



ADEPTRON TECHNOLOGIES CORPORATION

QUARTERLY SHAREHOLDER REPORT

Results for the Three-month Period Ended March 31, 2008

TSX – 'ATQ'



Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended March 31, 2008

For the three-month period ended March 31, 2008:

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 consolidated financial statements for the three-month period ended March 31, 2008 as well as the Company's audited consolidated financial statements and accompanying Management's Discussion and Analysis for the year-ended December 31, 2007.

Unless otherwise noted herein, all references to dollar amounts are to Canadian dollars.

The accompanying unaudited interim consolidated financial statements include the accounts of Adeptron and its wholly-owned subsidiaries, Adeptron, USA Inc. ("Adeptron USA"), a Delaware company that owns all of the issued and outstanding shares of Pacific Circuits Assembly, Inc. ("PCA").

As used in this discussion and unless the context otherwise requires, or unless otherwise indicated, all references to "Adeptron", the "Company", "we", "us", "our", or similar expressions, refer to Adeptron Technologies Corporation and its consolidated subsidiaries.

The preparation of financial statements and related disclosures in conformity with Canadian GAAP requires management to make estimates that affect the reported amounts of assets, liabilities, revenues, expenses and contingencies. Management bases its estimates on historical experience and on other assumptions that are believed, at the time, to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of Adeptron's control. Adeptron evaluates such estimates and assumptions on a periodic basis.

Date

This Management's Discussion and Analysis ("MD&A") is dated as of May 14, 2008.

Forward Looking Statements

Certain statements contained in the following Management's Discussion and Analysis, and elsewhere in Adeptron's accompanying unaudited interim consolidated financial statements, 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; 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, 2008 and other documents filed by the Company with Canadian securities regulators from time to time. Additional information related to the Company is available on SEDAR at www.sedar.com.

The Company disclaims 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 the Company's accompanying unaudited interim consolidated financial statements and this 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.

Use of Non-GAAP Financial Measures

Except as otherwise indicated, references in this Management's Discussion and Analysis to "EBITDA" are to earnings before interest, tax, depreciation, amortization, goodwill impairment and stock-based compensation. EBITDA is not a recognized measure under Canadian generally accepted accounting principles. However, management believes that EBITDA as herein defined 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.

Overview and Business of the Company

Adeptron was formed by amalgamation on January 1, 2003 under the *Business Corporations Act* (Alberta). The Company changed its name from Electronics Manufacturing Group Inc. ("EMG") to Adeptron Technologies Corporation on December 31, 2002. The Company has a wholly-owned subsidiary Adeptron USA, a Delaware company that owns all of the issued and outstanding shares of PCA, the California operating Company.

Adeptron's head office is located in Markham, Ontario, a suburb of Toronto. The Company operates out of leased facilities in Markham, Ontario comprising approximately 43,000 square feet, a 56,000 square foot leased facility in Ottawa, Ontario and a 20,000 square foot leased facility in San Jose, California, USA.

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

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

Highlights

- ◆ Sales maintained at approximately \$9.8 million for the quarter compared to \$9.9 million in the prior quarter;
- ◆ Selling, general and administrative expenses maintained at approximately \$1.2 million quarter over quarter despite increased Company-wide focus on selling, and increased non-recurring administrative expenses related to the Company's announced strategic equity financing;
- ◆ Restructuring activity continued in the first quarter with a resulting charge to restructuring expenses of \$350 thousand related to payroll and severance costs in the quarter as the Company re-designed its organization and reporting structure;
- ◆ The Company completed plan to streamline organizational structure which enhances accountability, decision making and customer facing activities;
- ◆ The Company finalized additional terms with its senior lender whereby all of the assets of the Company's wholly owned subsidiaries, Adeptron USA and PCA were adjoined as collateral for the aggregate senior lending facility;
- ◆ The Company continued to not be in compliance with the financial covenants in the amended agreement with its senior lender and the forbearance agreement with the subordinated debenture holder as at March 31, 2008;
- ◆ The Company announced that it had entered into a Letter of Intent for \$6 million equity financing (see subsequent event discussion below).

Subsequent Events

On May 7, 2008, the Company obtained shareholder approval to issue common shares at \$0.10 per share for gross proceeds of \$6 million. The closing of the equity financing is expected to occur by the end of May 2008, and management intends to use the proceeds of the equity issuance to repay the full principal amount of \$5 million, in addition to accumulated quarterly forbearance fees in the full amount of \$150 thousand, and accrued interest, to the subordinated debenture-holder thereby improving its working capital position, and terminating its interest expense related to this debt. The remainder of the proceeds are intended to be used for general working capital purposes.

Upon closing of the equity financing, and the full repayment of the subordinated debenture, the subordinated debenture holder has agreed to return to the Company for cancellation all 6,851,000 warrants held, for no further consideration.

Going Concern Assumption

The interim consolidated financial statements for the period ended March 31, 2008 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 March 31, 2008. Furthermore, as at March 31, 2008 the Company did not comply with certain financial covenants related to the credit agreement with its senior lender and also the subordinated debenture. As a result, the Company's ability to continue as a going

concern is uncertain and is dependent upon its ability to generate sufficient future cash flow and obtain sufficient financing to fund its business to the point that it achieves profitable operations.

On April 14, 2008, the Company announced that it had entered into a share purchase agreement in respect of a proposed private placement equity transaction whereby \$6 million worth of common shares of the Company will be issued at a price of \$0.10 per share. The Company obtained approval for the proposed transaction from its shareholders on May 7, 2008 and expects to close the equity financing by the end of May 2008. The proceeds of the equity issuance are intended to be used to repay the principal and accrued interest thereon to the subordinated debenture-holder. The remainder of the proceeds of the proposed transaction will be used for general working capital purposes. During the last half of 2007 and the first quarter 2008, the Company also engaged in various restructuring activities with the expectation that management will achieve reductions in future operating costs and increase future positive cash flows.

The Company believes that the combination of the new equity, repayment of the subordinated debenture and elimination of the associated interest expense and the expected expense and cash savings of the restructuring activities will allow it to continue its banking relationship with its current senior lender. As a result, the Company believes that it will be able to meet its short-term cash flow requirements. However, the outcome of all of the actions and events described above cannot be predicted at this time.

The interim consolidated financial statements for the period ended March 31, 2008 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 consolidated financial statements.

Restructuring Activities

During the last half of 2007, and the first quarter 2008, the Company engaged in various restructuring activities in its Canadian operations with the expectation that management will achieve reductions in future operating costs and increase future positive cash flows. The Company restructured its operations resulting in the closing of a manufacturing facility in Markham, Ontario and the consolidation of these operations into its main facility also in Markham, Ontario during the latter half of 2007. The restructuring also resulted in staff reductions in Markham. As a result of the restructuring steps taken in the last half of 2007 and the first quarter 2008, the number of senior management positions in the Canadian operation decreased by five.

Management believes that the current complement of production locations in both Canada and in the US, and the current staff count in the consolidated entity, is now appropriately matched to current operational activities.

Significant Transactions

On May 31, 2007, the Company, through its wholly-owned subsidiary, Adeptron USA, acquired all of the outstanding shares of PCA. Based in San Jose, California, PCA provides full electronics manufacturing services, which include both surface mount and pin through-hole board assembly along with test and system-build capabilities.

Purchase consideration consisted of \$1.3 million in cash paid on closing, \$802 thousand in notes payable, and 903,520 common shares of the Company with a fair value of \$217 thousand. The notes payable bear interest at 5% per annum and are repayable in equal annual instalments over a three year period. The

notes payable were recorded at a fair value of \$734 thousand. In addition, the Company incurred \$280 thousand in acquisition costs related to this transaction.

The acquisition of PCA has been accounted for using the purchase method and accordingly, the results of operations have been included in these consolidated financial statements from the date of acquisition.

Financial Results

Selected Consolidated Financial Information

Quarterly Data

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

For the three months ended	31-Mar-08	31-Dec-07	30-Sep-07	30-Jun-07
Sales	\$9,819	\$9,917	\$8,180	\$10,149
Gross profit	\$1,268	\$1,448	\$857	\$1,571
Gross profit %	12.9%	14.6%	10.5%	15.5%
Income (loss) before the following items:	\$(266)	\$(194)	\$(652)	\$10
Goodwill impairment	—	\$(5,531)	—	—
Restructuring	\$(350)	\$(202)	\$(450)	—
Net income (loss)	\$(616)	\$(5,927)	\$(1,102)	\$10
EBITDA	\$41	\$211	\$(514)	\$481
Basic & diluted income (loss) per share	\$(0.02)	\$(0.16)	\$(0.03)	\$0.00

For the three months ended	31-Mar-07	31-Dec-06	30-Sep-06	30-Jun-06
Sales	\$10,160	\$10,852	\$10,609	\$11,655
Gross profit	\$1,724	\$1,970	\$1,935	\$1,995
Gross profit %	17.0%	18.2%	18.2%	17.1%
Net income	\$163	\$307	\$506	\$489
EBITDA	\$602	\$889	\$894	\$857
Basic & diluted income per share	\$0.00	\$0.01	\$0.01	\$0.01

EBITDA Reconciliation

EBITDA reconciliation to GAAP income for the most recent eight fiscal quarters are shown below:
(All numbers expressed in thousands)

For the three months ended	31-Mar-2008	31-Dec-2007	30-Sep-07	30-Jun-07
Net income (loss) per GAAP	\$(616)	\$(5,927)	\$(1,102)	\$10
Add (deduct):				
Interest on term loan	10	13	13	14
Interest on subordinated debenture	251	247	192	190
Income tax expense (recovery)	—	(61)	(20)	(14)
Interest on bank operating loan	79	93	85	68
Interest on notes payable	17	17	18	6
Depreciation and amortization	296	265	263	186
Goodwill impairment	—	5,531	—	—
Stock-based compensation	4	35	37	21
EBITDA	41	\$213	\$(514)	\$481

For the three months ended	31-Mar-2007	31-Dec-2006	30-Sep-06	30-Jun-06
Net income per GAAP	\$163	\$307	\$506	\$489
Add:				
Interest on term loan	16	17	1	—
Interest on subordinated debenture	190	194	23	—
Interest on subordinated notes	—	—	75	98
Interest on bank operating loan	49	71	123	110
Depreciation and amortization	153	163	155	148
Stock-based compensation	31	137	11	12
EBITDA	\$602	\$889	\$894	\$857

Results of Operations

Sales

Sales for the three months ended March 31, 2008 were \$9.8 million compared to \$10.2 million for the three months ended March 31, 2007, representing a decrease of \$0.4 million, or 4%. This decrease is primarily attributable to two factors. The Company's former largest revenue-contributing customer moved a significant portfolio of its outsourcing requirements to China and this resulted in approximately \$1.8 million less sales during the quarter from this customer than in the corresponding quarter in 2007. The second factor, explained more fully below, is the strengthening of the Canadian dollar relative to the US dollar.

Offsetting these two factors are the sales in the amount of approximately \$1.9 million generated in the first quarter 2008 by PCA which was acquired in the second quarter of 2007.

During the three month period ended March 31, 2008, approximately 74% of the Company's sales were derived from USA-based and domestic-based customers with sales denominated in US\$. Since US\$ sales are converted to CDN\$ using the appropriate exchange rate on the date of the transaction, fluctuations in exchange rates between the CDN\$ and US\$ have a direct impact on the Company's reported sales and gross profit. The continued strengthening of the CDN\$ in the first quarter 2008 when compared to the

same quarter in 2007, had a negative effect on the Company's sales and, consequently, gross profits. The US\$ to CDN\$ average exchange rate for the quarter ended March 31, 2007 was \$1.1716 and declined to \$1.004, or 14.3%, by the quarter ended March 31, 2008. This continued the general trend of declining quarterly average exchange rates that began in 2002. If the effect of the change in currency rates were removed, the decrease in sales in the first quarter 2008 in comparison to the same quarter in 2007 would have been an increase in sales in the first quarter 2008.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the three months ended March 31, 2008 was \$8.5 million compared to \$8.4 million for the three months ended March 31, 2007, an increase of \$0.1 million, or 1.3%, from the first quarter of 2007. The slight increase in cost of goods sold in the current quarter in comparison to the same period in the prior year can be attributed to changes in the mix of customers, and changes in the mix of turnkey production, whereby the Company manufactures products for customers using inventory owned by the Company, versus consignment production, whereby the customer provides the materials used in manufacturing.

Gross profit for the three months ended March 31, 2008 was \$1.3 million compared to gross profit of \$1.7 million for the three months ended March 31, 2007, a decrease of \$0.4 million, or 26.5%. Gross profit, expressed as a percentage of sales for the three months ended March 31, 2008, was 12.9% compared to 17.0% for the three months ended March 31, 2007. The decrease in gross profit dollars and percentage in the first quarter 2008 in comparison to the first quarter 2007, is attributable to two main factors. These factors are the decrease in sales during the current quarter in comparison to the same period in 2007 and the associated unfavourable effect of foreign currency exchange rates and the mix of customers (see comment above regarding largest revenue-contributing customer in first quarter 2007).

Depreciation of \$263 thousand has been allocated between cost of goods sold and other expenses in the three months ended March 31, 2008 compared to \$153 thousand for the three months ended March 31, 2007. The depreciation on manufacturing assets that have been employed to generate the sales reported during the current quarter 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 has been excluded from cost of goods sold.

Depreciation of \$212 thousand has been allocated to cost of goods sold during the three months ended March 31, 2008, compared to \$118 thousand for the quarter ended March 31, 2007, an increase of \$94 thousand. The remainder of the depreciation has been charged to expenses below the gross profit line. This increase is primarily due to the amount and nature of capital assets acquired during the latter half of 2007 and in the first quarter 2008.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2008 were \$1.2 million, a consistent level from \$1.2 million of expenses recorded for the three months ended March 31, 2007. This resulted from the reduction of expenses in the Canadian operations throughout 2007, offset by the expenses now reflected in the first quarter 2008 for the San Jose operation as a result of the acquisition of PCA in the second quarter 2007.

Change in fair value of embedded derivative

As required by accounting policy changes adopted in 2007, the Company recorded a gain related to the change in the asset and liability value of an embedded derivative contained in certain foreign currency

denominated sale and purchase contracts. A gain in the amount of \$128 thousand was recognized for the three months ended March 31, 2008, in comparison to an expense of \$28 thousand for the three months ended March 31, 2007.

Interest on Subordinated Debenture

In the first quarter 2008, interest expense relating to the Company's subordinated debenture was \$251 thousand compared to \$190 thousand in the first quarter 2007, or an increase of \$61 thousand.

Interest on bank operating loan

The Company entered into a three-year credit agreement with a senior lender on September 21, 2006 that provides the Company with a senior lending facility which includes a \$6.0 million revolving credit facility. Interest on bank operating loan is the interest and associated loan fees paid on the revolving credit facility. Under the revolving credit facility, the effective interest rate for the first quarter was 6.7%. Interest on bank operating loan for the three months ended March 31, 2008 was \$79 thousand compared to \$49 thousand for the three months ended March 31, 2007, an increase of \$30 thousand or 61%. Included in interest expense is approximately \$30 relating to the amortization of deferred financing costs. The increase is due to higher borrowing levels partially offset by lower interest rates in the first quarter 2008 in comparison to first quarter 2007.

Interest on term loan facility

In addition to the bank operating loan described above, and as part of a three-year credit agreement with a senior lender, the Company also has a \$750 thousand term loan facility. The effective interest rate for the three months ended March 31, 2008 on the term loan facility was 7.2%. Interest on the term loan facility for the three months ended March 31, 2008 was \$10 thousand in comparison to \$16 thousand for the three months ended March 31, 2007.

Interest on notes payable

On May 31, 2007, the Company acquired all of the issued and outstanding shares of PCA. The purchase consideration included, amongst other things, \$802 thousand in notes payable. The notes payable bear interest at 5% per annum and are repayable in equal annual instalments over a three-year period. The notes payable were recorded at a fair value using a discount rate of 10% and amounting to \$734 thousand and are being accreted using the effective interest method to the principal amount, which is denominated in US dollars. Interest on notes payable for the three months ended March 31, 2008 was \$18 thousand, compared to \$nil for the three months ended March 31, 2007, at which time the note payable did not exist.

Business Restructuring

During the latter half of 2007, the Company restructured its operations resulting in the closing of a manufacturing facility in Markham, Ontario and the consolidation of these operations into its main facility also in Markham, Ontario. The restructuring resulted in staff reductions and consolidation of office and manufacturing space.

During the three-month period ended March 31, 2008, the Company completed its planned restructuring activities resulting in further staff and management reductions, and the adoption of a new streamlined organizational and accountability structure. During the three-month period ended March 31, 2008 restructuring expense was \$350 thousand.

Of the restructuring expenses recorded in 2007 and the first quarter 2008, \$592 remains at March 31, 2008 as an obligation consisting of [i] an estimated \$234 thousand relating to facility leases that will be paid out over the remaining lease period which extends to 2011, and [ii] \$358 thousand relating to severance and moving costs. The long-term portion of the restructuring obligation is \$185 thousand and is recorded in other long-term liabilities, and the current portion is recorded in accounts payable and accrued liabilities.

Depreciation and amortization

Depreciation and amortization on non-manufacturing Company assets for the three months ended March 31, 2008 was \$51 thousand compared to \$35 thousand for the three months ended March 31, 2007. 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".

Balance Sheet

Cash at March 31, 2008 was \$65 thousand compared to \$114 thousand at December 31, 2007.

The Company is a net borrower against its revolving credit facility with its senior lender. It therefore minimises the amount of cash in its account at any time. The Company keeps cash in deposit and checking accounts in California related to the operations in San Jose.

Working capital deficit, defined as current assets less current liabilities, as at March 31, 2008, was approximately \$3.0 million compared to working capital deficit of \$2.3 million at December 31, 2007, or an increase of \$0.7 million. This increase in working capital deficit is primarily explained by the net loss incurred in the first quarter 2008 and cash used in operating activities.

Accounts receivable at March 31, 2008 were approximately \$7.1 million, compared to the 2007 year-end balance of approximately \$6.3 million, or an increase of \$0.8 million.

Inventory at March 31, 2008 was approximately \$5.9 million compared to the 2007 year-end balance of \$3.9 million. In the latter half of the fourth quarter of 2007, the Company began to develop the turnkey capability of its San Jose operation. This operation had previously operated only on a consigned basis, which meant that customers supplied their own raw materials. In the first quarter of 2008, San Jose's total sales were approximately \$1.9 million of which sales derived from turnkey manufacturing in excess of \$1.1 million. This development of turnkey sales requires additional inventory above the December 31, 2007 level. Also, at the 2007 year end there was a concerted drive to lower inventory which resulted in a comparatively lower inventory level at the year end. At the end of the first quarter of 2008 inventory is also higher than at the 2007 year-end because of anticipated higher sales in the second quarter of 2008 due to recently developed customer programs and the ramp-up associated therewith.

Accounts payable and accrued liabilities at March 31, 2008 were approximately \$8.1 million compared to approximately \$5.9 million at 2007 year-end, an increase of \$2.2 million. The increase in accounts payable and accrued liabilities is due primarily to the increase in inventory explained above.

The subordinated debenture, as at March 31, 2008, is stated at its fair value of approximately \$4.0 million. The net book value of financing costs of approximately \$313 thousand has been recorded as a reduction of the carrying value of the subordinated debenture and accreted interest of \$83 thousand has been recorded as an increase in the carrying value of the subordinated debenture.

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 which included a \$750 thousand term loan facility. The Company has classified the term loan facility as a current liability on the year-end December 31, 2007 and March 31, 2008 interim consolidated balance sheet. As at March 31, 2008 the term loan facility liability was \$396 thousand and as at December 31, 2007 the term loan facility balance was \$459 thousand.

The purchase consideration for the acquisition of PCA included, amongst other things, \$802 thousand in notes payable. The notes payable bear interest at 5% per annum and are repayable in equal annual instalments over a three-year period. The notes payable were recorded at a fair value using a discount rate of 10% and amounting to \$734 thousand and are being accreted using the effective interest method to the principal amount, which is denominated in US dollars. As at March 31, 2008, the outstanding balance was \$732 thousand, of which \$257 thousand is shown as current portion of notes payable leaving \$475 thousand in long-term debt.

Other long-term liabilities of \$151 thousand covers the long-term portion of the restructuring obligation for the subsidization of a Calgary sub-lease which will be paid out through to December 31, 2011, and a Markham sub-lease which will be paid out through March 31, 2011. The current portion of other long-term liabilities is \$83 thousand covering subsidization of the Calgary and Markham sub-leases and severance and moving costs. As at March 31, 2008, the current portion of other long-term liabilities is recorded in accounts payable and accrued liabilities. The comparative balances at December 31, 2007 year-end were \$168 thousand in other long-term liabilities and \$105 thousand being the current portion of other long-term liabilities.

Liquidity and Capital Resources

The Company's operating activities, before changes in non-cash working capital balances, used approximately \$178 thousand in cash in the three months ended March 31, 2008 compared to generating approximately \$409 thousand in the same period in 2007. Including changes in non-cash working capital items; cash used in the three months ended March 31, 2008 was approximately \$932 thousand compared to cash used of \$298 thousand in the corresponding period in 2007. The deterioration in cash provided by operating activities, before and after changes in non-cash working capital balances, is due primarily to the decrease in the Company's operating results during the first quarter 2008 compared to the same period in the prior year.

Cash used by changes in non-cash working capital balances in the three months ended March 31, 2008 was approximately \$754 thousand. This compares to cash used to support changes in non-cash working balances of approximately \$707 thousand in the three months ended March 31, 2007. In the three months ended March 31, 2008, increases in accounts receivable and inventories of approximately \$780 thousand and \$1.9 million respectively, offset by increase in accounts payable and accrued liabilities of approximately \$1.9 million used a combined \$754 thousand of cash.

During the three months ended March 31, 2008, the Company's financing activities provided approximately \$1.0 million in cash in comparison to providing \$157 thousand in the corresponding period in 2007. This was primarily the result of increasing the utilization of the bank operating loan by \$1.1 million offset by repayment of principal of the term loan facility in the amount of \$63 thousand. As at March 31, 2008, the bank operating loan balance is \$3.7 million compared to the March 31, 2007 balance of approximately \$0.9 million.

During the first quarter 2008, the Company's investing activities utilized approximately \$142 thousand in cash in comparison to approximately \$25 thousand for the comparative period in 2007. During the three

months ended March 31, 2008, the Company purchased approximately \$285 thousand of capital assets, of which \$142 thousand was paid by cash, compared to \$25 thousand purchased and paid during the three months ended March 31, 2007. The increase in capital spending was primarily due to the addition of manufacturing equipment in San Jose as that facility continued to enhance its turnkey production capabilities. The increase in capital spending during the quarter resulted in an increase in depreciation expense charged to cost of sales compared to the first quarter in 2007.

Adeptron's management does not expect an increase in capital expenditures in the remainder of 2008 over the levels incurred in 2007 unless a new customer project can financially justify such a purchase or significant future operational efficiencies can be realized through such expenditures.

At March 31, 2008, the Company had total notes payable outstanding of approximately \$732 thousand, of which \$257 thousand is shown as current portion of notes payable.

The total amount of other long-term liabilities at March 31, 2008 is \$151 thousand, virtually unchanged from \$168 thousand at December 31, 2007.

Under the bank credit agreement entered into on September 21, 2006 with its current senior lender, the Company has a revolving credit facility of up to a maximum of \$6.0 million based on certain terms and conditions contained in a credit agreement that is secured by a general security agreement. 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. In September of 2007, the Company did not comply with certain financial covenants contained in the credit agreement. On September 30, 2007, the Company and the senior lender signed an amendment to the credit agreement which in effect waived the default conditions with respect to the financial covenants as at September 30, 2007. In addition, the amendment agreement revised the financial covenant calculations included in the original credit agreement on a prospective basis. As at December 31, 2007, and as at March 31, 2008 the Company did not comply with the financial covenants in the amended agreement.

During the first quarter 2008, the Company finalized additional terms with the senior lender whereby all of the assets of the Company's wholly-owned subsidiary, Adeptron USA and PCA were adjoined as collateral for the aggregate senior lending facility.

The Company is using this credit facility to finance working capital requirements and for other corporate purposes as required. The availability of credit under this 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, 2008, the Company's operating loan balance of approximately \$3.7 million was within its borrowing limit based on accounts receivable and inventory margining conditions in its agreement with this lender. The Company believes that it will generate positive cashflow from operations and have sufficient availability under its senior credit facility to fund working capital requirements over the next 12 months.

On September 21, 2006, the Company also completed a private placement financing that included the issuance of a subordinated debenture. 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. During November 2007, the Company entered into a forbearance agreement with its subordinated lender in which the lender has agreed to waive its right to enforce the security it holds in the assets of the Company. The agreement will remain in effect until the earlier of September 30, 2008 or the occurrence of a further event of default, as defined in the original debenture agreement or in the forbearance agreement. In particular, the

forbearance agreement contains additional financial targets that must be met over the term of the agreement.

In consideration for the forbearance agreement, the Company will pay to the lender a finance fee of \$50 thousand per quarter that the forbearance agreement is in effect. As at March 31, 2008, the accrued quarterly forbearance amounts to \$100 thousand. As at March 31, 2008, 6,851,000 common share purchase warrants related to the private placement financing remain outstanding. However, upon closing of the equity financing described below, and the full repayment of the subordinated debenture, the subordinated debenture holder has agreed to return to the Company for cancellation all 6,851,000 warrants held, for no further consideration.

As at December 31, 2007 and March 31, 2008, the Company did not comply with the additional financial targets under the forbearance agreement. As a result, the Company was in a default position and has classified the subordinated debenture as a current liability on the consolidated balance sheets.

On May 7, 2008, the Company obtained shareholder approval to issue common shares at \$0.10 per share for gross proceeds of \$6 million. The closing of the equity financing is expected to occur by end of May 2008, and management intends to use the proceeds of the equity issuance to repay the full principal amount of \$5 million, accrued interest thereon, and accumulated forbearance fees, to the subordinated debenture-holder. This will improve the Company's working capital position, and terminate its interest expense related to this debt. The remainder of the proceeds are intended to be used for general working capital purposes.

The Company believes that the combination of the proceeds of the equity transaction, repayment of the subordinated debenture and elimination of the associated interest expense, and, the expected expense and cash savings of the restructuring activities, will allow it to continue its banking relationship with its current senior lender. As a result, the Company believes that it will be able to meet its short-term cash flow requirements. However, the outcome of all of the actions and events described above cannot be predicted at this time.

As at March 31, 2008, the Company estimates that it has the capacity to significantly increase its first quarter 2008 level of sales of \$9.8 million, based on turnkey sales, without requiring significant investment in capital assets. The Company expects that if sales increases in the future it will lead to more optimal utilization of its 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 providing sufficient sales and gross profit 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.

As at March 31, 2008, principal repayments on contractual obligations including long-term debt, the restructuring accrual and all of the Company's operating lease payments were as follows:

Contractual obligations:

(\$ in thousands)	Total	2008	2009	2010	2011	2012	Beyond
Term loan	396	396	—	—	—	—	—
Subordinated debenture	4,037	4,037	—	—	—	—	—
Notes payable	732	257	240	235	—	—	—
Restructuring accrual	592	365	111	68	48	—	—
Operating leases	3,805	696	885	752	468	456	548
Total	9,562	5,751	1,236	1,055	516	456	548

Outstanding Share Data

As at March 31, 2008

	Authorized	Issued and Outstanding
Common Shares	unlimited	36,707,755
Warrants	n/a	7,351,000
Stock Options Under the Plan	4,800,000	2,098,500

Adeptron has one class of voting securities for which there are securities outstanding: common shares. As at the date hereof, there are 36,707,755 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. Subsequent to quarter end, on April 8, 2008, the Company issued 250 thousand stock options at an exercise price of \$0.10 per share. As at the date hereof, there are 2,348,500 such stock options outstanding, each exercisable for one common share, with various vesting and expiry dates and exercise prices ranging from \$0.10 to \$0.47 per share. Accordingly, up to 2,348,500 common shares are issuable on exercise of the foregoing stock options.

Adeptron also has a total of 7,351,000 warrants outstanding, as at the date hereof, each entitling the holder to purchase one common share for a specified price. 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 7,351,000 common shares are issuable on exercise of the foregoing warrants.

Contingencies

In December 2006, the Company received an order from the Pay Equity Commission of Ontario (the "Commission") 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 began a process that it believed would allow it to achieve compliance with the order before the end of 2007. However, during the third quarter of 2007, the Company determined that the process could not be completed by the end of 2007 and requested an extension to June 30, 2008. As a result of the request for an extension, the Commission filed an application with the Pay Equity Hearings Tribunal

requesting that the tribunal issue an order that the Company comply with the original order issued by the Commission in December 2006. The Company is in the process of responding to the Pay Equity Hearings Tribunal. In the interim, the Company is continuing its internal process that will allow it to comply with the original order by June 30, 2008 or earlier. At this time, the Company is unable to determine the likelihood and amount, if any, of any potential retroactive pay equity adjustments.

Related Party Transactions

In 2006, the Company entered into a consulting agreement with a principal who was also a newly appointed director of the Company. During the three-month period ended March 31, 2008, this director resigned and was no longer considered a related party for accounting purposes. During the three-month period ended March 31, 2008, the Company paid \$56 thousand [March 31, 2007 - \$20 thousand] in fees in respect to this consulting agreement, while the former director was a related party.

Risk Factors

The Company is subject to a number of risks and uncertainties, including without limitation, those set out in its Annual Information Form dated March 31, 2008 under the heading "Risk Factors", which risks and uncertainties are incorporated by reference herein.

Disclosure procedures and controls

The Company has designed disclosure controls and procedures to ensure that information required to be disclosed by the Company is accumulated and communicated to its management as appropriate to allow timely decisions regarding required disclosure. The Corporation's Chief Executive Officer and Chief Financial Officer as at March 31, 2008 has concluded, based on his evaluation as of March 31, 2008 that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company was made known to him by employees or third party consultants working for the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer as at March 31, 2008 believes that the Company's disclosure controls and procedures will provide a reasonable level of assurance and that they are effective, he does not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

Internal controls over financial reporting

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

As a result of the Company's assessment of the design of its internal controls over financial reporting, discussed below, the Company's management has concluded that there is only a remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting, however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

On February 1, 2008, the Company's former Chief Financial Officer resigned from the Company and the Chief Executive Officer was appointed as the Interim Chief Financial Officer. The Chief Executive Officer is a Chartered Accountant. The Company added a Corporate Controller to the ranks of its

accounting and finance department in July 2007. The Corporate Controller works closely with the Chief Executive Officer and compensated greatly for the departure of the former Chief Financial Officer. On April 8, 2008, the Company appointed a new Chief Financial Officer who is a Chartered Accountant and has extensive Canadian public company reporting and corporate finance experience.

The Company has identified control deficiencies within its accounting and financial function and its financial information systems over segregation of duties. Specifically, certain duties are not properly segregated due to the small number of individuals employed in this area. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of segregation are not significant enough to justify the expense associated with adding a number of employees to clearly segregate duties. Management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company utilizes, and will continue to utilize, outside assistance and advice on new accounting pronouncements and complex accounting and reporting issues, which is common with companies of a similar size. Management is of the opinion that none of these control deficiencies has resulted in a misstatement to the financial statements. However, these deficiencies may be considered a material weakness resulting in a more than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. As the Company grows, management plans to further expand the number of individuals involved in the accounting function. At the present time, the Chief Executive Officer, Chief Financial Officer, and the Corporate Controller oversee all material transactions and related accounting records. In addition, the Audit Committee reviews the financial statements and key risks of the Company and queries management about significant transactions on a quarterly basis.

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 period. 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 as disclosed in Note 3 to the December 31, 2007 audited annual Financial Statements and Note 4 to the March 31, 2008 unaudited interim Financial Statements which are incorporated by reference herein. These policies are affected by the assumptions, judgements and estimates used by management in the preparation of these statements.

Recent Accounting Standards

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets" effective for the Company for interim and annual periods beginning on or after January 1, 2009. Section 3064 which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, and clarifying that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IFRS IAS 38, "Intangible Assets". Section 1000 "Financial Statement Concepts" was also amended to provide consistency with this new standard. The Company is currently assessing the impact of these standards on its consolidated financial statements.

Interim Consolidated Financial Statements

Adeptron Technologies Corporation

[unaudited]

March 31, 2008

Adeptron Technologies Corporation

INTERIM CONSOLIDATED BALANCE SHEETS

[unaudited]

[in thousands of dollars]

[Going Concern - Note 3]

	As at March 31, 2008 \$	As at December 31, 2007 \$
ASSETS <i>[notes 7 and 9]</i>		
Current assets		
Cash	65	114
Accounts receivable <i>[note 14]</i>	7,121	6,311
Inventories	5,912	3,935
Prepaid expenses and deposits	459	561
Total current assets	13,557	10,921
Property, plant and equipment	3,270	3,207
Other assets <i>[note 10]</i>	652	562
Goodwill <i>[note 6]</i>	1,176	1,130
	18,655	15,820
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank operating loan <i>[note 7[a]]</i>	3,717	2,612
Accounts payable and accrued liabilities <i>[note 14]</i>	8,130	5,880
Current portion of notes payable <i>[note 5]</i>	257	247
Current portion of term loan facility <i>[note 7[b]]</i>	396	459
Subordinated debenture <i>[note 9]</i>	4,037	3,989
Total current liabilities	16,537	13,187
Future income taxes	352	338
Other long-term liabilities <i>[note 14]</i>	151	168
Notes payable <i>[note 5]</i>	475	449
Total liabilities	17,515	14,142
Commitments and contingency <i>[note 17]</i>		
Shareholders' equity		
Share capital <i>[note 11]</i>	35,532	35,532
Contributed surplus <i>[note 11]</i>	1,198	1,194
Warrants <i>[notes 11[c] and 9]</i>	793	793
Accumulated other comprehensive loss	(62)	(136)
Deficit	(36,321)	(35,705)
Total shareholders' equity	1,140	1,678
	18,655	15,820

See accompanying notes

Adeptron Technologies Corporation

**INTERIM CONSOLIDATED STATEMENTS
OF OPERATIONS**

[unaudited]

[in thousands of dollars, except per share information]

Three-month periods ended March 31

	2008	2007
	\$	\$
Sales <i>[notes 14 and 15]</i>	9,819	10,160
Cost of goods sold	8,551	8,436
Gross profit	1,268	1,724
Expenses		
Selling, general and administrative <i>[note 11]</i>	1,224	1,243
Interest expense <i>[notes 7, 9, 10 and 14]</i>	387	255
Change in fair value of embedded foreign currency derivative <i>[note 14]</i>	(128)	28
Restructuring <i>[note 8]</i>	350	—
Depreciation and amortization <i>[note 10]</i>	51	35
	1,884	1,561
Net income (loss) for the period	(616)	163
Income (loss) per share		
Basic	(0.02)	0.00
Diluted	(0.02)	0.00
Weighted average number of shares outstanding [000's] <i>[note 11]</i>		
Basic	36,707	35,804
Diluted	36,707	39,011

See accompanying notes

Adeptron Technologies Corporation

**INTERIM CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME (LOSS)**

[unaudited]
[in thousands of dollars]

Three-month periods ended March 31

	2008	2007
	\$	\$
Net income (loss) for the period	(616)	163
Other comprehensive income		
Change in foreign currency translation loss on self-sustaining foreign operations	74	—
Comprehensive income (loss) for the period	(542)	163

See accompanying notes

Adeptron Technologies Corporation

**INTERIM CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY**

[unaudited]
[in thousands of dollars]

	Common shares #	Common shares \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity \$
Balance, December 31, 2006	35,804	35,315	918	945	—	(28,881)	8,297
Issuance of shares on acquisition [note 5]	903	217	—	—	—	—	217
Stock-based compensation [note 11[d]]	—	—	124	—	—	—	124
Expiration of warrants [note 11[c]]	—	—	152	(152)	—	—	—
Foreign currency translation loss on self-sustaining foreign operations [note 5]	—	—	—	—	(136)	—	(136)
Cumulative impact of adopting new accounting requirements	—	—	—	—	—	32	32
Net loss for the year	—	—	—	—	—	(6,856)	(6,856)
Balance, December 31, 2007	36,707	35,532	1,194	793	(136)	(35,705)	1,678
Stock-based compensation [note 11[d]]	—	—	4	—	—	—	4
Foreign currency translation loss on self-sustaining foreign operations [note 5]	—	—	—	—	74	—	74
Net loss for the period	—	—	—	—	—	(616)	(616)
Balance, March 31, 2008	36,707	35,532	1,198	793	(62)	(36,321)	1,140

See accompanying notes

Adeptron Technologies Corporation

**INTERIM CONSOLIDATED STATEMENTS
OF CASH FLOWS**

[unaudited]
[in thousands of dollars]

Three-month period ended March 31

	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Net income (loss) for the period	(616)	163
Add items not involving cash:		
Depreciation and amortization	296	153
Non-cash interest expense	138	62
Stock-based compensation <i>[note 11]</i>	4	31
	<u>(178)</u>	409
Changes in non-cash working capital balances related to operations:		
Accounts receivable	(780)	580
Inventories	(1,939)	(1,360)
Prepaid expenses and deposits	105	(22)
Accounts payable and accrued liabilities	1,860	95
Cash used in operating activities	<u>(932)</u>	(298)
FINANCING ACTIVITIES		
Increase in bank operating loan	1,105	232
Repayment of term loan facility	(63)	(62)
Decrease in other long-term liabilities	(17)	(13)
Cash provided by financing activities	<u>1,025</u>	157
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(142)	(25)
Cash used in investing activities	<u>(142)</u>	(25)
Net decrease in cash during the period	(49)	(166)
Cash, beginning of period	114	234
Cash, end of period	<u>65</u>	68
Supplemental cash flow information		
Interest paid	257	179

See accompanying notes

Adeptron Technologies Corporation

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2008

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 and sales are in North America.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated 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, 2007.

These unaudited consolidated 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, 2008 and the results of operations and cash flows for the three-month period ended March 31, 2008.

These unaudited consolidated financial statements are based upon accounting policies consistent with those used and described in notes 3 and 4 to the December 31, 2007 consolidated financial statements, and as described in note 4 below.

3. GOING CONCERN

These interim consolidated 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 March 31, 2008. Furthermore, as at March 31, 2008, the Company did not comply with certain financial covenants related to the credit agreement with its senior lender and also the subordinated debenture. As a result, the Company's ability to continue as a going concern is uncertain and is dependent upon its ability to generate sufficient future cash flow and obtain sufficient financing to fund its business to the point that it achieves profitable operations.

Adeptron Technologies Corporation

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2008

On April 14, 2008, the Company announced that it had entered into a share purchase agreement in respect of a proposed private placement equity transaction whereby \$6 million worth of common shares of the Company will be issued at a price of \$0.10 per share. The Company obtained approval for the proposed transaction from its shareholders on May 7, 2008 [note 18] and expects to close the equity financing by the end of May 2008. The proceeds of the equity issuance are intended to be used to repay the principal and accrued interest thereon to the subordinated debenture holder. The remainder of the proceeds of the proposed transaction will be used for general working capital purposes. During the last half of 2007 and the first quarter of 2008, the Company also engaged in various restructuring activities with the expectation that management will achieve reductions in future operating costs and increase future positive cash flows.

The Company believes that the combination of the new equity, repayment of the subordinated debenture and elimination of the associated interest expense and the expected expense and cash savings of the restructuring activities will allow it to continue its banking relationship with its current senior lender. As a result, the Company believes that it will be able to meet its short-term cash flow requirements. However, the outcome of all of the actions and events described above cannot be predicted at this time.

These interim consolidated 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 consolidated financial statements.

4. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ["CICA"] Handbook Sections 1400, "General Standards of Financial Statement Presentation"; Section 1506, "Accounting Changes"; Section 1535, "Capital Disclosures"; Section 3031, "Inventories"; Section 3862, "Financial Instruments – Disclosures"; and Section 3863, "Financial Instruments – Presentation".

[a] General Standards of Financial Statement Presentation

Section 1400, "General Standards of Financial Statement Presentation", was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company has adopted the amendments to Section 1400 on January 1, 2008 and has included information in note 3 as required.

Adeptron Technologies Corporation

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2008

[b] Capital Disclosures

Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. The required disclosure of information about the Company's objectives, policies and processes for managing capital has been provided in note 12 of the interim consolidated financial statements for the three months ended March 31, 2008.

[c] Inventories

Section 3031, "Inventories" requires inventory to be measured at the lower of cost and net realizable value, and that when inventories are sold, the carrying amount of those inventories be recognized as an expense in the period in which the related sales are recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The adoption of this revised standard had no impact on the Company's financial results as presented in the interim consolidated financial statements.

[d] Financial Instruments – Disclosure and Presentation

Effective January 1, 2008, the Company adopted the new recommendations of CICA Handbook Section 3862, "Financial Instruments – Disclosure" and Handbook Section 3863, "Financial Instruments – Presentation". Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The required disclosure and presentation of information pursuant to these standards has been provided in the interim consolidated financial statements for the three months ended March 31, 2008 and the notes thereto.

Adeptron Technologies Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2008

5. ACQUISITION

On May 31, 2007, the Company acquired all of the issued and outstanding shares of Pacific Circuit Assembly, Inc. ["PCA"], a San Jose based electronics manufacturing service provider. Purchase consideration consisted of \$1,300 in cash paid on closing, \$802 in notes payable and 903,520 common shares of the Company. The notes payable bear interest at 5% per annum and are repayable in equal annual instalments over a three-year period. The notes payable were recorded at fair value using a discount rate of 10% and amounting to \$734 and are being accreted using the effective interest rate method to the principal amount, which is denominated in U.S. dollars. The carrying amount of the notes payable as at March 31, 2008, after adjusting for the accretion of interest, was \$732, of which \$257 is shown as current portion on the interim consolidated balance sheet. The fair value of share consideration was based on the market price of the Company's common shares over a short period before and after the announcement of the acquisition. The Company incurred \$280 in acquisition costs related to this transaction.

The acquisition of PCA has been accounted for using the purchase method and accordingly, the results of operations have been included in these interim consolidated financial statements from the date of acquisition. The consideration paid has been allocated to the net assets acquired on their respective fair values and the excess has been recorded as goodwill.

The allocation of the purchase price was completed during the fourth quarter of 2007 and is as follows:

	\$
Net assets acquired:	
Current assets, excluding cash acquired	468
Property, plant and equipment	1,181
Intangible assets	364
Goodwill	1,224
Future income taxes	(538)
Accounts payable and accrued liabilities	(236)
	<u>2,463</u>
Cash acquired	68
Fair value of net assets acquired	<u>2,531</u>
	\$
Purchase consideration consists of:	
Cash	1,300
Notes payable	734
Common shares	217
Acquisition costs	280
Total purchase consideration	<u>2,531</u>

Adeptron Technologies Corporation

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2008

6. GOODWILL

A summary of the changes to goodwill is as follows:

	Three-month period ended March 31, 2008	Year ended December 31, 2007
	\$	\$
Balance, beginning of period	1,130	5,531
Acquisition of PCA <i>[note 5]</i>	—	1,224
Unrealized translation gain (loss)	46	(94)
Impairment	—	(5,531)
Balance, end of period	1,176	1,130

As at December 31, 2007, management performed its annual goodwill impairment test in accordance with its accounting policies. Management engaged third party valuation specialists to assist in determining the fair value of this reporting unit's intangible assets and long-lived tangible assets. Management determined that the fair value of the Canadian reporting unit was less than the book value of that reporting unit.

As a result, management determined that all of the goodwill amounting to \$5,531 relating to the Canadian reporting unit should be written off as at December 31, 2007.

7. 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 all of the Company's assets. During the first quarter, the Company finalized additional terms with its senior lender whereby all of the assets of the Company's wholly-owned subsidiary, Adeptron U.S.A., Inc., and PCA were adjoined as collateral for the aggregate senior lending facility. The Company incurred costs amounting to \$120 related to this which were added to deferred financing costs in the quarter.

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.

Adeptron Technologies Corporation

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2008

The Company has incurred financing costs of \$373, including the \$120 incurred in the first quarter of 2008, related to the credit agreement and these costs have been recorded on the consolidated balance sheets as deferred financing costs in other assets. These deferred financing costs will be amortized over the term of the agreement and will be included in the consolidated statements of operations 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, 2008, the Company's bank operating loan balance of \$3,717 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, 2008 was 6.7%.

[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, 2008 was 7.2%.

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. As at March 31, 2008, the Company did not comply with the financial covenants and has therefore classified the balance remaining on the term loan facility as a current liability on the consolidated balance sheet.

Adeptron Technologies Corporation

**NOTES TO INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

[unaudited]

[in thousands of dollars, except as noted]

March 31, 2008

8. RESTRUCTURING

During the first quarter ended March 31, 2008, the Company completed its plan to change the management organization structure at the Canadian operations, and enhance accountability and decision-making processes. The restructuring activity resulted in the Company expensing severance costs of \$350 in the quarter related to staff and management reductions, of which approximately \$308 is recorded as an accrued liability as at March 31, 2008, and will be paid out over the next twelve months.

9. SUBORDINATED DEBENTURE

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 five 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 in the interim consolidated 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 consolidated statements of operations 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%.

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The carrying value for the debenture as at March 31, 2008 and December 31, 2007 is as follows:

	2008	2007
	\$	\$
Principal of debenture	5,000	5,000
Amount allocated to warrants	(822)	(822)
Amount allocated to debenture	4,178	4,178
Financing costs	(395)	(395)
	3,783	3,783
Accreted interest	254	206
	4,037	3,989

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. During November 2007, the Company entered into a forbearance agreement with its subordinated lender in which the lender has agreed to waive its right to enforce the security it holds in the assets of the Company. The agreement will remain in effect until the earlier of September 30, 2008 or the occurrence of a further event of default, as defined in the original debenture agreement or in the forbearance agreement. In particular, the forbearance agreement contains additional financial targets that must be met over the term of the agreement.

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In consideration for the forbearance agreement, the Company will pay to the lender a finance fee of \$50 per quarter that the forbearance agreement is in effect. As at March 31, 2008, \$100 has been accrued as a liability related to this finance fee. As at March 31, 2008, 6,851,000 common share purchase warrants related to the private placement financing remain outstanding.

As at March 31, 2008, the Company did not comply with the additional financial targets under the forbearance agreement. As a result, the Company was in a default position and has classified the subordinated debenture as a current liability on the consolidated balance sheet.

10. OTHER ASSETS

Other assets consist of the following:

	March 31, 2008	December 31, 2007
	\$	\$
Up-front lease costs	117	121
Customer relationships	230	247
Software	22	24
Deferred financing costs	283	170
	652	562

Up-front lease costs are net of accumulated amortization of \$83 [December 31, 2007 - \$78], of which \$5 [2007 - \$5] was recorded as amortization expense in the consolidated statements of operations.

Customer relationships are net of accumulated amortization of \$89 [December 31, 2007 - \$60], of which \$26 [2007 - \$nil] was recorded as amortization expense in the consolidated statements of operations.

Software is net of accumulated amortization of \$9 [December 31, 2007 - \$6], of which \$3 [2007 - \$nil] was recorded as amortization expense in the consolidated statements of operations.

Deferred financing costs are net of accumulated amortization of \$142 [December 31, 2007 - \$111], of which \$31 [2007 - \$21] was recorded as interest expense in the consolidated statements of operations.

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11. 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, 2008 and December 31, 2007 were 36,707,755.

[c] Warrants

	Warrants #	Amount \$
		000's
Balance, December 31, 2006	8,700	945
Expired unexercised <i>/i/</i>	(1,349)	(152)
	7,351	793

[i] During 2007, 1,349,000 warrants related to a previous year's subordinated notes financing expired unexercised.

[ii] As part of the private placement described in note 9 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 five 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 a private placement resulting in the issuance of 1,000,000 common shares for proceeds of \$200,000 completed in November 2006, the Company also 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.

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[d] Stock options

The Company has established a stock option plan for its directors, officers, employees and consultants, whereby options to a maximum of 4,800,000 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.

Changes in the number of options, with their weighted average exercise prices for the three-month periods ended March 31, 2008 and 2007, are summarized below:

	2008		2007	
	Number of options [000's]	Weighted average exercise price \$	Number of options [000's]	Weighted average exercise price \$
Outstanding, beginning of period	2,851	0.27	3,240	0.34
Granted	—	—	100	0.37
Forfeited/expired	(752)	0.31	(15)	0.40
Outstanding, end of period	2,099	0.25	3,325	0.34
Options exercisable, end of period	1,546	0.27	2,737	0.35

During the three-month period ended March 31, 2008, the Company recorded \$4 [2007 - \$31] of stock-based compensation expense. These amounts are included in selling, general and administrative expenses and contributed surplus.

Subsequent to the quarter end, on April 8, 2008, the Company granted 250,000 stock options at an exercise price of \$0.10. The estimated fair value at the date of grant was calculated to be \$0.04 per option using the Black-Scholes option pricing model and the following assumptions: risk-free rate of 3.1%, volatility factor of 75%, and weighted average expected life of the options of three years.

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12. MANAGEMENT OF CAPITAL

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash, bank operating loan and term loan facility, notes payable, subordinated debenture and equity comprising of issued share capital, contributed surplus and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, share repurchases, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2007.

13. RELATED PARTY TRANSACTIONS

In 2006, the Company entered into a consulting agreement with a principal who was also a newly appointed director of the Company. During the three-month period ended March 31, 2008, this director resigned and was no longer considered a related party for accounting purposes. During the three-month period ended March 31, 2008, the Company paid \$56 [2007 - \$20] in fees in respect to this consulting agreement, while the former director was a related party.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

[a] Hedges and derivatives

Hedging derivatives are required to be recorded at fair value in the interim consolidated balance sheets. 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 in the consolidated 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. The embedded foreign currency derivative has been bifurcated from the host purchase or sales contract and recorded in the interim consolidated balance sheets at fair value. As at March 31, 2008, the Company has recorded a liability of \$24 [December 31, 2007 - asset of \$67] related to purchase contracts and an asset of \$36 [December 31, 2007 - liability of \$183] related to sales contracts. For the quarter ended March 31, 2008, a gain of \$128 [March 31, 2007 - loss of

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\$28] was recorded in the interim consolidated statements of operations related to the change in fair value of the embedded foreign currency derivative.

[b] 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, comprised of the subordinated debenture, term loan facility and notes payable, approximates its fair value due to the fact that there have been minimal changes in prevailing interest rates and the long-term risk profile of the Company has not significantly changed.

[c] Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. The carrying amount of financial assets represents the maximum credit exposure.

The Company has adopted a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment terms and conditions are offered. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. Substantially all of the Company's customers are located in Canada and the United States and represent various industries. When available, the Company reviews credit bureau ratings, bank accounts and financial information for each new customer. Customers that fail to meet the Company's established credit policy are required to submit an appropriate security deposit.

The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and an overall loss component established based on historical trends and other information. As at March 31, 2008 and December 31, 2007, the Company had an allowance for doubtful accounts of \$66 and \$123, respectively.

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The following table sets forth details of the age of receivables as at March 31, 2008 that are not overdue as well as an analysis of overdue amounts and related allowance for doubtful accounts:

	2008
	<u>\$</u>
Total accounts receivable	7,187
Less: allowance for doubtful accounts	(66)
Total accounts receivable, net	<u>7,121</u>
Of which:	
Not overdue	4,878
Past due more than one day and not more than three months	2,106
Past due more than three months and not more than six months	141
Past due more than six months and not more than one year	22
Past due more than one year	40
Less: allowance for doubtful accounts	(66)
Total accounts receivable, net	<u>7,121</u>

As at March 31, 2008, the Company's two largest customer accounts receivable balances represented 23% [December 31, 2007 - 22%] of the total accounts receivable balance.

[d] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

As at March 31, 2008, the Company had loans and receivables of \$7,121 [includes accounts receivable] and financial liabilities of \$17,515 [including subordinated debenture and term loan facility]. As at December 31, 2007, the Company had loans and receivables of \$6,311 (includes accounts receivable) and financial liabilities of \$14,142 [including subordinated debenture and term loan facility]. All of the Company's financial liabilities, excluding subordinated debentures, term loan facility, notes payable, future income taxes, and other long-term accrued liabilities related to restructuring have contracted maturities of less than one year. The Company manages its liquidity risk by continuously monitoring forecast and actual gross profit and cash flows from operations.

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[e] Market risk and foreign currency risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments.

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 and notes payable issued in U.S. dollars as part of the acquisition of PCA in 2007. The Company does not use derivative instruments to hedge its foreign currency risk. Of the Company's accounts receivable and accounts payable at March 31, 2008, 69% [December 31, 2007 - 65%] and 58% [December 31, 2007 - 51%], respectively, are denominated in foreign currencies. During the three-month period ended March 31, 2008, approximately 74% [2007 - 67%] of sales and approximately 44% [2007 - 32%] of expenses were incurred in U.S. dollars.

The Company is subject to interest rate risk on its bank operating loan. The Company believes that interest rate risk is currently low as interest rates on the bank operating loan have been declining as the bank prime rate declines.

15. 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, 2008 and 2007 are as follows:

	2008	2007
	\$	\$
Canada	5,971	7,090
United States	3,848	3,070
	9,819	10,160

For the first quarter ended March 31, 2008, sales to the Company's two largest customers during the quarter represent 22% [2007 - 39%] of the Company's total sales. The two customers represent 12% [2007 - 27%] and 10% [2007 - 12%] of total sales, respectively.

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All of the Company's long-term assets as at March 31, 2008 and December 31, 2007 are located in Canada and the United States as detailed below.

Property, plant and equipment and other assets are located as follows:

	2008	2007
	\$	\$
Canada	2,613	2,511
United States	1,309	1,258
	3,922	3,769

Goodwill is located as follows:

	2008	2007
	\$	\$
Canada	—	—
United States	1,176	1,130
	1,176	1,130

16. RECENT CANADIAN ACCOUNTING STANDARDS

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", effective for the Company for interim and annual periods beginning on or after January 1, 2009. Section 3064 which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, and clarifying that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IFRS IAS 38, "Intangible Assets". Section 1000 "Financial Statement Concepts" was also amended to provide consistency with this new standard. The Company is currently assessing the impact of these standards on its consolidated financial statements.

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17. COMMITMENTS AND 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, if applicable, in accordance with Ontario pay equity legislation, as a result of the plan's implementation. The Company is in the final stages of a process that will allow it to achieve demonstrated compliance with the order before the end of 2008. At this time, the Company is unable to determine the likelihood and amount, if any, of any potential retroactive pay equity adjustments.

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

	\$
2008	696
2009	885
2010	752
2011	468
2012	456
Thereafter	548
	<u>3,805</u>

Excluded from the amounts noted above is \$1,349, representing certain lease costs for the years 2008 to 2011. Offsetting these commitments is \$1,115 of sub-lease income that has been committed to the Company from sub-tenants. These amounts were recorded as part of the 2001 and 2007 restructuring charges and are included in accrued liabilities.

18. SUBSEQUENT EVENT

On May 7, 2008, the Company obtained special shareholder approval to issue common shares at \$0.10 per share for gross proceeds of \$6,000. The closing of this equity financing is expected to occur by the end of May 2008, and the proceeds of this equity issuance are intended to be used to repay the subordinated debenture in the full amount of \$5,000, in addition to accumulated accrued quarterly forbearance finance fees of \$150, plus any accrued interest owing. Upon closing of the equity financing, and the full repayment of the subordinated debenture, the subordinated debenture holder has agreed to return to the Company for cancellation all 6,851,000 warrants held, for no further consideration.