agreement with its senior lender that increased the credit available to the Company under its credit facility with that lender from $3,000 to $4,000, subject to certain terms and conditions. On September 10, 2004, the Company and its senior lender revised the credit facility agreement to increase the credit available to the Company to $4,500, subject to certain terms and conditions. The effective credit limit under this facility is established based on certain terms and conditions, including the amount of accounts receivable available to secure the operating line. As at December 31, 2005, the Company's bank operating loan balance of $4,428 was within its borrowing limit based on the accounts receivable margining conditions in its agreement with its senior lender. This operating line is repayable upon demand and substantially all of the assets of the Company are pledged as collateral by a general security agreement. The operating line is subject to interest at bank prime plus 3% and interest is payable monthly. The effective interest rate for the year is 7.4% [2004 - 7.1%].

A specific condition of the agreement requires that the Company maintain a deposit of $300 with the lender in the form of a term deposit. This deposit may be released if certain financial covenants are met at the end of the Company's current fiscal year. This deposit, along with accrued interest, is classified as restricted cash.

9. BUSINESS RESTRUCTURING

In addition to the restructuring activities described in note 4[b], during the year ended December 31, 2001, the Company restructured its operations resulting in the closing of its manufacturing facilities in Calgary, Alberta and the consolidation of all operations in Markham, Ontario. The restructuring resulted in staff reductions, consolidation of office and manufacturing space and the sale of non-core assets.

Restructuring accrual activity for the years ended December 31 is as follows:

	2005	**2004**
	$	$
Balance, beginning of year	**436**	676
Severance accrual and related payments *[note 4[b]]*	**(53)**	53
Lease payments, net of sublease income	**(87)**	(89)
Adjustments	**—**	(204)
Balance, end of year	**296**	436
Less current portion	**80**	149
	216	287

The remaining obligation consists of facility leases that will be paid out over the remaining lease periods which extend through 2011.

During 2004, restructuring accruals were reduced by $204, as a result of the extension of a sub-lease agreement that was negotiated by the Company and other adjustments related to the Calgary facilities.

10. FINANCING

During the first quarter of 2004, the Company issued debt and equity to finance the acquisition of the Ottawa Operations. The offering consisted of $1,000 in common share subscription receipts ["CSRs"] and $2,250 in unit subscription receipts ["USRs"]. Proceeds of $3,250 were released from escrow upon closure of the acquisition of the Ottawa Operations net of issuance costs of approximately $250.

Upon closing of the acquisition of the Ottawa Operations, the CSRs were each automatically converted, for no additional consideration, into one share of the Company's common stock. Each CSR was issued for $0.35. The proceeds, net of the pro-rata share of issuance costs, are included in the share capital *[note 12[b]]*.

Upon closing of the acquisition of the Ottawa Operations, the USRs were each automatically converted, for no additional consideration, into 22,500 subordinated notes payable with a principal amount of $100 per note and 70 common share purchase warrants per note. The subordinated notes were scheduled to mature 18 months from the date of issuance and accrue simple interest at a rate of 12% per annum. These notes are subordinated to the bank operating loan. Each common share purchase warrant was originally exercisable for one common share at a price of $0.35 for a period of 24 months. In addition, the Company's agent for the financing transaction was issued a warrant entitling the agent to acquire up to a maximum of 557,000 common shares at a price of $0.35 for a 24-month period.

The $2,250 of proceeds from the USRs has been split between liability and equity based on the residual method used to estimate the fair values of the subordinated notes and the warrants. Interest expense on the subordinated notes was accrued at 16%, being the effective rate, over the original 18-month term and was charged to the statements of operations and deficit as incurred.

The carrying values for the subordinated notes are determined as follows:

	2005 $	2004 $
Principal of subordinated notes	**2,250**	2,250
Amount allocated to warrants	**(109)**	(109)
Amount allocated to subordinated notes	**2,141**	2,141
Add accrued interest	**632**	314
	2,773	2,455

In August 2005, the Company extended the maturity date of its previously issued subordinated notes. Under the terms of the extension, approved by the necessary majority of the holders of the subordinated notes, the maturity date had been extended to September 30, 2005. Interest continued to accrue at a rate of 12% per annum and was due on September 30, 2005. At that time, the Company also extended the term of the outstanding warrants held by the note holders by an additional six months to August 4, 2006. In September 2005, the Company again extended the maturity date of the subordinated notes to November 30, 2005. In November 2005, the Company arranged for another extension of the maturity date to December 31, 2005. Consistent with the terms of the original extension, interest continued to accrue at a rate of 12% per annum and was calculated based on the original principal balance of $2,250. The terms of the outstanding warrants were not changed as a result of the extensions to November 30, 2005 and December 31, 2005 of the maturity date of the subordinated notes.

Subsequent to year end, the Company extended the maturity date of its previously issued subordinated notes *[note 19]*.

11. OTHER LONG-TERM LIABILITIES

At December 31, 2005, other long-term liabilities amounting to $24 [2004 - $89] substantially relates to the Company's obligation to the landlord of the Ottawa facility and are payable in equal monthly installments over the next three years. The amount payable during the next 12 months amounting to $60 is included within accounts payable.

12. SHARE CAPITAL

[a] Authorized

Unlimited non-voting preferred shares
Unlimited voting common shares without nominal or par value

[b] Common shares issued

	Common shares # [000's]	**Amount** $
Balance, December 31, 2003	30,897	33,804
Exercise of employee stock options	84	31
Exercise of common share purchase warrants *[note 10]*	35	15
Issued on conversion of CSRs *[note 10]*	2,857	908
Issued in relation to signing bonuses	740	300
Balance, December 31, 2005 and 2004	**34,613**	**35,058**

During February 2004, the Company paid certain former managers of Prestec Electronics Ltd. $300 in signing bonuses upon joining the Company as employees or consultants which is included in selling, general and administrative expenses. These managers paid a total cash amount equal to the amount of the signing bonuses as consideration for the purchase of newly issued share capital, as agreed upon prior to the distribution of the signing bonuses.

[c] Stock options

The Company has established a stock option plan for its directors, officers, employees and consultants, whereby options to a maximum of 3,056,000 common shares may be granted subject to certain terms and conditions. Stock options vest over a period of up to three years and expire at various dates through 2010. At December 31, 2005, the exercise price of outstanding stock options was $0.18 to $4.50 per common share.

Changes in the number of options, with their weighted average exercise prices, are summarized below:

	2005		**2004**	
	Number of options [000's]	**Weighted average exercise price** $	**Number of options** [000's]	**Weighted average exercise price** $
Outstanding, beginning of year	**2,677**	**0.45**	2,429	0.46
Granted	**270**	**0.18**	450	0.46
Exercised	**—**	**—**	(84)	0.37
Forfeited/expired	**(513)**	**0.37**	(118)	0.75
Outstanding, end of year	**2,434**	**0.43**	2,677	0.45
Options exercisable, end of year	**2,256**	**0.44**	2,288	0.45

The following table summarizes information about the stock options at December 31, 2005:

	Options outstanding			**Options exercisable**	
Range of exercise price $	**Number of options** [000's]	**Weighted average remaining contractual life** [years]	**Weighted average exercise price** $	**Number of options** [000's]	**Weighted average exercise price** $
0.00 - 0.19	**250**	**4.9**	**0.18**	**150**	**0.18**
0.20 - 0.39	**289**	**1.1**	**0.38**	**289**	**0.38**
0.40 - 0.59	**1,780**	**1.9**	**0.41**	**1,702**	**0.41**
0.60 - 4.50	**115**	**0.5**	**1.39**	**115**	**1.39**
	2,434	**2.1**	**0.43**	**2,256**	**0.44**

In accordance with the Canadian Institute of Chartered Accountants' [the "CICA"] Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", the Company has prospectively applied the fair value method of accounting for stock option awards granted to employees after January 1, 2003, and accordingly, has recorded the compensation expense in the statements of operations and deficit. Prior to January 1, 2003, the Company recognized no compensation expense for stock options granted to employees.

For awards granted in 2002, Section 3870 requires the disclosure of pro forma net income and income per share information as if the Company had accounted for employee stock options under the fair value method. The pro forma effect of awards granted prior to January 1, 2002 has not been included in the pro forma net income and income per share information.

The estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis, and was determined using the Black-Scholes option pricing model with the following assumptions:

	2005	**2004**
Risk-free interest rate	**3.3%**	3.0%
Volatility factor of the future expected market price of common shares	**103%**	85%
Weighted average expected life of the options	**3 years**	3 years

During the year, the Company recorded $78 [2004 - $89] of stock-based compensation expense relating to the fair value of options granted to employees in 2003, 2004 and 2005. These amounts are included in selling, general and administrative expenses and contributed surplus. The weighted average estimated fair value at the date of the grant was $0.11 [2004 - $0.20] per option.

For the year ended December 31, 2005, there was no pro forma stock-based compensation expense related to options issued to employees in 2002 [2004 - $43].

13. COMMITMENTS

Future minimum annual operating lease payments for office space and equipment are as follows:

	$
2006	802
2007	773
2008	776
2009	798
2010	795
Thereafter	1,476
	5,420

Excluded from the amounts noted above is $1,643 [2004 - $2,006], representing certain lease costs for the years 2006 to 2011. Offsetting these commitments is $1,347 [2004 - $1,623] of sublease income that has been committed to the Company from sub-tenants. These amounts were recorded as part of the 2001 restructuring charges and are included in restructuring accruals.

14. INCOME TAXES

The income tax recovery differs from the amount obtained by applying the combined federal and provincial income tax rates to income before income taxes. The difference relates to the following items:

	2005 $	**2004** $
Combined statutory income tax rate	**34.0%**	34.0%
Expected income tax recovery	**(140)**	(1,081)
Decrease in income tax recovery resulting from		
Benefit of tax losses not recognized and expired	**90**	1,021
Permanent differences	**50**	60
	—	—

The components of the Company's net future tax assets at December 31, none of which has been recorded in these financial statements, are as follows:

	2005 $	**2004** $
Future tax assets		
Non-capital losses	**6,138**	7,645
Share issue costs	**86**	156
Non-deductible reserves	**363**	—
Property, plant and equipment	**1,609**	483
	8,196	8,284
Valuation allowance	**(8,196)**	(8,284)
	—	—

The non-capital loss carryforwards expire as follows:

	$
2006	382
2007	790
2008	12,230
2009	2,369
2010	—
2011	2,178
Thereafter	103
	18,052

15. LOSS PER SHARE

In 2005 and 2004, all stock options and warrants were excluded from the calculation of diluted loss per share, as the effect of including them would have been anti-dilutive. The potential dilutive effect of stock options and warrants on the weighted average number of shares outstanding was as follows:

	2005 #	**2004** #
Basic weighted average number of shares outstanding	**34,613**	34,220
Potential dilutive effect of stock options	**6**	34
Potential dilutive effect of warrants	**—**	152
Adjusted weighted average number of shares outstanding	**34,619**	34,406

16. RELATED PARTY TRANSACTIONS

During the year, there were no related party transactions. During 2004, the Company received advisory services amounting to $44 provided by an entity to which a director of the Company was related. This transaction was recorded at the exchange amount. The individual is no longer a director of the Company.

17. FINANCIAL INSTRUMENTS

[a] Fair values

The carrying values of accounts receivable, bank operating loan, accounts payable and accrued liabilities and subordinated notes approximate their fair values due to the relatively short periods to maturity of these financial instruments.

[b] Credit risk

At December 31, 2005, accounts receivable for two of the Company's customers represented 48% [2004 - 37%] of the total accounts receivable balance.

[c] Foreign currency risk

The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products to customers invoiced in foreign currencies and the purchase of services, raw materials and property and equipment from suppliers invoiced in foreign currencies. The Company does not use derivative instruments to hedge its currency risk. Of the Company's accounts receivable and accounts payable, 61% [2004 - 59%] and 57% [2004 - 63%], respectively, are denominated in foreign currencies. During the year, approximately 63% [2004 - 62%] of revenue and approximately 42% [2004 - 45%] of expenses were incurred in U.S. dollars.

18. SEGMENTED INFORMATION

The Company operates in one business segment, which is the supply of electronics manufacturing services. The Company markets its services primarily in Canada and the United States.

Sales attributable to geographic location based on the location of the customer are as follows:

	2005 $	**2004** $
Canada	**31,099**	20,663
United States	**7,103**	12,802
	38,202	33,465

Substantially all of the Company's identifiable assets as at December 31, 2005 and 2004 are located in Canada.

For the year ended December 31, 2005, sales from two of the Company's customers represents 47% [2004 - 44%] of the Company's total sales. The two customers represented 35% [2004 - 29%] and 12% [2004 - 15%] of total sales, respectively.

19. SUBSEQUENT EVENT

Subsequent to year end, the Company extended the maturity date of its previously issued subordinated notes. Under the terms of the extension, approved on February 9, 2006 by the necessary majority of the holders of the subordinated notes, the maturity date has been extended to April 30, 2006. In return for the extension, the Company has agreed to capitalize all interest accrued and not paid up to and as at December 31, 2005 and to begin accruing interest at a rate of 12% per annum based, effective January 1, 2006, on the combined amount of original principal and the unpaid interest to December 31, 2005. The Company has also reduced the exercise price of the outstanding common share purchase warrants from $0.35 to $0.25 and extended the term of the warrants held by the note holders to August 31, 2007. The terms of the warrant issued to the Company's agent for the financing were not changed and the warrant expired during February 2006.

DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

Board of Directors

Luke Chan..	Associate Vice-President of International Affairs at McMaster University
Peter A. Kirsch	Chief of Staff of the Office of James Kimsey, Founder and CEO Emeritus of America Online
F. Michael Marti..	President and CEO, Adeptron Technologies Corporation
William (Bill) J. McClean	Vice-President, Manufacturing, Development and Marketing Operations, IBM Canada Ltd.
Tim G. Osby..	Owner and operator, GDC Enterprises, Inc.
Alastair J. Robertson (Non-executive Chairman, Adeptron Technologies Corporation)..	Business Consultant
David Wilson	Vice President, Finance, Mission Hill Family Estate

Officers and Senior Management

F. Michael Marti..	President and Chief Executive Officer
George Tepelenas	Chief Financial Officer and Corporate Secretary
Geoff Beale	Vice-President, Operations
Frank Piccolo	Vice-President, Quality Assurance

SHAREHOLDER INFORMATION

Stock Exchange Listing

Listed: Toronto Stock Exchange (TSX)
Trading Symbol: ATQ

Shares Outstanding

(As at December 31, 2005)
Basic 34,612,735

Common Share Trading Activity

	Share Price ($)		
2005	**High**	**Low**	**Volume**
Q1	0.28	0.16	2,214,859
Q2	0.25	0.18	1,384,463
Q3	0.29	0.15	1,361,510
Q4	0.21	0.11	1,417,273

Closing Price of Common Shares

(As at December 30, 2005)
TSX $0.15

Auditor

Ernst & Young LLP
Chartered Accountants
Ernst & Young Tower
P.O. Box 251, 222 Bay Street
Toronto-Dominion Centre
Toronto, ON M5K 1J7

Registrar and Transfer Agent

Olympia Trust Company
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Company Contact

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Annual Meeting of Shareholders

The Annual Meeting of Adeptron Shareholders will be held on Wednesday, June 21, 2006 at 11:00 am (Eastern) in Markham, Ontario at the offices of the Company at 96 Steelcase Road West, Markham, Ontario.