



ADEPTRON TECHNOLOGIES CORPORATION

QUARTERLY SHAREHOLDER REPORT

Results for the Three-month Period Ended March 31, 2007

TSX – 'ATQ'

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2007:

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 period ended March 31, 2007 as well as the Company's Audited Financial Statements and accompanying Management's Discussion and Analysis for the year-ended December 31, 2006. 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; sales concentration risks; risks related to the availability of future financing; risks related to future acquisitions; 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, 2007 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 May 9, 2007.

Significant Transactions

Subsequent to March 31, 2007, the Company reached an agreement to acquire all of the outstanding shares of Pacific Circuit Assembly, Inc ("PCA"). The expected total purchase price for PCA is \$US2.25 million. The Company expects to finance the majority of the proposed acquisition of PCA using internal financing resources and the remainder by the issuance of common shares to the principals of PCA. The transaction is subject to customary conditions and the completion of satisfactory due diligence and is expected to close in the second quarter of 2007.

In addition, Adepron concluded two significant financing transactions in the third quarter of 2006.

On September 21, 2006, the Company completed a private placement financing consisting of a subordinated debenture and common share purchase warrants for aggregate gross proceeds of \$5.0 million. As part of the private placement, the Company issued 6,851,000 common share purchase warrants, each of which entitles the holder thereof to purchase one common share of the Company for \$0.20 per common share for a period of 5 years. The subordinated debenture has a principal amount of \$5.0 million, a term of 66 months and carries interest at 12% per annum, payable monthly. Beginning on November 1, 2008, the Company will make principal repayments of \$35,000 per month for 42 months with the remaining outstanding principal due at the end of the 66-month term. The debenture is collateralized by a second ranking general security agreement covering substantially all of the Company's assets.

The Company has allocated the \$5.0 million gross proceeds received from the private placement to debt and equity based on the relative fair values of the common share purchase warrants and the subordinated debenture. The fair value of the common share purchase warrants was determined to be \$822,000 using an option-pricing model. The fair value allocated to the subordinated debenture was based on an effective interest rate of 17% and was determined to be \$4,178,000. In addition, the Company incurred financing costs of \$473,000 related to the private placement and these costs have been allocated on a pro-rata basis to debt and equity, amounting to \$395,000 and \$78,000 respectively. The amount related to the issuance of the subordinated debenture has been recorded on the balance sheets as a reduction to the carrying value of the subordinated debenture. These financing costs will be amortized using the effective interest rate method over the 66-month term of the subordinated debenture and will be included in the statements of income and deficit as interest on long-term debt. The amount allocated to equity is included as a reduction in the warrant value within shareholders' equity. Interest expense on the subordinated debenture, including amortization of the financing costs, will be charged to earnings at the effective rate of 20%.

The subordinated debenture agreement contains various covenants that the Company must comply with including financial covenants related to the ratio of current assets to current liabilities, debt coverage, interest coverage and debt to equity.

Also on September 21, 2006, the Company entered into a three-year credit agreement with a senior lender that provides the Company with a senior lending facility in the aggregate amount of up to \$6,750,000. The total senior lending facility is comprised of a \$6.0 million revolving credit facility and a \$750,000 term loan facility. The senior lending facility is collateralized by a first ranking general security agreement covering substantially all of the Company's assets.

Under the revolving credit facility, the Company can borrow by way of Canadian dollar prime rate loans or U.S. dollar base rate loans. In addition, the revolving credit facility allows for the issuance of letters of credit and has a foreign exchange trading component. The maximum availability under the revolving credit facility is based on certain terms and conditions, including, but not limited to, the levels of accounts receivable and inventory and is established on an ongoing basis. Borrowings under this facility are subject to interest at the bank's prime rate plus 1% for Canadian dollar loans and U.S. base rate plus 0.5% for U.S. dollar loans and the interest is payable monthly.

The term loan is repayable over 36 months in equal monthly instalments commencing on November 1, 2006. The term loan is subject to interest on the outstanding balance at the bank's prime rate plus 1.5% and interest is payable monthly. The term loan is classified as long term debt on the balance sheet, of which \$250,000 is shown in current liabilities as current portion of long-term debt.

The credit agreement contains various covenants that the Company must comply with including financial covenants related to minimum levels of net assets and interest coverage and maximum levels of capital spending.

The Company incurred financing costs of \$253,000 related to the credit agreement and these costs have been recorded on the balance sheet as other assets. These deferred financing costs will be amortized over the three-year term of the agreement and will be included in the statements of income and deficit as interest expense.

The Company used the proceeds of the private placement to repay the subordinated notes and the new senior lending facility was used to refinance the then existing senior lending facility.

Overall Performance

For the three months ended March 31, 2007, the Company recorded net income and basic income per share of \$163,000 and \$0.00, respectively. In the first quarter of 2006, net income and basic income per share were \$312,000 and \$0.01, respectively. This represents a \$149,000 decrease in quarterly net income when compared to the first quarter of 2006. Nonetheless, the Company has now reported its sixth consecutive quarter of net income.

EBITDA⁽¹⁾ for the three-month period ended March 31, 2007, was \$602,000 compared to \$700,000 for the comparative three-month period in the prior year. This represents the eighth consecutive quarter of positive EBITDA⁽¹⁾.

As described above in the section "Significant Transactions", the Company completed two financing transactions during the third quarter of 2006. The proceeds generated from the financing transactions provided the necessary funding to fully repay the Company's subordinated notes liability and to repay the outstanding bank operating loan liability existing with the former senior lender at the time. In addition, the new revolving credit facility provides the Company with additional availability that it did not have under its credit agreement with the former senior lender.

As a result of these financing transactions as well as positive operating cash flow generated over the past eight quarters, the Company's balance sheet has been significantly enhanced. As at March 31, 2007, the Company's working capital balance was \$5.2 million, which compares very favourably to a working capital deficit of \$1.6 million at March 31, 2006 and working capital of \$4.8 million at December 31, 2006.

Results of Operations

Sales

For the three months ended March 31, 2007, sales were \$10.16 million compared to \$10.72 million for the corresponding quarter of 2006, representing a decrease of approximately \$0.56 million, or 5%. This decrease is primarily attributable to a significant reduction in sales

generated from the Company's former largest customer. In the current quarter, sales to that customer decreased by approximately \$2.4 million when compared to the first quarter of 2006. However, this large reduction was partially offset by increases in sales to other existing customers as well as sales to newly introduced customers. This change in customer mix resulted in a decrease in turnkey sales and an increase in labour-only sales. In addition, the current quarter's sales mix reflects an improved diversification of revenue amongst customers and a reduction of the reliance on sales to a single customer reported each quarter in the past several years.

During the three-month period ended March 31, 2007, approximately 67% of the Company's sales were derived from USA-based and domestic-based customers with sales denominated in US dollars ("US\$"). Consequently, the strengthening of the Canadian dollar ("CAD") relative to the US\$ has historically had an adverse effect on the Company's sales when compared to the corresponding period of the prior year. This did not occur in the three-month period ended March 31, 2007 as the average quarterly US\$ to CAD exchange rate was marginally higher when compared to the similar quarter in the prior year.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the three months ended March 31, 2007, was approximately \$8.44 million compared to \$8.88 million for the corresponding quarter of 2006, a decrease of approximately \$0.44 million, or 5%. The decrease in cost of goods sold in the three months ended March 31, 2007, in comparison to the corresponding quarter of the prior year, can be primarily attributed to lower material costs directly associated with lower sales. However, even though sales decreased by \$0.56 million, gross profit decreased by only \$0.11 million. As a result, gross profit percentage remained relatively unchanged at 17.0% for the three months ended March 31, 2007 compared to 17.1% for the same period in the prior year. This is attributable to the change in product and customer mix as described above.

The depreciation on manufacturing assets that have been employed to generate the sales 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 \$153,000 has been allocated between cost of goods sold and other expenses in the first quarter of 2007 compared to \$138,000 in the corresponding quarter of the prior year. For the three months ended March 31, 2007, depreciation of \$118,000 has been allocated to cost of goods sold compared to \$95,000 in the previous year. The remainder of the depreciation has been charged to expenses below the gross profit line.

During the current quarter, the Company spent approximately \$25,000 to acquire capital assets. Adeptron's management expects that total capital expenditures incurred in 2007 will be higher than the levels incurred in 2006. These expenditures are expected to improve manufacturing efficiencies and ultimately provide additional cost savings within cost of goods sold in the latter part of 2007 and beyond. This expected increase in the level of capital expenditures in 2007 is expected to 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 2006.

Selling, General and Administrative Expense

Selling, General and Administrative ("SG&A") expenses for the first quarter of 2007 were \$1,243,000, compared to \$1,248,000 for the same quarter of 2006, a decrease of \$5,000, or

less than 1%. Increases in recruiting and professional fees in the current quarter were largely offset by declines in total payroll costs and commission expense.

Interest on Subordinated Notes

Interest on subordinated notes for the three months ended March 31, 2007 was nil compared to \$129,000 in the prior year. The decrease is due to the fact that the subordinated notes liability was fully repaid at the end of the third quarter in 2006 and as a result, the Company did not incur any further interest on this debt in subsequent quarters.

Interest on long-term debt

As described in the section "Significant Transactions", on September 21, 2006, the Company completed a private placement financing that included the issuance of a subordinated debenture. Additionally, the Company borrowed \$750,000 under its new term loan facility. Both of these obligations are classified as long-term debt on the Company's balance sheet. For the three months ended March 31, 2007, interest expense relating to the Company's long-term debt obligation was \$206,000. Included in interest expense is approximately \$43,000 in non-cash interest accrued but not paid, which includes the amortization of the financing costs. For the three-month period ended March 31, 2006, interest on long-term debt was nil as the Company did not have any long-term debt outstanding in the prior year.

Interest on bank operating loan

Interest on bank operating loan is primarily the interest and associated loan fees paid on the bank operating loan. Interest for the three-month period ended March 31, 2007, was \$49,000 compared to \$101,000 in the same period of the prior year. The decrease in interest on bank operating loan for the three-month period is due to decreased borrowing levels and lower interest rates in the current year, in comparison to the prior year. As described in the section "Significant Transactions", the Company entered into a credit agreement with a new senior lender on September 21, 2006. Subsequent to September 21, 2006, the Company's bank operating line borrowings were subject to the terms and conditions as contained in the new senior credit facility. This decrease in the cash borrowing expense has been partially offset by deferred financing cost amortization expense of \$19,000 recorded in the first quarter of 2007.

Depreciation

Depreciation on non-manufacturing assets for the three months ended March 31, 2007 was \$35,000 compared to \$43,000 for the three months ended March 31, 2006. 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 Profit".

Change in fair value of embedded derivative

As a result of changes in accounting policy described in the section "Accounting Developments – Changes in Accounting Policies Including Initial Adopting", the Company incurred an expense related to the change in the asset and liability value of an embedded derivative contained in certain foreign currency denominated sale and purchase contracts. An expense in the amount of \$28,000 was recognized in the current quarter in comparison to nil for the same three-month period in the prior year.

Balance Sheet

Cash at March 31, 2007 was \$68,000 compared to \$234,000 at December 31, 2006. For most of the first quarter, the Company continued to maintain bank accounts for cheque clearing activities with its former senior lender while it conducted its bank lending activities with its new senior lender. As at March 31, 2007, the cheque clearing activities had largely been transferred to its new senior lender and as a result, the bank balance decreased.

Working capital, defined as current assets less current liabilities, at March 31, 2007 was \$5.2 million compared to a working capital balance of \$4.8 million at December 31, 2006. The improvement in working capital is attributable to the cash generated from operating activities by the Company in the first three months of 2007.

Accounts receivable at March 31, 2007 were approximately \$6.2 million compared to \$6.8 million at 2006 year-end, a decrease of approximately \$0.6 million, or 9%. The decrease can primarily be attributed to a decrease in sales in comparison to the fourth quarter of 2006 and to changes in customer mix. Sales in the three-month period ended March 31, 2007 were approximately \$0.7 million lower than sales levels in the fourth quarter of 2006. In addition, as described in "Results of Operations – Sales", a significant change in customer mix occurred in the first quarter of 2007 that resulted in a reduction in the accounts receivable balance at March 31, 2007. The Company's new largest customer pays its outstanding invoices on a more timely basis to take advantage of cash discounts offered by the Company resulting in a reduction in accounts receivable.

Inventory at March 31, 2007 was approximately \$5.9 million compared to approximately \$4.5 million at 2006 year-end, an increase of approximately \$1.4 million. This increase in inventory is primarily due to two factors. Firstly, the increase in inventory is expected to support a higher level of sales in the second quarter of 2007 in comparison to the first quarter. In addition, the Company had expected to sell certain raw material inventory related to inactive programs to specific customers during the first quarter, however, these sales did not occur. The Company fully expects to sell this inventory in the second quarter. The Company continues to closely monitor inventory levels to ensure its investment in inventory is optimized.

Accounts payable and accrued liabilities at March 31, 2007 was approximately \$6.2 million, compared to approximately \$6.1 million at 2006 year-end, an increase of \$100,000.

As described in the section "Significant Transactions", on September 21, 2006, the Company completed a private placement financing that included the issuance of a subordinated debenture. The subordinated debenture liability is included in long term debt at its fair value of approximately \$4.2 million. Financing costs of approximately \$395,000 have been recorded as a reduction of the carrying value of the subordinated debenture. Additionally, the Company borrowed \$750,000 under its new term loan facility that is repayable in thirty-six equal monthly instalments. As at March 31, 2007, \$250,000 is classified as a current liability and \$396,000 in long-term debt. At March 31, 2007, total long-term debt was \$4.51 million comprised of the subordinated debenture and the current and long-term portion of the term loan. At December 31, 2006, total long-term debt was approximately \$4.91 million. This decrease in total long-term debt can be largely attributed to the change in accounting policy described in the section "Accounting Developments – Changes in Accounting Policies Including Initial Adopting". At December 31, 2006, financing costs related to the subordinated debenture financing were recorded in other assets. As a result of the change in accounting policy, financing costs at March 31, 2007 are recorded as a reduction in the carrying value of long-term debt.

Other long-term liabilities balance of \$153,000 relates to the subsidization of a Calgary sub-lease and will be paid out over the remaining lease period, which extends through to December 31, 2011. The current portion of this liability is \$68,000 and is included in accounts payable and accrued liabilities. The comparative balances at December 31, 2006 year-end were \$166,000 and \$68,000, respectively. The net decrease of \$13,000 during the three months ended March 31, 2007 is due to lease payments made, net of amounts received.

Summary of Quarterly Results

(In thousands of dollars, except per share information and gross profit percentages)

	<u>Q1</u> <u>2007</u>	<u>Q4</u> <u>2006</u>	<u>Q3</u> <u>2006</u>	<u>Q2</u> <u>2006</u>	<u>Q1</u> <u>2006</u>	<u>Q4</u> <u>2005</u>	<u>Q3</u> <u>2005</u>	<u>Q2</u> <u>2005</u>
Sales	\$10,160	\$10,852	\$10,609	\$11,655	\$10,716	\$10,645	\$9,694	\$9,396
Gross Margin	\$1,724	\$1,970	\$1,935	\$1,995	\$1,833	\$1,663	\$1,383	\$1,296
Gross Margin %	17.0	18.2	18.2	17.1	17.1	15.6	14.3	13.8
Net Income (Loss)	\$163	\$307	\$506	\$489	\$312	\$153	(\$11)	(\$90)
EBITDA⁽¹⁾	\$602	\$889	\$894	\$857	\$700	\$488	\$330	\$282
Basic Income (Loss) per share	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.00	\$0.00	\$0.00
Diluted Income (Loss) per share	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.00	\$0.00	\$0.00

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 sales 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's sales are dependent upon the level of orders from its existing customers and the introduction of new customers. The level of orders from the Company's existing customers fluctuate from month to month based on a variety of factors unique to each customer. Beginning in the first quarter, the Company experienced a significant reduction in the amount of orders for 2007 from its previous largest sales-contributing customer. At the same time the Company experienced increases in the amount of orders for 2007 from other existing customers, including its previous second largest sales-contributing customer. Also, the Company has seen an increase in the amount of orders in 2007 from labour-only customers and expects these sales to be higher than in 2006 and further mitigate the effect on gross profit margin exerted by the previously mentioned reduction in orders from its previous largest customer. In addition, the Company expects to see the benefit in the latter part of 2007 of new customer relationships developed in 2006.

As part of the Company's continuing bolstering of its value proposition, it has hired and contracted with certain key personnel that will enhance the Company's ability to attract prospective customers and will lead to greater operational efficiencies as 2007 progresses. The Company has strengthened its business development capability for 2007 and anticipates continued expansion of its sales capabilities during the year. These investments will assist the frontline business development personnel in accomplishing their task of developing new long-term customer relationships and growing the Company's sales.

Liquidity

The Company's operating activities, before changes in non-cash working capital balances, generated \$409,000 in cash in the three months ended March 31, 2007 compared to \$516,000 in the same period of 2006.

Including changes in non-cash working capital items, cash used in operating activities was \$298,000 for the three months ended March 31, 2007 compared to cash generated from operating activities of \$241,000 in the same period of the prior year. The change of approximately \$539,000 is primarily due to the fact that the prior years increase in inventory was largely funded by increases in accounts payable whereas the increase in the first quarter of 2007 was funded by cash generated by operating activities.

During the first quarter of 2007, the Company's financing activities generated \$157,000 in cash in comparison to utilizing \$203,000 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.

The Company used \$25,000 in cash for investing activities during the three months ended March 31, 2007, compared to \$38,000 in the same quarter of the prior year.

At March 31, 2007, the Company had total long-term debt outstanding of approximately \$4.51 million and the total amount of its other long-term liabilities, including the current portion, was \$221,000.

As at March 31, 2007, principal repayments of long-term debt, net payments of other long-term liabilities and all Company operating lease future payments were as follows:

(\$ in thousands)	Total	2007*	2008	2009	2010	2011	Beyond
Long-term Debt	5,646	188	320	628	420	420	3,670
Other Long-term Liabilities	221	55	59	68	39	—	—
Operating Leases	4,487	578	799	821	814	471	1,004
Total Contractual Obligations	10,354	821	1,178	1,517	1,273	891	4,674

* 2007 totals are for the period April 1, 2007 to December 31, 2007.

Capital Resources

Under the credit agreement entered into on September 21, 2006 with its new senior lender, the Company has a revolving credit facility of up to a maximum of \$6.0 million based on certain terms and conditions that is secured by a general security agreement. The new operating credit facility provides the Company with approximately \$1.5 million of additional available credit

compared to the facility with its previous senior lender. The Company will use this credit facility to finance working capital requirements. The availability of credit under this new facility is established based on certain terms and conditions, including the amount of accounts receivable and inventory available to secure the Company's borrowings. As at March 31, 2007, the Company's operating loan balance of approximately \$0.9 million was well within its borrowing limit based on accounts receivable and inventory margining conditions in its agreement with its senior lender.

The Company believes that it will generate positive cashflow from operations and have sufficient availability under its new senior credit facility to fund working capital requirements over the next 12 months.

As at March 31, 2007, the Company estimates that based on turnkey sales it could significantly increase its 2006 level of sales, \$43.8 million, without requiring significant investment in capital assets. The Company expects that as sales increases in the future it will lead to more optimal utilization of its automated surface mount lines, sophisticated test platforms and other equipment. However, Adeptron's management expects that total capital expenditures incurred in 2007 will be higher than the levels incurred in 2006. These expenditures are expected to improve manufacturing efficiencies and ultimately provide additional cost savings within cost of goods sold in the latter part of 2007 and beyond.

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.

Related Party Transactions

In 2006, the Company entered into a consulting agreement with a newly appointed director of the Company. During the three-month periods ended March 31, 2007 and 2006, the Company paid \$20,000 and nil, respectively, in fees in respect to this consulting agreement.

Outstanding Share Data

Adeptron has one class of voting or equity securities for which there are securities outstanding: common shares. As at April 30, 2007, there were 35,804,000 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 April 30, 2007, there were 3,314,000 such stock options outstanding, each exercisable for one common share, with various vesting and expiry dates and exercise prices ranging from \$0.18 to \$0.51. Accordingly, up to 3,314,000 common shares are issuable on exercise of the foregoing stock options.

Adeptron also has a total of 8,700,000 warrants outstanding, as at April 30, 2007, each entitling the holder to purchase one common share for a specified price. 1,349,000 warrants have an exercise price of \$0.25 and expire on August 31, 2007. 6,851,000 warrants have an exercise price of \$0.20 and expire on September 20, 2011. 500,000 warrants were issued on November 21, 2006 and have an exercise price of: [i] \$0.30 for the period between the date of issuance and the second anniversary of issuance; [ii] \$0.40 for the period between the second and third anniversaries of issuance; and [iii] \$0.50 for the period between the third anniversary and expiry of the warrants. These warrants expire on November 20, 2010. Accordingly, up to 8,700,000 common shares are issuable on exercise of the foregoing warrants.

Disclosure procedures and 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.

Internal controls over financial reporting

Management of the Company is responsible for designing internal controls over financial reporting for the Company. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

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 sales and expenses during the year. Note 2 to the 2006 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 income 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 profits.

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 sales and expenses, cash flows and discount rates. Adeptron recorded no impairment losses in 2006 and 2005. The Company has one reporting unit at December 31, 2006. Future goodwill impairment charges may result from future goodwill impairment tests.

Long-Lived Assets

The valuation of long-lived 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 in 2006 and 2005. Material changes to these assumptions could affect the estimated useful lives or valuation of such assets resulting in changes to depreciation or the recording of impairment charges.

Accounting Developments – Changes in Accounting Policies Including Initial Adoption

The Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3855, "Financial Instruments – Recognition and Measurement"; 3861, "Financial Instruments – Disclosure and Presentation"; 3865, "Hedges" and 1531, "Comprehensive Income" on January 1, 2007. These standards reflect that fair value, not historical cost, is the

appropriate way for measuring certain financial instruments. The adoption of the new standards resulted in changes in the accounting of financial instruments as well as the recognition of certain adjustments as described below. The comparative financial statements have not been restated.

The principal changes in the accounting for financial instruments and hedges are described below:

Comprehensive income

Comprehensive income is comprised of the Company's net income and other comprehensive income. During the three month-period ended March 31, 2007, the Company did not have any items that meet the criteria for recognition as comprehensive income and as a result, a statement of comprehensive income is not shown.

Hedges and derivatives

The new accounting rules require that hedging derivatives be recorded at fair value on the balance sheet. The Company does not engage in any formal hedging activities with third party providers. As a result, there is no impact of this change in accounting policy on the interim financial statements.

The Company has purchase and sales contracts denominated in a foreign currency, other than the functional currency of one of the substantial parties of the contract. The Company has determined that these contracts contain an embedded derivative. As a result of the change in accounting policy, the embedded foreign currency derivative must be bifurcated from the host purchase or sale contract and recorded on the balance sheet at fair value. As at March 31, 2007, the Company has recorded an asset of \$37,000 related to purchase contracts and a liability of \$42,000 related to sales contracts. For the three-month period ended March 31, 2007, a charge of \$28,000 was recorded in the statements of income and deficit related to the change in fair value of the embedded foreign currency derivatives.

Effective interest method

Prior to January 1, 2007, long-term debt deferred financing costs were recorded on the balance sheet as other assets and were amortized over the life of the debt on a straight-line basis. The new rules require that the effective interest method be used to amortize financing costs whereby the amount recognized as expense varies over the life of the debt based on the balance outstanding. In addition, the financing costs are recorded on the balance sheet as a reduction of the outstanding debt balance.

As at January 1, 2007, financing costs were adjusted to reflect what the balance would have been had the effective interest method been used from the inception date of the debt. In addition, other assets and long-term debt were adjusted to reflect the recording of the financing costs as a reduction of long-term debt rather than as other assets. The impact was a decrease in other assets of \$375,000, a decrease in long-term debt of \$384,000 and a decrease in the deficit of \$9,000.

Non GAAP Measures

- (1) EBITDA represents earnings before interest, tax, depreciation, amortization and stock-based compensation. EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). 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 for the most recent eight fiscal quarters are shown below (All numbers expressed in thousands):

	<u>3-Month Period Mar 31, 2007</u>	<u>3-Month Period Dec 31, 2006</u>	<u>3-Month Period Sep 30, 2006</u>	<u>3-Month Period Jun 30, 2006</u>	<u>3-Month Period Mar 31, 2006</u>	<u>3-Month Period Dec 31, 2005</u>	<u>3-Month Period Sep 30, 2005</u>	<u>3-Month Period Jun 30, 2005</u>
Net income (loss) per GAAP	\$163	\$307	\$506	\$489	\$312	\$153	\$(11)	\$(90)
Add:								
Interest on subordinated notes	0	0	75	98	129	68	96	120
Interest on long- term debt	206	211	24	0	0	0	0	0
Interest on bank operating loan	49	71	123	110	101	102	102	98
Depreciation and amortization	153	163	155	148	138	140	139	132
Stock-based compensation	31	137	11	12	20	25	4	22
EBITDA	\$602	\$889	\$894	\$857	\$700	\$488	\$330	\$282

Interim Financial Statements

Adeptron Technologies Corporation

[unaudited]

March 31, 2007

Adeptron Technologies Corporation

INTERIM BALANCE SHEETS

[unaudited]
[in thousands of dollars]

	As at March 31, 2007 \$	As at December 31, 2006 \$
ASSETS [notes 4 and 5]		
Current		
Cash	68	234
Accounts receivable [note 10]	6,238	6,818
Inventories	5,888	4,528
Prepaid expenses, deposits and other assets [note 3]	394	279
Total current assets	12,588	11,859
Property, plant and equipment	1,899	2,015
Other assets [notes 3 and 4]	345	753
Goodwill	5,531	5,531
	20,363	20,158
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank operating loan [note 4]	944	712
Accounts payable and accrued liabilities [note 10]	6,234	6,069
Current portion of long-term debt [note 4]	250	250
Total current liabilities	7,428	7,031
Other long-term liabilities	153	166
Long-term debt [notes 3,4 and 5]	4,259	4,664
Total liabilities	11,840	11,861
Contingency [note 8]		
Shareholders' equity		
Share capital [note 7]	35,315	35,315
Contributed surplus [note 7]	949	918
Warrants [notes 5, 6 and 7]	945	945
Deficit	(28,686)	(28,881)
Total shareholders' equity	8,523	8,297
	20,363	20,158
Subsequent event [note 13]		

See accompanying notes

Adeptron Technologies Corporation

INTERIM STATEMENTS OF INCOME AND DEFICIT

[unaudited]

[in thousands of dollars, except per share information]

Three-month periods ended March 31

	2007	2006
	\$	\$
Sales [notes 10 and 11]	10,160	10,716
Cost of goods sold	8,436	8,883
Gross profit	1,724	1,833
Expenses		
Selling, general and administrative [note 7]	1,243	1,248
Interest on subordinated notes [note 6]	—	129
Interest on long-term debt [notes 3, 4 and 5]	206	—
Interest on bank operating loan [note 4]	49	101
Change in fair value of embedded derivative [note 3]	28	—
Depreciation and amortization	35	43
	1,561	1,521
Net income for the period	163	312
Deficit, beginning of period	(28,881)	(30,495)
Cumulative impact of adopting new accounting requirements [note 3]	32	—
Deficit, end of period	(28,686)	(30,183)
Income per share		
Basic	—	0.01
Diluted	—	0.01
Weighted average number of shares outstanding [000's]		
Basic	35,804	34,613
Diluted	39,011	34,613

See accompanying notes

Adeptron Technologies Corporation

INTERIM STATEMENTS OF CASH FLOWS

[unaudited]
[in thousands of dollars]

Three-month periods ended March 31

	2007	2006
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	163	312
Add items not involving cash		
Depreciation and amortization	153	138
Stock-based compensation [note 7]	31	20
Non-cash interest expense	62	46
	409	516
Changes in non-cash working capital balances related to operations:		
Accounts receivable	580	243
Inventories	(1,360)	(1,773)
Prepaid expenses, deposits and other assets [note 3]	(22)	(49)
Accounts payable and accrued liabilities [note 3]	95	1,221
Interest payable on subordinated notes	—	83
Cash provided by (used in) operating activities	(298)	241
FINANCING ACTIVITIES		
Decrease in restricted cash	—	(1)
Increase (decrease) in bank operating loan	232	(166)
Repayment of long-term debt	(62)	—
Repayment of other long-term liabilities	(13)	(36)
Cash provided by (used in) financing activities	157	(203)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(25)	(38)
Cash used in investing activities	(25)	(38)
Net decrease in cash during the period	(166)	—
Cash, beginning of period	234	1
Cash, end of period	68	1
Supplemental cash flow information		
Interest paid	179	87

See accompanying notes

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

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 of the 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, 2006.

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 March 31, 2007 and the results of operations and cash flows for the three-month period ended March 31, 2007.

These unaudited financial statements are based upon accounting policies consistent with those used and described in note 2 to the December 31, 2006 financial statements, except as described in note 3 below.

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

3. CHANGES IN ACCOUNTING POLICY

The Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3855, "Financial Instruments – Recognition and Measurement"; 3861, "Financial Instruments – Disclosure and Presentation"; 3865, "Hedges" and 1531, "Comprehensive Income" on January 1, 2007. These standards reflect that fair value, not historical cost, is the appropriate way for measuring certain financial instruments. The adoption of the new standards resulted in changes in the accounting of financial instruments as well as the recognition of certain adjustments as described below. The comparative financial statements have not been restated.

On January 1, 2007, the Company recorded the following adjustments to the balance sheet to adopt the new requirements:

	As at January 1, 2007 \$
Prepaid expenses, deposits and other assets	93
Other assets	(375)
Accounts payable and accrued liabilities	70
Long-term debt	(384)
Deficit	32

The principal changes in the accounting for financial instruments and hedges are described below:

[a] Comprehensive income

Comprehensive income is comprised of the Company's net income and other comprehensive income. During the three month-period ended March 31, 2007, the Company did not have any items that meet the criteria for recognition as comprehensive income and as a result, a statement of comprehensive income is not shown.

[b] Hedges and derivatives

The new accounting rules require that hedging derivatives be recorded at fair value on the balance sheet. The Company does not engage in any formal hedging activities with third party providers. As a result, there is no impact of this change in accounting policy on the interim financial statements.

The Company has purchase and sales contracts denominated in a foreign currency, other than the functional currency of one of the substantial parties of the contract. The Company has determined that these contracts contain an embedded derivative. As a result of the change in

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

accounting policy, the embedded foreign currency derivative must be bifurcated from the host purchase or sale contract and recorded on the balance sheet at fair value. As at March 31, 2007, the Company has recorded an asset of \$37 related to purchase contracts and a liability of \$42 related to sales contracts. For the three-month period ended March 31, 2007, a charge of \$28 was recorded in the statements of income and deficit related to the change in fair value of the embedded foreign currency derivatives.

[c] Effective interest method

Prior to January 1, 2007, long-term debt deferred financing costs were recorded on the balance sheet as other assets and were amortized over the life of the debt on a straight-line basis. The new rules require that the effective interest method be used to amortize financing costs whereby the amount recognized as expense varies over the life of the debt based on the balance outstanding. In addition, the financing costs are recorded on the balance sheet as a reduction of the outstanding debt balance.

As at January 1, 2007, financing costs were adjusted to reflect what the balance would have been had the effective interest method been used from the inception date of the debt. In addition, other assets and long-term debt were adjusted to reflect the recording of the financing costs as a reduction of long-term debt rather than as other assets. The impact was a decrease in other assets of \$375, a decrease in long-term debt of \$384 and a decrease in the deficit of \$9.

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

4. BANK CREDIT AGREEMENT

On September 21, 2006, the Company entered into a three-year credit agreement with a senior lender that provides the Company with an aggregate senior lending facility in the amount of up to \$6,750. The total senior lending facility is comprised of a \$6,000 revolving credit facility and a \$750 term loan facility. The aggregate senior lending facility is collateralized by a first ranking general security agreement covering substantially all of the Company's assets.

The credit agreement contains various covenants that the Company must comply with including financial covenants related to minimum levels of net assets and interest coverage, and maximum levels of capital spending.

The Company incurred financing costs of \$253 related to the credit agreement and these costs have been recorded on the balance sheets as deferred financing costs in other assets. These deferred financing costs will be amortized over the three-year term of the agreement and will be included in the statements of income and deficit as interest expense.

[a] Revolving credit facility

Under the revolving credit facility, the Company can borrow by way of Canadian dollar prime rate loans or U.S. dollar base rate loans. In addition, the revolving credit facility allows for the issuance of letters of credit and has a foreign exchange trading component. The maximum availability under the revolving credit facility is based on certain terms and conditions, including, but not limited to, the levels of accounts receivable and inventory and is established on an ongoing basis. Borrowings under this facility are subject to interest at the bank's prime rate plus 1% for Canadian dollar loans and the U.S. base rate plus 0.5% for U.S. dollar loans and is payable monthly.

As at March 31, 2007, the Company's bank operating loan balance of \$944 was within its borrowing limit based on the accounts receivable and inventory margining conditions in its agreement with its senior lender. Under the revolving credit facility, the effective interest rate for the three-month period ended March 31, 2007 was 7.1%.

[b] Term loan facility

In addition, the Company borrowed \$750 under its term loan facility with its senior lender. The term loan is repayable over 36 months in equal monthly installments which commenced on November 1, 2006. The term loan is subject to interest on the outstanding balance at the bank's prime rate plus 1.5% and interest is payable monthly. The effective interest rate for the three-month period ended March 31, 2007 was 7.5%. The term loan balance at March 31,

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

2007 was \$646 and is classified as long-term debt on the balance sheets, of which \$250 is shown as current portion of long-term debt.

Up to September 21, 2006, the Company had an agreement with another senior lender that provided the Company with a credit facility with a limit of \$4,500, subject to certain terms and conditions. On September 21, 2006, the Company paid to the senior lender the outstanding balance relating to this credit facility, net of the restricted cash held with the senior lender, and this credit agreement was terminated.

5. LONG-TERM FINANCING

On September 21, 2006, the Company completed a private placement financing consisting of a subordinated debenture and common share purchase warrants in the amount of \$5,000. As part of the private placement, the Company issued 6,851,000 common share purchase warrants, each of which entitles the holder thereof to purchase one common share of the Company for \$0.20 per common share for a period of 5 years. The subordinated debenture has a principal amount of \$5,000, a term of 66 months and carries interest at 12% per annum, payable monthly. In addition, beginning on November 1, 2008, the Company will make principal repayments of \$35 per month for 42 months with the remaining outstanding principal due at the end of the 66-month term. The subordinated debenture is collateralized by a second ranking general security agreement covering substantially all of the Company's assets.

The Company has allocated the \$5,000 gross proceeds received from the private placement to debt and equity based on the relative fair values of the common share purchase warrants and the subordinated debenture. The fair value of the common share purchase warrants was determined to be \$822 using an option-pricing model. The fair value allocated to the subordinated debenture was based on an effective interest rate of 17% and was determined to be \$4,178. In addition, the Company incurred financing costs of \$473 related to the private placement and these costs have been allocated on a pro-rata basis to debt and equity, amounting to \$395 and \$78, respectively. The amount related to the issuance of the subordinated debenture has been recorded on the balance sheets as a reduction to the carrying value of the subordinated debenture. These financing costs will be amortized using the effective interest rate method over the 66-month term of the subordinated debenture and will be included in the statements of income and deficit as interest on long-term debt. The amount allocated to equity is included as a reduction in the warrant value within shareholders' equity. Interest expense on the subordinated debenture, including amortization of the financing costs, will be charged to income at the effective rate of 20%.

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

The carrying value for the subordinated debenture is as follows:

	March 31, 2007
	\$
Principal of subordinated debenture	5,000
Amount allocated to warrants	(822)
Amount allocated to subordinated debenture	4,178
Financing costs	(395)
	3,783
Interest accrued but not paid	80
	3,863

The subordinated debenture agreement contains various covenants that the Company must comply with including financial covenants related to the ratio of current assets to current liabilities, debt coverage, interest coverage and debt to equity.

As at March 31, 2007, 6,851,000 common share purchase warrants related to the private placement financing remain outstanding.

Long-term debt includes the term loan facility as disclosed in note 4[b].

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.

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 were 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 common share purchase warrants 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.

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

The \$2,250 of proceeds from the USRs had been split between liability and equity based on the residual method used to estimate the fair values of the subordinated notes and the warrants. The amount allocated to debt and equity was \$2,141 and \$109, respectively. 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 income and deficit as incurred.

During the period from August 2005 through to July 2006, the Company extended the maturity date of the subordinated notes and the outstanding common share purchase warrants a number of times. Until December 31, 2005, interest continued to accrue at a rate of 12% per annum and was calculated based on the original principal balance of \$2,250. Subsequent to December 31, 2005, 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 warrants issued to the Company's agent for the financing were not changed and they expired unexercised 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 was allocated on a straight-line basis over the period of the extension and for the year ended December 31, 2006, the Company recorded \$61 as interest expense in this regard.

In September 2006, the Company paid \$3,014 to the note holders which represented full payment of the original principal and all interest accrued and unpaid up to September 29, 2006. As a result of this payment, the Company has no further debt obligation related to these subordinated notes.

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

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 March 31, 2007 and December 31, 2006 was 35,804,000.

On November 21, 2006, the Company completed a private placement with a newly appointed director of the Company. Simultaneously, the Company entered into a consulting arrangement with this director. The private placement was for aggregate gross proceeds of \$200 on the issuance of 1,000,000 units and share issue costs related to the private placement were \$12. Each unit includes one common share and one-half common share purchase warrant [note 7[c]].

The fair value of the units exceeded the gross proceeds by approximately \$49. This amount was recorded as stock-based compensation in the statements of income and deficit in 2006.

[c] Warrants

	Warrants #	Amount \$
	[000's]	
Balance, December 31, 2005	2,097	112
Expired unexercised [i]	(557)	—
Modification of warrants [i]	—	61
Exercise of common share purchase warrants [i]	(191)	(21)
Issued on private placement, net of issuance costs [ii]	6,851	744
Issued on private placement, net of issuance costs [iii]	500	49
Balance, December 31, 2006 and March 31, 2007	8,700	945

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

- [i] Warrants outstanding at December 31, 2005 include 1,540,000 common purchase share warrants issued in relation to the subordinated notes *[note 6]* where each warrant was originally exercisable for one common share at a price of \$0.35 for a period of 24 months. During 2006, the Company modified the warrants whereby each warrant is exercisable for one common share at a price of \$0.25 and the warrants expire on August 31, 2007. During 2006, 191,000 warrants were exercised for cash proceeds of \$48. As at March 31, 2007, 1,349,000 warrants related to the issuance of the subordinated notes remain outstanding.

In addition, the Company's agent for the subordinated notes was issued common share purchase warrants 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. During 2006, these warrants expired unexercised.

- [ii] As part of the private placement described in note 5 the Company issued 6,851,000 common share purchase warrants, each of which entitles the holder thereof to purchase one common share of the Company for \$0.20 per common share for a period of 5 years. The fair value of the common share purchase warrants was determined to be \$822 using an option-pricing model. The Company incurred financing costs related to the private placement and the pro-rata amount of these costs allocated to equity amounted to \$78.
- [iii] As part of the private placement described in note 7[b], the Company issued 500,000 common share purchase warrants, each of which is exercisable into one common share for a period of 48 months at an exercise price of: [i] \$0.30 for the period between the date of issuance and the second anniversary of issuance; [ii] \$0.40 for the period between the second and third anniversaries of issuance; and [iii] \$0.50 for the period between the third anniversary and expiry of the warrants. The fair value of the common share purchase warrants was determined to be \$49 using an option-pricing model.

[d] 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 2012.

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

As at March 31, 2007, the exercise price of outstanding stock options was \$0.18 to \$0.51 [2006 - \$0.18 to \$0.92] per common share. Changes in the number of options, with their weighted average exercise price for the three-month periods ended March 31, 2007 and 2006 are summarized below:

	<u>2007</u>		<u>2006</u>	
	Number of options [000's]	Weighted average exercise price \$	Number of options [000's]	Weighted average exercise price \$
Outstanding, beginning of period	3,240	0.34	2,434	0.43
Granted	100	0.37	430	0.21
Forfeited/expired	(15)	0.40	(39)	1.96
Outstanding, end of period	3,325	0.34	2,825	0.38
Options exercisable, end of period	2,737	0.35	2,328	0.41

During the three-month period ended March 31, 2007, the Company recorded \$31 [2006 - \$20] of stock-based compensation expense. These amounts are included in selling, general and administrative expenses and contributed surplus.

For the three-month period ended March 31, 2007, the weighted average estimated fair value at the date of the grant was \$0.20 [2006 - \$0.12] per option.

8. CONTINGENCY

In December 2006, the Company received an order from the Pay Equity Commission of Ontario requiring it to develop and implement a pay equity plan for its operations in Ontario. In addition, the order requires the Company to pay any retroactive pay equity adjustments, in accordance with Ontario pay equity legislation, that may be warranted as a result of the plan's implementation. The Company is in the midst of a process that will allow it to achieve compliance with the order before the end of 2007. At this time, the Company is unable to determine the likelihood and amount, if any, of any potential retroactive pay equity adjustments.

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

9. RELATED PARTY TRANSACTIONS

In 2006, the Company entered into a consulting agreement with a newly appointed director of the Company. During the three-month period ended March 31, 2007, the Company paid \$20 [2006 - nil] in fees in respect to this consulting agreement.

10. FINANCIAL INSTRUMENTS

[a] Fair values

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

The carrying value of long-term debt approximates its fair value due to the short period since the debt instruments were issued. Management has concluded that there have been minimal changes in prevailing interest rates and the risk profile of the Company during the period between the issuance and the balance sheet dates.

[b] Credit risk

As at March 31, 2007, the Company's two largest customer accounts receivable balances represented 29% [2006 - 46%] 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 March 31, 2007, 59% [2006 - 53%] and 60% [2006 - 62%], respectively, are denominated in foreign currencies. During the three-month period ended March 31, 2007, approximately 67% [2006 - 59%] of sales was incurred in U.S. dollars.

Adeptron Technologies Corporation

NOTES TO INTERIM FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2007

11. 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 three-month periods ended March 31, 2007 and 2006 are as follows:

	2007	2006
	\$	\$
Canada	7,090	8,790
United States	3,070	1,926
	10,160	10,716

Substantially all of the Company's identifiable assets as at March 31, 2007 and December 31, 2006 are located in Canada.

For the three-month period ended March 31, 2007, sales to the Company's two largest customers represented 39% [2006 - 48%] of the Company's total sales. The two largest customers represent 27% [2006 - 31%] and 12% [2006 - 17%] of total sales, respectively.

12. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the March 31, 2007 unaudited financial statements.

13. SUBSEQUENT EVENT

Subsequent to March 31, 2007, the Company reached an agreement to acquire all of the outstanding shares of Pacific Circuit Assembly, Inc ["PCA"]. The expected total purchase price for PCA is U.S.\$2.25 million. The Company expects to finance the majority of the proposed acquisition of PCA using internal financing resources and the remainder by the issuance of shares to the principals of PCA. The transaction is subject to customary conditions and the completion of satisfactory due diligence.