



**ADEPTRON TECHNOLOGIES CORPORATION**

**QUARTERLY SHAREHOLDER REPORT**

Results for the Three-month and Six-month Periods Ended June 30, 2008

**TSX – 'ATQ'**



## **Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three-Month and Six-Month Periods Ended June 30, 2008**

For the three-month and six-month periods ended June 30, 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 and six-month periods ended June 30, 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 August 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](http://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, loss on settlement of subordinated debenture, 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-recurring and 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**

- ◆ The Company's sales were greater than \$20 million for the first six months,
- ◆ Second quarter EBITDA calculated to be \$326 thousand, in comparison to \$481 thousand in the previous year's second quarter,
- ◆ The Company completed a private placement equity financing (the "Private Placement") for \$6 million of common shares issued at \$0.10 per share on May 22nd.
- ◆ Proceeds from the Private Placement were used to repay the Company's outstanding \$5 million subordinated debenture, thereby significantly improving the working capital position,
- ◆ The Company continued to be in non-compliance with the financial covenants in the amended agreement with its senior lender.

### **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 half of 2008, the number of senior management positions in the Canadian operation decreased by five.

During the second quarter ended June 30, 2008, the Company reversed \$42 of expensed severance costs recorded in the first quarter due to additional information. In addition, during the second quarter, the Company incurred an expense of approximately \$200 thousand related to the termination of a consulting arrangement with a former consultant, and this amount was fully paid by the end of the second quarter.

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 requirements.

### **Significant Transactions**

On May 7, 2008, the Company obtained special shareholder approval to issue common shares at \$0.10 per share for gross proceeds of \$6 million. On May 22, 2008, the Company completed a private placement equity financing (the "Private Placement"), with a group that includes a leading EMS provider in Israel, for \$6 million worth of common shares of the Company issued at \$0.10 per share. The proceeds from the Private Placement were used to repay the Company's outstanding \$5 million subordinated debenture together with outstanding interest and other fees with the remaining balance being added to working capital. In connection with the pre-payment of the debenture, the 6,851,247 common share purchase warrants held by the debenture holder were cancelled without further consideration.

In the prior fiscal year, 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	30-Jun-08	31-Mar-08	31-Dec- 07	30-Sep-07
Sales	\$10,191	\$9,819	\$9,917	\$8,180
Gross profit	\$1,518	\$1,268	\$1,448	\$857
Gross profit %	14.9%	12.9%	14.6%	10.5%
Loss before the following items:	\$(781)	\$(266)	\$(195)	\$(652)
Goodwill impairment	—	—	\$(5,531)	—
Restructuring	\$(158)	\$(350)	\$(201)	\$(450)
Net loss	\$(939)	\$(616)	\$(5,927)	\$(1,102)
EBITDA	\$326	\$41	\$213	\$(514)
Basic & diluted loss per share	\$(0.01)	\$(0.02)	\$(0.16)	\$(0.03)

For the three-months ended	30-Jun-07	31-Mar-07	31-Dec- 06	30-Sep-06
Sales	\$10,149	\$10,160	\$10,852	\$10,609
Gross profit	\$1,571	\$1,724	\$1,970	\$1,935
Gross profit %	15.5%	17.0%	18.2%	18.2%
Net income	\$10	\$163	\$307	\$506
EBITDA	\$481	\$602	\$889	\$894
Basic & diluted income per share	\$0.00	\$0.00	\$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	30-Jun-2008	31-Mar-2008	31-Dec-2007	30-Sep-07
Net income (loss) per GAAP	\$(939)	\$(616)	\$(5,927)	\$(1,102)
Add (deduct):				
Interest on term loan	8	10	13	13
Loss on settlement of subordinated debenture	638	—	—	—
Interest on subordinated debenture	167	251	247	192
Income tax expense (recovery)	—	—	(61)	(20)
Interest on bank operating loan	103	79	93	85
Interest on notes payable	16	17	17	18
Depreciation and amortization	301	296	265	263
Goodwill impairment	—	—	5,531	—
Stock-based compensation	32	4	35	37
<b>EBITDA</b>	<b>\$326</b>	<b>\$41</b>	<b>\$213</b>	<b>\$(514)</b>

For the three-months ended	30-Jun-07	31-Mar-2007	31-Dec-2006	30-Sep-06
Net income per GAAP	\$10	\$163	\$307	\$506
Add:				
Interest on term loan	14	16	17	1
Interest on subordinated debenture	190	190	194	23
Income tax expense (recovery)	(14)	—	—	—
Interest on subordinated notes	—	—	—	75
Interest on bank operating loan	68	49	71	123
Interest on notes payable	6	—	—	—
Depreciation and amortization	186	153	163	155
Stock-based compensation	21	31	137	11
<b>EBITDA</b>	<b>\$481</b>	<b>\$602</b>	<b>\$889</b>	<b>\$894</b>

## Results of Operations

### Sales

Sales for the three-months ended June 30, 2008 were consistent at \$10.2 million compared to \$10.1 million for the three-months ended June 30, 2007.

For the six-month period ended June 30, 2008, revenue totalled \$20.0 million compared to \$20.3 million for the corresponding period of 2007, a decrease of \$0.3 million or 1.5%.

During the six-month period ended June 30, 2008, approximately 72% of the Company's sales were derived from 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 half of 2008 when compared to the same period in 2007, had a negative effect on the Company's sales and, consequently, gross profits. The US\$ to CDN\$ average exchange rate for the first half ended June 30, 2007, was \$1.135 and declined to \$1.007, or 11.3%, by the first half ended June

30, 2008. This continued the general trend of declining 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 half of 2008 in comparison to the same period in 2007 would have been an increase in sales in the six-month period ended June 30, 2008.

#### *Cost of Goods Sold and Gross Profit*

Cost of goods sold for the three-months ended June 30, 2008 was \$8.7 million compared to \$8.6 million for the three-months ended June 30, 2007, an increase of \$0.1 million, or 1.2%. 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.

For the six-months ended June 30, 2008, cost of goods sold was \$17.2 million, compared to \$17.0 million in the first six-months of 2007. The increase of \$0.2 million is attributed to changes in the mix of customers, and changes in the mix of turnkey production versus consignment production.

Gross profit for the three-months ended June 30, 2008 was \$1.5 million compared to gross profit of \$1.6 million for the three-months ended June 30, 2007, a decrease of \$0.1 million, or 6%. Gross profit, expressed as a percentage of sales for the three-months ended June 30, 2008, was 14.9% compared to 15.5% for the three-months ended June 30, 2007. The decrease in gross profit dollars and percentage in the second quarter 2008 in comparison to the second quarter 2007 is attributable to the change in mix in customers and the unfavourable effect of foreign currency exchange rates.

Gross profit for the six-months ended June 30, 2008 was \$2.8 million compared to gross profit of \$3.3 million for the six-months ended June 30, 2007, a decrease of \$0.5 million or 15%. Gross profit, expressed as a percentage of sales for the six-months ended June 30, 2008, was 13.9% compared to 16.2% for the six-months ended June 30, 2007. The decrease in gross profit dollars and percentage in the first half of 2008 in comparison to the first half of 2007 is attributable to the change in mix in customers and the unfavourable effect of foreign currency exchange rates.

Depreciation and amortization of \$301 thousand has been allocated between cost of goods sold and other expenses in the three-months ended June 30, 2008 compared to \$186 thousand for the three-months ended June 30, 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 \$250 thousand has been allocated to cost of goods sold during the three-months ended June 30, 2008, compared to \$146 thousand for the quarter ended June 30, 2007, an increase of \$104 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 half of 2008.

For the six-months ended June 30, 2008, depreciation and amortization was \$597 thousand compared to \$339 thousand for the same period in 2007. For this period in 2008 depreciation of \$495 has been allocated to cost of goods sold compared to \$264 thousand in 2007.

### *Selling, General and Administrative Expense*

Selling, general and administrative ("SG&A") expenses for the three-months ended June 30, 2008 were \$1.3 million, relatively unchanged from \$1.2 million of expenses recorded for the three-months ended June 30, 2007. This resulted from the reduction of expenses in the Canadian operations throughout 2007 and the first quarter 2008, offset by the expenses now reflected in the second quarter 2008 for the San Jose operation as a result of the acquisition of PCA in the second quarter 2007.

For the six-months ended June 30, 2008, SG&A expense was \$2.5 million compared to \$2.5 million for the same quarter of 2007. The six-months ended June 30, 2008 included the SG&A expenses of PCA for the entire period compared to the same period in 2007 which included the SG&A expenses of PCA for only a one-month period starting from the date of acquisition on May 31, 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. An expense in the amount of \$10 thousand and a gain in the amount of \$118 thousand was recognized for the three-months and six-months ended June 30, 2008, respectively, in comparison to an expense of \$35 thousand and \$63 thousand, respectively, for the three-month and six-month periods ended June 30, 2007.

### *Interest on Subordinated Debenture*

For the three-month and six-month periods ended June 30, 2008, interest expense relating to the Company's subordinated debenture was \$167 thousand and \$418 thousand, respectively, compared to \$190 thousand and \$384 thousand, respectively, for the three-month and six-month periods ended June 30, 2007. On May 22, 2008 the subordinated debenture was repaid in full with \$5 million of the proceeds from the private placement equity financing. Because of the early repayment there was an accounting related difference between the carrying value of the debt as at May 22, 2008, and the \$5 million principal repaid. This difference amounted to approximately \$638 thousand on May 22, 2008, and was recorded as a loss on settlement of the subordinated debenture during the second quarter ended June 30, 2008.

### *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 the 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 second quarter was 5.9%. Interest on bank operating loan for the three-month and six-month periods ended June 30, 2008 was \$103 thousand and \$182 thousand, respectively, compared to \$68 thousand and \$117 thousand, respectively, for the three-month and six-month periods ended June 30, 2007. Included in interest expense is approximately \$43 thousand relating to the amortization of deferred financing costs in the second quarter ended June 30, 2008. The increase in interest expense is due primarily to higher borrowing levels partially offset by lower interest rates in the second quarter 2008 in comparison to second 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 June 30, 2008 on the term loan facility was 6.3%. Interest on the term loan facility for the three-month and six-month periods ended June 30, 2008 was \$8 thousand and \$18 thousand, respectively, in comparison to \$14 thousand and \$30 thousand, respectively, for the three-month and six-month periods ended June 30, 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 the notes payable for the three-month and six-month periods ended June 30, 2008 was \$16 thousand and \$33 thousand, respectively, in comparison to \$6 thousand and \$6 thousand, respectively, for the three-month and six-month periods ended June 30, 2007.

### *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 and six-month periods ended June 30, 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 and six-month periods ended June 30, 2008 restructuring expense was \$158 thousand and \$508 thousand, respectively.

Of the restructuring expenses recorded in the year 2007 and in the six-month period ended June 30, 2008, \$436 thousand remains at June 30, 2008 as an obligation consisting of [i] an estimated \$220 thousand relating to facility leases that will be paid out over the remaining lease period which extends to 2011, and [ii] \$216 thousand relating to severance costs. The long-term portion of the restructuring obligation is approximately \$133 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 June 30, 2008 was \$51 thousand compared to \$40 thousand for the three-months ended June 30, 2007. Depreciation on manufacturing assets is included in cost of goods sold and is discussed above in "Results of Operations – Cost of Goods Sold and Gross Profit".

For the six-months ended June 30, 2008, depreciation and amortization on non-manufacturing assets was \$102 thousand compared to \$75 thousand for the same period in the prior year.

## *Balance Sheet*

Cash at June 30, 2008 was \$10 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, defined as current assets less current liabilities, as at June 30, 2008, was approximately \$1.4 million compared to working capital deficit of \$2.3 million at December 31, 2007, or an increase of \$3.7 million. This increase in working capital deficit is primarily explained by the net loss incurred in the first half of 2008 and cash used in operating activities, offset by the significant \$6 million private placement equity financing and subordinated debenture repayment completed during the second quarter of 2008.

Accounts receivable at June 30, 2008 were approximately \$5.9 million, compared to the 2007 year-end balance of approximately \$6.3 million, or a decrease of \$0.4 million.

Inventory at June 30, 2008 was approximately \$6.5 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 second quarter of 2008, San Jose's total sales were approximately \$2.2 million and of this amount, sales derived from turnkey manufacturing were in excess of \$1.3 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 decrease inventory, which resulted in an unusually low inventory level at the year-end. Accounts payable and accrued liabilities at June 30, 2008 were approximately \$6.3 million compared to approximately \$5.9 million at 2007 year-end, an increase of \$0.4 million. The increase in accounts payable and accrued liabilities is due primarily to the increases in inventory explained above.

The subordinated debenture was repaid in full on May 22, 2008 with proceeds from the private placement equity financing.

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 June 30, 2008 interim consolidated balance sheets. As at June 30, 2008 the term loan facility liability was \$333 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\$. As at June 30, 2008, the outstanding balance was \$631 thousand, of which \$395 thousand is shown as current portion of notes payable leaving the balance in long-term debt.

Other long-term liabilities of \$133 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 \$86 thousand covering subsidization of the Calgary and Markham sub-leases. As at June 30, 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, generated approximately \$108 thousand in cash in the three-months ended June 30, 2008 compared to generating approximately \$268 thousand in the same period in 2007. Including changes in non-cash working capital items; cash used in the three-months ended June 30, 2008 was approximately \$799 thousand compared to cash used of \$453 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 second quarter 2008 compared to the same period in the prior year.

For the six-month period ended June 30, 2008, operating activities, before changes in non-cash working capital items, used \$132 thousand in cash compared to \$677 thousand generated in the same period of the prior year. Including changes in non-cash working capital items, cash usage in the first six-months of 2008 was \$1,731 thousand compared to \$752 thousand cash usage in the corresponding period in 2007. The change of approximately \$980 thousand is primarily due to increases in inventory when compared to the activity in the same period of the prior years.

During the three-month and six-month periods ended June 30, 2008, the Company's financing activities provided approximately \$1.1 million and \$2.1 million, respectively, in cash in comparison to providing \$2.2 million and \$2.3 million in the corresponding period in 2007. This was primarily the result of increasing the utilization of the bank operating loan by \$1.7 million offset by repayment of principal of the term loan facility in the amount of \$126 thousand, repayment of the notes payable in the amount of \$94 thousand after taking into account certain foreign exchange fluctuations, and the raise of \$5.6 million in net proceeds from the private placement equity financing offset by the repayment of the \$5 million subordinated debenture. As at June 30, 2008, the bank operating loan balance is \$4.3 million compared to the June 30, 2007 balance of approximately \$3.2 million.

For the three-month and six-month periods ended June 30, 2008, the Company's investing activities utilized approximately \$318 thousand and \$460 thousand, respectively, in cash related to the acquisition of property plant and equipment, and the payment of financing costs related to the Bank operating loan, in comparison to approximately \$1.7 million of cash utilized in investing activities that included the acquisition of PCA for both the three-month and six-month comparative periods in 2007.

Adeptron's management does expect an increase in capital expenditures in the remainder of 2008 over the levels incurred in 2007 in order to have the manufacturing asset capacity required to meet anticipated customer orders. At June 30, 2008, the Company had total notes payable outstanding of approximately \$630 thousand, of which \$395 thousand is shown as current portion of notes payable. During the second quarter ended June 30, 2008, the Company negotiated an amendment to the terms surrounding the first annual instalment payment of US\$250 thousand due May 31, 2008, whereby US\$100 thousand was paid in June 2008, and US\$50 thousand is to be paid in each of the following three successive months. The total amount of other long-term liabilities at June 30, 2008 is \$133 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 June 30, 2008 the Company did not comply with the financial covenants in the amended agreement. Therefore the debt has been shown as a current liability.

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 financing costs related to the finalization of these additional terms amounted to approximately \$120 thousand and were capitalized as other assets.

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 June 30, 2008, the Company's operating loan balance of approximately \$4.3 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 cash-flow from operations 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 contained 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 was to 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 contained additional financial targets that were to be met over the term of the agreement.

In consideration for the forbearance agreement, the Company paid to the lender a finance fee of \$50 thousand per quarter that the forbearance agreement is in effect. As at June 30, 2008, the accrued quarterly forbearance amounts were fully paid.

On May 22, 2008, the Company completed the previously announced Private Placement equity transaction and \$6 million worth of common shares of the Company were issued at a price of \$0.10 per share. The net proceeds of the Private Placement were used to repay the subordinated debenture in the amount of \$5 million. In connection with the pre-payment of the debenture, 6,851,247 common share purchase warrants held by the debenture holder were returned to the Company for no further consideration, and were cancelled.

The closing of the private placement equity financing has improved the Company's working capital position, and has terminated its interest expense related to the subordinated debenture debt. The remainder of the net proceeds from the equity financing were used to replenish general working capital.

The interim consolidated financial statements for the period ended June 30, 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, has an accumulated deficit of \$37,260 as at June 30, 2008, and as discussed above, is in non-compliance with its senior lender's financial covenants. 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 more profitable operations.

The Company believes that the combination of the new equity financing completed on May 22, 2008, repayment of the subordinated debenture and elimination of the associated interest expense and the expected expense and cash savings of the Company's 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 the actions and events described above cannot be predicted at this time.

The interim consolidated financial statements for the period ended June 30, 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.

As at June 30, 2008, the Company estimates that it has the capacity to significantly increase its second quarter 2008 level of sales of \$10.2 million based on turnkey sales. The Company does expect, however, that it must add certain capital assets to increase the scope of services it can offer to customers and to expand capacity in specific areas that are already incurring high levels of utilization of existing capacity. The Company expects that if sales increase in the future, this will lead to more optimal utilization of its automated surface mount lines, sophisticated test platforms and other equipment across the entire organization.

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 June 30, 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:*

<b>(\$ in thousands)</b>	<b>Total</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Beyond</b>
Term loan	333	333	—	—	—	—	—
Notes payable	631	153	242	236	—	—	—
Restructuring accrual	436	200	120	68	48	—	—
Operating and premise leases	3,570	463	883	752	468	456	548
<b>Total</b>	<b>4,970</b>	<b>1,149</b>	<b>1,245</b>	<b>1,056</b>	<b>516</b>	<b>456</b>	<b>548</b>

## Outstanding Share Data

As at June 30, 2008

	Authorized	Issued and Outstanding
Common Shares	unlimited	96,707,755
Warrants	n/a	500,000
Stock Options Under the Plan	4,800,000	1,966,000

Adeptron has one class of voting securities for which there are securities outstanding: common shares. As at the date hereof, there are 96,707,755 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. On April 8, 2008, the Company issued 250,000 stock options at an exercise price of \$0.10 per share. As at the date hereof, there are 1,966,000 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. Subsequent to the second quarter ended June 30, 2008, the Company's shareholders approved an amendment to the Company's Amended and Restated Stock Option Plan to increase the maximum number of common shares reserved for issuance upon the exercise of options from 4,800,000 to 12,600,000 common shares.

On May 22, 2008, in connection with the Private Placement described above, 6,851,000 warrants of the Company with an exercise price of \$0.20 each were returned to the Company by the subordinated debenture holder for no further consideration and were cancelled by the Company.

As of the date hereof, Adeptron has a total of 500,000 warrants outstanding which were issued on November 21, 2006. Each of the 500,000 warrants entitle the holder to purchase one common share for 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.

## 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.

During the second quarter ended June 30, 2008 the Company filed its developed and implemented pay equity plan for its operations in Ontario, Canada as required by the Pay Equity Commission of Ontario. The Company has determined that the total amount of retroactive pay equity adjustments required is \$22, and this amount has been included in selling, general and administrative expense for the second quarter ended June 30, 2008.

## **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 first quarter 2008, this director resigned and was no longer considered a related party for accounting purposes. During the three-month and six-month periods ended June 30, 2008, the Company paid \$nil and \$56 thousand, respectively [June 30, 2007 - \$15 thousand and \$35 thousand] in fees in respect of 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 June 30, 2008 has concluded, based on their evaluation as of June 30, 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 them 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 June 30, 2008 believed that the Company's disclosure controls and procedures will provide a reasonable level of assurance and that they are effective, they do 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 and Note 4 to the December 31, 2007 audited annual Financial Statements and Note 4 to the June 30, 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 Company is currently assessing the impact of these standards on its consolidated financial statements.

#### *International Financial Reporting Standards*

In January 2006, the CICA Accounting Standards Board ["AcSB"] adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ["IFRS"] will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As the Company will be required to report its results in accordance with IFRS starting in 2011, the Company is assessing the potential impacts of this changeover and developing its plan accordingly.

The Company has commenced the preliminary diagnostic phase, which involves a high level review of the major measurement differences between current Canadian GAAP and IFRS. The Company will address the design and planning, solution development and implementation of the project at a later date.

Interim Consolidated Financial Statements

**Adeptron Technologies Corporation**

[unaudited]

June 30, 2008

**Adeptron Technologies Corporation****INTERIM CONSOLIDATED BALANCE SHEETS**

[unaudited]  
[in thousands of dollars]  
[Going concern - Note 3]

	As at June 30, 2008 \$	As at December 31, 2007 \$
<b>ASSETS</b> [notes 8 and 10]		
<b>Current</b>		
Cash	10	114
Accounts receivable [note 14]	5,872	6,311
Inventories	6,509	3,935
Prepaid expenses and deposits	397	561
<b>Total current assets</b>	<b>12,788</b>	<b>10,921</b>
Property, plant and equipment	3,082	3,207
Other assets [note 8]	555	562
Goodwill [notes 6 and 7]	1,165	1,130
	<b>17,590</b>	<b>15,820</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank operating loan [note 8[a]]	4,344	2,612
Accounts payable and accrued liabilities [note 14]	6,272	5,880
Current portion of notes payable [note 6]	395	247
Current portion of term loan facility [note 8[b]]	333	459
Subordinated debenture [note 10]	—	3,989
<b>Total current liabilities</b>	<b>11,344</b>	<b>13,187</b>
Future income taxes	348	338
Other long-term liabilities	133	168
Notes payable [note 6]	236	449
<b>Total liabilities</b>	<b>12,061</b>	<b>14,142</b>
Commitments and contingency [note 17]		
<b>Shareholders' equity</b>		
Share capital [notes 5 and 11]	41,142	35,532
Contributed surplus [note 11[c] and [d]]	1,677	1,194
Warrants [notes 10 and 11[c]]	49	793
Accumulated other comprehensive loss	(79)	(136)
Deficit	(37,260)	(35,705)
<b>Total shareholders' equity</b>	<b>5,529</b>	<b>1,678</b>
	<b>17,590</b>	<b>15,820</b>

See accompanying notes

**Adeptron Technologies Corporation**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**

[unaudited]

[in thousands of dollars, except per share information]

	Three-month period ended		Six-month period ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Sales</b> [notes 14 and 15]	<b>10,191</b>	10,149	<b>20,010</b>	20,309
Cost of goods sold	<b>8,673</b>	8,578	<b>17,224</b>	17,014
<b>Gross profit</b>	<b>1,518</b>	1,571	<b>2,786</b>	3,295
<b>Expenses</b>				
Selling, general and administrative [notes 11[d] and 17]]	<b>1,293</b>	1,222	<b>2,517</b>	2,465
Interest expense [notes 8, 10, 11 and 14]	<b>307</b>	278	<b>694</b>	533
Loss on settlement of the subordinated debenture [note 10]	<b>638</b>	—	<b>638</b>	—
Change in fair value of embedded foreign currency derivative [note 14]	<b>10</b>	35	<b>(118)</b>	63
Restructuring [note 9]	<b>158</b>	—	<b>508</b>	—
Depreciation and amortization	<b>51</b>	40	<b>102</b>	75
	<b>2,457</b>	1,575	<b>4,341</b>	3,136
Income (loss) before taxes	<b>(939)</b>	(4)	<b>(1,555)</b>	159
Income tax recovery	—	14	—	14
<b>Net income (loss) for the period</b>	<b>(939)</b>	10	<b>(1,555)</b>	173
<b>Loss per share</b>				
Basic and diluted	<b>(0.01)</b>	—	<b>(0.03)</b>	—
<b>Weighted average number of shares outstanding</b> [000's]				
Basic	<b>63,081</b>	36,102	<b>49,894</b>	35,954
Diluted	<b>63,081</b>	37,317	<b>49,894</b>	38,450

See accompanying notes

**Adeptron Technologies Corporation**

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

[unaudited]

[in thousands of dollars, except per share information]

	<b>Three-month period ended June 30</b>		<b>Six-month period ended June 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	\$	\$	\$	\$
<b>Net income (loss) for the period</b>	<b>(939)</b>	<b>10</b>	<b>(1,555)</b>	<b>173</b>
<b>Other comprehensive income (loss)</b>				
Change in foreign currency translation gain on (loss) self-sustaining foreign operations	<b>(17)</b>	<b>(1)</b>	<b>57</b>	<b>(1)</b>
<b>Comprehensive income (loss) for the period</b>	<b>(956)</b>	<b>9</b>	<b>(1,498)</b>	<b>172</b>

*See accompanying notes*

Adeptron Technologies Corporation

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

[unaudited]  
[in thousands of dollars]

	Common shares # (000s)	Common shares \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total shareholders' equity \$
<b>Balance, December 31, 2006</b>	35,804	35,315	918	945	—	(28,881)	8,297
Issuance of shares on acquisition <i>[note 5]</i>	903	217	—	—	—	—	217
Stock-based compensation <i>[note 11[d]]</i>	—	—	124	—	—	—	124
Expiration of warrants <i>[note 11[c]]</i>	—	—	152	(152)	—	—	—
Foreign currency translation loss on self-sustaining foreign operations <i>[note 5]</i>	—	—	—	—	(136)	—	(136)
Cumulative impact of adopting new accounting requirements	—	—	—	—	—	32	32
Net loss for the year	—	—	—	—	—	(6,856)	(6,856)
<b>Balance, December 31, 2007</b>	<b>36,707</b>	<b>35,532</b>	<b>1,194</b>	<b>793</b>	<b>(136)</b>	<b>(35,705)</b>	<b>1,678</b>
Issuance of shares on private placement equity financing, net <i>[notes 5, 10 and 11[b]]</i>	60,000	5,610	—	—	—	—	5,610
Gain on return and cancellation of warrants in conjunction with the settlement of the subordinated debenture <i>[notes 10 and 11[c]]</i>	—	—	447	(744)	—	—	(297)
Stock-based compensation <i>[note 11[d]]</i>	—	—	36	—	—	—	36
Foreign currency translation gain on sustaining foreign operations <i>[note 6]</i>	—	—	—	—	57	—	57
Net loss for the period	—	—	—	—	—	(1,555)	(1,555)
<b>Balance, June 30, 2008</b>	<b>96,707</b>	<b>41,142</b>	<b>1,677</b>	<b>49</b>	<b>(79)</b>	<b>(37,260)</b>	<b>5,529</b>

See accompanying notes

Adeptron Technologies Corporation

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[unaudited]

[in thousands of dollars]

	Three-month period ended June 30		Six-month period ended June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	(939)	10	(1,555)	173
Add (deduct) items not involving cash:				
Depreciation and amortization	301	186	597	339
Non-cash interest expense [note 10]	76	65	152	127
Loss on settlement of the subordinated debenture [note 10]	638	—	638	—
Future income tax recovery	—	(14)	—	(14)
Stock-based compensation [note 11[d]]	32	21	36	52
	108	268	(132)	677
Changes in non-cash working capital balances related to operations:				
Accounts receivable	1,233	43	453	622
Inventories	(605)	471	(2,544)	(890)
Prepaid expenses and deposits	60	(115)	165	(137)
Accounts payable and accrued liabilities	(1,595)	(1,120)	327	(1,024)
<b>Cash used in operating activities</b>	<b>(799)</b>	<b>(453)</b>	<b>(1,731)</b>	<b>(752)</b>
<b>FINANCING ACTIVITIES</b>				
Increase in bank operating loan	627	2,219	1,732	2,451
Repayment of term loan facility	(63)	(63)	(126)	(125)
Repayment of notes payable [note 6]	(94)	—	(94)	—
Decrease in other long-term liabilities	(18)	(1)	(35)	(14)
Repayment of subordinated debenture [note 10]	(5,000)	—	(5,000)	—
Issuance of common shares [net of issuance costs] [notes 5, 10 and 11[b]]	5,610	—	5,610	—
<b>Cash provided by financing activities</b>	<b>1,062</b>	<b>2,155</b>	<b>2,087</b>	<b>2,312</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition [note 6]	—	(1,442)	—	(1,442)
Addition to other assets	(129)	—	(129)	—
Acquisition of property, plant and equipment	(189)	(222)	(331)	(246)
<b>Cash used in investing activities</b>	<b>(318)</b>	<b>(1,664)</b>	<b>(460)</b>	<b>(1,688)</b>
<b>Net increase (decrease) in cash during the period</b>	<b>(55)</b>	<b>38</b>	<b>(104)</b>	<b>(128)</b>
Cash, beginning of period	65	68	114	234
<b>Cash, end of period</b>	<b>10</b>	<b>106</b>	<b>10</b>	<b>106</b>
<b>Supplemental cash flow information</b>				
Interest paid	331	192	588	371
Taxes paid	45	—	59	—

See accompanying notes

**Adeptron Technologies Corporation**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

[unaudited]

[in thousands of dollars, except as noted]

June 30, 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 interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"] for interim financial statements. The disclosures contained in these interim consolidated financial statements do not include all of the requirements of GAAP for annual financial statements. These interim consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2007.

These interim 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 June 30, 2008 and the results of operations and cash flows for the three-month and six-month periods ended June 30, 2008.

These interim 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, except for the changes in accounting policies 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 an accumulated deficit of \$37,260 as at June 30, 2008. Furthermore, as at June 30, 2008, the Company did not comply with certain financial covenants related to the credit agreement with its senior lender. 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 flows 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]

June 30, 2008

On May 22, 2008, the Company completed a private placement equity transaction and \$6,000 worth of common shares of the Company were issued at a price of \$0.10 per share. The proceeds of the equity issuance were used to repay the principal, accrued interest and other fees on the Company's outstanding \$5,000 subordinated debenture, with the balance being added to working capital. During the last half of 2007 and the first and second quarters 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, elimination of the associated interest expense, 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 flows 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 interim 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]

June 30, 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 disclosures of information about the Company's objectives, policies and processes for managing capital have been provided in note 12 of the interim consolidated financial statements for the three-month and six-month periods ended June 30, 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 interim consolidated balance sheets 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-month and six-month periods ended June 30, 2008 and the accompanying notes thereto.

**Adeptron Technologies Corporation**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

[unaudited]

[in thousands of dollars, except as noted]

June 30, 2008

**5. PRIVATE PLACEMENT EQUITY FINANCING**

On May 7, 2008, the Company obtained special shareholder approval to issue 60,000,000 common shares at \$0.10 per share for gross proceeds of \$6,000.

On May 22, 2008, the Company completed a private placement equity financing with a leading EMS provider in Israel for \$6,000 worth of common shares of the Company issued at \$0.10 per share. The net proceeds amount of \$5,610, after financing costs of \$390 incurred were added to share capital during the second quarter.

The net proceeds from the private placement were used to repay the Company's outstanding \$5,000 subordinated debenture together with outstanding interest and other fees with the remaining balance being added to working capital. In connection with the settlement of the subordinated debenture, the 6,851,000 common share purchase warrants held by the subordinated debenture holder were returned to the Company for no further consideration and have been cancelled.

The Company paid \$5,205 to settle the subordinated debentures, outstanding interest, other fees and cancelled the outstanding warrants. This settlement payment of \$5,205 was allocated to the different components based on their relative fair values at May 22, 2008 resulting in a loss on settlement of the subordinated debenture of \$638 which was recorded in the interim consolidated statement of operations. A corresponding gain was booked on the cancellation of the warrants totaling \$447 which has been recorded in contributed surplus.

**6. 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 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.

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During the second quarter ended June 30, 2008, the Company negotiated an amendment to the terms surrounding the first annual installment payment of \$250 due May 31, 2008, whereby \$100 was paid in June 2008, and \$50 is to be paid in each of the following three successive months, and with no additional interest or consideration. The carrying amount of the notes payable as at June 30, 2008, after adjusting for the accretion of interest and the principal payments made to date, was \$631, of which \$395 is shown as the current portion on the interim consolidated balance sheets.

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:

	\$
<b>Net assets acquired:</b>	
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
<b>Fair value of net assets acquired</b>	<u>2,531</u>
	\$
<b>Purchase consideration consists of:</b>	
Cash	1,300
Notes payable	734
Common shares	217
Acquisition costs	280
<b>Total purchase consideration</b>	<u>2,531</u>

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## 7. GOODWILL

A summary of the changes to goodwill is as follows:

	Three-month period ended June 30, 2008 \$	Six-month period ended June 30, 2008 \$	Year ended December 31, 2007 \$
<b>Balance, beginning of period</b>	<b>1,176</b>	<b>1,130</b>	5,531
Acquisition of PCA <i>[note 6]</i>	—	—	1,224
Unrealized translation gain (loss)	(11)	35	(94)
Impairment	—	—	(5,531)
<b>Balance, end of period</b>	<b>1,165</b>	<b>1,165</b>	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.

## 8. 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 of 2008, 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 \$129 related to this which were added to deferred financing costs in the first and second 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.

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As at June 30, 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 interim consolidated balance sheets.

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 interim consolidated balance sheets as deferred financing costs in other assets. These deferred financing costs are being 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 June 30, 2008, the Company's bank operating loan balance of \$4,344 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 and six-month periods ended June 30, 2008 was 5.9% and 6.3%, respectively.

**[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 and six-month periods ended June 30, 2008 was 6.4% and 6.8%, respectively.

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**9. 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 first quarter related to staff and management reductions, of which approximately \$216 is recorded as an accrued liability as at June 30, 2008, and will be paid out over the next 12 months.

During the second quarter ended June 30, 2008, the Company reversed \$42 of expensed severance costs recorded in the first quarter due to additional information. In addition, during the second quarter, the Company incurred an expense of approximately \$200 related to the termination of a consulting arrangement with a former consultant and this amount was fully paid by the end of June 30, 2008 [see note 13].

**10. 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 entitled 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 had a principal amount of \$5,000, a term of 66 months and carried interest at 12% per annum, payable monthly. In addition, beginning on November 1, 2008, the Company was to 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.

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The Company 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 was recorded in the interim consolidated balance sheets as a reduction to the carrying value of the subordinated debenture. These financing costs were amortized using the effective interest rate method over the 66-month term of the subordinated debenture and were included in the interim consolidated statements of operations as interest on long-term debt. The amount allocated to equity was included as a reduction in the warrant value within shareholders' equity. Interest expense on the subordinated debenture, including amortization of the financing costs, was charged to income at the effective rate of 20%.

On May 22, 2008, the subordinated debenture with a carrying value of \$4,065 was paid in full with proceeds from the private placement described in note 5.

**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 June 30, 2008 were 96,707,755 [December 31, 2007 - 36,707,755].

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**[c] Warrants**

	<b>Warrants #</b>	<b>Amount \$</b>
	000's	
<b>Balance, December 31, 2006</b>	8,700	945
Expired unexercised [i]	(1,349)	(152)
<b>Balance, December 31, 2007</b>	7,351	793
Cancelled [ii]	(6,851)	(744)
<b>Balance, June 30, 2008</b>	<b>500</b>	<b>49</b>

[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 10, the Company issued 6,851,000 common share purchase warrants, each of which entitled 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. On May 22, 2008 the 6,851,000 common share purchase warrants were returned to the Company and cancelled upon settlement of the Company's subordinated debenture [note 10] with proceeds from the private placement described in note 5. A total of \$744 was recorded as a reduction to warrants and a corresponding gain of \$447 was recorded in contributed surplus related to the early cancellation of the warrants.

[iii] As part of a private placement resulting in the issuance of 1,000,000 common shares for proceeds of \$200, 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. Subsequent to the second quarter ended June 30, 2008, the Company's shareholders approved an amendment to the Company's Amended and Restated Stock Option Plan to increase the maximum number of common shares reserved for issuance upon the exercise of options from 4,800,000 to 12,600,000 common shares.

Changes in the number of options, with their weighted average exercise prices for the six-month periods ended June 30, 2008 and year ended December 31, 2007, are summarized below:

	<b>2008</b>		<b>2007</b>	
	<b>Number of options [000's]</b>	<b>Weighted average exercise price \$</b>	<b>Number of options [000's]</b>	<b>Weighted average exercise price \$</b>
<b>Outstanding, beginning of period</b>	<b>2,851</b>	<b>0.27</b>	3,240	0.34
Granted	<b>250</b>	<b>0.10</b>	890	0.18
Forfeited/expired	<b>(1,135)</b>	<b>0.29</b>	(1,279)	0.40
<b>Outstanding, end of period</b>	<b>1,966</b>	<b>0.23</b>	2,851	0.27
<b>Options exercisable, end of period</b>	<b>1,966</b>	<b>0.23</b>	2,071	0.29

During the three-month and six-month periods ended June 30, 2008, the Company recorded \$32 [2007 - \$21] and \$36 [2007 - \$52] of stock-based compensation expense. These amounts are included in selling, general and administrative expenses and contributed surplus.

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.

Pursuant to the terms of the Company's Amended and Restated Stock Option Plan, the private placement equity financing and the related issuance of the common shares during the second quarter (see Note 5) was considered a Change of Control as defined therein, and all unvested stock options outstanding as at May 22, 2008 vested immediately and became exercisable.

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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, 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 first quarter ended March 31, 2008, this director resigned and was no longer considered a related party for accounting purposes. During the three-month and six-month periods ended June 30, 2008, the Company paid nil and \$56 [2007 - \$15 and \$35, respectively] 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 interim consolidated financial statements.

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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 June 30, 2008, the Company has recorded a liability of \$12 [December 31, 2007 - asset of \$67] related to purchase contracts and an asset of \$13 [December 31, 2007 - liability of \$183] related to sales contracts. For the three-month and six-month periods ended June 30, 2008, a loss of \$10 and a gain of \$118, respectively [June 30, 2007 - charge of \$35 and \$63, respectively] 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 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.

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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 June 30, 2008 and December 31, 2007, the Company had an allowance for doubtful accounts of \$77 and \$123, respectively.

The following table sets forth details of the age of receivables as at June 30, 2008 that are not overdue as well as an analysis of overdue amounts and related allowance for doubtful accounts:

	<u>2008</u>
	\$
Total accounts receivable	5,949
Less: allowance for doubtful accounts	<u>77</u>
<b>Total accounts receivable, net</b>	<b><u>5,872</u></b>
Of which:	
Not overdue	4,191
Past due more than one day and not more than three months	1,561
Past due more than three months and not more than six months	3
Past due more than six months and not more than one year	136
Past due more than one year	59
Less: allowance for doubtful accounts	<u>(77)</u>
<b>Total accounts receivable, net</b>	<b><u>5,872</u></b>

As at June 30, 2008, the Company's two largest customer accounts receivable balances represented 29% [December 31, 2007 - 35%] of the total accounts receivable balance.

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**[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 June 30, 2008, the Company had loans and receivables of \$5,872 [includes accounts receivable] and financial liabilities of \$12,061 [including 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 term loan facility]. All of the Company's financial liabilities, excluding notes payable, term loan facility, 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 monitoring forecast and actual gross profit and cash flows from operations.

**[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.

**[f] Foreign currency risk**

The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products to customers invoiced in foreign currencies and the purchase of services, raw materials and property and equipment from suppliers invoiced in foreign currencies 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 June 30, 2008, 63% [2007 - 70%] and 56% [2007 - 61%], respectively, are denominated in foreign currencies. During the six-month period ended June 30, 2008, approximately 72% [2007 - 71%] of sales and approximately 22% [2007 - 33%] of expenses were incurred in U.S. dollars.

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**[g] Interest rate risk**

The Company is subject to interest rate risk on its revolving credit and term facilities primarily arising from the floating interest rate. 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.

At June 30, 2008, the revolving credit facility and term facility, which totaled \$4,677, is subject to movements in floating interest rates. A +/-1% change interest rates would, everything else being equal, have an effect on the Company's net loss for the three months and six months ended June 30, 2008 of approximately +/- \$11 and \$19, respectively.

**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 six-month periods ended June 30, 2008 and 2007 are as follows:

	<b>2008</b>	<b>2007</b>
	\$	\$
Canada	<b>12,269</b>	13,757
United States	<b>7,741</b>	6,552
	<b>20,010</b>	20,309

For the six-month period ended June 30, 2008, sales to the Company's two largest customers during the quarter represented 21% [2007 - 37%] of the Company's total sales. The two customers represented 11% [2007 - 25%] and 10% [2007 - 12%] of total sales, respectively.

All of the Company's long-term assets as at June 30, 2008 and December 31, 2007 are located in Canada and the United States as detailed below.

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Property, plant and equipment and other assets as at June 30, 2008 and 2007 are located as follows:

	<b>2008</b>	<b>2007</b>
	\$	\$
Canada	<b>2,413</b>	2,290
United States	<b>1,224</b>	1,524
	<b>3,637</b>	3,814

Goodwill is located as follows:

	<b>2008</b>	<b>2007</b>
	\$	\$
Canada	—	5,531
United States	<b>1,165</b>	1,069
	<b>1,165</b>	6,600

**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. 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 interim consolidated financial statements.

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**17. COMMITMENTS**

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

	<u>\$</u>
2008	463
2009	883
2010	752
2011	468
2012	456
Thereafter	<u>548</u>
	<u>3,570</u>

Excluded from the amounts noted above is \$1,258, representing certain lease costs for the years 2008 to 2011. Offsetting these commitments is \$1,038 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.

During the second quarter ended June 30, 2008, the Company filed its developed and implemented pay equity plan for its operations in Ontario, Canada as required by the Pay Equity Commission of Ontario. The Company has determined that the total amount of retroactive pay equity adjustments required is \$22, and this amount has been included in selling, general and administrative expense for the quarter.