ADEPTRON TECHNOLOGIES CORPORATION

QUARTERLY SHAREHOLDER REPORT

Results for the Three-month and Six-month Periods Ended June 30, 2006

TSX – 'ATQ'

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month and six-month periods ended June 30, 2006:

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 Unaudited Financial Statements for three-month and six-month periods ended June 30, 2006 as well as the Company's Audited Financial Statements and accompanying Management's Discussion and Analysis 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 this Quarterly Shareholder 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 31, 2006 and other documents filed by the Company with Canadian securities regulators from time to time. Additional information related to the Company, including the Company's Annual Information Form, 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 Quarterly Shareholder 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 August 9, 2006.

Overall Performance

For the three months ended June 30, 2006, the Company recorded net income of $489,000 or $0.01 per share, compared to a net loss of $90,000 in the second quarter of the prior year. This represents a $579,000 improvement in quarterly net income when compared to the second quarter of 2005. The Company has now reported its third consecutive quarter of positive net income and its sixth consecutive quarter of increased revenue and improved bottom line results.

For the six months ended June 30, 2006, the Company reported net income of $801,000 or $0.02 per share, compared to a net loss of $553,000 or $0.02 per share, for the same period of 2005.

EBITDA[1] for the three-month and six-month periods ended June 30, 2006, was $845,000 and $1,525,000, respectively. This represents a significant improvement over EBITDA generated in the prior year. For the three-month and six-month periods ended June 30, 2005, EBITDA was $260,000 and $141,000, respectively.

During the second quarter, the Company continued to actively pursue alternative financing to fund the repayment of its subordinated notes obligation but has not been successful to this point. In May 2006, the Company was able to extend the maturity date of the subordinated notes to June 30, 2006. Subsequent to quarter end, the maturity date was once again extended to August 31, 2006. Management is continuing its efforts to secure alternative financing and believes it will ultimately be successful, however, management cannot provide any assurance that it will be successful in this regard.

Results of Operations

Revenue

For the three months ended June 30, 2006, revenue was $11.7 million compared to $9.4 million for the corresponding quarter of 2005, representing an increase of $2.3 million, or 24%. This increase is primarily attributable to continued growth from existing customers complemented by revenue generated from new customer additions. Revenue for the second quarter of 2006 increased by $939,000, or 9%, from the first quarter of 2006 total of $10.7 million. In addition, the second quarter of 2006 is the sixth consecutive quarter of increased revenue.

For the six months ended June 30, 2006, revenue totalled $22.4 million, an increase of $4.5 million, or 25%, when compared to the corresponding period of the prior year. The increase in year to date revenue is also largely attributable to organic growth from existing customers.

During the six month period ended June 30, 2006, approximately 64% of the Company's revenue was derived from USA-based and domestic-based customers with sales denominated in US dollars ("US$"). Consequently, the strengthening of the Canadian dollar ("CDN$") relative to the US$ has had an adverse effect on the Company's revenues when compared to the corresponding period of the prior year. If the effect of the change in currency rates were removed, the increase in revenue in the first six months of 2006 in comparison to the corresponding period of 2005, would have been even greater.

Cost of Goods Sold and Gross Margin

Cost of goods sold for the three months ended June 30, 2006, was approximately $9.7 million compared to $8.1 million for the corresponding quarter of 2005, an increase of $1.6 million, or 19%. The increase in cost of goods sold in the three months ended June 30, 2006, in comparison to the corresponding quarter of the prior year, can be primarily attributed to the higher material and labour costs directly associated with significantly higher revenues. However, the increase in cost of goods sold was proportionately less than the increase in total revenues. As a result, gross margin increased to $2.0 million in the second quarter of 2006 from $1.3 million in the comparative quarter of the prior year. In addition, gross margin percentage increased to 17.1% in the current quarter from 13.8% in the second quarter of 2005. The improvement in gross margin dollars and percentage in the current quarter is also attributable to changes in product and customer mix.

For the six months ended June 30, 2006, cost of goods sold was $18.5 million, compared to $15.6 million in the first six months of 2006. The increase of $2.9 million is attributed to higher

revenue levels in the first six months of 2006 compared to the prior year. Consistent with the second quarter, gross margin percentage also increased to 17.1%, on a year to date basis, compared to 12.5% in the corresponding period of 2005.

The depreciation on manufacturing assets that have been employed to generate the revenue for a period 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 and amortization of $148,000 has been allocated between cost of goods sold and other expenses in the second quarter of 2006 compared to $132,000 in the corresponding quarter of the prior year. For the three months ended June 30, 2006, depreciation of $105,000 has been allocated to cost of goods sold compared to $91,000 in the previous year. The remainder of the depreciation has been charged to expenses below the gross margin line.

For the six months ended June 30, 2006, depreciation and amortization was $286,000, compared to $261,000 in 2005. Depreciation of $200,000 has been allocated to cost of goods sold compared to $181,000 in the first six months of 2005.

During the current quarter, the Company spent approximately $301,000 to acquire manufacturing equipment. This level of capital spending is significantly higher than the capital spending levels incurred, on a quarterly basis, over the last few years. The capital expenditure in the second quarter was a direct result of a new customer project that specifically justified such a purchase. This will result in an increase in depreciation expense charged to cost of sales in future quarters in comparison to the amounts expensed in the comparative quarters of 2005.

Selling, General and Administrative Expense

Selling, General and Administrative ("SG&A") expense for the second quarter of 2006 was $1,255,000, compared to $1,127,000 for the same quarter of 2005, an increase of $128,000, or 11%. The increase in SG&A expense is due to higher payroll expenses, travel related expenses and professional services costs.

For the six months ended June 30, 2006, SG&A expense was $2.5 million, compared to approximately $2.3 million in the same period of the prior year. The increase of approximately $200,000 is attributable to the same factors that resulted in higher quarterly SG&A expense.

It is important to note that even though SG&A expense in the current quarter and on a year to date basis has increased, revenue and gross margins have increased significantly more during this same period. This is consistent with management's strategy of growing top line revenue 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 expense. However, management will 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 three months ended June 30, 2006 was $98,000 compared to $120,000 in the prior year. For the six months ended June 30, 2006, interest on subordinated notes was $227,000 compared to $239,000 in the corresponding period of the prior year. As described in the section "Balance Sheet" below, the Company changed the terms of the outstanding common share purchase warrants associated with the subordinated notes in February 2006 and determined the cost related to this change to be $61,000. The cost is being allocated on a straight-line basis over the period of the extension. During the three-month and six-month periods ended June 30, 2006, the Company recorded interest expense of $15,000 and $61,000, respectively, in this regard. For the three-month and six-month periods ended June 30, 2005, the Company recorded interest expense of $18,000 and $36,000, respectively, related to the original granting of the warrants in February 2004. Furthermore, for the three-month and six-month periods ended June 30, 2006, interest is being accrued on the combined amount of the original principal of $2.25 million and the unpaid interest to December 31, 2005. However, for the comparative periods in the prior year, interest was only accrued on the original principal. Finally, the above noted increases in interest on subordinated notes were offset by the fact that the deferred financing fees related to the financing had been fully amortized by August of 2005 and therefore, the current year does not contain such an expense. For the three-month and six-month periods ended June 30, 2005, amortization of deferred financing fees totalled $34,000 and $68,000, respectively.

Other Interest

Other interest is primarily the interest and associated loan fees paid on the bank operating loan. Interest for the three-month and six-month periods ended June 30, 2006, was $110,000 and $211,000, respectively. For the three-month and six-month periods ended June 30, 2005, other interest was $98,000 and $194,000, respectively.

Depreciation

Depreciation on non-manufacturing assets for the three months ended June 30, 2006 was $43,000 compared to $41,000 for the three months ended June 30, 2005. 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".

For the six months ended June 30, 2006, depreciation on non-manufacturing assets was $86,000 compared to $80,000 for the corresponding period of the prior year.

Management expects the charge for depreciation on non-manufacturing assets in the remainder of 2006 to be similar to that charged in the current quarter.

Balance Sheet

Cash at June 30, 2006 and December 31, 2005 was virtually nil. The Company applies all cash receipts against its bank operating loan balance.

Restricted cash at June 30, 2006 was $325,000, which is consistent with the balance at the 2005 year-end. 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, defined as current assets less current liabilities, at June 30, 2006 was a deficit of $1.3 million, which is a marked improvement over the year-end 2005 working capital deficit of $2.1 million. The decrease in the working capital deficit is attributable to the cash generated from operating activities by the Company in the first six months of 2006. The Company's operating activities, before changes in non-cash working capital balances, generated $1.3 million in the first six months of 2006 compared to $23,000 in the corresponding period of the prior year.

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. The holders of the subordinated notes granted the Company a series of extensions to the maturity date during the latter part of 2005. In February 2006, the majority of the holders of the subordinated notes approved a further extension of the maturity date to April 30, 2006. In return for this extension, the Company agreed to accrue 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. In May and July of 2006, as approved by the necessary majority of the holders of the subordinated notes, the maturity date of the notes was again extended to August 31, 2006.

The Company has been actively pursuing 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 to secure alternative financing and believes it will ultimately be successful, however, management cannot provide any assurance that it 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 June 30, 2006 was approximately $6.5 million compared to $6.8 million at 2005 year-end, a decrease of approximately $300,000, or 4%. Even though second quarter 2006 revenue was approximately $1.0 million higher than revenue in the fourth quarter of 2005, accounts receivable decreased primarily due to early payments made by a particular customer to take advantage of cash discounts.

Inventory at June 30, 2006 was approximately $5.8 million compared to approximately $4.5 million at 2005 year-end, an increase of approximately $1.3 million. Conversely, inventory decreased by approximately $400,000 from the March 31, 2006 balance of $6.2 million. Inventory levels were expected to remain higher than the year-end balance, however, the June 30, 2006 balance is somewhat higher than planned as a result of customer changes in product delivery dates. The Company expects that the affected deliveries will be made in the third quarter. The Company continues to closely monitor inventory levels to ensure its investment in inventory is optimized.

Accounts payable and accrued liabilities at June 30, 2006 was approximately $7.6 million, compared to approximately $6.8 million at 2005 year-end, an increase of $800,000. The increase in accounts payable and accrued liabilities is directly related to increases in inventory during the six months ended June 30, 2006, as noted above.

The subordinated notes liability at June 30, 2006 was approximately $2,939,000 compared to $2,773,000 at 2005 year-end. The increase is attributable to interest that was accrued during the first six months of 2006 at a rate of 12% per annum.

The current and long-term portions of the restructuring accrual at June 30, 2006 were $64,000 and $193,000, respectively. The comparative balances at December 31, 2005 year-end were $80,000 and $216,000, respectively. The net decrease of $39,000 during the six months ended June 30, 2006 is due to lease payments made, net of amounts received.

The restructuring accrual (current and long-term) balances relate to the subsidization of a Calgary sub-lease 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)

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Sales	$11,655	$10,716	$10,645	$9,694	$9,396	$8,467	$8,457	$9,447
Gross Margin	$1,995	$1,833	$1,663	$1,383	$1,296	$932	$576	$1,194
Gross Margin %	17.1	17.1	15.6	14.3	13.8	11.0	6.8	12.6
Net Income (Loss)	$489	$312	$153	($11)	($90)	($463)	($987)	($438)
Basic & Diluted Income (Loss) Per Share	$0.01	$0.01	$0.00	$0.00	$0.00	($0.01)	($0.03)	($0.01)

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 the mix of sales between various customers and between turnkey and labour-only and fluctuating foreign exchange rates between the CDN$ and US$. 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.

The Company entered 2006 with expectations of continued revenue growth on an annual basis. The Company is experiencing increased demand from certain long standing customers as well as incremental growth from newly introduced customers. Quarterly revenues again increased in the second quarter of 2006 which represents the sixth consecutive quarter of increased revenue. At the same time, the cost reduction initiatives that had been previously implemented have created a much improved cost structure for the business. As a result, the Company's quarterly operating results have also improved for the sixth consecutive quarter. The net result was a $489,000 profit in the second quarter of 2006.

The Company continues to focus its efforts on revenue growth in its pursuit of continuing the profitability it achieved in the last three quarters. 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 as and when appropriate.

Liquidity

The Company's operating activities, before changes in non-cash working capital balances, generated $747,000 in cash in the three months ended June 30, 2006 compared to $185,000 in the same period of 2005. Including changes in non-cash working capital items, cash generated in the current period was $759,000 compared to utilizing $63,000 in the corresponding period of 2005. The improvement in cash generated by operating activities, before changes in non-cash working capital balances, is due to the fact that the Company had net income in the current quarter in comparison to a net loss in the second quarter of 2005.

For the six months ended June 30, 2006, cash generated from operating activities was $981,000 compared to a cash utilization of $213,000 in the same period of the prior year. The increase in cash provided by operating activities, on a year to date basis, is again due to the significant improvement the Company has made in its bottom line results in 2006. In addition, the Company used $1.3 million to support increased inventory as at June 30, 2006 compared to $0.7 million in 2005. The Company continues 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 $0.8 million during the first six months of 2006 to support the Company's activities.

During the second quarter of 2006, the Company's financing activities utilized $458,000 in cash in comparison to providing $170,000 in the same period of the prior year. This is primarily due to the change in the bank operating loan balance between the respective periods as the Company applied cash generated from operations in the current quarter to reduce its operating loan balance.

For the six months ended June 30, 2006, the Company's financing activities utilized $642,000 in cash in comparison to providing $347,000 in the corresponding period of the prior year.

The Company used $301,000 in cash for investing activities during the three months ended June 30, 2006, compared to $107,000 in the same quarter of the prior year. The increase is due to manufacturing equipment purchased during the current quarter to support a new customer project.

For the six months ended June 30, 2006, the Company's investing activities utilized $339,000 in cash in comparison to $133,000 in the corresponding period of the prior year.

The subordinated notes issued in early 2004 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 August 31, 2006. The Company is actively pursuing alternative financing to fund the repayment of the subordinated notes.

At June 30, 2006, the Company had no capital lease obligations or long-term debts outstanding and the total amount of its restructuring accrual was $257,000, payable through to December 2011.

As at June 30, 2006, 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	257	32	64	59	68	34	—
Operating Leases	5,084	414	786	789	811	808	1,476
Total Contractual Obligations	5,341	446	850	848	879	842	1,476

* 2006 totals for contractual obligations for restructuring accrual and all Company operating lease future payments are for the period July 1, 2006 to December 31, 2006.

Capital Resources

Under an agreement entered into in 2002 with its senior lender, the Company has an operating line of credit up to a maximum of $4.5 million based on certain terms and conditions that is secured by a general security agreement. The Company uses its line of credit to finance working capital. The availability of credit 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 June 30, 2006, the Company's operating loan balance of $3.8 million was within its borrowing limit based on accounts receivable margining conditions in its agreement with its senior lender.

As at June 30, 2006, the Company estimates that it could significantly increase its 2005 level of revenue of $38.2 million, based on turnkey revenue, without requiring significant investment in capital assets. The Company expects that as revenue increases in the future it will lead to more optimal utilization of its seven automated surface mount lines, sophisticated test platforms and other equipment. The only expected significant capital expenditures in the normal course of business over the next fiscal year would be due to the execution of a supply contract with a customer having sufficient revenue volume and margin to cost justify the expenditures.

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 June 30, 2006. Furthermore, the Company has subordinated notes and related accrued interest amounting to $2,939,000 due on August 31, 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 unaudited 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 three-month and six-month periods ended June 30, 2006 and 2005, there were no related party transactions.

Outstanding Share Data

Adeptron has one class of voting or equity securities for which there are securities outstanding: common shares. As at the date hereof, 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 hereof, there are 2,819,000 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 2,819,000 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 hereof, each entitling the holder to purchase one 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 financial statements. These policies are affected by the assumptions, judgements and estimates used by management in the preparation of its financial 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 aging 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 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. 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 the loss incurred in 2005 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.

Note:

(1) EBITDA represents earnings before interest, tax, depreciation and amortization. EBITDA is not a recognized measure under Canadian generally accepted accounting principles. However, management believes that EBITDA is a useful supplemental measure to net income (loss), as it provides investors with an indication of cash earnings prior to debt service, capital expenditure, income tax and other non-cash items. Readers should be cautioned, however, that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with generally accepted accounting principles as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The Company's method of calculating EBITDA may differ from the methods by which other companies calculate EBITDA and, accordingly, the EBITDA used herein may not be comparable to measures used by other companies.

EBITDA reconciliation to GAAP income/(loss) for the three-month and six-month periods ended June 30, 2006 and 2005 are shown below (All numbers expressed in thousands):

	3-Month Period June 30, 2006	3-Month Period June 30, 2005	6-Month Period June 30, 2006	6-Month Period June 30, 2005
Net income/(loss) per GAAP	$489	($90)	$801	($553)
Add/(Deduct):				
Interest on subordinated notes	98	120	227	239
Other Interest	110	98	211	194
Depreciation and amortization	148	132	286	261
EBITDA	$845	$260	$1,525	$141

Interim Financial Statements

Adeptron Technologies Corporation

[unaudited]
June 30, 2006

Adeptron Technologies Corporation

INTERIM BALANCE SHEETS

[unaudited]
[in thousands of dollars]
[See note 3 - Going Concern]

	As at June 30, 2006 $	As at December 31, 2005 $
ASSETS *[note 4]*		
Current		
Cash	**1**	1
Restricted cash *[note 4]*	**325**	322
Accounts receivable *[notes 9[b] and [c]]*	**6,505**	6,800
Inventories	**5,796**	4,462
Prepaid expenses and deposits	**467**	423
Total current assets	**13,094**	12,008
Property, plant and equipment	**2,085**	1,982
Other assets	**199**	249
Goodwill	**5,531**	5,531
	20,909	19,770
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank operating loan *[note 4]*	**3,813**	4,428
Accounts payable and accrued liabilities *[note 9[c]]*	**7,544**	6,787
Current portion of restructuring accruals *[note 5]*	**64**	80
Subordinated notes *[note 6]*	**2,939**	2,773
Total current liabilities	**14,360**	14,068
Restructuring accruals *[note 5]*	**193**	216
Other long-term liabilities	**—**	24
	14,553	14,308
Contingencies *[note 8]*		
Shareholders' equity		
Share capital *[note 7[b]]*	**35,058**	35,058
Contributed surplus *[note 7[c]]*	**819**	787
Warrants *[note 6]*	**173**	112
Deficit	**(29,694)**	(30,495)
Total shareholders' equity	**6,356**	5,462
	20,909	19,770

Subsequent event *[note 11]*

See accompanying notes

Adeptron Technologies Corporation

INTERIM STATEMENTS OF OPERATIONS AND DEFICIT

[unaudited]
[in thousands of dollars, except per share information]

	Three-month period ended June 30		Six-month period ended June 30	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
Sales *[notes 9[c] and 10]*	**11,655**	9,396	**22,371**	17,863
Cost of goods sold	**9,660**	8,100	**18,543**	15,635
Gross profit	**1,995**	1,296	**3,828**	2,228
Expenses				
Selling, general and administrative	**1,255**	1,127	**2,503**	2,268
Interest on subordinated notes *[note 6]*	**98**	120	**227**	239
Other interest	**110**	98	**211**	194
Depreciation and amortization	**43**	41	**86**	80
	1,506	1,386	**3,027**	2,781
Net income (loss) for the period	**489**	(90)	**801**	(553)
Deficit, beginning of period	**(30,183)**	(30,547)	**(30,495)**	(30,084)
Deficit, end of period	**(29,694)**	(30,637)	**(29,694)**	(30,637)
Basic and diluted income (loss) per share	**0.01**	—	**0.02**	(0.02)
Weighted average number of shares outstanding				
Basic and diluted [000's]	**34,613**	34,613	**34,613**	34,613

See accompanying notes

Adeptron Technologies Corporation

INTERIM STATEMENTS OF CASH FLOWS

[unaudited]
[in thousands of dollars]

	Three-month period ended June 30		Six-month period ended June 30	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
OPERATING ACTIVITIES				
Net income (loss) for the period	**489**	(90)	**801**	(553)
Add items not involving cash:				
Depreciation and amortization	**148**	132	**286**	261
Stock-based compensation *[note 7[c]]*	**12**	22	**32**	49
Non-cash interest expense	**98**	120	**227**	239
Amortization of lease costs	**—**	1	**—**	27
	747	185	**1,346**	23
Changes in non-cash working capital balances related to operations:				
Accounts receivable	**52**	(112)	**295**	(655)
Inventories	**439**	163	**(1,334)**	(650)
Prepaid expenses and deposits	**5**	(35)	**(44)**	(25)
Accounts payable and accrued liabilities	**(464)**	(204)	**757**	1,185
Restructuring accruals	**(20)**	(60)	**(39)**	(91)
Cash provided by (used in) operating activities	**759**	(63)	**981**	(213)
FINANCING ACTIVITIES				
Interest earned on restricted cash	**(2)**	(2)	**(3)**	(4)
Increase (decrease) in bank operating loan	**(449)**	189	**(615)**	384
Other long-term liabilities	**(7)**	(17)	**(24)**	(33)
Cash provided by (used in) financing activities	**(458)**	170	**(642)**	347
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	**(301)**	(107)	**(339)**	(133)
Cash used in investing activities	**(301)**	(107)	**(339)**	(133)
Increase in cash during the period	**—**	—	**—**	1
Cash, beginning of period	**1**	2	**1**	1
Cash, end of period	**1**	2	**1**	2
Supplemental cash flow information				
Interest paid	**95**	80	**182**	151

See accompanying notes

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]
[in thousands of dollars, except as noted]

June 30, 2006

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. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"] for interim financial statements. The disclosures contained in these unaudited financial statements do not include all requirements of GAAP for annual financial statements. These unaudited financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2005.

These unaudited financial statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position of the Company as at June 30, 2006 and the results of operations and cash flows for the three-month periods and six-month periods ended June 30, 2006 and 2005.

These unaudited financial statements are based upon accounting policies consistent with those used and described in note 3 to the December 31, 2005 financial statements.

3. 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 June 30, 2006. Furthermore, the Company has subordinated notes and related accrued interest amounting to $2,939 due on August 31, 2006 *[note 6]*. 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.

These interim 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.

4. BANK OPERATING LOAN

The Company has an agreement with its senior lender that provides the Company with a credit facility with a limit of $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 June 30, 2006, the Company's bank operating loan balance of $3,813 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 three-month and six-month periods ended June 30, 2006 was 8.8% [2005 – 7.3%] and 8.5% [2005 – 7.3%], respectively.

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.

5. RESTRUCTURING ACCRUALS

During 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.

During the three-month and six-month periods ended June 30, 2006, the restructuring accrual was reduced by $20 [2005 - $60] and $39 [2005 - $91], respectively.

The remaining obligation as at June 30, 2006, consists entirely of a facility lease that will be paid out over the remaining lease periods, net of sublease income, which extends through 2011.

6. SUBORDINATED NOTES

During 2004, the Company issued debt and equity totalling $3,250. The offering consisted of $1,000 in common share subscription receipts ["CSRs"] and $2,250 in unit subscription receipts ["USRs"].

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 $250 of issuance costs, are included in share capital *[note 7]*.

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 per share 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 statements of operations and deficit as incurred.

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

	June 30, 2006 $	**December 31, 2005** $
Principal of subordinated notes	**2,250**	2,250
Less amount allocated to warrants	**(109)**	(109)
Amount allocated to subordinated notes	**2,141**	2,141
Add accrued interest	**798**	632
	2,939	2,773

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.

In February 2006, the Company extended the maturity date once again of its previously issued subordinated notes. Under the terms of this extension, approved on February 9, 2006 by the necessary majority of the holders of the subordinated notes, the maturity date was extended to April 30, 2006. In return for the extension, the Company agreed to accrue 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 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. The terms of the warrant issued to the Company's agent for the financing were not changed and it expired during February 2006.

The Company determined the cost related to changing the terms of the note holder warrants to be $61 using the fair value method. The cost is being allocated on a straight-line basis over the period of the extension and during the three-month and six-month periods ended June 30, 2006, the Company recorded $15 and $61, respectively, as interest expense in this regard.

In May 2006, as approved by the necessary majority of the holders of the subordinated notes, the Company extended the maturity date of its previously issued subordinated notes to June 30, 2006. Subsequent to June 30, 2006, the Company again extended the maturity date of its previously issued subordinated notes *[note 11]*.

7. SHARE CAPITAL

[a] Authorized

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

[b] Common shares issued

The common shares issued and outstanding as at June 30, 2006 and December 31, 2005 was 34,613,000.

[c] Stock options

The Company has established a stock option plan for its directors, officers, employees and consultants, whereby options to a maximum of 3,656,000 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 2011.

As at June 30, 2006, the exercise price of outstanding stock options was $0.18 to $0.92 [2005 - $0.28 to $4.50] per common share. Changes in the number of options, with their weighted average exercise prices for the six-month periods ended June 30, 2006 and 2005 are summarized below:

	2006		**2005**	
	Number of options [000's]	**Weighted average exercise price** $	**Number of options** [000's]	**Weighted average exercise price** $
Outstanding, beginning of period	**2,434**	**0.43**	2,677	0.45
Granted	**430**	**0.20**	—	—
Forfeited/expired	**(45)**	**1.77**	(129)	0.40
Outstanding, end of period	**2,819**	**0.38**	2,548	0.45
Options exercisable, end of period	**2,366**	**0.41**	2,357	0.45

The Company applies the fair value method of accounting for stock option awards granted to employees after January 1, 2003 and, accordingly, has recorded compensation expense in the three-month and six-month periods ended June 30, 2006 and 2005.

During the three-month and six-month periods ended June 30, 2006, the Company recorded $12 [2005 - $22] and $32 [2005 - $49] of stock-based compensation expense relating to the fair value of options granted to employees after January 1, 2003. These amounts are included in selling, general and administrative expenses and contributed surplus.

For the three-month period ended June 30, 2006, the Company did not grant any employee stock options. For the six-month period ended June 30, 2006, the weighted average estimated fair value at the date of the grant was $0.12 [2005 - nil] per option.

8. CONTINGENCIES

In connection with the February 2004 acquisition of certain operating assets of Prestec Electronics Ltd. [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 since the acquisition as the performance targets have not been met.

9. 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

As at June 30, 2006, accounts receivable for the Company's two largest customers represent 46% [2005 - 52%] 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 at June 30, 2006, 66% [2005 - 69%] and 62% [2005 - 62%], respectively, are denominated in foreign currencies. During the six-month period ended June 30, 2006, approximately 64% [2005 - 62%] of sales was incurred in U.S. dollars.

10. 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 for the six-month periods ended June 30, 2006 and 2005 are as follows:

	2006	**2005**
	$	$
Canada	**17,275**	14,638
United States	**5,096**	3,225
	22,371	17,863

Substantially all of the Company's identifiable assets as at June 30, 2006 and December 31, 2005 are located in Canada.

For the six-month period ended June 30, 2006, sales to the Company's two largest customers represent 49% [2005 - 47%] of the Company's total sales. The two customers represent 30% [2005 - 35%] and 19% [2005 - 12%] of total sales, respectively.

11. SUBSEQUENT EVENT

Subsequent to June 30, 2006, the Company extended the maturity date of its previously issued subordinated notes. Under the terms of the extension, approved in July 2006 by the necessary majority of the holders of the subordinated notes, the maturity date has been extended to August 31, 2006.