

SIERRA WIRELESS, INC.
AMENDED ANNUAL INFORMATION FORM
for the financial year ended December 31, 2005

Dated: March 23, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F
Amendment No. 1

- REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934
OR
 ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE *SECURITIES EXCHANGE ACT OF 1934*

For the fiscal year ended December 31, 2005
Commission File No.: 0-30718

SIERRA WIRELESS, INC.
(Exact name of Registrant as specified in its charter)

Canada
(Jurisdiction of incorporation or organization)

Primary Standard Industrial Classification Doe (if applicable): 3663

I.R.S. Employer Identification Number (if applicable): 94-3338019

13811 Wireless Way, Richmond
British Columbia, Canada V6V 3A4
(604) 231-1100

(Address and telephone number of principal executive offices)

Davis Wright Tremaine LLP
1300 SW Fifth Avenue, 24th Floor
Portland, OR 97201

(Agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Common Shares
(Title of Class)

Name of exchange on which securities are registered:
Toronto Stock Exchange, The Nasdaq Stock Market

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate by check mark the information filed with this Form:

Annual Information Form Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital common stock as of the close of the period covered by the annual report: **25,476,447 Common Shares without par value as at December 31, 2005**

Indicate by check mark whether the Registrant, by filing the information contained in this Form, is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the *Securities Exchange Act of 1934*. If "yes", is marked, indicate the filing number assigned to the Registrant in connection with such Rule. [] Yes 82 - _____ No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [] No []

EXPLANATORY NOTE

This Amendment No. 1 amends both Exhibits 99.1 and 99.2 by inserting new paragraphs 4 and 5 in each Exhibit. No other information in our annual report on Form 40-F as filed on March 24, 2006 with the SEC is amended hereby, all such information is current as of the date of the Original Filing, and, except for the amendment of Exhibits 99.1, 99.2, 99.3 and 99.4, this Amendment No. 1 does not update the disclosure contained in the Original Filing to reflect events that have occurred since the date of the Original Filing. Accordingly, this Amendment No. 1 should be read in conjunction with our filings made with the SEC subsequent to the filing of the Original Filing.

INCORPORATION BY REFERENCE

The Registrant's Annual Information Form and the Registrant's financial statements for the year ended December 31, 2005 are attached hereto as Appendix A and Appendix B, respectively, and are incorporated by reference herein.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the *Securities Exchange Act of 1934*, as amended, the Registrant certifies that it meets all of the requirements for filing on Form 40-F/A and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

SIERRA WIRELESS, INC.
(Registrant)

"David G. McLennan"
David G. McLennan,
Chief Financial Officer and Secretary

Date: April 12, 2006



Annual Information Form
March 23, 2006

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FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Information Form, or incorporated by reference herein, that are not based on historical facts, constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws (“forward-looking statements”). These forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance, achievements or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements. Forward-looking statements include all disclosure regarding possible events, conditions, circumstances or results of operations that are based on assumptions about future economic conditions, courses of action and other future events. We caution you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. These forward-looking statements appear in a number of different places in this Annual Information Form and can be identified by words such as “may”, “estimates”, “projects”, “expects”, “intends”, “believes”, “plans”, “anticipates”, or their negatives or other comparable words. Forward-looking statements include statements regarding the outlook for our future operations, plans and timing for the introduction or enhancement of our services and products, statements concerning strategies, developments, statements about future market conditions, supply conditions, end customer demand conditions, channel inventory and sell through, revenue, gross margin, operating expenses, profits, forecasts of future costs and expenditures, the outcome of legal proceedings, and other expectations, intentions and plans that are not historical fact. The risk factors and uncertainties that may affect our actual results, performance, achievements or developments are many and include, amongst others, our ability to develop, manufacture, supply and market new products that we do not produce today that meet the needs of customers and gain commercial acceptance, our reliance on the deployment of next generation networks by major wireless operators, the continuous commitment of our customers, increased competition and other risks detailed herein under the heading “*Risk Factors*”. Many of these factors and uncertainties are beyond the control of the Company. Consequently, all forward-looking statements in this Annual Information Form, or the documents incorporated by reference herein, are qualified by this cautionary statement and there can be no assurance that actual results, performance, achievements or developments anticipated by the Company will be realized. Forward-looking statements are based on management’s current plans, estimates, projections, beliefs and opinions and the Company does not undertake any obligation to update forward-looking statements should the assumptions related to these plans, estimates, projections, beliefs and opinions change.

CURRENCY

Unless otherwise indicated, all figures are stated in U.S. dollars.

CORPORATE STRUCTURE

Unless the context otherwise indicates, references to “we”, “our”, “us”, “the Company” or “Sierra Wireless” in this Annual Information Form means Sierra Wireless, Inc. and its subsidiaries.

Sierra Wireless was incorporated under the *Canada Business Corporations Act* on May 31, 1993. The Articles of Sierra Wireless were amended by a Certificate of Amendment issued March 29, 1999 to remove the private company provisions and restrictions on share transfer. The Articles of the Company were further amended by Certificates of Amendment issued May 13, 1999 and May 14, 1999 to: (i) re-designate and change all existing common shares in the capital of the Company to new common shares in the capital of the Company (the “Common Shares”); (ii) change the rights attached to all preference shares in the capital of the Company (the “Preference Shares”) and to remove each existing series of

Preference Shares; and (iii) consolidate the Common Shares on the basis of one post-consolidation Common Share for 1.5 pre-consolidation Common Shares.

The Company's registered and records office is located at Suite 2600, Three Bentall Centre, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3 and its head office and principal place of business is located at 13811 Wireless Way, Richmond, British Columbia, Canada, V6V 3A4.

The following table lists subsidiaries of Sierra Wireless and their jurisdictions of incorporation or organization. All such entities are 100% owned, directly or indirectly, by Sierra Wireless.

Name	Jurisdiction of Incorporation or Organization
Sierra Wireless America, Inc.	Delaware, U.S.A.
Sierra Wireless (UK) Limited	United Kingdom
Sierra Wireless (Asia-Pacific) Limited	Hong Kong

GENERAL DEVELOPMENT OF THE BUSINESS

General

We provide leading edge wireless wide-area modem solutions for mobile computing over cellular networks. We develop and market a broad range of products that include wireless modems for mobile computers, embedded modules for original equipment manufacturers, or OEMs, and rugged vehicle-mounted modems. Our products permit users to access wireless data and voice communications networks using laptop computers, handheld mobile computing devices, or vehicle-based systems.

Wireless data communications is an expanding market positioned at the convergence of wireless communications, mobile computing and the Internet, each of which we believe represents a growing market. Our products are based on open standards, including the Internet protocol, and operate on the networks of major wireless operators around the world.

Our products are primarily used by businesses and government organizations to enable their employees to access a wide range of applications, including the Internet, e-mail, corporate intranet, remote databases and computer aided dispatch. We sell our products worldwide, with emphasis on the North American, European and Asia-Pacific regions, through indirect channels, including wireless operators, resellers and OEMs.

During the latter part of 2003 and throughout 2004, we experienced stronger than expected demand for our products, primarily as a result of our strong market position in CDMA EV-DO Release 0 PC cards and our CDMA 1X embedded module sales to palmOne. During this period, customer concentration increased in our revenue base. Following our considerable revenue and earnings growth in 2004, we experienced a significant reduction in our business in 2005 relative to 2004 as a result of:

- The reduction in our embedded module business volumes as a result of the completion of CDMA 1X module shipments to palmOne for its Treo 600 Smartphone at the end of 2004;

- Reported channel inventory at some of our channel partners that was already sufficient to meet near-term customer demand during the first quarter of 2005; and
- The near-term impact of increased competition in CDMA EV-DO and EDGE PC cards, including a loss of market share at Verizon Wireless.

In order to address this change in our business, we undertook a restructuring of our operations in June 2005, which included exiting our Voq professional phone initiative. The result of this restructuring was a reduction in our cost structure and a greater focus on our core PC card and embedded modules business, where we already have well-established market positions and believe there are significant growth opportunities.

Since the mid-year restructuring, we have focused on core PC Card and embedded module opportunities for existing products, as well as new product development and business development in these areas. This focus has allowed us to return to sequential quarterly revenue growth during the second half of fiscal 2005, realizing 25% and 37% sequential growth in the third and fourth quarters respectively. Following the restructuring, we were also able to reduce our net loss and improve cash flow during the second half of 2005.

During 2006, we expect to continue to invest in our research and development efforts to ensure that we are well-positioned with new products that will take advantage of market opportunities associated with the deployment of 3G networks. See “Narrative Description of Business - Our Products” for discussion of specific product development initiatives.

Three Year History

Fiscal 2005

- We began commercial shipments of four new products – the UMTS/HSDPA AirCard 860 and AirCard 850 for North America and Europe, respectively; the MC5720 PCI express Mini Card embedded module (“Mini Card”) for CDMA 1xEV-DO networks; and the EM5625, an embedded module for CDMA 1xEV-DO networks.
- We commenced commercial shipments of the AirCard 860 and AirCard 850 to Cingular in North America, as well as Manx Telecom and sunrise in Europe, making us the first company in the world to launch a fully functional UMTS/HSDPA PC card.
- We announced OEM design wins with Lenovo and Hewlett-Packard (“HP”) for our MC5720 PCI express Mini Card embedded module for EV-DO networks and commenced commercial shipments of our EV-DO Mini Card to Lenovo in the fourth quarter of 2005. Our MC5720 is the world’s first 3G wireless minicard module for laptop OEMs. Early in the first quarter of 2006, HP announced the availability of their first laptop incorporating our MC5720 Mini Card. Our MC5720 Mini Card has been certified for operation on both the Sprint and Verizon EV-DO networks.
- We launched the EM5625, an embedded module for CDMA 1xEV-DO networks, and it was subsequently selected by Panasonic®, @Road, Itronix, MobileAria, a subsidiary of Delphi Corporation, and AirLink for integration into their products.
- We reported that the MC8755 and MC8765 PCI Express Mini Card for UMTS/HSDPA networks in North America and Europe, respectively, were available to OEM customers for testing and

integration, with commercial shipments expected to begin late in the first quarter of 2006. In 2005, we secured designs win for our HSDPA Mini Cards with Lenovo and Fujitsu-Siemens Computers.

- We also reported that we have commenced the development of the next generation EV-DO (Rev A) and HSDPA (3.6Mps) PC cards and Mini Cards, all of which are expected to be commercially available in the second half of 2006.
- We initiated development of two new next generation versions of our MP product, one for EV-DO (Rev A) and one for HSDPA, that we expect to launch later in 2006.
- We announced the availability of the AirCard 775 wireless wide-area network card from Bouygues Telecom in France and from Guangdong Mobile Communications Corporation in Guangdong province, China. In addition, we signed a distribution agreement with Leaf Wireless (Pty) Ltd. to distribute the AirCard 775 in South Africa and surrounding regions.
- In October 2005, Jason Cohenour, previously our COO, was named as our President and CEO. Mr. Cohenour succeeded David Sutcliffe, who has served as the Company's CEO since 1995 and who had announced his intention to retire earlier in the year. Mr. Sutcliffe, at the request of the Board of Directors, continues to serve the company in a non-management capacity as a member of the Board.
- We undertook a restructuring of our operations in June of 2005, which included exiting our Voq professional phone initiative. The result of this restructuring was a reduction in our cost structure and a greater focus on our core PC card and embedded modules business.

Fiscal 2004

- We began commercial shipments of six new products – the Voq professional phone, the Sierra Wireless AirCard 580 for CDMA 1X EV-DO networks, the AirCard 555R for CDMA networks in Asia, the MP555 for CDMA 1X, the MP775 for EDGE networks and the AirCard 775 For EDGE networks.
- We announced distribution agreements for our CDMA embedded modules with Premier Wireless Solutions and for our CDMA PC cards with Tirumala Seven Hills Pvt Ltd in India and Beijing Putian Taili Telecom in China. We also announced supply agreements with Audiovox Communications Corporation for additional supply of our PC5220 EV-DO PC card and with Symbol Technologies and Verifone for our EM3420 CDMA 1X embedded modules and we completed shipments of this embedded module product to palmOne at the end of the year.
- We announced the availability of the PC3300 and the MP 555 GPS rugged wireless modem on the Sprint Nationwide PCS Network.
- We announced the availability of the Sierra Wireless AirCard 775 and the MP 775 GPS rugged wireless modem on the Cingular Wireless EDGE network. We also announced the availability of the Sierra Wireless AirCard 750 for customers in the United Kingdom and in India.
- We signed a distribution agreement with Onda Communication Spa for our EDGE/GPRS N775 PC card.

- We announced the commercial availability of the Voq professional phone in the Netherlands, Belgium, Luxembourg, Turkey, Austria, Germany, Switzerland, the Nordics, the United Kingdom, Italy, France and Spain.
- In North America, we announced the commercial availability of the Voq professional phone from Brightpoint, Cellstar, members of Intel's Product Dealer Program, Insight, MobilePlanet, RCS Computer Experience and USA.NET.

Fiscal 2003

- On August 12, 2003, we announced the completion of our acquisition of AirPrime, Inc. ("AirPrime"), a privately-held supplier of high-speed wireless data communications products. Under the terms of the acquisition, we issued 3,708,521 of our common shares to the shareholders of AirPrime. The acquisition provided us with additional knowledge and expertise in CDMA technology as well as a staff of over 70 research and development, engineering, product marketing, manufacturing and technical sales professionals and enabled us to offer a broader product line of wireless data communications products to a wider range of customers and also strengthens our engineering team to develop new products.
- In October 2003, we announced plans to introduce our Voq line of professional wireless cellular phones and value-added software to deliver a converged mobile telephony and e-mail solution, commonly referred to as a Smartphone, targeted at business users. Our new Voq phones are based on Microsoft Windows Mobile™ software for Smartphones and feature both a familiar cellular phone keypad and a unique flip-open QWERTY thumbpad. The first Voq-branded phone was made commercially available in the second quarter of 2004 in certain countries.
- In November 2003, we completed a new issue and secondary offering of 4,600,000 Common Shares, resulting in net proceeds of \$67,400,000. Of the 4,600,000 Common Shares sold under this offering, 4,442,222 Common Shares were offered by the Company and 157,778 were offered by certain shareholders of the Company.
- We developed products for the new and expanding CDMA 1xEV-DO networks. Our PC 5220 PC Card for the Verizon Wireless CDMA 1xEV-DO network started commercially shipping in the third quarter of 2003. Our second CDMA 1xEV-DO product, the Sierra Wireless AirCard 580, began shipping commercially in the first quarter of 2004.
- We transferred global fulfillment and certain CDMA product manufacturing to Flextronics. By using their fully integrated supply chain services, we have reduced product costs, improved alignment with our international customer base and achieved operating efficiencies and scalability.

Industry Background and Future Trends

Wireless Data Growth

We provide a broad range of products including wireless modems for mobile computers and embedded modules for laptop OEM wireless applications. We believe that our growth potential is tied, in part, to the projected growth of the laptop PC market and to the evolution of wireless networks. In a 2005 report, research firm Gartner forecasted worldwide shipments of new laptop PCs would increase from approximately 62 million units in 2005 to 123 million units in 2009. Additionally, in a 2005 report, ABI Research forecasted that worldwide shipments of wireless modems (PC cards) for mobile computers

would increase from approximately 3.0 million units in 2005 to 9.7 million units in 2009. In-Stat/MDR forecasted that worldwide shipments of embedded modules for OEMs would increase from approximately 0.5 million units in 2005 to 7.3 million units in 2009. Cellular network technologies such as Enhanced Data over GPRS Evolution (EDGE), CDMA 1x EV-DO, Universal Mobile Telecommunications System (UMTS), and High Speed Downlink Packet Access (HSDPA) upgrades, are expected to support much of this growth.

To date, demand for wireless data has come primarily from corporations, public organizations and individuals seeking to improve customer service and productivity. Increased coverage and speeds, significant technological improvements to wireless data networks, devices and software, and price reductions for data communications services have also contributed to growth in the wireless data communications industry. The ability to meet the demand for anytime, anyplace communications is made possible by the convergence of trends in mobile computing, the growth of the Internet, and wireless communications. Gartner forecasts that by 2007, 65% of Fortune 2000 companies will support wireless wide-area wireless data access.

Mobile Computing. Mobile PCs are now mainstream. Many business professionals utilize laptops as their primary computing device giving them the mobility required to work anywhere. Smaller handheld computers or PDAs continue to be popular, as are newer mobile phones that offer more advanced capabilities, such as access to personal information, Internet and e-mail. Mobile PCs and handheld devices continue to be the leading devices that are accessing wireless data.

The Internet. The Internet has become an indispensable tool for many business professionals, and the volume of Internet traffic has grown rapidly as new applications and e-commerce have become widely adopted. Wireline telecommunications carriers continue to make significant investments in Internet protocol-based networks to handle the expected growth in the volume of data traffic.

Wireless Communications. While wireline communications networks were historically dominated by voice traffic, data now comprises more than half of the traffic on these networks. A similar evolution is now occurring on wireless networks as wireless service providers address the growing demand for data communications with additional technical and commercial offerings.

Existing and Emerging Cellular and PCS Technology Standards

Data communications over cellular networks is currently supported by various digital technologies, such as CDMA 1X, CDMA 1x EV-DO, Global System for Mobile (GSM), Generalized Packet Radio Service (GPRS), EDGE, UMTS and HSDPA.

CDMA is a digital technology that significantly improves the capacity and quality of both voice and data communications and supports a broader range of applications, including voice, wireless Internet and multimedia. Initially, second generation CDMA offered increased data rate capabilities of 14.4 kbps. In 2001, North American CDMA carriers, including Sprint PCS and Verizon Wireless, began deploying a 2.5G CDMA solution called CDMA 1X. Other CDMA carriers undertook similar efforts in Asia, Latin America and the Middle East. CDMA 1X supports faster wireless data transfers, typically ranging from 40 to 60 kbps, with a top nominal speed as currently deployed of 153 kbps. In 2004, deployments or expansions of EV-DO Release 0 service, the next generation (3G) CDMA technology were underway with Verizon Wireless and other carriers in North America and Asia Pacific. Sprint also started rolling out the same technology in 2005. EV-DO supports wireless data speeds, typically ranging from 400 to 700 kbps, an experience similar to wired broadband connections. We expect that future deployment of CDMA EV-DO Rev A commercial service, the next generation of EV-DO, will further increase awareness and expand the market for wireless data products and services.

Leading GSM carriers in North America, Europe and Asia also began shifting from first generation technology to 2G GPRS in 2001. Like 2G CDMA, GPRS improves the capacity and quality of data communications and supports a broader range of applications including wireless Internet and multimedia. GPRS offers data speed capabilities ranging from 20 to 40 kbps with a top nominal speed of 56kbps.

Third generation, or 3G, systems have been developed and launched to replace and/or complement second generation and 2.5G digital cellular systems. In 2003, AT&T Wireless and Cingular began rolling out their EDGE networks in the U.S. EDGE offers significant increases in data rates ranging from 100 to 130 kbps, with burst speeds up to 200 kbps. In 2004, UMTS rolled out, especially in Europe, allowing GSM operators to offer average data speeds of 220-320 kbps to their customers.

In late 2005, the first networks to upgrade to High Speed Downlink Packet Access (HSDPA), were Cingular Wireless in North America and Manx Telecom in the United Kingdom (an O2 subsidiary) demonstrating speeds between 500-700kbps with maximum speeds up to 1.8Mbps. Cingular has launched HSDPA into 18 metropolitan markets as of early 2006 with the intention to expand in the U.S. throughout 2006.

NARRATIVE DESCRIPTION OF THE BUSINESS

Our Solution

We provide leading edge wireless wide-area modem solutions for mobile computing over cellular networks. We develop and market a broad range of products that include wireless modems for mobile computers, embedded modules for OEMs and rugged vehicle-mounted modems. Our products permit users to access wireless data and voice communications networks using laptop computers, handheld mobile computing devices, or vehicle-based systems.

Our Products

Our current product line of wireless modem solutions includes wide-area wireless PC cards, embedded modules for OEM computers and other devices, vehicle-mounted modems and enabling software. We have a number of new products under development within these product lines.

Sierra Wireless PC Cards and Embedded Modules

PC Cards: We have successfully completed the development of our first UMTS/HSDPA PC card and during the fourth quarter commenced commercial shipments of this product to Cingular in North America, as well as Manx Telecom and sunrise in Europe, making us the first company in the world to launch a fully functional UMTS/HSDPA PC card. We have also commenced the development of next generation EV-DO (Rev A) and HSDPA (3.6Mbps) PC cards, both of which are expected to be commercially available in the second half of 2006.

Embedded Modules: With the announcement by several leading laptop manufacturers of their plans to embed high speed wireless wide-area capability inside laptops, we believe that the opportunity for sales of embedded modules has potentially increased significantly. We believe we are well positioned to benefit from this emerging opportunity as a result of our extensive experience in the embedded module market. We believe we have established an early leadership position providing embedded 3G wireless solutions to major laptop OEMs. Our EV-DO PCI Mini Card has been certified for operation on both the Sprint and Verizon networks. We have design wins with Lenovo and HP for our EV-DO Mini Card. We commenced commercial shipments to Lenovo in the fourth quarter of 2005, representing the first commercial deployment of an embedded 3G wireless minicard by any laptop manufacturer. Lenovo has

subsequently announced the integration of this Mini Card in two additional business laptops. Early in the first quarter of 2006, HP announced the availability of their first laptop incorporating our EV-DO Mini Card. We have also secured design wins with Lenovo and Fujitsu-Siemens Computers for our HSDPA Mini Cards and we expect commercial shipments of our HSDPA Mini Card to commence late in the first quarter of 2006. Also during 2005, we commenced shipment in North America of our EM5625 EV-DO module to some of our long-time mobile computing OEM customers. One of these OEM customers, Panasonic, has subsequently integrated our EM5625 module into three of its laptop platforms. We have also commenced the development of the next generation EV-DO (Rev A) and HSDPA (3.6Mps) Mini Cards, both of which are expected to be commercially available in the second half of 2006.

The following table outlines our current product offerings for wireless wide-area network PC cards and embedded modules:

<u>Product Type</u>	<u>Product Class</u>	<u>Description</u>	<u>Products</u>	<u>Compatible Network/Territory</u>
Wireless Network Cards	AirCard® 700 Series	Wide-area wireless network interface cards, or NICs, providing local area network, or LAN-like connectivity for computer users on the GSM/GPRS/EDGE networks. Using these modems, mobile computer users have full access to e-mail, intranet, corporate applications and full Web browsing where network service is available.	AirCard 775	Quad-band for EDGE networks worldwide
	AirCard® 800 Series	Wide-area wireless NICs providing local area network, or LAN-like connectivity for computer users on HSDPA/UMTS/EDGE/GPRS networks. Mobile users have access to e-mail, intranet, corporate applications and full Web browsing where network service is available at increased speeds.	AirCard 860	Type II PC card for use on networks supporting UMTS in the 850 and 1900 MHz frequency bands. Primary territory is North America.
			AirCard 850	Type II PC card for use on networks supporting UMTS in the 2100 MHz frequency band. Primary territory is Europe.
AirCard® 500 Series	Wide-area wireless NICs, providing LAN-like connectivity for computer users on the CDMA 1X and CDMA EV-DO networks.	AirCard 580	Dual-band CDMA2000 1X EV-DO networks. Territories are North America and Asia.	
Embedded Modules	EM Embedded Modules	Embedded modules deliver wireless data and voice connectivity that OEMs integrate into products ranging from handheld computers, PDAs, laptops, Smartphones and mobile terminals, to fixed terminals including industrial meters, and monitoring equipment.	EM3420	Dual-band CDMA2000 1X. Territories are North America and Asia.
			EM5625	Dual-band CDMA 1X EV-DO. Territories are North America and Asia.

<u>Product Type</u>	<u>Product Class</u>	<u>Description</u>	<u>Products</u>	<u>Compatible Network/Territory</u>
	MC8700 Series PCI Express Mini Cards	Embedded 3G wireless modules based on the PCI Express Mini Card form factor and interface specification. The MC87XX series delivers HSDPA/UMTS/EDGE/GPRS wireless voice and data capability to laptop OEMs and other manufacturers.	MC8765 MC8755	HSDPA and UMTS supported in the 850 and 190 frequency bands. Compatible with EDGE and GSM/GPRS networks on all four GSM frequency bands (850, 900, 1800, and 1900 MHz) HSDPA compatible with EDGE and GSM/GPRS networks on all four GSM frequency bands (850, 900, 1800, and 1900 MHz)
	MC5700 Series PCI Express Mini Cards	Embedded 3G wireless modules based on the PCI Express Mini Card form factor and interface specification. The MC5700 series delivers CDMA 1X EV-DO wireless voice and data capability to laptop OEMs and other manufacturers.	MC5720	CDMA 1X EV-DO

Sierra Wireless MP Modem Product Line

The Sierra Wireless MP product line consists of a group of rugged, high powered, vehicle-mounted modems, including the MP555 GPS and MP775 GPS. Generally, these products are mounted in a vehicle and are physically connected to a computer or data terminal. The Sierra Wireless MP product line is designed to operate in harsh conditions, including extremes of temperature, humidity, vibration and vehicle ignition noise. Our MP products come with fully integrated global positioning system, or GPS, capability as a standard feature. The MP775 GPS operates on high-speed EDGE, GPRS and GSM networks worldwide while the MP555 GPS operates on CDMA 1X networks in North America and Asia. We have initiated development of two new next generation versions of our MP product, one for EV-DO and one for HSDPA, which we expect to launch later in 2006. Common applications for Sierra Wireless MP products include:

- Police officers looking up license plate numbers, checking criminal databases, communicating with the dispatcher and other officers and filing service reports from a patrol car; and
- Utility field service technicians receiving dispatch instructions, consulting service instructions and diagrams, filing reports and time sheets.

Enabling Software

Our line of software allows our modems and devices to work with laptop and handheld computers and other devices:

- *Sierra Wireless Watcher™ Software* is a graphical user interface designed for everyday use with our modems. While the modem is in use, the Watcher program provides ongoing information on registration status and signal strength and allows the user to switch operating modes where applicable. Sierra Wireless Watcher supports all major PC and handheld operating systems.
- *Developer’s Central, including Sierra Wireless Software Development Kits*, provide tools and information that support developers in their integration of Sierra Wireless products into applications. Using these tools, developers can include important modem status information into their own user interface. This level of integration supports easy-to-use, complete bundled solutions.
- *MP Modem Manager* is a feature-rich, web based diagnostic software management tool allowing network administrators access to remote monitoring and configuration of a fleet of MP modems (GPRS, CDMA 1X, and EDGE).

Product Revenue

Our revenue by product for the years ended December 31 for each of 2004 and 2005 is as follows:

	<u>2004</u>	<u>2005</u>
PC Card	59%	70%
Embedded modules	33	13
Mobile.....	5	13
Other	3	4
	<u>100%</u>	<u>100%</u>

Future Products

We continually evaluate and develop new products and technologies that will allow us to take advantage of the ever expanding and dynamic wireless market. Emerging wireless standards that are areas of significant new product development interest for us include:

- **HSDPA:** Next generation 3.6Mbps HSDPA is an upgrade from 1.8Mbps HSDPA capability and is designed to offer transmission of text, digitized voice, video and multimedia at broadband speeds. Once fully implemented, it will allow customers to remain attached to the Internet at speeds of up to 3.6Mbps while on the move. HSDPA is an evolutionary path for GSM/GPRS, TDMA, EDGE and UMTS networks. Our plan is to introduce new products during 2006 that support the new, higher speed, HSDPA airlink. We expect to launch our 3.6Mbps HSDPA PC card and Mini Card in the second half of 2006. In addition, we expect to launch a 1.8Mbps HSDPA version of our MP product in the second half of 2006.
- **EV-DO:** As EV-DO deployments continue, newer upgrades are being developed to enhance the capabilities and experience for end-users. New capabilities will allow for improved video and multimedia transmissions while on the move. CDMA 1X EV-DO Release 0 is an evolutionary path for CDMA IA95 and CDMA 1X networks. EV-DO Release A brings significant uplink and downlink speed advantages to EV-DO Release 0. We have established a strong market position in EV-DO Release 0 PC cards and Mini Cards over the past 36 months. We intend to enhance our position by accelerating the introduction of EV-DO Release A devices. We expect to launch our EV-DO Release A PC cards and Mini Cards in the second half of 2006. In addition, we

expect to launch a CDMA 1X EV-DO Release A version of our MP product in the second half of 2006.

Product Development

We have built a reputation in the wireless data industry for creating state-of-the-art, high-quality products within aggressive timeframes. Our development team of approximately 141 staff, located in Richmond, BC and in Carlsbad, CA, are skilled in the areas of radio frequency, hardware, embedded software, windows software and mechanical design. Combined, this team has several hundred person years of experience in the design of small form factor wireless data and voice devices. Our product development team combines leaders with extensive experience in their fields, with younger graduates from leading universities.

We take a “core team” approach to product development. Our goal is develop a “whole” product and to ensure products are managed closely throughout their entire life cycle. As part of this approach, individuals from our product development group form product-specific teams with employees from other functional areas, including product management, operations, technical support and quality. These teams work closely to bring new products through the development phase, while balancing the market requirements of performance, time to market and product cost. Concepts and prototypes are validated by working with lead customers, channel partners and industry consultants.

Products that result from this process are designed and tested to cellular industry standards and introduced to our high-volume contract manufacturing partners for production and delivery to our customers. Included in the development effort is the certification of our products with industry and regulatory standards bodies.

A group of senior engineers develops and monitors our development standards. These standards are applied across all development projects to ensure uniformity. For example, we have adopted a core - wireless engine design approach to leverage development efforts across multiple different products. This is also intended to help our customers to utilize our different products with moderate additional integration effort on their part.

Our product development staff stays current in technology by participating in industry groups such as the Personal Computer Communications Association (PCCA), the Cellular Telecommunications Industry Association (CTIA), the Mobile Advisory Council (MAC), the USB Forum, the PCI Special Interest Group (PCI-SIG), the European Telecommunications Standards Institute (ETSI), the PCS Type Certification Review Board (PTCRB), the Third Generation Partnership Project (3GPP), the Third Generation Partnership Project 2 (3GPP2) and the International Wireless Packaging Consortium, and through ongoing technical education. We maintain close relationships with local universities by hiring co-op students, giving lectures, supporting visiting professorships and participating in regular informal meetings with faculty members.

Distribution

Our products are used by a variety of end-users, ranging from sales people and mobile executives, to police officers and utility workers. We have built a distribution channel that responds to the unique purchasing and usage requirements of our customer base. Historically, a substantial majority of our sales have come from North American markets. As our wireless technology platforms have diversified, we have built sales and distribution teams to focus on developing our business outside of North America. Currently, we have dedicated sales and distribution teams for the European, Asia-Pacific and North

American regions. Our approach to distribution takes advantage of our existing relationships with wireless operators, resellers and OEMs in order to maximize the productivity of our sales team.

Wireless Operators

Wireless operators play two key roles in our distribution strategy. First, wireless operators are often resellers for us, purchasing our products and then reselling them to end-user customers. Second, the wireless operator sales team often works with our sales team to jointly sell wireless solutions and our equipment to the end-user customers. The wireless operator channel provides us with extended customer reach, while the operators are able to leverage our wireless data expertise to help sell their products and services. We have invested a great deal of time and resources in cultivating our relationships with wireless operators and view these relationships as a critical success factor.

Resellers

Resellers purchase our products either directly from us or from a distributor and resell them to end-user customers. In order to support resellers who prefer to purchase through a distributor, we have selectively formed distribution relationships. Distributors ensure that our products are available to a large number of resellers that buy products.

Resellers generally combine our products with other elements of an overall solution, such as computer hardware, application software and bundled communication services and deliver a complete solution to the end-user customer. Resellers include computer resellers, wide-area network resellers, application developers and system integrators.

Original Equipment Manufacturers

Original equipment manufacturers represent companies that integrate our modem technology into devices they manufacture and sell to end-user customers through their own direct sales force and indirect distribution channels. Our modems have been integrated into a range of devices, such as industrial handheld computers, PDAs, Smartphones and laptop computers.

Professional Services

We also offer professional engineering services to OEM customers, leveraging our expertise in wireless design and integration to provide built-in wireless connectivity for laptop computers and other mobile computing devices.

Customer Support

We provide customers, wireless operators and other channel partners with product and technical support in several languages using telephone, e-mail and our Web site. Online resources include product documentation, technical specifications, frequently asked questions, application notes, troubleshooting notes, troubleshooting tools, and software downloads.

Marketing

Our marketing team is responsible for providing product management, strategic marketing and marketing communications for our products on an increasingly global basis. Members of the product management team play an active role in our core team approach to developing and managing individual products through their entire product life cycle. Emphasis is placed on understanding customer needs,

developing the business case, determining competitive positioning and pricing, and ensuring product completeness, which includes documentation, promotional material and marketing programs.

Strategic Marketing/Marketing Communications

We communicate our corporate and product positioning to channels and customers in our global markets in several ways, including:

- Actively seeking editorial coverage and placing advertisements in industry, business and trade publications;
- Actively participating in industry associations;
- By meeting with opinion leaders and industry analysts; and
- Participating in targeted conferences and trade shows.

We work with our channel partners to develop programs to encourage end-user customer adoption. Through marketing strategies including market analysis, branding, design, packaging and promotions, we execute and launch products into the marketplace to complement customer launch timelines.

Manufacturing

We outsource most of our manufacturing services, including parts procurement, kitting, assembly and repair. We believe that outsourcing allows us to:

- Focus on our core competencies, including research and development, sales and marketing;
- Participate in contract manufacturer economies of scale;
- Access high quality, lower cost manufacturing resources;
- Achieve rapid production scalability; and
- Reduce equipment capital costs and equipment obsolescence risk.

In addition, we perform certain manufacturing related functions in-house, including manufacturing engineering, and development of manufacturing test procedures and fixtures.

Our products are currently manufactured by Flextronics and Creation Technologies. We use Flextronics as our primary contract manufacturer and logistics partner to provide an end-to-end supply chain solution. This includes design support, procurement, low cost manufacturing and repair in China and global fulfillment services from Memphis, Tennessee. By using its fully integrated supply chain services, we expect to optimize product costs, improve alignment with our increasingly international customer base and achieve increased operating efficiencies and scalability. We expect that Creation Technologies in Canada will continue to assemble our lower unit volume products.

Employees

As of December 31, 2005 we had a total of 224 full time employees, 131 of whom are at our head office in Richmond, B.C., with the balance being located across the United States, Canada, Europe and Asia. Of the 224 employees, 123 are involved in product development, 32 are involved in manufacturing, 24 are sales and support personnel, 16 are marketing personnel, and 29 are in finance and administration. Employees have access to corporate-funded ongoing training and professional development opportunities, both on-the-job and through outside educational programs. Cash compensation, our employee stock

option plan, our employee stock purchase plan and our retirement plan contribution program are complemented by internal recognition programs and career advancement opportunities. We believe our relationships with our employees are positive.

We have entered into non-disclosure agreements and confidentiality agreements with key management personnel and with substantially all of our employees.

Competition

Wireless data technologies are converging toward standardizing on a few key cellular technologies. Cellular handsets are becoming 'smart' with increased data functionalities, PDAs are becoming wireless through the integration of embedded wireless capability, and laptop OEMs are beginning to embed wireless wide area network capability into their laptops. With the advent of new cellular technologies such as CDMA 1xEV-DO, EDGE, UMTS and HSDPA, new competitors are emerging.

CDMA: Sierra Wireless is well established in the CDMA PC Cards, embedded modules and mobile in-vehicle solutions markets. CDMA competition, both announced and actual, includes Novatel Wireless, Curitel, Kyocera Wireless, Sony Ericsson, ZTE and Wavecom. Sierra Wireless maintains its market leadership position in mobile in-vehicle solutions against competitors such as AirLink and Bluetree Wireless.

GSM: Sierra Wireless is well established in the GPRS/EDGE/UMTS/HSDPA PC cards embedded modules and mobile in-vehicle solutions markets. In these technologies, we face competition, both announced and actual, from Option NV, Novatel Wireless, Huawei, Siemens, Sony Ericsson and Blue Tree Wireless.

We believe that by focusing on wireless operators, OEMS, business and government customers and by providing products that are superior in quality, functionality, time to market and value, together with excellent customer service and superior distribution partner relationships and programs, we will be successful in our target markets.

Intellectual Property

We protect our intellectual property through a combination of patent protection, copyright, trademarks, trade secrets, licenses, non-disclosure agreements and contractual provisions. We enter into a non-disclosure and confidentiality agreement with each of our employees, consultants and third parties that have access to our proprietary technology. Pursuant to assignment of inventions agreements, all of our employees and consultants assign all intellectual property rights in the inventions created during such person's employment or contract with Sierra Wireless to Sierra Wireless.

We currently hold 45 United States patents and 65 international patents. Additional patent applications are pending. When we consider it to be advantageous, we utilize our intellectual property portfolio and access the intellectual property of third parties by entering into commercial licenses and cross-licenses.

Governmental Regulation

Our products are subject to certain mandatory regulatory approvals in the United States, Canada, the European Union (EU) and other regions in which we operate. In the United States, the Federal

Communications Commission regulates many aspects of communications devices, including radiation of electromagnetic energy, biological safety and rules for devices to be connected to the telephone network. In Canada, similar regulations are administered by the Ministry of Industry, through Industry Canada. European Union directives provide the comparable regulatory guidance in Europe.

Wireless modems must be approved under these regulations by the relevant government authority prior to these products being offered for sale. We have obtained all necessary Federal Communications Commission, Industry Canada, European Union and other required regulatory approvals for the products we currently sell.

Additional Information Concerning Our Business

Sierra Wireless's operations do not have a significant impact upon the environment. We have not made, and are not required to make, any significant capital expenditures to comply with environmental regulations. Working with the contract manufacturers who make our products and relevant component suppliers, we intend to ensure that our products that are sold in the EU comply with the EU directives that restrict the use of certain hazardous substances in electronic equipment sold in the EU after July 1, 2006.

Risk Factors

Our business is subject to significant risks and past performance is no guarantee of future performance. Some of the risks we face are:

We have incurred net losses and if our efforts to restore the business to profitability are not successful, we may be required to further restructure or take other actions and our share price may decline.

As a result of the reduction in our business in 2005, we incurred a loss of \$36.5 million in the year. Our accumulated deficit at December 31, 2005 was \$82.9 million. While we had earnings from operations for each of the previous two years ended December 31, 2004 and 2003, we incurred a loss from operations in each of the three fiscal years ended December 31, 2000, 2001 and 2002.

Our ability to achieve and maintain profitability in the future will depend on, among other things, the success of our restructuring, the continued sales of our current products and the successful development and commercialization of new products. If we do not return to profitability, our total losses will increase and we may be required to further restructure our operations or raise additional capital. Additional financing may not be available, and even if available, may not be on acceptable terms. We may seek to raise additional capital through an offering of common shares, preference shares or debt, which may result in dilution, and/or the issuance of securities with rights senior to the rights, of the holders of common shares. As a result, our share price may decline.

Our revenues and earnings may fluctuate from quarter to quarter, which could affect the market price of our common shares.

Our revenues and earnings may vary from quarter to quarter as a result of a number of factors, including:

- The timing of releases of our new products;
- The timing of substantial sales orders and OEM and carrier customer sell through;
- Design win cycles in our embedded module business;

- The amount of inventory held by our channel partners;
- Competition from other market participants;
- Possible cyclical fluctuations related to the evolution of wireless technologies;
- Possible delays in the manufacture or shipment of current or new products;
- Concentration in our customer base; and
- Possible delays or shortages in component supplies.

Because our operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in our revenues and earnings in any given quarter. Therefore, our quarterly results are not necessarily indicative of our overall business, results of operations and financial condition. However, quarterly fluctuations in our revenues and earnings may affect the market price of our common shares.

We are subject to, and may in the future be subject to, certain class action lawsuits, which if decided against us, could require us to pay substantial judgments, settlements or other penalties.

In addition to being subject to litigation in the ordinary course of business, we are currently, and may in the future be, subject to class actions and other securities litigation and investigations. We expect that this type of litigation will be time consuming, expensive and distracting from the conduct of our daily business. It is possible that we will be required to pay substantial judgments, settlements or other penalties and incur expenses that could have a material adverse effect on our operating results, liquidity or financial position. Expenses incurred in connection with these lawsuits, which include substantial fees of lawyers and other professional advisors and our obligations to indemnify officers and directors who may be parties to such actions, could materially adversely affect our cash position. We do not know if any of this type of litigation and resulting expenses will be covered by insurance. In addition, these lawsuits may cause our insurance premiums to increase in future periods.

Competition from new or established wireless communication companies or from those with greater resources may prevent us from increasing or maintaining our market share and could result in price reductions and reduced revenues and gross margins.

The wireless industry is intensely competitive and subject to rapid technological change. We expect competition to intensify. More established and larger companies with greater financial, technical and marketing resources sell products that compete with ours. We also may introduce new products that will put us in direct competition with major new competitors. Existing or future competitors may be able to respond more quickly to technological developments and changes or may independently develop and patent technologies and products that are superior to ours or achieve greater acceptance due to factors such as more favorable pricing or more efficient sales channels. If we are unable to compete effectively with our competitors' pricing strategies, technological advances and other initiatives, our market share and revenues may be reduced. As an example, during the first quarter of 2005, one of the factors that caused a significant decline in CDMA EV-DO PC card revenue was increased competition and loss of market share.

If demand for our current products declines and we are unable to launch successful new products, our revenues will decrease.

If the markets in which we compete fail to grow, or grow more slowly than we currently anticipate, or if we are unable to establish markets for our new products, it would significantly harm our

business, results of operations and financial condition. In addition, demand for one or all of our current products could decline as a result of competition, technological change or other factors.

If we are unable to design and develop new products that gain sufficient commercial acceptance, we may be unable to maintain our market share or to recover our research and development expenses and our revenues could decline.

We depend on designing, developing and marketing new products to achieve much of our future growth. Our ability to design, develop and market new products depends on a number of factors, including, but not limited to the following:

- Our ability to attract and retain skilled technical employees;
- The availability of critical components from third parties;
- Our ability to successfully complete the development of products in a timely manner; and
- Our ability to manufacture products at an acceptable price and quality.

A failure by us, or our suppliers, in any of these areas, or a failure of new products to obtain commercial acceptance, could mean we receive less revenue than we anticipate and we are unable to recover our research and development expenses, and could result in a decrease in the market price for our shares.

The loss of any of our material customers could adversely affect our revenues and profitability, and therefore shareholder value.

We depend on a small number of customers for a significant portion of our revenues. In the last three fiscal years, there have been five different customers that individually accounted for more than 10% of our revenues. In the year ended December 31, 2005, two customers individually accounted for more than 10% of our revenue and in the aggregate these two customers represented 36% of our revenue. If any of these customers reduce their business with us or suffer from business failure, our revenues and profitability could decline, perhaps materially.

We may not be able to continue to design products that meet our customer needs and, as a result, our revenue and profitability may decrease.

We develop products to meet our customers' requirements but, particularly with original equipment manufacturers, current design wins do not guarantee future design wins. If we are unable or choose not to meet our customers' future needs, we may not win their future business and our revenue and profitability may decrease.

We depend on a limited number of third parties to manufacture our products and supply key components. If they do not manufacture our products properly or cannot meet our needs in a timely manner, we may be unable to fulfill our product delivery obligations and our costs may increase, and our revenue and margins could decrease.

We outsource the manufacture of our products to a limited number of third parties and depend heavily on the ability of these manufacturers to meet our needs in a timely and satisfactory manner. Some components used by us may only be available from a small number of suppliers, in some cases from only one supplier. We currently rely on two manufacturers, either of which may terminate the manufacturing contract with us at the end of any contract year. Our reliance on third party manufacturers and suppliers subjects us to a number of risks, including the following:

- The absence of guaranteed manufacturing capacity;
- Reduced control over delivery schedules, production yields and costs; and
- Inability to control the amount of time and resources devoted to the manufacture of our products.

If we are unable to successfully manage any of these risks or to locate alternative or additional manufacturers or suppliers in a timely and cost-effective manner, we may not be able to deliver products in a timely manner. In addition, our results of operations could be harmed by increased costs, reduced revenues and reduced margins.

We do not have fixed-term employment agreements with our key personnel and the loss of any key personnel may harm our ability to compete effectively.

None of our executive officers or other key employees has entered into a fixed-term employment agreement. Our success depends in large part on the abilities and experience of our executive officers and other key employees. Competition for highly skilled management, technical, research and development and other key employees is intense in the wireless communications industry. We may not be able to retain our current executive officers or key employees and may not be able to hire and transition in a timely manner experienced and highly qualified additional executive officers and key employees as needed to achieve our business objectives. The loss of executive officers and key employees could disrupt our operations and our ability to compete effectively could be adversely affected.

We may have difficulty responding to changing technology, industry standards and customer preferences, which could cause us to be unable to recover our research and development expenses and lose revenues.

The wireless industry is characterized by rapid technological change. Our success will depend in part on our ability to develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. Our products embody complex technology that may not meet those standards, changes and preferences. In addition, wireless communications service providers require that wireless data systems deployed on their networks comply with their own standards, which may differ from the standards of other providers. We may be unable to successfully address these developments in a timely basis or at all. Our failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause us to be unable to recover significant research and development expenses and reduce our revenues.

We depend on third parties to offer wireless data and voice communications services for our products to operate.

Our products can only be used over wireless data and voice networks operated by third parties. In addition, our future growth depends, in part, on the successful deployment of next generation wireless data and voice networks by third parties for which we are developing products. If these network operators cease to offer effective and reliable service, or fail to market their services effectively, sales of our products will decline and our revenues will decrease.

Acquisitions of companies or technologies may result in disruptions to our business or may not achieve the anticipated benefits.

As part of our business strategy, we may acquire additional assets and businesses principally relating to or complementary to our current operations. Any acquisitions and/or mergers by us will be

accompanied by the risks commonly encountered in acquisitions of companies. These risks include, among other things:

- Exposure to unknown liabilities of acquired companies, including unknown litigation related to acts or omissions of our acquired company and/or its directors and officers prior to the acquisition;
- Higher than anticipated acquisition and integration costs and expenses;
- Effects of costs and expenses of acquiring and integrating new businesses on our operating results and financial condition;
- The difficulty and expense of integrating the operations and personnel of the companies;
- Disruption of our ongoing business;
- Diversion of management's time and attention away from our remaining business during the integration process;
- Failure to maximize our financial and strategic position by the successful incorporation of acquired technology;
- The inability to implement uniform standards, controls, procedures and policies;
- The loss of key employees and customers as a result of changes in management;
- The incurrence of amortization expenses; and
- Possible dilution to our shareholders if the purchase price is paid in common shares or securities convertible into common shares.

In addition, geographic distances may make integration of businesses more difficult. We may not be successful in overcoming these risks or any other problems encountered in connection with any acquisitions. If realized, these risks could reduce shareholder value.

We may infringe the intellectual property rights of others.

The industry in which we operate has many participants that own, or claim to own, proprietary intellectual property. In the past we have received, and in the future may receive, claims from third parties alleging that we, and possibly our customers, violate their intellectual property rights. Rights to intellectual property can be difficult to verify and litigation may be necessary to establish whether or not we have infringed the intellectual property rights of others. In many cases, these third parties are companies with substantially greater resources than us, and they may be able to, and may choose to, pursue complex litigation to a greater degree than we could. Regardless of whether these infringement claims have merit or not, we may be subject to the following:

- We may be liable for potentially substantial damages, liabilities and litigation costs, including attorneys' fees;
- We may be prohibited from further use of the intellectual property and may be required to cease selling our products that are subject to the claim;
- We may have to license the third party intellectual property, incurring royalty fees that may or may not be on commercially reasonable terms. In addition, there is no assurance that we will be able to successfully negotiate and obtain such a license from the third party;

- We may have to develop a non-infringing alternative, which could be costly and delay or result in the loss of sales. In addition, there is no assurance that we will be able to develop such a non-infringing alternative;
- The diversion of management's attention and resources;
- Our relationships with customers may be adversely affected; and
- We may be required to indemnify our customers for certain costs and damages they incur in such a claim.

In the event of an unfavourable outcome in such a claim and our inability to either obtain a license from the third party or develop a non-infringing alternative, then our business, operating results and financial condition may be materially adversely affected and we may have to restructure our business.

Absent a specific claim for infringement of intellectual property, from time to time we have and expect to continue to license technology, intellectual property and software from third parties. There is no assurance that we will be able to maintain our third party licenses or obtain new licenses when required and this inability could materially adversely affect our business and operating results and the quality and functionality of our products. In addition, there is no assurance that third party licenses we execute will be on commercially reasonable terms.

Under purchase orders and contracts for the sale of our products we may provide indemnification to our customers for potential intellectual property infringement claims for which we may have no corresponding recourse against our third party licensors. This potential liability, if realized, could materially adversely affect our business, operating results and financial condition.

Misappropriation of our intellectual property could place us at a competitive disadvantage.

Our intellectual property is important to our success. We rely on a combination of patent protection, copyrights, trademarks, trade secrets, licenses, non-disclosure agreements and other contractual agreements to protect our intellectual property. Third parties may attempt to copy aspects of our products and technology or obtain information we regard as proprietary without our authorization. If we are unable to protect our intellectual property against unauthorized use by others it could have an adverse effect on our competitive position.

Our strategies to deter misappropriation could be inadequate due to the following risks:

- Non-recognition of the proprietary nature or inadequate protection of our methodologies in the United States, Canada or foreign countries;
- Undetected misappropriation of our intellectual property;
- The substantial legal and other costs of protecting and enforcing our rights in our intellectual property; and
- Development of similar technologies by our competitors.

In addition, we could be required to spend significant funds and our managerial resources could be diverted in order to defend our rights, which could disrupt our operations.

As our business expands internationally, we will be exposed to additional risks relating to international operations.

Our expansion into international operations exposes us to additional risks unique to such international markets, including the following:

- Increased credit management risks and greater difficulties in collecting accounts receivable;
- Unexpected changes in regulatory requirements, wireless communications standards, exchange rates, trading policies, tariffs and other barriers;
- Uncertainties of laws and enforcement relating to the protection of intellectual property;
- Language barriers; and
- Potential adverse tax consequences.

Furthermore, if we are unable to further develop distribution channels in Europe and the Asia-Pacific region we may not be able to grow our international operations and our ability to increase our revenue will be negatively impacted.

Government regulation could result in increased costs and inability to sell our products.

Our products are subject to certain mandatory regulatory approvals in the United States, Canada, the European Union and other regions in which we operate. In the United States, the Federal Communications Commission regulates many aspects of communications devices. In Canada, similar regulations are administered by the Ministry of Industry, through Industry Canada. European Union directives provide the comparable regulatory guidance in Europe. Although we have obtained all the necessary Federal Communications Commission, Industry Canada and other required approvals for the products we currently sell, we may not obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or we may not be able to obtain regulatory approvals from countries other than the United States and Canada in which we may desire to sell products in the future.

Fluctuations in exchange rates between the United States dollar and other currencies, including the Canadian dollar may affect our operating results.

We are exposed to fluctuations in the exchange rate between the United States dollar and the Canadian dollar through our operations in Canada. To reduce our risk because of currency fluctuations, we purchase inventory, other cost of sales items and many of our services in United States dollars. If the Canadian dollar rises relative to the United States dollar, our operating results may be negatively impacted. To date, we have not entered into any foreign currency futures contracts as part of a hedging policy. We expect that as our business expands in Europe and the Asia-Pacific region, we will also be exposed to additional foreign currency transactions and to the associated currency risk. To date, we have not entered into any futures contracts.

DIVIDENDS

Since incorporation, we have not paid any dividends on our common shares. Our current intention is to reinvest earnings to finance the growth of our business. We do not anticipate that we will pay any dividends on our common shares in the immediate or foreseeable future.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized capital consists of an unlimited number of common shares, of which, at March 23, 2006, 25,502,170 are issued and outstanding, and an unlimited number of preference shares, issuable in series, of which none are issued and outstanding. Our board of directors is authorized to determine the designation, rights and restrictions to be attached to the preference shares upon issuance.

Holders of common shares are entitled to receive notice of any meeting of shareholders and to attend and vote at those meetings, except those meetings at which only the holders of shares of another class or of a particular series are entitled to vote. Each common share entitles its holder to one vote. Subject to the rights of the holders of preference shares, the holders of common shares are entitled to receive on a proportionate basis such dividends as our board of directors may declare out of funds legally available therefor. In the event of the dissolution, liquidation, winding up or other distribution of our assets, the holders of the common shares are entitled to receive on a proportionate basis all of our assets remaining after payment of all of our liabilities, subject to the rights of holders of preference shares.

The common shares carry no pre-emptive or conversion rights other than rights granted to holders of common shares under the Shareholders Rights Plan implemented and ratified by our shareholders on April 27, 2000 and re-adopted by our shareholders on April 28, 2003. The Shareholder Rights Plan is designed to encourage the fair treatment of our shareholders in connection with any take-over offer for our outstanding common shares. The Shareholder Rights Plan provides our board of directors and shareholders with 45 days, which is longer than provided by applicable laws, to fully consider any unsolicited take-over bid without undue pressure, to allow our board of directors, if appropriate, to consider other alternatives to maximize shareholder value and to allow additional time for competing bids to emerge. If a bid is made to all shareholders, is held open for at least 45 days and is accepted by shareholders holding more than 50% of the outstanding common shares, or is otherwise approved by our board of directors, then the Shareholder Rights Plan will not affect the rights of shareholders. Otherwise, all shareholders, except the parties making a take-over bid, will be able to acquire a number of additional common shares equal to 100% of their existing outstanding holdings at half the market price. Thus, any party making a take-over bid not permitted by the Shareholder Rights Plan could suffer significant dilution. The Shareholder Rights Plan will expire in accordance with its terms upon the termination of our 2006 annual meeting of shareholders. The directors have resolved to continue the Shareholder Rights Plan with certain minor amendments, by approving an amended and restated shareholder rights plan proposed to be dated April 25, 2006, subject to regulatory approval and approval of the shareholders.

MARKET FOR SECURITIES

Our common shares have been listed on The Toronto Stock Exchange since May 17, 1999, and currently trade under the symbol "SW". Our common shares are co-listed on The Nasdaq National Market under the symbol "SWIR".

Set out below are the price ranges and volume of common shares of Sierra Wireless, Inc. that traded on the Toronto Stock Exchange for the year ended December 31, 2005.

2005	<u>Low Cdn \$</u>	<u>High Cdn \$</u>	<u>Total Monthly Volume</u>
January	10.94	20.49	17,296,100
February	10.59	13.11	8,931,000
March	9.75	11.40	5,453,400
April	7.95	10.20	3,344,300
May	8.00	11.69	3,423,400
June	8.95	11.98	4,930,400
July	8.67	10.15	2,408,300
August	8.38	9.34	1,927,400
September	8.50	14.30	6,934,400
October	11.60	13.97	6,345,200
November	12.80	15.80	4,935,900
December	12.45	16.05	3,998,400

DIRECTORS AND EXECUTIVE OFFICERS

The tables set forth below list the directors and executive officers of the Company as at March 23, 2006, indicating their name, municipalities of residence, their respective positions and offices held with the Company, the length of service and their principal occupations within the five preceding years.

Each director is elected at our annual meeting of shareholders to serve until the next annual meeting or until a successor is elected or appointed, unless such director resigns or is removed earlier. To the knowledge of Sierra Wireless, the directors and executive officers as a group, beneficially own, directly or indirectly, or exercise control or discretion over, 321,282 common shares, (not including common shares issuable upon the exercise of stock options), representing as of March 23, 2006 approximately 1.3% of the issued and outstanding common shares.

Directors

Name, Position and Residence	Principal Occupation or Employment⁽¹⁾	Director Since
Jason W. Cohenour President, CEO and Director Washington, U.S.A.	President and Chief Executive Officer of the Company since October 2005. Chief Operating Officer of the Company from August 2004 to October 2005, Senior Vice President, Worldwide Sales of the Company from 2000 to August 2004	October 2005

Gregory D. Aasen ⁽³⁾ Director British Columbia, Canada	Chief Strategy Officer of PMC-Sierra, Inc. (a broadband communications company) from September 2005 to present; Vice-President and General Manager, Communication Products Division of PMC-Sierra, Inc. from 2004 to September 2005, Chief Operating Officer of PMC-Sierra, Inc. from 1997 to 2004 and Chief Technology Officer of PMC-Sierra, Inc. from 2003 to 2004	December 1997
Paul G. Cataford ⁽²⁾⁽⁴⁾ Director Alberta, Canada	President and Chief Executive Officer of University Technologies International Inc. (a technology transfer and commercialization company) from 2004 to present; Managing Partner of HorizonOne Asset Management from December 2002 to 2004; Consultant from March 2002 to December 2002; Executive Managing Director of BMO Nesbitt Burns Equity Partners Inc. from 2001 to 2002	July 1998
Peter Ciceri ⁽⁴⁾ Chairman and Director British Columbia, Canada	Corporate Director and principal of Peter Ciceri & Associates Executive Coaching and Business Counselling Services from 2001 to present; President of Rogers Telecom, Inc. from 2000 to May 2001	February 2000
Charles E. Levine ⁽³⁾ Director California, U.S.A.	Independent Outside Director of @Road, Inc., Somera Communications, Inc., Viisage Technology, Inc. and Lexar Media, Inc.; President and Chief Operating Officer of Sprint PCS from 2000 to 2002	May 2003
Nadir Mohamed ⁽²⁾⁽⁵⁾ Director Ontario, Canada	President and Chief Operating Officer of the Communications Division, which includes Rogers Wireless and Rogers Cable, of Rogers Communications Inc. and Director of Rogers from May 2005 to present; President, Chief Executive Officer and Director of Rogers Wireless Communications Inc. from 2001 to May 2005; President and Chief Operating Officer of Rogers Wireless Communications Inc. from 2000 to 2001	March 2003
S. Jane Rowe ⁽²⁾ Director Ontario, Canada	President and Chief Executive Officer of Roynat Capital from 2004 to present; Senior Vice President, Global Risk Management Division of Scotiabank from 2002 to 2004; Managing Director and Co-Head of Scotia Merchant Capital Corporation from 1997 to 2002	March 1998

David B. Sutcliffe ⁽⁴⁾ Director British Columbia, Canada	Corporate director. Chief Executive Officer of the Company from May 1995 through October 2005.	June 1995
Kent Thexton ⁽³⁾ Director British Columbia, Canada	President and Chief Executive Officer of SEVEN Networks, Inc. (a software company) from June 2005 to present; Co-Chief Executive Officer of SEVEN Networks, Inc. from April 2004 to June 2005; Chief Data and Marketing Officer of O2 and President of O2 Online from 2001 to 2004; President of Genie from 2000 to 2001	March 2005

Notes:

- (1) The information as to “principal occupation” has been furnished by the respective directors.
- (2) Member of the Audit Committee
- (3) Member of the Human Resources Committee
- (4) Member of the Governance and Nominating Committee
- (5) Mr. Mohamed does not intend to stand for re-election at the Company’s annual and special meeting of shareholders to be held on April 25, 2006.

Executive Officers

Name, Position and Province or State and Country of Residence	Principal Occupation in the Preceding Five Years⁽¹⁾	Length of Service
Jason W. Cohenour President and Chief Executive Officer Washington, U.S.A.	President and Chief Executive Officer of the Company since October 2005. Chief Operating Officer of the Company from August 2004 to October 2005, Senior Vice President, Worldwide Sales of the Company from 2000 to August 2004	10 years
David G. McLennan Chief Financial Officer and Secretary British Columbia, Canada	Consultant to BCE Emergis from September 2002 to January 2003; Chief Financial Officer of Bell Canada from June 2002 to September 2002; President and Chief Operating Officer of Bell ExpressVu from November 1999 to June 2002	2 years
James B. Kirkpatrick Chief Technical Officer California, U.S.A.	Senior Vice-President, Engineering of the Company from August 2003 to October 2004; President and Chief Executive Officer of AirPrime, Inc. from July 2002 to August 2003; Senior Vice-President, Engineering of AirPrime, Inc. from September 2000 to March 2003; Vice-President of Wireless Technologies of DENSO International America, Inc. from June 2000 to October 2000	3 years

Trent H. Punnett Senior Vice President, Marketing and Corporate Development British Columbia, Canada	Vice-President, Marketing of the Company from January 2005 to January 2006; Vice- President, Marketing and Product Line Management of Motorola from July 2003 to December 2004; Senior Director, Marketing and Product Line Management of Motorola from 2000 to June 2003	1 year
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Notes:

- (1) The information as to “principal occupation” has been furnished by the respective senior officers.

CODE OF BUSINESS CONDUCT AND ETHICS

In 2003, the Board of Directors adopted a Code of Business Conduct and Ethics applying to all directors, officers and employees of the Company to ensure that the Company conducts its business in accordance with the highest standards of business conduct and ethics. The Board of Directors approved an updated version of the Code of Business Conduct and Ethics in December 2005. There have been no waivers granted from the Code of Business Conduct and Ethics since its adoption. The Code of Business Conduct and Ethics is available on the Company’s website at www.sierrawireless.com.

AUDIT COMMITTEE

Mandate of the Audit Committee

The full text of the Mandate of the Audit Committee is set out below:

“1. Purpose and Scope

The audit committee (**the “AC”**) was established by the Board of Directors (**“Board”**) of Sierra Wireless Inc. (**“Company”**) to assist the Board in all issues relating to the oversight of the following:

- the Company’s systems of internal and disclosure controls regarding finance, accounting and legal compliance;
- the Company’s auditing, accounting and financial reporting processes generally;
- the Company’s financial statements and other financial information provided by the Company to its shareholders, the public and others;
- the Company’s compliance with legal and regulatory requirements;
- the appointment, compensation, independence, oversight, communication with, performance and change of the Company’s external and independent auditors (the “Auditors”);
- the Company’s whistleblower process; and
- the fulfillment of the other responsibilities set forth in this Mandate.

2. Organization, Membership and Meetings

- Committee members shall meet the requirements of the Toronto Stock Exchange, the NASDAQ Exchange, the Securities and Exchange Commission, the securities commissions of each of the Provinces of Canada in which the Company is a reporting issuer and any other regulatory agency that may have jurisdiction over the operations of the Company from time to time.
- The Committee shall consist of three or more directors who are “independent” as defined by applicable law, regulations, guidelines and policies, and as determined by the Governance and Nominating Committee (“GNC”) of the Board.
- All members of the Committee shall be “financially literate”, and at least one member of the Committee shall be a “financial expert”. “Financially literate” and “financial expert” will have the respective meanings set out in applicable law, regulations, guidelines and policies.
- Members of the Committee shall be appointed annually by the Board on the recommendation of the GNC. Members may be replaced by the Board at any time, but shall otherwise serve until a successor has been named.
- No director shall serve on the compensation committee of another company that employs such directors.
- No member shall be affiliated with the Company or any subsidiary.
- The Committee shall meet from time to time, as it deems necessary, but at least four times per year.
- The Committee may include management at its meetings, but shall also hold an executive session at each meeting at which only independent directors are present.
- The Committee shall maintain written minutes of its meetings, which minutes will be filed in the corporate minute book.

3. Authority and Responsibilities

3.1. With respect to the Auditors:

- Be directly responsible for recommending to the Board the appointment and compensation of the Auditor. Oversee the work of the Auditors (including resolution of disagreements between Management and the Auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company.
- Have the sole authority to review in advance and pre-approve all non-audit services to be provided to the Company or its subsidiaries by the Auditors, as permitted by applicable governance rules and in particular Section 10A of the Securities Exchange Act of 1934 and, in connection therewith, to approve all fees and other terms of engagement. The Committee shall also review and pre-approve all disclosures required to be included in any public filings with respect to non-audit services. The Committee may delegate to one or more members the authority to pre-approve non-audit services, provided a report is made to the Committee at its next scheduled meeting. The Committee may consult with Management but shall not delegate these responsibilities to Management.
- Have the authority to communicate directly with the Auditors.

- Review the performance of the Auditors on at least an annual basis.
- On an annual basis, review and discuss with the Auditors all relationships the Auditors have with the Company in order to evaluate the Auditors' continued independence. The Committee: (i) shall ensure that the Auditors submit to the Committee on an annual basis a written statement delineating all relationships and services that may impact the objectivity and independence of the Auditors; (ii) shall discuss with the Auditors any disclosed relationship or services that may impact the objectivity and independence of the Auditors; and (iii) shall satisfy itself as to the Auditors' independence.
- At least annually, obtain and review an annual report from the Auditors describing (i) the Auditors' internal quality control procedures and (ii) any material issues raised by the most recent internal quality control review, or peer review, of the Auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Auditors, and any steps taken to deal with any such issues.
- Confirm that the rotation of the lead audit partner, or the lead audit partner responsible for reviewing the audit, for the Company's Auditors complies with the requirements of the Canadian and US regulatory authorities.
- Review all reports required to be submitted by the Auditors to the Committee particularly including those required by Section 10A of the Securities Exchange Act of 1934.
- Review, based upon the recommendation of the Auditors and Management, the scope and plan of the work to be done by the Auditors for each fiscal year.

3.2. With respect to financial statements:

- Review and discuss with Management and the Auditors the Company's quarterly financial statements (including disclosures made in Management's Discussion and Analysis, as defined in Multilateral Instrument 51-102, and interim earnings press releases) prior to submission to shareholders, any governmental body, any stock exchange or disclosure to the public. Subject to delegation from the Board, approve the interim financial statements and footnotes, MD&A and interim earnings press release.
- Review and discuss with Management and the Auditors the Company's annual audited financial statements (including disclosures made in Management's Discussion and Analysis and annual earnings press releases) prior to submission to shareholders, any governmental body, any stock exchange or disclosure to the public. Recommend to the Board approval of the annual audited financial statements and footnotes, MD&A and annual earnings press release.
- Recommend to the Board, if appropriate, that the Company's annual audited financial statements be included in the Company's annual report for filing with appropriate securities regulatory agencies.
- Prepare any reports required to be included in the Company's annual meeting materials and any other Committee reports required by applicable securities laws or stock exchange listing requirements or rules.

3.3. With respect to periodic and annual reviews:

- Periodically review separately with each of Management and the Auditors (i) any significant disagreement between Management and the Auditors in connection with the preparation of the

financial statements, (ii) any difficulties encountered during the course of the audit or review (including any restrictions on the scope of work or access to required information), and (iii) Management's response to each.

- Periodically discuss with the Auditors, without Management being present (i) their judgments about the quality, appropriateness, and acceptability of the Company's accounting principles and financial disclosure practices, as applied in its financial reporting, and (ii) the completeness and accuracy of the Company's financial statements.
- Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the Auditors or Management. Review with the Auditors and Management, at appropriate intervals, the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.
- Review with Management, the Auditors and the Company's counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including significant changes in accounting standards or rules as promulgated by the Canadian Institute of Chartered Accountants, the securities regulators having jurisdiction over the Company or other regulatory authorities with relevant jurisdiction.
- Obtain and review an annual report from Management relating to the accounting principles used in preparation of the Company's financial statements (including those policies for which Management is required to exercise discretion or judgments regarding the implementation thereof).

3.4. Discussions with Management:

- Review and discuss with Management the Company's annual and interim earnings press releases (including the use of "pro forma" or "adjusted" non-GAAP information), financial information and earnings guidance provided to analysts and rating agencies as well as all other material public disclosure documents such as the Company's AIF, management information circular and any prospectuses.
- Review and discuss with Management all material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses.
- Inquire about the application of the Company's accounting policies and its consistency from period to period, and the compatibility of these accounting policies with generally accepted accounting principles, and (where appropriate) the Company's provisions for future occurrences that may have a material impact on the financial statements of the Company.
- Review and discuss with Management the Company's major financial risk exposures and the steps Management has taken to monitor and control such exposures (including Management's risk assessment and risk management policies).
- Review and discuss with Management all disclosures made by the Company concerning any material changes in the financial condition or operations of the Company.

- The Committee will meet periodically and separately with the Company's counsel to review material legal affairs of the Company and the Company's compliance with applicable law and listing standards.
- Obtain explanations from Management for unusual variances in the Company's annual financial statements from year to year, and review annually the Auditors' letter of the recommendations to Management and Management's response.

3.5. With respect to internal controls and disclosure:

- In consultation with the Auditors and Management: (a) review the adequacy of the Company's internal control structure and system, and the procedures designed to ensure compliance with laws and regulations, (b) discuss the responsibilities, budget and staffing needs of the Company's internal accounting department, and (c) review and consider whether there is any need for the Company to establish an internal audit department.
- Establish whistleblowing procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- Be satisfied that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures.

3.6. With respect to reporting obligations:

- Ensure that all reporting obligations related to the AIF (Form 40-F for US purposes) and management information circular under Part 5 of Multilateral Instrument 52-110 are fully complied with.

3.7. Other:

- Review and approve all related-party transactions.
- Review and approve the Company's hiring policies regarding partners, employees, and former partners and employees of the present and former external auditor of the Company.
- Review any Management decision to seek a second opinion from Auditors other than the Company's regular Auditors with respect to any significant accounting issue.
- Review with Management and the Auditors the sufficiency and quality of the financial and accounting personnel of the Company.
- Review and reassess the adequacy of this Mandate annually and recommend to the Board any changes the Committee deems appropriate.
- Conduct an annual performance evaluation of Committee operations.
- As necessary to carry out its duties, to engage independent legal, accounting or other advisors to advise the Committee and set and pay the compensation for any such legal, accounting or other advisors employed by the Committee.

- Perform any other activities consistent with this Mandate, the Company's By-laws and governing law as the Committee or the Board deems necessary or appropriate.
- The Committee will have full access to all books, records, facilities and personnel of the Company.

4. External and Internal Linkages

- The Board
- The CEO and Senior Management
- Outside Consultants and Advisors
- The Corporate Governance and Nominating Committee”

Composition of the Audit Committee

S. Jane Rowe (Chair), Paul G. Cataford and Nadir Mohamed are the current members of the Audit Committee. Each of them is an Independent Director and is Financially Literate. The Board of Directors has determined that Mr. Nadir Mohamed and Ms. S. Jane Rowe are the Audit Committee’s financial experts.

Relevant Education and Experience

S. Jane Rowe is the President and Chief Executive Officer of Roynat Capital, a merchant bank specializing in innovative long-term capital and business solutions for mid-sized companies. Ms. Rowe has an extensive background in the banking industry with over 17 years of experience with the Scotiabank Group. Ms. Rowe holds a Bachelor of Commerce degree with honours from Memorial University of Newfoundland and an MBA from York University.

Paul G. Cataford is the President and Chief Executive Officer of University Technologies Inc., a wholly-owned subsidiary of the University of Calgary that is responsible for the university’s technology commercialization. Mr. Cataford’s other experience includes consulting, Managing Director of BMO Nesbitt Burns Equity Partners Inc. from 2001 to 2002 and Managing Director and President of BCE Capital Inc. from 1997 to 2001. Mr. Cataford has extensive knowledge of venture capital investing and technology. Mr. Cataford completed a Mechanical Engineering Degree at Queen’s University and an MBA at York University.

Nadir Mohamed is the President and Chief Operating Officer of the Communications Division of Rogers Communications Inc., a cable television and wireless communications service provider across Canada. Prior to his most recent appointment in May 2005, Mr. Mohamed had been President and Chief Executive Officer and Director of Rogers Wireless Communications Inc. since 2001. Mr. Mohamed received a Bachelor of Commerce degree from the University of British Columbia and is a Chartered Accountant. As Mr. Mohamed does not intend to stand for re-election at the Company’s annual and special meeting of shareholders to be held on April 25, 2006, the Board of Directors intends to appoint another member of the Board to serve on the Audit Committee effective that date.

Reliance on Certain Exemptions

At no time since the commencement of the Company’s most recently completely financial year has the Company relied upon any exemption from MI 52-110 provided therein.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the board of directors of the Company.

Pre-approval Policies and Procedures

The Committee has the sole authority to review in advance and pre-approve all non-audit services to be provided to the Company or its subsidiaries by the Auditor, as well as all fees and other terms of engagement. The Committee may delegate to one or more members the authority to pre-approve non-audit services, provided a report is made to the Committee at its next scheduled meeting. All of the audit-related, tax and all other fees below were pre-approved by the Committee.

Auditor Independence

Sierra Wireless's Audit Committee has concluded that the Auditors are independent under applicable rules and guidelines and, in particular, that the Auditors are free from conflicts of interest that could impair their objectivity in conducting the audit of the Company's financial statements. The Audit Committee is required to approve all non-audit related services performed by our Auditors, and our Auditors are not permitted to perform services for us prohibited for an independent auditor under applicable Canadian and United States regulations, including the Sarbanes-Oxley Act.

Auditors' Fees

In the 2005 and 2004 fiscal years, the fees paid to the Auditors were as follows:

	<u>2005</u>	<u>2004</u>
Audit Fees.....	\$ 297,000	\$ 288,000
Audit-Related Fees	23,000	31,000
Tax Fees	212,000	205,000
All Other Fees	Nil	Nil

Audit Fees

Audit fees for 2004 and 2005 are related to the audit of the year-end financial statements and the review of the Company's quarterly financial statements and related filing documents including financial press releases.

Audit-Related Fees

Audit-related fees for 2005 are primarily for fees related to our Sarbanes-Oxley 404 documentation.

Tax Fees

Tax fees for 2005 and 2004 are primarily for the preparation of our Canadian and U.S. tax returns, assistance with tax planning and completion of transfer pricing studies.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management is responsible for establishing and maintaining adequate disclosure controls and procedures for the Company. Towards that end, management has designed such disclosure controls and procedures, or caused such disclosure procedures to be designed under our supervision (a) to ensure that material information relating to the Company, including our consolidated subsidiaries, is made known to management by others within the Company and such subsidiaries; and (b) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

As of the end of the period covered by this annual report, the Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this annual report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's filings with applicable securities regulatory authorities is reported, processed, summarized and reported within the time periods specified by the applicable securities commissions and stock exchanges and that all material information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, do not expect the Company's disclosure controls will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur. Any design of any system of controls is based in part on certain assumptions about the likelihood of certain events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Limitations in control systems include the realities that judgments and decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

The Company is not yet required to be in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act and, as such, is in the process of further evaluation and testing and, if required, enhancement of internal controls as a result of work being completed in connection with the requirements of section 404 of the Sarbanes-Oxley Act.

LEGAL PROCEEDINGS

Sierra Wireless America, Inc., as successor to AirPrime, Inc., along with other defendants, has been served with the complaint of Joshua Cohen and David Beardsley and others, filed in the U.S. District Court for the Central District of California for alleged violations of federal and state securities laws allegedly occurring prior to the time AirPrime, Inc. was acquired by the Company. The plaintiffs filed the third amended complaint on July 7, 2005. In November of 2005, the District Court dismissed the third amended complaint, without prejudice, with respect to the Company and most of the other defendants. The plaintiffs did not file a fourth amended complaint and sought an order from the District Court dismissing the federal actions as to all defendants, with prejudice for the purposes of final judgment, however without prejudice to the state claims in the third amended complaint. The District Court so ordered on February 27, 2006. The plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit on March 8, 2006. We expect that it will be several months before they file their appeal

brief. In December 2005, we were served with a similar class action complaint of David Beardsley and others, filed in the Superior Court of the State of California, County of San Diego, for alleged violations of state securities laws in connection with the same alleged facts. On February 6, 2006, we filed a Motion to Stay the state court action pending resolution of the nearly identical federal action. We expect the Motion to Stay will be heard by the San Diego Superior Court in late March, 2006. We have given notice to our liability insurance carrier, which has agreed to pay our costs of defense that exceed the policy's retention amount, subject to a reservation of rights in the event it is determined that the carrier has no liability for this litigation and without conceding any liability for payment of loss. We have also submitted an escrow claim notice under the escrow agreement dated August 12, 2003 relating to the acquisition of AirPrime and the escrow shareholders are disputing their obligations with respect to this complaint. Although there can be no assurance that an unfavourable outcome of the dispute would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend them. The Company has determined that it is not possible to establish a reasonable estimate of the possible loss, or range of possible loss, if any.

The Company and certain of our current and former officers were named as defendants in several class action complaints filed in the U.S. District Court for the Southern District of New York and the U.S. District Court for the Southern District of California for alleged violations of federal securities laws. The actions filed in the U.S. District Court for the Southern District of California have been transferred to the U.S. District Court for the Southern District of New York. By order dated December 16, 2005, the U.S. District Court for the Southern District of New York consolidated all of the actions for pretrial purposes, appointed co-lead plaintiffs in the consolidated action, approved the selection of co-lead counsel. Plaintiffs filed their consolidated amended complaint on February 21, 2006 and the defendants have until early April to file their Motion to Dismiss. We have given notice to our liability insurance carrier, which has agreed to pay our costs of defense that exceed the policy's retention amount, subject to a reservation of rights in the event that it is determined that the carrier has no liability for this litigation. Although there can be no assurance that an unfavourable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend the lawsuits. The Company has determined that it is not possible to establish a reasonable estimate of the possible loss, or range of possible loss, if any. However, the Company believes that it is probable that the legal costs related to these complaints may exceed our policy retention amount of \$1.0 million. Accordingly, we accrued \$1.0 million in our results of operations for the year ended December 31, 2005.

On February 8, 2005, Sierra Wireless, Inc. was served with the first amended complaint of MLR, LLC filed in the U.S. District Court for the Northern District of Illinois Eastern Division for alleged patent infringement relating to our line of professional phones. We were added as a defendant in existing Civil Action No. 04 C 7044 MLR, LLC v. Kyocera Wireless Corporation and Novatel Wireless, Inc. Since that date, we have reached an agreement with MLR under which we received non-royalty bearing licenses to use all of MLR's present and future patents for all of our products and MLR released us from all claims related to their patent portfolio. MLR has dismissed all claims against us in the lawsuit.

We are engaged in other legal actions in the ordinary course of business and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

QUORUM EXEMPTION

The rules and regulations of the Nasdaq Stock Market applicable to the Company require each listed issuer to provide that a quorum for its shareholders' meetings be at least 33 1/3 percent of the issuer's outstanding shares. The Company has been granted an exemption from this requirement because it is

contrary to generally accepted business practices in Canada, the Company's country of domicile. The Company has had the benefit of this exemption in the current and prior year.

In determining whether a requirement is contrary to generally accepted business practices, the Nasdaq rules generally look to the requirements of the primary market in the issuer's country of domicile. The rules and policies of the Toronto Stock Exchange, the primary market in Canada, do not contain quorum requirements, and the *Canada Business Corporations Act*, the Corporation's governing statute, defers to the quorum requirements contained in an issuer's By-laws. Under the Company's By-laws, a quorum for a meeting of the Company's shareholders is two persons present in person, each being a shareholder entitled to vote thereat or a duly appointed proxyholder or representative for a shareholder so entitled.

REGISTRAR AND TRANSFER AGENT

The Registrar and Transfer Agent for the common shares in Canada is Computershare Investor Services Inc., 510 Burrard Street, Vancouver, British Columbia, and in the United States is Computershare Investor Services, Inc., 12039 West Alameda Parkway, Suite Z-2, Lakewood, Colorado. These offices and the principal offices of Computershare Investor Services Inc. in the City of Toronto maintain the register of common shares and can effect transfers and make deliveries of certificates for common shares.

MATERIAL CONTRACTS

There are no material contracts entered into outside of the Company's ordinary course of business.

EXPERTS

KPMG LLP, independent chartered accountants, have audited our consolidated financial statements as at December 31, 2005 and 2004, and for each of the years in the three year period ended December 31, 2005 as set forth in their reports. KPMG LLP has advised the Company that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information relating to the Company:

- (a) may be found on SEDAR on www.sedar.com;
- (b) including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular for its most recent annual meeting of shareholders; and
- (c) is provided in the Company's financial statements and MD&A for the financial year ended December 31, 2005.

**CERTIFICATION PURSUANT TO RULE 13A-14(C) OF THE U.S. SECURITIES EXCHANGE
ACT OF 1934, AS AMENDED**

I, Jason W. Cohenour, certify that:

1. I have reviewed this annual report on Form 40-F/A of Sierra Wireless, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 12, 2006

/s/ JASON W. COHENOUR
Jason W. Cohenour
Chief Executive Officer

EXHIBIT 99.2

CERTIFICATION PURSUANT TO RULE 13A-14(C) OF THE U.S. SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, David G. McLennan, certify that:

1. I have reviewed this annual report on Form 40-F/A of Sierra Wireless, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 12, 2006

/s/ DAVID G. MCLENNAN
David G. McLennan
Chief Financial Officer

EXHIBIT 99.3

**CERTIFICATION PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Sierra Wireless, Inc. (the "Company") on Form 40-F/A for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof, I, Jason W. Cohenour, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 12, 2006

/s/ JASON W. COHENOUR
Jason W. Cohenour
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Sierra Wireless, Inc. (the “Company”) on Form 40-F/A for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof, I, David G. McLennan, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 12, 2006

/s/ DAVID G. MCLENNAN
David G. McLennan
Chief Financial Officer

EXHIBIT 99.5

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our consolidated financial condition and results of operations, as of March 17, 2006, has been prepared in accordance with United States generally accepted accounting principles (GAAP) and, except where otherwise specifically indicated, all amounts are expressed in United States dollars.

Additional information related to Sierra Wireless, Inc., including our Annual Information Form, may be found on SEDAR at www.sedar.com.

Overview

We provide leading edge wireless wide-area modem solutions for mobile computing over cellular networks. We develop and market a range of products that include wireless modems for mobile computers, embedded modules for original equipment manufacturers, or OEMs, and rugged vehicle-mounted modems. Our products permit users to access wireless data and voice communications networks using laptop computers, handheld mobile computing devices, or vehicle-based systems.

Wireless data communications is an expanding market positioned at the convergence of wireless communications, mobile computing and the Internet, each of which we believe represents a growing market. Our products are based on open standards, including the Internet protocol, and operate on the networks of major wireless operators around the world.

Our products are primarily used by businesses and government organizations to enable their employees to access a wide range of applications, including the Internet, e-mail, corporate intranet, remote databases and computer aided dispatch. We sell our products through indirect channels, including wireless operators, resellers and OEMs.

During the latter part of 2003 and throughout 2004, we experienced stronger than expected demand for our products, primarily as a result of our strong market position in CDMA EV-DO Release 0 PC cards and our CDMA 1X embedded module sales to palmOne. During this period, customer concentration increased in our revenue base. Following our considerable revenue and earnings growth in 2004, we experienced a significant reduction in our business in 2005 relative to 2004 as a result of:

- The reduction in our embedded module business volumes as a result of the completion of CDMA 1X module shipments to palmOne for its Treo 600 Smartphone at the end of 2004;
- Reported channel inventory at some of our channel partners that was already sufficient to meet near-term customer demand during the first quarter of 2005; and
- The near-term impact of increased competition in CDMA EV-DO and EDGE PC cards, including a loss of market share at Verizon Wireless.

During 2005, our revenue decreased 49.3% to \$107.1 million compared to \$211.2 million in 2004. Similarly, we incurred a net loss (including restructuring costs) of \$36.5 million, or \$1.44 per diluted share, in 2005 compared to net income of \$24.9 million, or \$0.96 per diluted share, in 2004.

In order to address this change in our business, we undertook a restructuring of our operations in June of 2005, which included exiting our Voq professional phone initiative. Excluding the impact of restructuring and legal provisions, aggregating \$19.5 million, our net loss was \$17.0 million in 2005, or \$0.67 per diluted share. The result of this restructuring was a reduction in our cost structure and a greater focus on our core PC card and embedded modules business, where we already have well established market positions and believe there are significant growth opportunities.

Since the mid-year restructuring, we have focused intensely on core PC Card and embedded module opportunities for existing products, as well as new product development and business development in these areas. This focus has allowed us to return to sequential quarterly revenue growth during the second half of the year, realizing 25% and 37% sequential growth in the third and fourth quarters respectively. Following the restructuring, during the second half of 2005 we were also able to reduce our net loss and improve cash flow.

Despite consuming cash during 2005, our balance sheet remains strong, with \$104.1 million of cash, cash equivalents and short- and long-term investments, compared to \$131.8 million at December 31, 2004. During 2005, we used \$17.2 million in cash from operations, compared to 2004 when we generated \$29.1 million in cash from operations. On a quarterly basis, we reduced our cash consumption rate and returned to a positive cash flow position in the fourth quarter of 2005, generating cash from operations of \$3.4 million.

We continue to believe that the long-term prospects in the wireless communications industry remain strong, driven by advances in wireless network technologies such as the deployment of next generation 3G networks by carriers worldwide. We believe the deployment of these networks will be a catalyst to increasing the demand for wireless communications products such as those sold by us.

Key factors that we expect will affect our revenue in the near term are the timing of deployment of 3G high speed wireless data networks by carriers, the rate of adoption by end users, the timely launch and ramp of our new products and our ability to compete effectively. We expect that competition from other wireless communications device manufacturers will continue to increase as more companies focus on opportunities in this market.

Having restructured the company around PC cards and embedded modules, we are very focused on executing our product development and business development strategies in these areas. Specific initiatives include:

PC Cards: We have successfully completed the development of our first UMTS/HSDPA PC card and during the fourth quarter commenced commercial shipments of this product to Cingular in North America, as well as Manx Telecom and Sunrise in Europe, making us the first company in the world to launch a fully functional UMTS/HSDPA PC card. We have also commenced the development of the next generation EV-DO (Rev A) and HSDPA (3.6Mps) PC cards, both of which are expected to be commercially available in the second half of 2006; and

Embedded Modules: With the announcement by several leading laptop manufacturers of their plans to embed high speed wireless wide-area capability inside laptops, we believe that the opportunity for sales of embedded modules has potentially increased significantly. We believe we are well positioned to supply embedded modules to this market as a result of our extensive experience in the embedded module market; this has allowed us to establish an early leadership position providing embedded 3G wireless solutions to major laptop OEMs. Our EV-DO-PCI express mini card embedded module ("Mini Card") has been certified for operation on both the Sprint and Verizon networks. We have design wins with Lenovo and HP for our EV-DO Mini Card and commenced commercial shipments to Lenovo in the fourth quarter of 2005, representing the first commercial deployment of an embedded 3G wireless mini card by any laptop manufacturer. Lenovo has subsequently announced the integration of this Mini Card in two additional business laptops. Early in the first quarter of 2006, HP announced the availability of their first laptop incorporating our EV-DO Mini Card. In 2005, we secured designs win for our HSDPA Mini Cards with Lenovo and Fujitsu-Siemens Computers. We expect commercial shipments of our HSDPA Mini Card to commence late in the first quarter of 2006. Also during 2005, we commenced shipment in North America of our EM5625 EV-DO module to some of our long-time mobile computing OEM customers. One of these OEM customers, Panasonic, has subsequently integrated our EM5625 module into three of its laptop platforms. We have also commenced the development of the next generation EV-DO (Rev A) and HSDPA (3.6Mps) Mini Cards, both of which are expected to be commercially available in the second half of 2006.

We believe these new product developments provide us with a strong, up-to-date 3G product portfolio in both principal wireless technologies and in both the PC card and embedded module markets.

Results of Operations

The following table sets forth our operating results for the three years ended December 31, 2005, expressed as a percentage of revenue:

Years ended December 31,	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenue	100.0%	100.0%	100.0%
Cost of goods sold	<u>59.5</u>	<u>60.4</u>	<u>76.4</u>
Gross margin.....	<u>40.5</u>	<u>39.6</u>	<u>23.6</u>
Expenses			
Sales and marketing	11.4	9.5	14.5
Research and development, net.....	15.7	11.6	28.3
Administration	6.5	4.3	10.1
Restructuring and other charges.....	1.2	—	4.9
Integration costs.....	1.9	—	—
Amortization	<u>2.3</u>	<u>1.2</u>	<u>2.8</u>
	<u>39.0</u>	<u>26.6</u>	<u>60.6</u>
Earnings (loss) from operations	1.5	13.0	(37.0)
Other income	<u>0.9</u>	<u>0.9</u>	<u>2.1</u>
Net earnings (loss) before income taxes	2.4	13.9	(34.9)
Income tax expense(recovery)	<u>0.2</u>	<u>2.1</u>	<u>(0.9)</u>
Net earnings (loss)	<u>2.2%</u>	<u>11.8%</u>	<u>(34.0)%</u>

Our revenue by product, by distribution channel and by geographical region is as follows:

Years ended December 31,	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenue by product			
PC card.....	70%	59%	70%
Embedded modules	21	33	13
Mobile	6	5	13
Other.....	<u>3</u>	<u>3</u>	<u>4</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Revenue by distribution channel			
Wireless carriers.....	46%	24%	47%
OEM.....	22	34	14
Resellers	31	41	38
Direct and other.....	<u>1</u>	<u>1</u>	<u>1</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Revenue by geographical region			
Americas	73%	89%	69%
Europe	13	6	12
Asia-Pacific	<u>14</u>	<u>5</u>	<u>19</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Restructuring and Other Charges

In June 2005, we announced our decision to exit our Voq professional phone initiative. We also decided to shift some Voq resources to our core PC card and embedded modules business, where we already had well established market positions and believed there were significant growth opportunities. As announced, we incurred restructuring and other charges associated with the exit of the program. In addition to the exit of the Voq initiative, we implemented certain non-Voq related reductions to our operating expenses and assets as a result of the reduction in our business in the first half of 2005 and we recorded a provision for future legal costs associated with litigation matters.

In 2005, we recorded restructuring and other charges of \$18.5 million that included inventory writedowns, severance costs, impairment of fixed, intangible and deferred tax assets, provisions for facilities restructuring, commitments and other costs related to the restructuring. Restructuring charges related to Voq were approximately \$13.3 million of the total \$18.5 million. Approximately \$6.3 million represented cash disbursements, of which \$4.7 million were paid prior to the end of 2005.

As part of the restructuring, we reduced our workforce by 51 employees, of which 32 were terminated during the second quarter of 2005. For the remaining 19 employees who were on working notice, \$0.4 million was expensed as part of our operating expenses during the balance of the year. At the end of 2005 no employees remained on working notice.

In the second quarter of 2005, we also recorded a provision for legal costs of \$1.0 million. This is related to the class action complaints filed in the U.S. District Court for the Southern District of New York and the U.S. District Court for the Southern District of California (which actions, effective December 16, 2005 were consolidated in the U.S. District Court for the Southern District of New York) for alleged violations of federal securities laws.

Results of Operations – Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenue

Revenue was \$107.1 million for the year ended December 31, 2005, compared to \$211.2 million in 2004, a decrease of 49.3%. The decrease in revenue was due primarily to a decrease in sales of PC cards and embedded modules. During the first part of 2005, PC card revenue decreased primarily due to reported channel inventory at some of our channel partners that was sufficient to meet near term customer demand and the impact of increased competition in CDMA EV-DO PC cards. The competitive environment in CDMA EV-DO PC cards intensified over the course of the year, which had a negative impact on our sales of EV-DO PC cards and resulted in a loss of market share at Verizon Wireless. Embedded module revenue decreased primarily due to the completion of shipments of embedded modules to palmOne for the Treo 600 at the end of 2004. In the second quarter of 2005 we announced our plan to exit the Voq professional phone initiative. During 2005, revenue from the sale of previously written down Voq product was \$1.5 million.

Our revenue from customers in the Americas, Europe and the Asia-Pacific region comprised 69%, 12% and 19%, respectively, of our total revenue in 2005 and 89%, 6% and 5%, respectively, in 2004. Our North American business has decreased significantly compared to the prior year as a result of a decline in sales of our PC card and embedded module products to certain North American customers. As has been the case in the past several years, our business continues to be driven predominantly by short lead-time purchase orders from channels and end customers rather than by long-term, large volume commitments. In Europe, the deployment of UMTS networks has negatively affected our GSM/GPRS sales in that region as we did not have a UMTS compatible product until the fourth quarter of 2005. This negative impact was partially offset by sales of our EDGE product. Following the fourth quarter launch of our UMTS/HSDPA PC card and the planned launch of new UMTS/HSDPA products during 2006, we expect our sales to improve in Europe in 2006. Our business in the Asia-Pacific region has increased as a result of strong sales of CDMA EV-DO and EDGE PC cards.

In 2005, Cingular and Sprint each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 36% of our revenue. This compared favorably with the same period last year

in which two customers each accounted for more than 10% of our revenue and these two customers represented approximately 51% of our revenue.

Gross margin

Gross margin amounted to \$25.3 million in 2005. Of the total \$18.5 million restructuring and other charges that were recorded in the year, \$12.7 million has been deducted in calculating gross margin. Excluding this amount, gross margin amounted to \$38.0 million, or 35.4% of revenue, in 2005, compared to \$83.6 million, or 39.6% of revenue, in 2004. The decline in gross margin percentage resulted primarily from lower selling prices of our PC card products and the impact of lower volumes overall, offset slightly by the positive impact of a favorable product mix between higher margin PC cards and rugged mobiles versus lower margin embedded modules. During 2005, gross margin on the sale of previously written down Voq product was \$0.5 million, or 29.7%.

We expect our gross margin percentage to continue to fluctuate from quarter to quarter as a result of changes in product mix, volumes, competition, changes in geographical mix and changes in product cost.

Sales and marketing

Sales and marketing expenses were \$15.6 million in 2005, compared to \$20.0 million in 2004, a decrease of 22.4%. This decline reflects the impact of our business restructuring and continued cost containment. Sales and marketing expenses as a percentage of revenue increased to 14.5% in 2005, compared to 9.5% in 2004, due primarily to the decrease in revenue for fiscal 2005. While managing sales and marketing expenses in relation to top-line revenue, we will continue to make selected investments in sales and marketing as we market existing products, introduce new products and expand our distribution channels and focus on key customers around the world.

Research and development, net

Research and development expenses, net of conditionally repayable government research and development funding, amounted to \$30.4 million in 2005, compared to \$24.5 million in 2004, an increase of 23.8%.

Gross research and development expenses, before Government of Canada's Technology Partnerships Canada ("TPC") research and development funding, were \$31.3 million, or 29.2% of revenue in 2005, compared to \$27.2 million, or 12.9% of revenue, in 2004. Repayment of TPC funding of \$0.9 million was included in our gross research and development expenses in 2005, compared to \$1.9 million in 2004. Gross research and development expenses increased due to the development of new PC cards and embedded modules. With our decision to exit the Voq professional phone initiative, research and development expenditures and TPC funding associated with that initiative ceased.

During 2004, we signed a second agreement with the Government of Canada's Technology Partnerships Canada ("TPC") program under which we are eligible to receive conditionally repayable research and development funding up to Cdn. \$9.5 million to support the development of the Voq professional phone initiative. The agreement is effective for development work commencing April 2003. In 2005, funding of \$0.9 million was recognized. Funding of \$2.6 million was recognized during 2004, of which \$1.1 million relates to the period from April 1, 2003 to December 31, 2003. Our TPC funding is based on research and development work completed in each quarter. Unless the second agreement is otherwise renegotiated, with the termination of the Voq professional phone initiative no further TPC funding is anticipated.

Administration

Administration expenses amounted to \$10.8 million, or 10.1% of revenue, in 2005, compared to \$9.0 million, or 4.3% of revenue, in 2004. The increase of \$1.8 million is primarily due to the provision of \$1.0 million for future legal costs related to litigation matters and an increase in other professional fees. In addition, administration expenses in 2004 were net of recoveries from the bankruptcy trustees of Metricom, a former customer, of \$0.5 million, related to a settlement agreement, for which there was no comparable recovery in 2005.

Restructuring and other charges

During the second quarter of 2005, we decided to exit the Voq Professional Phone initiative and to implement certain non-Voq related reductions to our operating expenses and assets. During the fourth quarter we recorded additional charges primarily related to a change in estimate of our facilities restructuring originally announced in the second quarter of 2005. As a result, in the year we recorded restructuring and other charges of \$18.5 million, consisting of inventory writedowns, severance costs, impairment of fixed, intangible and deferred tax assets, provisions for facilities restructuring, commitments and other costs related to the restructuring. Of the total amount of \$18.5 million, \$5.3 million was charged to restructuring and other charges, \$12.7 million to cost of goods sold and \$0.5 million to income tax expense.

Other income

Other income increased to \$2.3 million in 2005, compared to \$1.7 million in 2004. Other income includes interest income, interest expense and foreign exchange gains and losses. This increase is due primarily to an increase in interest income from rising interest rates that was partially offset by a smaller investment balance and foreign exchange losses.

Income tax expense

During 2005 we had an income tax recovery of \$0.9 million, compared to income tax expense amounting to \$4.4 million in 2004. Income tax recovery, excluding the increase in our deferred tax asset valuation allowance of \$0.5 million recognized on the restructuring, was \$1.4 million. The income tax recovery is a result of the utilization of loss carrybacks to recover income taxes previously paid in 2004.

Net earnings (loss)

Our net loss amounted to \$36.5 million, or loss per share of \$1.44, in 2005, compared to net earnings of \$24.9 million, or diluted earnings per share of \$0.96, in 2004. Our net loss in 2005, excluding restructuring and other charges of \$18.5 million and the provision for future legal costs of \$1.0 million, was \$17.0 million, or loss per share of \$0.67.

The weighted average diluted number of shares outstanding decreased to 25.4 million in 2005 as compared to 26.1 million in 2004 because dilutive securities such as stock options are excluded from the total when we are in a loss position, as is the case in 2005.

Results of Operations – Three Months Ended December 31, 2005 Compared to Three Months Ended December 31, 2004

During the fourth quarter of 2005, our revenue decreased 36.1% to \$37.6 million, compared to \$58.8 million in the same period of 2004, primarily due to a decrease in sales of PC cards and embedded modules. PC card revenue decreased primarily due to the impact of increased competition in CDMA EV-DO PC cards, including a loss of market share at Verizon Wireless, and lower sales of legacy 2.5G products. Embedded module revenue decreased primarily due to the completion of shipments of embedded modules to palmOne for the Treo 600 at the end of 2004. In the fourth quarter of 2005, Cingular and Sprint each accounted for more than 10% of our revenue, and in the aggregate, these two customers represented 42% of our revenue.

Gross margin for the three months ended December 31, 2005 was 38.6%, compared to 38.8% in the same period of 2004. Gross margins in the quarter were favorably impacted by approximately \$1.2 million, or 3.2% of revenue, as a result of completing a royalty agreement with an intellectual property holder. This agreement finalized a cumulative royalty obligation that was less than we had previously expensed in our cost of goods sold. During the fourth quarter of 2005, revenue from the sale of previously written down Voq product was \$1.0 million and gross margin was \$0.2 million, or 25.7% of revenue.

Operating expenses were \$14.6 million in the fourth quarter of 2005, compared to \$15.8 million in the same period of 2004. This decline reflects the impact of our business restructuring and continued cost containment. Included in

our fourth quarter operating expenses were approximately \$0.6 million of additional amortization of patents and licenses related to the writedown of such assets, an additional restructuring charge of \$0.3 million primarily related to a change in estimate of our facilities restructuring and a positive recovery of approximately \$0.7 million from insurance proceeds related to an ongoing legal proceeding.

Net earnings for the fourth quarter decreased to \$0.9 million in 2005, or \$0.04 per diluted share, compared to \$7.3 million in 2004, or \$0.28 per diluted share. Our decline in net earnings was directly attributable to the decline in revenue and the related decline in gross margin as outlined above.

Results of Operations – Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenue

Revenue amounted to \$211.2 million for the year ended December 31, 2004, compared to \$101.7 million in 2003, an increase of 107.7%. The increase in revenue was due primarily to an increase in sales of PC cards and embedded modules, including sales of products formerly sold by AirPrime. During the year, we commenced commercial shipments of our new SmartPhone product, the Voq Professional Phone, as well as the AirCard 580 for CDMA 1xEV-DO networks, the AirCard 555R for CDMA networks in Asia, the MP555 for CDMA 1X, the MP775 for EDGE networks and the AirCard 775 for EDGE networks. We completed shipments of embedded modules to palmOne for the Treo 600 at the end of 2004. As a result, we expected that embedded module revenue as a percentage of revenue would decrease in the near term.

Our revenue from customers in the Americas, Europe and the Asia-Pacific region comprised 89%, 6% and 5%, respectively, of our total revenue in 2004 and 73%, 13% and 14%, respectively, in 2003. Our North American business increased significantly compared to the prior year as a result of strong sales of our PC card and embedded module products to North American customers. Our North American business mix continued to be dominated by near term demand from channels rather than by long-term, large volume commitments. In Europe, the deployment of EDGE and UMTS networks gained momentum and negatively affected our GSM/GPRS sales in that region as we did have EDGE products and but did not have a UMTS product. We expected to introduce our first UMTS/HSDPA product in the second half of 2005. In 2004, two customers individually accounted for more than 10% of our revenue and in aggregate these two customers represented 51% of our revenue.

Gross margin

Gross margin amounted to \$83.6 million in 2004, compared to \$41.2 million in 2003. Our gross margin percentage was 39.6% of revenue in 2004, compared to 40.5% of revenue in 2003. Changes in product mix resulted in a decline in margin for the year. During 2004, we sold \$0.2 million of products that had a net book value after writedowns of nil.

We expected our gross margin to continue to fluctuate from quarter to quarter as a result of changes in product mix, competitive pressures, changes in geographical mix and changes in product cost due to new product introductions.

Sales and marketing

Sales and marketing expenses were \$20.0 million in 2004, compared to \$11.6 million in 2003, an increase of 72.9%. The increase was due primarily to an increase in marketing development costs and costs related to new products, such as the Voq professional phone and products for EDGE networks. The addition of staff from the AirPrime acquisition also contributed to the increase. Sales and marketing expenses as a percentage of revenue decreased to 9.5% in 2004, compared to 11.4% in 2003, due primarily to the increase in 2004 revenue. We expected to continue to make significant investments in sales and marketing as we marketed existing products, introduced new products and continued to expand our distribution channels in the Americas, Europe and the Asia-Pacific region.

Research and development, net

Research and development expenses, net of conditionally repayable government research and development funding, amounted to \$24.5 million in 2004, compared to \$16.0 million in 2003, an increase of 53.4%.

Gross research and development expenses, before government research and development funding, were \$27.2 million or 12.9% of revenue in 2004, compared to \$16.5 million, or 16.2% of revenue, in 2003. Repayment of TPC funding of \$1.9 million was included in our gross research and development expenses in 2004, compared to nil in 2003. Gross research and development expenses increased due to the addition of staff and projects from the AirPrime acquisition and the development of new products, including EDGE products and the Voq professional phone. We expected our gross research and development expenses to continue to increase as we invest in next generation technology and develop new products.

During 2004, we signed a second agreement with the Government of Canada's Technology Partnerships Canada ("TPC") program under which we are eligible to receive conditionally repayable research and development funding up to Cdn. \$9.5 million to support the development of a range of third generation wireless technologies. The agreement is effective for development work commencing April 2003. Funding of \$2.6 million was recognized during 2004, of which \$1.1 million relates to the period from April 1, 2003 to December 31, 2003. We expected that our TPC funding would be based on eligible research and development work completed in each quarter.

Administration

Administration expenses amounted to \$9.0 million, or 4.3% of revenue, in 2004, compared to \$6.6 million, or 6.5% of revenue, in 2003. The increase of \$2.4 million was due primarily to an increase in professional fees, insurance costs and the addition of staff from the AirPrime acquisition. Included in administration expenses were recoveries from Metricom of \$0.5 million in each of 2004 and 2003 that were related to a settlement agreement.

Restructuring and other charges

In 2004 we did not incur any restructuring and other charges. In 2003, we incurred restructuring and other charges of \$1.2 million as a result of our acquisition of AirPrime. The charges included writedowns of fixed and intangible assets, severance costs for workforce reductions and a facilities restructuring charge.

Integration costs

In 2004 we did not incur any integration costs. In 2003, we incurred integration costs of \$1.9 million as a result of our acquisition of AirPrime. The charges included costs of existing staff and contractors retained for the transition period and costs related to integration activities. All of these employees and contractors completed their integration activities and were terminated by December 31, 2003.

Other income

Other income increased to \$1.7 million in 2004, compared to \$1.0 million in 2003. Other income includes interest income, interest expense and foreign exchange gains and losses. This increase was due to an increase in interest income from increased cash and investment balances and an increase in interest rates.

Income tax expense

Income tax expense amounted to \$4.4 million in 2004, compared to \$0.2 million in 2003. Income tax expense increased primarily due to taxes payable in the United States resulting from our increased earnings.

Net earnings

Our net earnings amounted to \$24.9 million, or diluted earnings per share of \$0.96, in 2004, compared to net earnings of \$2.3 million, or diluted earnings per share of \$0.12, in 2003.

The weighted average diluted number of shares outstanding increased to 26.1 million in 2004, primarily due to the issuance of shares in August 2003 related to the AirPrime acquisition and to our public offering in November 2003, as compared to 19.0 million in the same period of 2003.

Stock-Based Compensation

In 2005, the Board of Directors approved the accelerated vesting of certain “out-of-the-money” stock options previously granted under the Company’s stock option plan to participants other than board members and executive officers of the Company. The accelerated vesting of these options had the positive effect of rewarding those eligible participants during a challenging year as well as reducing the future expense associated with those options as a result of a change in United States GAAP. Effective January 1, 2006 for the Company, United States GAAP requires the expensing in the Company’s financial statements of the fair value of all stock-based compensation arrangements, including employee stock options. The expensing of the cost of employee stock options in the financial statements is in contrast to the practice prior to January, 2006 of providing supplemental pro forma disclosure in the footnotes to the financial statements of our income (loss) after giving effect to the employee stock-based compensation charge.

In aggregate, the vesting of stock options to purchase a total of 175,650 common shares with an exercise price of US\$14.25 (CAD\$16.82) per share or higher, being 25% above the trading price at the time of the Board of Directors’ approval of this initiative, was accelerated and those options became exercisable as of November 2005. These options would otherwise have vested over time periods ranging up to December 2008. The term of these options as well as their respective exercise price and number of common shares issuable on exercise remain unchanged.

By taking this accelerated vesting initiative now, a value of approximately \$2.3 million is recorded as a charge in the calculation of our supplemental footnote disclosure of our pro forma income (loss) in 2005. This will result in a reduction of our otherwise calculated stock-based compensation expense of approximately \$1.1 million in 2006, \$1.1 million in 2007 and \$0.1 million in 2008.

Contingent Liabilities

Sierra Wireless America, Inc., as successor to AirPrime, Inc., along with other defendants, has been served with the complaint of Joshua Cohen and David Beardsley and others, filed in the U.S. District Court for the Central District of California for alleged violations of federal and state securities laws allegedly occurring prior to the time AirPrime, Inc. was acquired by the Company. The plaintiffs filed the third amended complaint on July 7, 2005. In November of 2005, the District Court dismissed the third amended complaint, without prejudice, with respect to the Company and most of the other defendants. The plaintiffs did not file a fourth amended complaint and sought an order from the District Court dismissing the federal actions as to all defendants, with prejudice for the purposes of final judgment, however without prejudice to the state claims in the third amended complaint. The District Court so ordered on February 27, 2006. The plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit on March 8, 2006. We expect that it will be several months before they file their appeal brief. In December 2005, we were served with a similar class action complaint of David Beardsley and others, filed in the Superior Court of the State of California, County of San Diego, for alleged violations of state securities laws in connection with the same alleged facts. On February 6, 2006, we filed a Motion to Stay the state court action pending resolution of the nearly identical federal action. We expect the Motion to Stay will be heard by the San Diego Superior Court in late March, 2006. We have given notice to our liability insurance carrier, which has agreed to pay our costs of defense that exceed the policy’s retention amount, subject to a reservation of rights in the event it is determined that the carrier has no liability for this litigation and without conceding any liability for payment of loss. We have also submitted an escrow claim notice under the escrow agreement dated August 12, 2003 relating to the acquisition of AirPrime and the escrow shareholders are disputing their obligations with respect to this complaint. Although there can be no assurance that an unfavourable outcome of the dispute would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend them. The Company has determined that it is not possible to establish a reasonable estimate of the possible loss, or range of possible loss, if any.

The Company and certain of our current and former officers were named as defendants in several class action complaints filed in the U.S. District Court for the Southern District of New York and the U.S. District Court for the Southern District of California for alleged violations of federal securities laws. The actions filed in the U.S. District Court for the Southern District of California have been transferred to the U.S. District Court for the Southern District of New York. By order dated December 16, 2005, the U.S. District Court for the Southern District of New York consolidated all of the actions for pretrial purposes, appointed co-lead plaintiffs in the consolidated action, and

approved the selection of co-lead counsel. The plaintiffs filed their consolidated amended complaint on February 21, 2006 and the defendants have until early April to file their Motion to Dismiss. We have given notice to our liability insurance carrier, which has agreed to pay our costs of defense that exceed the policy's retention amount, subject to a reservation of rights in the event that it is determined that the carrier has no liability for this litigation. Although there can be no assurance that an unfavourable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend the lawsuits. The Company has determined that it is not possible to establish a reasonable estimate of the possible loss, or range of possible loss, if any. However, the Company believes that it is probable that the legal costs related to these complaints may exceed our policy retention amount of \$1.0 million. Accordingly, we accrued \$1.0 million in our results of operations for the year ended December 31, 2005.

On February 8, 2005, Sierra Wireless, Inc. was served with the first amended complaint of MLR, LLC filed in the U.S. District Court for the Northern District of Illinois Eastern Division for alleged patent infringement relating to our line of professional phones. We were added as a defendant in existing Civil Action No. 04 C 7044 MLR, LLC v. Kyocera Wireless Corporation and Novatel Wireless, Inc. Since that date, we have reached an agreement with MLR under which we received non-royalty bearing licenses to use all of MLR's present and future patents for all of our products and MLR released us from all claims related to their patent portfolio. MLR has dismissed all claims against us in the lawsuit.

We are engaged in other legal actions in the ordinary course of business and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, and we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, adequacy of allowance for doubtful accounts, adequacy of inventory reserve, income taxes and adequacy of warranty reserve. We base our estimates on historical experience and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates. Senior management has discussed with our audit committee the development, selection, and disclosure of accounting estimates used in the preparation of our consolidated financial statements.

During the year ended December 31, 2005, we did not adopt any new accounting policies that have a material impact on our consolidated financial statements or make changes to existing accounting policies.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

- We recognize revenue from sales of products and services upon the later of transfer of title or upon shipment of the product to the customer or rendering of the service, so long as collectability is reasonably assured. Customers include resellers, original equipment manufacturers, wireless service providers and end-users. We record deferred revenue when we receive cash in advance of the revenue recognition criteria being met.

A significant portion of our revenue is generated from sales to resellers. We recognize revenue on the portion of sales to certain resellers that are subject to contract provisions allowing various rights of return and stock rotation upon the earlier of when the rights have expired or the products have been reported as sold by the resellers.

Funding from research and development agreements, other than government research and development arrangements, is recognized as revenue when certain criteria stipulated under the terms of those funding agreements have been met and when there is reasonable assurance the funding will be received. Certain research and development funding will be repayable only on the occurrence of specified future events. If such events do not occur, no repayment would be required. We recognize the liability to repay research

and development funding in the period in which conditions arise that would cause research and development funding to be repayable.

Revenues from contracts with multiple-element arrangements, such as those including technical support services, are recognized as each element is earned based on the relative fair value of each element and only when there are no undelivered elements that are essential to the functionality of the delivered elements.

Revenue from licensed software is recognized at the inception of the license term and in accordance with Statement of Position 97-2, "Software Revenue Recognition". Revenue from software maintenance, unspecified upgrades and technical support contracts is recognized over the period such items are delivered or services are provided. Technical support contracts extending beyond the current period are recorded as deferred revenue.

- We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. We consider the following factors when determining if collection is reasonably assured: customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. If we have no previous experience with the customer, we typically obtain reports from credit organizations to ensure that the customer has a history of paying its creditors. We may also request financial information, including financial statements, to ensure that the customer has the means of making payment. If these factors indicate collection is not reasonably assured, revenue is deferred until collection becomes reasonably assured, which is generally upon receipt of cash. If the financial condition of any of our customers deteriorates, we may increase our allowance.
- We value our inventory at the lower of cost, determined on a first-in-first-out basis, and estimated net realizable value. We assess the need for an inventory writedown or an accrual for estimated losses on inventory purchase commitments based on our assessment of estimated market value using assumptions about future demand and market conditions. Our reserve requirements generally increase as our projected demand requirements decrease, due to market conditions, technological and product life cycle changes and longer than previously expected usage periods. If market conditions are worse than our projections, we may further writedown the value of our inventory or increase the accrual for estimated losses on inventory purchase commitments.
- We currently have intangible assets of \$10.7 million and goodwill of \$19.2 million generated from our acquisition of AirPrime in August 2003. Goodwill is tested for impairment annually, or more often, if an event or circumstance indicates that an impairment loss has been incurred.

The initial goodwill impairment test was completed during the fourth quarter of 2003, which resulted in no impairment loss. We assessed the realizability of goodwill related to our reporting unit during the fourth quarter of each of 2004 and 2005 and determined that the fair value exceeded the carrying amount of the reporting unit by a substantial margin. Therefore, the second step of the impairment test that measures the amount of an impairment loss by comparing the implied fair market value of the reporting unit goodwill with the carrying amount of the goodwill was not required.

- We evaluate our deferred income tax assets to assess whether their realization is more likely than not. If their realization is not considered more likely than not, we provide for a valuation allowance. The ultimate realization of our deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. We consider projected future taxable income and tax planning strategies in making our assessment. If our assessment of our ability to realize our deferred tax assets changes, we may make an adjustment to our deferred tax assets that would be charged to income.
- We accrue product warranty costs in accrued liabilities to provide for the repair or replacement of defective products. Our accrual is based on an assessment of historical experience and management's estimates. If we suffer a decrease in the quality of our products, we may increase our accrual.

- Under license agreements, we are committed to royalty payments based on the sales of products using certain technologies. We recognize royalty obligations as determinable in accordance with agreement terms. Where agreements are not finalized, we have recognized our current best estimate of the obligation in accrued liabilities. When the agreements are finalized, the estimate will be revised accordingly.
- We recorded a lease provision during 2002 that has been subsequently adjusted in the second and fourth quarters of 2005 as a result of our estimate of the net present value of the future cash outflows over the remaining lease period. The estimate was based on various assumptions, including the obtainable sublease rates and the time it will take to find a suitable tenant. These assumptions are influenced by market conditions and the availability of similar space nearby. If market conditions change, we will adjust our provision.
- We are engaged in certain legal actions. We estimate the range of liability related to pending litigation where the amount and range of loss can be reasonably estimated. We record our best estimate of a loss when the loss is considered probable. As additional information becomes available, we assess the potential liability relating to our pending litigation and revise our estimates.

Liquidity and Capital Resources

Operating Activities

Cash used by operating activities was \$17.2 million in 2005, compared to cash provided by operating activities of \$29.1 million in 2004. The use of cash in operating activities in 2005 primarily resulted from the loss for the year of \$36.5 million as adjusted for non-cash items, inventory levels and changes in other operating assets and liabilities of \$19.3 million. Our working capital decreased from December 31, 2004 as a result of the significant decline in our business and the cash costs of the business restructuring.

Investing Activities

Cash used by investing activities was \$50.0 million in 2005, compared to cash provided by investing activities of \$29.4 million in 2004. The use of cash in investing activities during 2005 was due primarily to the purchase, net of proceeds on maturity, of short-term investments of \$24.7 million and the purchase of long-term investments of \$14.9 million. Expenditures on intangible assets were \$2.1 million and on fixed assets were \$8.3 million in 2005, compared to \$2.1 million and \$7.1 million, respectively, in 2004. Expenditures on intangible assets were primarily for license fees and patents while capital expenditures were primarily for research and development equipment, tooling, computer equipment and software.

We do not have any trading activities that involve any type of commodity contracts that are accounted for at fair value but for which a lack of market price quotations necessitate the use of fair value estimation techniques.

Financing Activities

Cash used by financing activities was \$0.1 million in 2005, compared to cash provided by financing activities of \$3.0 million in 2004. The use of cash by financing activities in 2005 was for repayment of long-term liabilities, partially offset by proceeds on the exercise of stock options. The source of cash in 2004 was primarily from the issuance of common shares upon the exercise of stock options, offset slightly by repayments of our long-term liabilities.

As of December 31, 2005, we did not have any off-balance sheet finance or special purpose entities.

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, capital expenditures and other obligations discussed below. In the near term, we expect that our cash flow from operations will be negative. The cash costs of the June 2005 business restructuring totaled approximately \$6.3 million, of which approximately \$4.7 million was paid during 2005. We believe our cash, cash equivalents and short- and long-term investments of

\$104.1 million and cash generated from operations will be sufficient to fund our expected working and other capital requirements for at least the next twelve months based on current business plans. Our capital expenditures during 2006 are expected to be primarily for research and development equipment, tooling, licenses and patents. However, we cannot provide assurance that our actual cash requirements will not be greater than we currently expect.

The following table quantifies our future contractual obligations as of December 31, 2005:

<u>Payments due in fiscal</u>	<u>Operating</u> <u>Leases</u>	<u>Obligations</u> <u>under</u> <u>Capital</u> <u>Leases</u>	<u>Total</u>
2006.....	\$ 2,845	\$ 310	\$ 3,155
2007.....	2,922	7	2,929
2008.....	2,907	—	2,907
2009.....	2,228	—	2,228
2010.....	2,219	—	2,219
Thereafter	<u>1,343</u>	<u>—</u>	<u>1,343</u>
Total.....	<u>\$ 14,464</u>	<u>\$ 317</u>	<u>\$ 14,781</u>

We have entered into purchase commitments totaling approximately \$32.8 million with certain contract manufacturers under which we have committed to buy a minimum amount of designated products. In certain of these agreements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases. The terms of the commitment may require us to purchase approximately \$32.8 million of product from certain contract manufacturers between January 2006 and March 2006.

Sources and Uses of Cash

During 2005, we had an unsecured revolving demand facility for \$10.0 million that bears interest at prime per annum. The balance at December 31, 2005 was nil (2004 — nil).

As has been the case in the past several years, our business continues to be driven predominantly by short lead time purchase orders from channels and end customers rather than by long-term, large volume commitments. Our customers are typically under no contractual obligation to purchase our products. If they do not make such purchases, our future operating cash flow will be negatively impacted. We have a risk of impairment to our liquidity should there be any significant interruption to our business operations.

The source of funds for our future capital expenditures and commitments is cash, short-term investments, long-term investments, accounts receivable, research and development funding, borrowings and cash from operations, as follows:

- Net cash and short- and long-term investments amounted to \$104.1 million at December 31, 2005, compared to \$131.8 million at December 31, 2004.
- Accounts receivable amounted to \$20.5 million at December 31, 2005, compared to \$22.5 million at December 31, 2004.
- We have a \$10.0 million unsecured revolving demand facility with a Canadian chartered bank that bears interest at prime. At December 31, 2005, there were no borrowings under this facility.

Market Risk Disclosure

During the year ended December 31, 2005, 60% of our revenue was earned from United States-based customers. Our risk from currency fluctuations between the Canadian and U.S. dollar is reduced by purchasing inventory, other costs of sales and many of our services in U.S. dollars. We are exposed to foreign currency fluctuations because a significant amount of our research and development, marketing, and administration costs are incurred in Canada. We monitor our exposure to fluctuations between the Canadian and U.S. dollars. For the year ended December 31,

2005, we have recorded a foreign exchange loss of approximately \$1.0 million. As we have available funds and very little debt, we have not been materially adversely affected by significant interest rate fluctuations.

With respect to operations in Europe and the Asia-Pacific region, we transact business in additional foreign currencies and the potential for currency fluctuations is increasing. The risk associated with currency fluctuations between the U.S. dollar and foreign currencies in Europe and the Asia-Pacific region has been minimal as such transactions have not been material to date. As our business expands in Europe, we expect that we will be increasingly exposed to risks associated with the Euro. To date we have not entered into any futures contracts. To manage our foreign currency risks, we may enter into such contracts should we consider it to be advisable to reduce our exposure to future foreign exchange fluctuations.

Currently, we do not have any hedging activities or derivative instruments.

Related Party Transactions

During the year ended December 31, 2005, there were no material related party transactions.

Quarterly Results of Operations

The following tables set forth certain unaudited consolidated statements of operations data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements contained in our fiscal 2005 Annual Report. The unaudited consolidated statements of operations data presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These operating results are not necessarily indicative of results for any future period. You should not rely on them to predict our future performance.

2005	<u>Quarter Ended</u>				<u>Year 2005</u>
	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	
Revenue	\$ 20,180	\$ 21,930	\$ 27,474	\$ 37,560	\$107,144
Cost of goods sold	<u>13,055</u>	<u>27,852</u>	<u>17,883</u>	<u>23,058</u>	<u>81,848</u>
Gross margin	<u>7,125</u>	<u>(5,922)</u>	<u>9,591</u>	<u>14,502</u>	<u>25,296</u>
Expenses:					
Sales and marketing	4,289	4,331	2,963	3,968	15,551
Research and development, net	7,261	7,399	7,864	7,841	30,365
Administration	2,935	3,892	2,435	1,556	10,818
Restructuring and other charges	—	4,926	—	329	5,255
Amortization	<u>691</u>	<u>679</u>	<u>728</u>	<u>899</u>	<u>2,997</u>
	<u>15,176</u>	<u>21,227</u>	<u>13,990</u>	<u>14,593</u>	<u>64,986</u>
Earnings (loss) from operations	(8,051)	(27,149)	(4,399)	(91)	(39,690)
Other income	<u>535</u>	<u>220</u>	<u>659</u>	<u>863</u>	<u>2,277</u>
Earnings (loss) before income taxes	(7,516)	(26,929)	(3,740)	772	(37,413)
Income tax expense (recovery)	<u>78</u>	<u>(222)</u>	<u>(662)</u>	<u>(139)</u>	<u>(945)</u>
Net income (loss)	<u>\$ (7,594)</u>	<u>\$ (26,707)</u>	<u>\$ (3,078)</u>	<u>\$ 911</u>	<u>\$ (36,468)</u>
Earnings (loss) per share:					
Basic	\$ (0.30)	\$ (1.05)	\$ (0.12)	\$ 0.04	\$ (1.44)
Diluted	<u>\$ (0.30)</u>	<u>\$ (1.05)</u>	<u>\$ (0.12)</u>	<u>\$ 0.04</u>	<u>\$ (1.44)</u>
Weighted average number of shares (in thousands):					
Basic	25,358	25,364	25,381	25,439	25,385
Diluted	<u>25,358</u>	<u>25,364</u>	<u>25,381</u>	<u>26,111</u>	<u>25,385</u>

2004	<u>Quarter Ended</u>				<u>Year</u>
	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	<u>2004</u>
Revenue	\$ 41,641	\$ 51,595	\$ 59,149	\$ 58,820	\$211,205
Cost of goods sold	<u>24,839</u>	<u>30,680</u>	<u>36,107</u>	<u>35,974</u>	<u>127,600</u>
Gross margin	<u>16,802</u>	<u>20,915</u>	<u>23,042</u>	<u>22,846</u>	<u>83,605</u>
Expenses:					
Sales and marketing	4,173	4,386	5,604	5,866	20,029
Research and development, net	4,739	5,991	6,566	7,231	24,527
Administration	2,064	2,534	2,354	2,041	8,993
Amortization	<u>636</u>	<u>563</u>	<u>588</u>	<u>651</u>	<u>2,438</u>
	<u>11,612</u>	<u>13,474</u>	<u>15,112</u>	<u>15,789</u>	<u>55,987</u>
Earnings from operations.....	5,190	7,441	7,930	7,057	27,618
Other income (expense).....	<u>84</u>	<u>(40)</u>	<u>405</u>	<u>1,251</u>	<u>1,700</u>
Earnings before income taxes	5,274	7,401	8,335	8,308	29,318
Income tax expense.....	<u>704</u>	<u>1,384</u>	<u>1,268</u>	<u>1,042</u>	<u>4,398</u>
Net earnings	<u>\$ 4,570</u>	<u>\$ 6,017</u>	<u>\$ 7,067</u>	<u>\$ 7,266</u>	<u>\$ 24,920</u>
Earnings per share:					
Basic	\$ 0.18	\$ 0.24	\$ 0.28	\$ 0.29	\$ 0.99
Diluted	<u>\$ 0.18</u>	<u>\$ 0.23</u>	<u>\$ 0.27</u>	<u>\$ 0.28</u>	<u>\$ 0.96</u>
Weighted average number of shares (in thousands):					
Basic	24,986	25,221	25,301	25,339	25,212
Diluted	<u>26,027</u>	<u>26,248</u>	<u>26,087</u>	<u>25,891</u>	<u>26,064</u>

Our quarterly results may fluctuate from quarter to quarter because our operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter. The impact of significant items incurred during the first three interim periods of each fiscal year are discussed in more detail and disclosed in our quarterly reports on Form 6-K. Items affecting our quarterly results were as follows:

- Relative to the comparable periods in 2004, revenues decreased during the four quarters of 2005 due to a reduction in our embedded module business volumes as a result of the completion of embedded module shipments to palmOne at the end of 2004, reported channel inventory that was already sufficient to meet customer demand in the first part of 2005, and increased competition in CDMA EV-DO and EDGE PC cards, including a loss of market share at Verizon Wireless.
- Restructuring and other charges of \$18.2 million were incurred in the second quarter of 2005. Included in these charges are inventory writedowns, severance costs, impairment of fixed, intangible and deferred tax assets, provisions for facilities restructuring, commitments and other costs related to restructuring. We also recorded a provision of \$1.0 million for future legal costs associated with litigation matters.
- Revenues increased during 2004 and 2003 as a result of the introduction of new products, our strong market position in CDMA EV-DO Release 0 PC cards and our CDMA 1X embedded modules sales to palmOne.
- During the first quarter of 2004, we signed a second agreement with the Government of Canada's Technology Partnerships Canada ("TPC") program. The agreement is effective for development work commencing April 2003. Funding of \$1.4 million was recognized as a reduction to research and development expenses in the first quarter of 2004, of which \$1.1 million relates to the period from April 1, 2003 to December 31, 2003. Unless the second agreement is otherwise renegotiated, with the termination of the Voq professional phone initiative in the second quarter of 2005, no further TPC funding is anticipated.

Selected Annual Information

Years ended December 31,	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenue	\$101,709	\$211,205	\$107,144
Net earnings (loss)	2,255	24,920	(36,468)
Diluted earnings (loss) per share	0.12	0.96	(1.44)
Total assets	175,868	215,594	173,980
Total current and long-term portions of long term liabilities and obligations under capital lease	3,735	3,456	3,128

Forward-looking Statements

This report contains forward-looking information. These statements are not promises or guarantees but are only predictions that relate to future events or our future performance or state other forward-looking information and are subject to substantial risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed, anticipated or implied by the forward-looking information. These statements relate to, among other things, our revenue, earnings, plans, objectives and timing for the introduction or enhancement of our services and products, statements concerning strategies, developments, statements about future market conditions, supply conditions, channel and end customer demand conditions, projected or future revenues, gross margins, operating expenses, profits and other statements of expectations, intentions, objectives and plans that are not statements of historical facts. When used in this report, the words “may”, “plan”, “expect”, “believe”, “intends”, “anticipates”, “estimates”, “predicts” and similar expressions generally identify forward-looking information. Forward-looking information reflects our current expectations. The risk factors and uncertainties that may affect our actual results, performance or achievements are many and include, among others, our ability to develop, manufacture, supply and market new products that we do not produce today and that may not gain commercial acceptance, our reliance on the deployment of next generation networks by major wireless operators, and increased competition. These risk factors and others are discussed in our Annual Information Form which may be found on SEDAR at www.sedar.com and in our other regulatory filings with the Securities and Exchange Commission in the United States and the Provincial Securities Commissions in Canada. These factors should be reviewed carefully and you should not place undue reliance on any forward-looking information. Unless otherwise required by applicable securities laws, Sierra Wireless disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Risk Factors

Our business is subject to significant risks and past performance is no guarantee of future performance. Some of the risks we face are:

We have incurred net losses and if our efforts to restore the business to profitability are not successful, we may be required to further restructure or take other actions and our share price may decline.

As a result of the reduction in our business in 2005, we incurred a loss of \$36.5 million in the year. Our accumulated deficit at December 31, 2005 was \$82.9 million. While we had earnings from operations for each of the previous two years ended December 31, 2004 and 2003, we incurred a loss from operations in each of the three fiscal years ended December 31, 2000, 2001 and 2002.

Our ability to achieve and maintain profitability in the future will depend on, among other things, the success of our restructuring, the continued sales of our current products and the successful development and commercialization of new products. If we do not return to profitability, our total losses will increase and we may be required to further restructure our operations or raise additional capital. Additional financing may not be available, and even if available, may not be on acceptable terms. We may seek to raise additional capital through an offering of common shares, preference shares or debt, which may result in dilution, and/or the issuance of securities with rights senior to the rights, of the holders of common shares. As a result, our share price may decline.

Our revenues and earnings may fluctuate from quarter to quarter, which could affect the market price of our common shares.

Our revenues and earnings may vary from quarter to quarter as a result of a number of factors, including:

- The timing of releases of our new products;
- The timing of substantial sales orders and OEM and carrier customer sell through;
- Design win cycles in our embedded module business;
- The amount of inventory held by our channel partners;
- Competition from other market participants;
- Possible cyclical fluctuations related to the evolution of wireless technologies;
- Possible delays in the manufacture or shipment of current or new products;
- Concentration in our customer base; and
- Possible delays or shortages in component supplies.

Because our operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in our revenues and earnings in any given quarter. Therefore, our quarterly results are not necessarily indicative of our overall business, results of operations and financial condition. However, quarterly fluctuations in our revenues and earnings may affect the market price of our common shares.

We are subject to, and may in the future be subject to, certain class action lawsuits, which if decided against us, could require us to pay substantial judgments, settlements or other penalties.

In addition to being subject to litigation in the ordinary course of business, we are currently, and may in the future be, subject to class actions and other securities litigation and investigations. We expect that this type of litigation will be time consuming, expensive and distracting from the conduct of our daily business. It is possible that we will be required to pay substantial judgments, settlements or other penalties and incur expenses that could have a material adverse effect on our operating results, liquidity or financial position. Expenses incurred in connection with these lawsuits, which include substantial fees of lawyers and other professional advisors and our obligations to indemnify officers and directors who may be parties to such actions, could materially adversely affect our cash position. We do not know if any of this type of litigation and resulting expenses will be covered by insurance. In addition, these lawsuits may cause our insurance premiums to increase in future periods.

Competition from new or established wireless communication companies or from those with greater resources may prevent us from increasing or maintaining our market share and could result in price reductions and reduced revenues and gross margins.

The wireless industry is intensely competitive and subject to rapid technological change. We expect competition to intensify. More established and larger companies with greater financial, technical and marketing resources sell products that compete with ours. We also may introduce new products that will put us in direct competition with major new competitors. Existing or future competitors may be able to respond more quickly to technological developments and changes or may independently develop and patent technologies and products that are superior to ours or achieve greater acceptance due to factors such as more favorable pricing or more efficient sales channels. If we are unable to compete effectively with our competitors' pricing strategies, technological advances and other initiatives, our market share and revenues may be reduced. As an example, during the first quarter of 2005, one of the factors that caused a significant decline in CDMA EV-DO PC card revenue was increased competition and loss of market share.

If demand for our current products declines and we are unable to launch successful new products, our revenues will decrease.

If the markets in which we compete fail to grow, or grow more slowly than we currently anticipate, or if we are unable to establish markets for our new products, it would significantly harm our business, results of operations and financial condition. In addition, demand for one or all of our current products could decline as a result of competition, technological change or other factors.

If we are unable to design and develop new products that gain sufficient commercial acceptance, we may be unable to maintain our market share or to recover our research and development expenses and our revenues could decline.

We depend on designing, developing and marketing new products to achieve much of our future growth. Our ability to design, develop and market new products depends on a number of factors, including, but not limited to the following:

- Our ability to attract and retain skilled technical employees;
- The availability of critical components from third parties;
- Our ability to successfully complete the development of products in a timely manner; and
- Our ability to manufacture products at an acceptable price and quality.

A failure by us, or our suppliers, in any of these areas, or a failure of new products to obtain commercial acceptance, could mean we receive less revenue than we anticipate and we are unable to recover our research and development expenses, and could result in a decrease in the market price for our shares.

The loss of any of our material customers could adversely affect our revenues and profitability, and therefore shareholder value.

We depend on a small number of customers for a significant portion of our revenues. In the last three fiscal years, there have been five different customers that individually accounted for more than 10% of our revenues. In the year ended December 31, 2005, two customers individually accounted for more than 10% of our revenue and in the aggregate these two customers represented 36% of our revenue. If any of these customers reduce their business with us or suffer from business failure, our revenues and profitability could decline, perhaps materially.

We may not be able to continue to design products that meet our customer needs and, as a result, our revenue and profitability may decrease.

We develop products to meet our customers' requirements but, particularly with original equipment manufacturers, current design wins do not guarantee future design wins. If we are unable or choose not to

meet our customers' future needs, we may not win their future business and our revenue and profitability may decrease.

We depend on a limited number of third parties to manufacture our products and supply key components. If they do not manufacture our products properly or cannot meet our needs in a timely manner, we may be unable to fulfill our product delivery obligations and our costs may increase, and our revenue and margins could decrease.

We outsource the manufacture of our products to a limited number of third parties and depend heavily on the ability of these manufacturers to meet our needs in a timely and satisfactory manner. Some components used by us may only be available from a small number of suppliers, in some cases from only one supplier. We currently rely on two manufacturers, either of which may terminate the manufacturing contract with us at the end of any contract year. Our reliance on third party manufacturers and suppliers subjects us to a number of risks, including the following:

- The absence of guaranteed manufacturing capacity;
- Reduced control over delivery schedules, production yields and costs; and
- Inability to control the amount of time and resources devoted to the manufacture of our products.

If we are unable to successfully manage any of these risks or to locate alternative or additional manufacturers or suppliers in a timely and cost-effective manner, we may not be able to deliver products in a timely manner. In addition, our results of operations could be harmed by increased costs, reduced revenues and reduced margins.

We do not have fixed-term employment agreements with our key personnel and the loss of any key personnel may harm our ability to compete effectively.

None of our executive officers or other key employees has entered into a fixed-term employment agreement. Our success depends in large part on the abilities and experience of our executive officers and other key employees. Competition for highly skilled management, technical, research and development and other key employees is intense in the wireless communications industry. We may not be able to retain our current executive officers or key employees and may not be able to hire and transition in a timely manner experienced and highly qualified additional executive officers and key employees as needed to achieve our business objectives. The loss of executive officers and key employees could disrupt our operations and our ability to compete effectively could be adversely affected.

We may have difficulty responding to changing technology, industry standards and customer preferences, which could cause us to be unable to recover our research and development expenses and lose revenues.

The wireless industry is characterized by rapid technological change. Our success will depend in part on our ability to develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. Our products embody complex technology that may not meet those standards, changes and preferences. In addition, wireless communications service providers require that wireless data systems deployed on their networks comply with their own standards, which may differ from the standards of other providers. We may be unable to successfully address these developments in a timely basis or at all. Our failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause us to be unable to recover significant research and development expenses and reduce our revenues.

We depend on third parties to offer wireless data and voice communications services for our products to operate.

Our products can only be used over wireless data and voice networks operated by third parties. In addition, our future growth depends, in part, on the successful deployment of next generation wireless data and voice networks by third parties for which we are developing products. If these network operators cease to offer

effective and reliable service, or fail to market their services effectively, sales of our products will decline and our revenues will decrease.

Acquisitions of companies or technologies may result in disruptions to our business or may not achieve the anticipated benefits.

As part of our business strategy, we may acquire additional assets and businesses principally relating to or complementary to our current operations. Any acquisitions and/or mergers by us will be accompanied by the risks commonly encountered in acquisitions of companies. These risks include, among other things:

- Exposure to unknown liabilities of acquired companies, including unknown litigation related to acts or omissions of our acquired company and/or its directors and officers prior to the acquisition;
- Higher than anticipated acquisition and integration costs and expenses;
- Effects of costs and expenses of acquiring and integrating new businesses on our operating results and financial condition;
- The difficulty and expense of integrating the operations and personnel of the companies;
- Disruption of our ongoing business;
- Diversion of management's time and attention away from our remaining business during the integration process;
- Failure to maximize our financial and strategic position by the successful incorporation of acquired technology;
- The inability to implement uniform standards, controls, procedures and policies;
- The loss of key employees and customers as a result of changes in management;
- The incurrence of amortization expenses; and
- Possible dilution to our shareholders if the purchase price is paid in common shares or securities convertible into common shares.

In addition, geographic distances may make integration of businesses more difficult. We may not be successful in overcoming these risks or any other problems encountered in connection with any acquisitions. If realized, these risks could reduce shareholder value.

We may infringe the intellectual property rights of others.

The industry in which we operate has many participants that own, or claim to own, proprietary intellectual property. In the past we have received, and in the future may receive, claims from third parties alleging that we, and possibly our customers, violate their intellectual property rights. Rights to intellectual property can be difficult to verify and litigation may be necessary to establish whether or not we have infringed the intellectual property rights of others. In many cases, these third parties are companies with substantially greater resources than us, and they may be able to, and may choose to, pursue complex litigation to a greater degree than we could. Regardless of whether these infringement claims have merit or not, we may be subject to the following:

- We may be liable for potentially substantial damages, liabilities and litigation costs, including attorneys' fees;
- We may be prohibited from further use of the intellectual property and may be required to cease selling our products that are subject to the claim;
- We may have to license the third party intellectual property, incurring royalty fees that may or may not be on commercially reasonable terms. In addition, there is no assurance that we will be able to successfully negotiate and obtain such a license from the third party;

- We may have to develop a non-infringing alternative, which could be costly and delay or result in the loss of sales. In addition, there is no assurance that we will be able to develop such a non-infringing alternative;
- The diversion of management's attention and resources;
- Our relationships with customers may be adversely affected; and
- We may be required to indemnify our customers for certain costs and damages they incur in such a claim.

In the event of an unfavourable outcome in such a claim and our inability to either obtain a license from the third party or develop a non-infringing alternative, then our business, operating results and financial condition may be materially adversely affected and we may have to restructure our business.

Absent a specific claim for infringement of intellectual property, from time to time we have and expect to continue to license technology, intellectual property and software from third parties. There is no assurance that we will be able to maintain our third party licenses or obtain new licenses when required and this inability could materially adversely affect our business and operating results and the quality and functionality of our products. In addition, there is no assurance that third party licenses we execute will be on commercially reasonable terms.

Under purchase orders and contracts for the sale of our products we may provide indemnification to our customers for potential intellectual property infringement claims for which we may have no corresponding recourse against our third party licensors. This potential liability, if realized, could materially adversely affect our business, operating results and financial condition.

Misappropriation of our intellectual property could place us at a competitive disadvantage.

Our intellectual property is important to our success. We rely on a combination of patent protection, copyrights, trademarks, trade secrets, licenses, non-disclosure agreements and other contractual agreements to protect our intellectual property. Third parties may attempt to copy aspects of our products and technology or obtain information we regard as proprietary without our authorization. If we are unable to protect our intellectual property against unauthorized use by others it could have an adverse effect on our competitive position.

Our strategies to deter misappropriation could be inadequate due to the following risks:

- Non-recognition of the proprietary nature or inadequate protection of our methodologies in the United States, Canada or foreign countries;
- Undetected misappropriation of our intellectual property;
- The substantial legal and other costs of protecting and enforcing our rights in our intellectual property; and
- Development of similar technologies by our competitors.

In addition, we could be required to spend significant funds and our managerial resources could be diverted in order to defend our rights, which could disrupt our operations.

As our business expands internationally, we will be exposed to additional risks relating to international operations.

Our expansion into international operations exposes us to additional risks unique to such international markets, including the following:

- Increased credit management risks and greater difficulties in collecting accounts receivable;
- Unexpected changes in regulatory requirements, wireless communications standards, exchange rates, trading policies, tariffs and other barriers;
- Uncertainties of laws and enforcement relating to the protection of intellectual property;
- Language barriers; and

- Potential adverse tax consequences.

Furthermore, if we are unable to further develop distribution channels in Europe and the Asia-Pacific region we may not be able to grow our international operations and our ability to increase our revenue will be negatively impacted.

Government regulation could result in increased costs and inability to sell our products.

Our products are subject to certain mandatory regulatory approvals in the United States, Canada, the European Union and other regions in which we operate. In the United States, the Federal Communications Commission regulates many aspects of communications devices. In Canada, similar regulations are administered by the Ministry of Industry, through Industry Canada. European Union directives provide comparable regulatory guidance in Europe. Although we have obtained all the necessary Federal Communications Commission, Industry Canada and other required approvals for the products we currently sell, we may not obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or we may not be able to obtain regulatory approvals from countries other than the United States and Canada in which we may desire to sell products in the future.

Fluctuations in exchange rates between the United States dollar and other currencies, including the Canadian dollar may affect our operating results.

We are exposed to fluctuations in the exchange rate between the United States dollar and the Canadian dollar through our operations in Canada. To reduce our risk because of currency fluctuations, we purchase inventory, other cost of sales items and many of our services in United States dollars. If the Canadian dollar rises relative to the United States dollar, our operating results may be negatively impacted. To date, we have not entered into any foreign currency futures contracts as part of a hedging policy. We expect that as our business expands in Europe and the Asia-Pacific region, we will also be exposed to additional foreign currency transactions and to the associated currency risk. To date, we have not entered into any futures contracts.

EXHIBIT 99.6

AUDITED ANNUAL FINANCIAL STATEMENTS

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The management of Sierra Wireless, Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of information in the Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal controls to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded and that financial reports are properly maintained to provide accurate and reliable financial statements.

The Company's audit committee is comprised entirely of non-management directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review the consolidated financial statements and the independent auditors' report. The audit committee reported its findings to the Board of Directors, which has approved the consolidated financial statements.

The Company's independent auditors, KPMG LLP, have examined the consolidated financial statements and their report follows.

Jason W. Cohenour
President and Chief Executive Officer
January 26, 2006

David G. McLennan
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Sierra Wireless, Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards established by the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP
Chartered Accountants
Vancouver, Canada
January 26, 2006

SIERRA WIRELESS, INC.

Consolidated Statements of Operations

(Expressed in thousands of United States dollars, except per share amounts)

(Prepared in accordance with United States generally accepted accounting principles (GAAP))

	Years ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenue	\$101,709	\$211,205	\$107,144
Cost of goods sold	<u>60,551</u>	<u>127,600</u>	<u>81,848</u>
Gross margin	<u>41,158</u>	<u>83,605</u>	<u>25,296</u>
Expenses:			
Sales and marketing	11,585	20,029	15,551
Research and development, net (note 15)	15,994	24,527	30,365
Administration	6,597	8,993	10,818
Restructuring and other charges (note 4)	1,220	—	5,255
Integration costs (note 5)	1,947	—	—
Amortization	<u>2,327</u>	<u>2,438</u>	<u>2,997</u>
	<u>39,670</u>	<u>55,987</u>	<u>64,986</u>
Earnings (loss) from operations	1,488	27,618	(39,690)
Other income	<u>965</u>	<u>1,700</u>	<u>2,277</u>
Earnings (loss) before income taxes	2,453	29,318	(37,413)
Income tax expense (recovery) (note 14)	<u>198</u>	<u>4,398</u>	<u>(945)</u>
Net earnings (loss)	<u>\$ 2,255</u>	<u>\$ 24,920</u>	<u>\$(36,468)</u>
Earnings (loss) per share (note 16):			
Basic	\$ 0.12	\$ 0.99	\$ (1.44)
Diluted	<u>\$ 0.12</u>	<u>\$ 0.96</u>	<u>\$ (1.44)</u>

See accompanying notes to consolidated financial statements.

SIERRA WIRELESS, INC.

Consolidated Balance Sheets

(Expressed in thousands of United States dollars, except number of shares)
(Prepared in accordance with United States GAAP)

	<u>December 31,</u>	
	<u>2004</u>	<u>2005</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 131,846	\$ 64,611
Short-term investments (note 6)	—	24,724
Accounts receivable, net of allowance for doubtful accounts of \$1,561 (2004 - \$2,468)	22,506	20,540
Inventories (note 7).....	11,090	3,316
Prepaid expenses	<u>5,021</u>	<u>3,974</u>
	170,463	117,165
Long-term investments (note 6).....	—	14,762
Fixed assets (note 8)	10,044	11,647
Intangible assets (note 9)	14,208	10,693
Goodwill (note 9)	19,227	19,227
Deferred income taxes (note 14).....	500	—
Other assets.....	<u>1,152</u>	<u>486</u>
	<u>\$ 215,594</u>	<u>\$ 173,980</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable.....	\$ 4,122	\$ 3,971
Accrued liabilities.....	33,890	28,644
Deferred revenue and credits	461	422
Current portion of long-term liabilities (note 10)	758	894
Current portion of obligations under capital lease (note 11)	<u>664</u>	<u>304</u>
	39,895	34,235
Long-term liabilities (note 10).....	1,747	1,926
Obligations under capital lease (note 11)	287	4
Shareholders' equity:		
Share capital (note 12)		
Authorized		
Unlimited number of common and preference shares with no par value		
Common shares, 25,476,447 (2004 – 25,357,231) issued and outstanding	218,805	219,398
Additional paid-in capital	440	556
Warrants	1,538	1,538
Deficit	(46,389)	(82,857)
Accumulated other comprehensive loss	<u>(729)</u>	<u>(820)</u>
	<u>173,665</u>	<u>137,815</u>
	<u>\$ 215,594</u>	<u>\$ 173,980</u>

Commitments and contingencies (note 17)

See accompanying notes to consolidated financial statements.

JASON W. COHENOUR
Director

S. JANE ROWE
Director

SIERRA WIRELESS, INC.

Consolidated Statements of Shareholders' Equity

(Expressed in thousands of United States dollars, except number of shares)

(Prepared in accordance with United States GAAP)

	<u>Common Shares</u>		<u>Additional Paid-in Capital</u>	<u>Warrants</u>		<u>Deficit</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>		<u>Number</u>	<u>Amount</u>		<u>Other Comprehen- sive Loss</u>	
Balance December 31, 2002	16,345,396	\$ 123,047	\$ —	—	\$ —	\$(73,564)	\$ (729)	\$ 48,754
Net and comprehensive earnings.....	—	—	—	—	—	2,255	—	2,255
Issued for acquisitions (note 3)	3,708,521	22,377	—	—	—	—	—	22,377
Issued for cash (note 12).....	4,442,222	72,186	—	—	—	—	—	72,186
Share issue costs	—	(4,761)	—	—	—	—	—	(4,761)
Stock option exercises	325,932	1,198	—	—	—	—	—	1,198
Warrants issued.....	—	—	—	<u>138,696</u>	<u>1,538</u>	—	—	<u>1,538</u>
Balance December 31, 2003	24,822,071	214,047	—	138,696	1,538	(71,309)	(729)	143,547
Net and comprehensive earnings.....	—	—	—	—	—	24,920	—	24,920
Stock option tax benefit.....	—	—	440	—	—	—	—	440
Stock option exercises	<u>535,160</u>	<u>4,758</u>	—	—	—	—	—	<u>4,758</u>
Balance December 31, 2004	25,357,231	\$ 218,805	\$ 440	138,696	\$ 1,538	\$ (46,389)	\$ (729)	\$ 173,665
Net loss	—	—	—	—	—	(36,468)	—	(36,468)
Loss on short and long term investments	—	—	—	—	—	—	(91)	<u>(91)</u>
Comprehensive loss	—	—	—	—	—	—	—	<u>(36,559)</u>
Stock option tax benefit.....	—	—	116	—	—	—	—	116
Stock option exercises	<u>119,216</u>	<u>593</u>	—	—	—	—	—	<u>593</u>
Balance December 31, 2005	<u>25,476,447</u>	<u>\$ 219,398</u>	<u>\$ 556</u>	<u>138,696</u>	<u>\$ 1,538</u>	<u>\$ (82,857)</u>	<u>\$ (820)</u>	<u>\$ 137,815</u>

See accompanying notes to consolidated financial statements.

SIERRA WIRELESS, INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)
(Prepared in accordance with United States GAAP)

	Years ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Cash flows from operating activities:			
Net earnings (loss)	\$ 2,255	\$ 24,920	\$ (36,468)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities			
Amortization	5,669	6,915	9,012
Tax benefit related to stock option deduction	—	440	116
Non-cash restructuring and other charges	895	—	12,329
Loss (gain) on disposal	2	(66)	(41)
Accrued warrants	386	—	—
Changes in operating assets and liabilities			
Accounts receivable	(5,360)	(1,384)	1,967
Inventories	5,878	(9,579)	219
Prepaid expenses	(1,087)	(2,798)	891
Accounts payable	225	(1,844)	(151)
Accrued liabilities	5,296	12,437	(5,149)
Deferred revenue and credits	<u>101</u>	<u>62</u>	<u>75</u>
Net cash provided by (used in) operating activities	14,260	29,103	(17,200)
Cash flows from investing activities:			
Business acquisitions (note 3)	33	—	—
Proceeds on disposal	4	69	48
Purchase of fixed assets	(1,972)	(7,120)	(8,292)
Increase in intangible assets	(4,077)	(2,123)	(2,138)
Increase in other assets	—	(1,152)	—
Purchase of long-term investments	(24,639)	(21,369)	(14,851)
Proceeds on disposal of long-term investments	—	46,186	—
Purchase of short-term investments	(25,103)	(21,305)	(88,320)
Proceeds on maturity of short-term investments	<u>10,492</u>	<u>36,247</u>	<u>63,593</u>
Net cash (used in) provided by investing activities	(45,262)	29,433	(49,960)
Cash flows from financing activities:			
Issue of common shares, net of share issue costs	68,623	4,758	592
Repayment of long-term liabilities	<u>(2,104)</u>	<u>(1,806)</u>	<u>(667)</u>
Net cash provided by (used in) financing activities	<u>66,519</u>	<u>2,952</u>	<u>(75)</u>
Net increase in cash and cash equivalents	35,517	61,488	(67,235)
Cash and cash equivalents, beginning of year	<u>34,841</u>	<u>70,358</u>	<u>131,846</u>
Cash and cash equivalents, end of year	<u>\$ 70,358</u>	<u>\$ 131,846</u>	<u>\$ 64,611</u>

See supplementary cash flow information (note 18)

See accompanying notes to consolidated financial statements.

SIERRA WIRELESS, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003, 2004 and 2005

(Expressed in thousands of United States dollars, except share and per share amounts and number of shares)

(Prepared in accordance with United States GAAP)

1. Nature of operations

We were incorporated under the Canada Business Corporations Act on May 31, 1993. We provide leading edge wireless wide-area modem solutions for mobile computing over cellular networks. We develop and market a range of products that include wireless modems for mobile computers, embedded modules for original equipment manufacturers, and rugged vehicle-mounted modems. Our products permit users to access wireless data and voice communications networks using laptop computers, handheld mobile computing devices, or vehicle-based systems.

2. Significant accounting policies

Management has prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States.

(a) Principles of consolidation

Our consolidated financial statements include the accounts of Sierra Wireless, Inc. and its wholly-owned subsidiaries Sierra Wireless America, Inc. (formerly AirPrime, Inc. and Sierra Wireless Data, Inc.), Sierra Wireless (UK) Limited, Sierra Wireless (Asia Pacific) Limited, Sierra Wireless SRL and Sierra Wireless ULC from their respective dates of formation or acquisition. We have eliminated all significant intercompany balances and transactions.

(b) Foreign Currency Translation

Our functional or primary operating currency is the U.S. dollar. We translate transactions in currencies other than the U.S. dollar at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in a currency other than the U.S. dollar are translated at the exchange rates in effect at the balance sheet date. The resulting exchange rate gains and losses are recognized in earnings.

(c) Use of estimates

In preparing the financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"), management makes estimates and assumptions that affect the reported amounts of assets, particularly the recoverability of inventory, fixed assets, intangible assets, goodwill and deferred income taxes, and warranty accruals and other liabilities, and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

(d) Cash equivalents

Cash equivalents include short-term deposits, which are all highly liquid securities having a term to maturity of three months or less when acquired. We value our short-term deposits at amortized cost.

(e) Short-term investments

Short-term investments, all of which we categorize as available-for-sale, are carried at quoted market value. We reflect unrealized holding gains (losses) related to available-for-sale investments, after deducting amounts allocable

to income taxes, as part of accumulated other comprehensive income, a separate component of shareholders' equity. These gains (losses) are removed from comprehensive income (loss) when the investments mature or are sold on an item-by-item basis.

(f) Inventories

Inventories consist of electronic components and finished goods and are valued at the lower of cost, determined on a first-in-first-out basis, and estimated net realizable value.

(g) Research and development

We expense research and development costs as they are incurred. To date we have had no significant software development costs that would be required to be capitalized pursuant to Financial Accounting Standards ("FAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed".

We follow the cost reduction method of accounting for government research and development funding, whereby the benefit of the funding is recognized as a reduction in the cost of the related expenditure when certain criteria stipulated under the terms of those funding agreements have been met, and there is reasonable assurance the research and development funding will be received. Certain research and development funding is repayable only on the occurrence of specified future events. If such events do not occur, no repayment is required. We recognize the liability to repay research and development funding in the period in which conditions arise that will cause research and development funding to be repayable.

(h) Long-term investments

Long-term investments are categorized as available-for-sale and are carried at quoted market value. We reflect unrealized holding gains (losses) related to available-for-sale investments, after deducting amounts allocable to income taxes, as part of accumulated other comprehensive income (loss), a separate component of shareholders' equity.

(i) Fixed assets

We initially record fixed assets at cost. We subsequently provide amortization on a straight-line basis over the following periods:

Furniture and fixtures.....	5 years
Research and development equipment.....	3 years
Tooling.....	3 years
Software.....	3-5 years
Office equipment	5 years

We amortize leasehold improvements on a straight-line basis over the lower of their useful lives or lease terms.

(j) Intangible assets

Patents and trademarks

Consideration paid for patents and trademarks is amortized on a straight-line basis over three to five years commencing with the date the patents or trademarks are granted.

License fees

Consideration paid for license fees is amortized on a straight-line basis over the shorter of the term of the license or an estimate of their useful life, ranging from five to ten years.

Intellectual property, customer relationships and databases

Consideration paid for intellectual property, customer relationships and databases is amortized on a straight-line basis over three to five years.

Each of these intangible assets is subject to an impairment test as described in note 2(k).

(k) Goodwill

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to assets acquired and liabilities assumed in a business combination. Goodwill is allocated as of the date of the business combination to the reporting units that are expected to benefit from the synergies of the business combination.

Goodwill has an indefinite life, is not amortized and at least annually is subject to a two-step impairment test. The first step compares the fair value of the reporting unit to its carrying amount, which includes the goodwill. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. If the carrying amount exceeds the fair value, the second part of the test is performed to measure the amount of the impairment loss. The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of the goodwill. If the carrying amount exceeds the fair value of the goodwill, an impairment loss is recognized equal to that excess.

(l) Impairment of long-lived assets

We monitor the recoverability of long-lived assets, which includes fixed assets and intangible assets, other than goodwill, based on factors such as future asset utilization and the future undiscounted cash flows expected to result from the use of the related assets. Our policy is to record an impairment loss in the period when we determine that the carrying amount of the asset will not be recoverable. At that time the carrying amount is written down to fair value.

(m) Income taxes

We account for income taxes in accordance with FAS No. 109, "Accounting for Income Taxes", which requires the use of the asset and liability method. Under this method, deferred income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases (temporary differences). Changes in the net deferred tax asset or liability are generally included in earnings. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date. Deferred income tax assets are evaluated and if their realization is not considered "more-likely-than-not", a valuation allowance is provided.

(n) Stock-based compensation

We have elected under FAS No. 123, "Accounting for Stock-based Compensation", to account for employee stock options using the intrinsic value method. This method is described in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As we grant all stock options with an exercise price equal to the market value of the underlying common shares on the date of the grant, no compensation expense is required to be recognized under APB 25. FAS No. 123 uses a fair value method of calculating the cost of stock option grants. Had compensation cost for our employee stock option plan been determined by this method, our net earnings (loss) and earnings (loss) per share would have been as follows:

	<u>Years ended December 31,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net earnings (loss):			
As reported.....	\$ 2,255	\$ 24,920	\$ (36,468)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards.....	<u>(14,775)</u>	<u>(5,591)</u>	<u>(7,615)</u>
Pro forma	<u>\$ (12,520)</u>	<u>\$ 19,329</u>	<u>\$ (44,083)</u>
Basic earnings (loss) per share:			
As reported.....	\$ 0.12	\$ 0.99	\$ (1.44)
Pro-forma.....	(0.68)	0.77	(1.74)
Diluted earnings (loss) per share:			
As reported.....	\$ 0.12	\$ 0.96	\$ (1.44)
Pro-forma.....	(0.68)	0.75	(1.74)

We recognize the calculated benefit at the date of granting the stock options on a straight-line basis over the vesting period.

In 2005 the Board of Directors approved the accelerated vesting of certain “out-of-the-money” stock options previously granted under the Company’s stock option plan to participants other than board members and executive officers of the Company. In aggregate, the vesting of stock options to purchase a total of 175,650 common shares with an exercise price of US\$14.25 (CAD\$16.82) per share or higher, being 25% above the trading price at the time of the Board of Directors’ approved this initiative, was accelerated and these became fully exercisable in November 2005. These options would otherwise have vested over time periods ranging up to December 2008. By taking this accelerated vesting initiative, an incremental value of approximately \$2.3 million is included in the 2005 stock-based compensation shown above.

As a result of a voluntary option surrender initiative, the unrecognized stock compensation fair value of approximately \$6.0 million related to the surrendered options was expensed in the year ended December 31, 2003 in our pro forma disclosure.

We have estimated the fair value of each option on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	<u>Years ended December 31,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Expected dividend yield.....	0	0	0
Expected stock price volatility.....	102%	93%	85%
Risk-free interest rate.....	3.83%	3.76%	3.43%
Expected life of options	4 years	4 years	4 years

The average fair value of stock options granted during the year was \$5.94 (2004 – \$16.71, 2003 - \$7.56).

(o) Revenue recognition

We recognize revenue from sales of products and services upon the later of transfer of title or upon shipment of the product to the customer or rendering of the service, so long as collectibility is reasonably assured. Customers include resellers, original equipment manufacturers, wireless service providers and end-users. We record deferred revenue when we receive cash in advance of the revenue recognition criteria being met.

We recognize revenue on the portion of sales to certain resellers that are subject to contract provisions allowing various rights of return and stock rotation when the rights have expired or the products have been reported as sold by the resellers.

Funding from research and development agreements, other than government research and development arrangements, is recognized as revenue when certain criteria stipulated under the terms of those funding agreements have been met, and when there is reasonable assurance the funding will be received. Certain research and development funding will be repayable only on the occurrence of specified future events. If such events do not occur, no repayment would be required. We will recognize the liability to repay research and development funding in the period in which conditions arise that would cause research and development funding to be repayable.

Revenues from contracts with multiple-element arrangements, such as those including technical support services, are recognized as each element is earned based on the relative fair value of each element and only when there are no undelivered elements that are essential to the functionality of the delivered elements.

Revenue from licensed software is recognized at the inception of the license term and in accordance with Statement of Position 97-2, "Software Revenue Recognition". Revenue from software maintenance, unspecified upgrades and technical support contracts is recognized over the period such items are delivered or services are provided. Technical support contracts extending beyond the current period are recorded as deferred revenue.

(p) Warranty costs

We accrue warranty costs upon the recognition of related revenue, based on our best estimates, with reference to past and expected future experience (see note 17 (b)(v)).

(q) Market development costs

We accrue for co-op advertising costs upon the later of the recognition date of the related revenue or date at which the co-op advertising is available. Market development costs are recorded as marketing expense in accordance with the criteria in Emerging Issues Task Force 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of Vendor's Products)".

(r) Share issue costs

We reduce the value of consideration assigned to shares issued by the direct costs, net of income tax recoveries, of issuing the shares.

(s) Earnings (loss) per common share

We calculate basic earnings (loss) per share based on the weighted-average number of common shares outstanding for the year. If, in a reporting period, we have had outstanding dilutive stock options and warrants, we calculate diluted earnings (loss) per share using the treasury stock method.

(t) Comprehensive income

Under FAS No. 130, "Reporting Comprehensive Income", we are required to report comprehensive income (loss), which includes our net earnings (loss) as well as changes in equity from other non-owner sources. In our case, the other changes in equity included in comprehensive income (loss) are comprised of the foreign currency cumulative translation adjustments and unrealized gains or losses on available-for-sale investments. Comprehensive income (loss) is presented in the consolidated statements of shareholders' equity.

(u) Investment tax credits

Investment tax credits are now accounted for using the flow through method whereby such credits are accounted for as a reduction of income tax expense in the period in which the credit arises.

(v) Comparative figures

We have reclassified certain of the figures presented for comparative purposes to conform to the financial statement

presentation we adopted for the current year.

(w) Recent accounting pronouncements

In December 2004, the Financial Accounting Standards Board (“FASB”) issued revised Statement of Financial Accounting Standards No. 123R entitled “Share-Based Payment” (“FAS No. 123R”). This revised statement addresses accounting for stock-based compensation and results in the fair value of all stock-based compensation arrangements, including options, being recognized as an expense in a company’s financial statements as opposed to supplemental disclosure in the notes to financial statements. The revised Statement eliminates the ability to account for stock-based compensation transactions using APB Opinion No. 25. FAS No. 123R is effective for public entities that do not file as small business issuers as of the beginning of the first fiscal year that begins after June 15, 2005. We intend to adopt this standard in the period commencing January 1, 2006. The impact of FAS No. 123 on the year ended December 31, 2005 is disclosed in note 2(m). The impact of FAS No. 123R in 2006 is not yet determinable.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections” (“SFAS 154”), which replaces APB Opinion No. 20 “Accounting Changes” and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28.” SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, unless such an approach is impracticable in which case prospective application of the change is appropriate, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted in our first quarter of fiscal 2006. Prior to SFAS 154, most accounting changes were recorded effective at the beginning of the year of change, with the cumulative effect at the beginning of the year of change recorded as a charge or credit to earnings in the period a change was adopted. The impact of the adoption of SFAS 154 will have on our consolidated financial statements is not yet determinable.

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” (“FSP 115-1”), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005 and is required to be adopted in our first quarter of fiscal 2006. The impact of the adoption of FSP 115-1 will have on our consolidated financial statements is not yet determinable.

3. Acquisition of AirPrime, Inc.

On August 12, 2003 we acquired 100 percent of the outstanding securities of AirPrime, Inc. (“AirPrime”), a privately-held supplier of high-speed CDMA wireless products located in Carlsbad, California. We subsequently changed the name of AirPrime to Sierra Wireless America, Inc. The results of AirPrime’s operations have been included in our consolidated financial statements since that date.

The aggregate purchase price was \$23,825, including common shares valued at \$22,377 and costs related to the acquisition of \$1,448. The fair value of the 3,708,521 common shares issued was determined based on the average market price of Sierra Wireless, Inc.’s common shares over the two-day period before and after June 16, 2003, which was the date the terms of the acquisition were agreed to and announced. Under the terms of the escrow agreement dated August 12, 2003, 927,129 common shares were deposited into escrow. Of that number, 310,355 have been released and the balance of 616,774 common shares continue to be held in escrow.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets.....	\$ 4,716
Property and equipment.....	1,352
Intangible assets.....	5,270
Goodwill.....	<u>19,706</u>
Total assets acquired.....	31,044
Current liabilities.....	<u>7,219</u>
Net assets acquired.....	<u>\$ 23,825</u>

The following table presents details of the purchased intangible assets:

	<u>Estimated Useful Life (in years)</u>	<u>Aug 12, 2003 Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>
Intellectual property.....	5	\$ 3,780	\$ 1,795	\$ 1,985
Customer relationships.....	5	940	446	494
Licenses.....	5	400	195	205
Databases.....	5	<u>150</u>	<u>71</u>	<u>79</u>
Total purchased intangible assets.....		<u>\$ 5,270</u>	<u>\$ 2,507</u>	<u>\$ 2,763</u>

The estimated future amortization expense of purchased intangible assets is as follows:

<i>Fiscal Year</i>	<u>Net Amount</u>
2006.....	1,054
2007.....	1,054
2008.....	<u>655</u>
Total.....	<u>\$ 2,763</u>

If the acquisition of AirPrime had occurred as of January 1, 2002, the pro forma operating results may have been as follows:

	<u>2003</u>
Revenue.....	\$ 118,514
Net loss.....	(1,166)
Loss per share.....	\$ (0.05)

4. Restructuring and other charges

(a) 2005 Restructuring

In the second quarter 2005, we announced our decision to exit our Voq professional phone initiative. In addition to the exit of the Voq initiative, we made some non-Voq related reductions to our operating expenses and assets. During the quarter ended June 30, 2005, we incurred restructuring and other charges of \$18,206. In the fourth quarter of 2005 we recorded additional net charges of \$279, primarily related to a change in estimate of our facilities restructuring originally announced in the second quarter of 2005. In total, we incurred restructuring and other charges of \$18,485 as follows:

Included in:

	Total	Cost of Goods Sold	Income Tax Expense	Restructuring and Other	Other Expenses
Inventory writedown	\$ 8,556	\$ 8,556	\$ —	\$ —	\$ —
Provision for royalty commitments	2,749	2,749	—	—	—
Intangible assets writedown	2,435	—	—	2,435	—
Workforce reduction	1,507	60	—	1,447	—
Fixed assets writedown	913	715	—	198	—
Facilities restructuring.....	1,135	—	—	1,091	44
Deferred tax asset writedown.....	500	—	500	—	—
Other	690	606	—	84	—
Total restructuring and other charges	<u>\$ 18,485</u>	<u>\$ 12,686</u>	<u>\$ 500</u>	<u>\$ 5,255</u>	<u>\$ 44</u>

The inventory writedown of \$8,556 is related to the writedown of Voq components and finished goods.

The provision for royalty commitments of \$2,749 related to a writedown of prepaid royalties in the amount of \$937 and a further provision of \$1,812 for contractual royalty commitments.

Fixed and intangible assets impairment charges of \$913 and \$2,435, respectively, consisted of writedowns primarily for research and development equipment, test equipment and research and development licenses. The fixed assets and intangible assets, which were no longer required, were written down to nil.

We reduced our workforce by 51 employees, of which 32 were terminated during the second quarter of 2005 and 19 were on working notice. Workforce reduction charges of \$1,507 were related to the cost of severance and benefits associated with the 32 employees terminated during the second quarter of 2005. The 19 employees on working notice all ceased employment with us prior to year-end.

As a result of the above noted workforce reduction, an initial facilities restructuring provision of \$711 was recorded in the second quarter of 2005 to reflect the costs related to the leased facilities that are greater than our current requirements. As little progress was made on the facilities restructuring during the year, in the fourth quarter of 2005 an additional facilities restructuring charge of \$380 was recorded. This, coupled with a \$44 foreign exchange loss that is netted against Other Income (Expenses), results in a total charge for the year of \$1,135.

We have increased our deferred tax asset valuation allowance by \$500, thereby reducing our deferred tax asset to nil, to reflect the reduction in the portion of our deferred tax assets that we do not believe is more likely than not to be realized.

Other charges of \$690 include provisions for tooling purchase commitments that are no longer useable and professional fees incurred in connection with the restructuring activities.

Of the total \$18,485 restructuring and other charges, \$6,270 represents cash disbursements, of which \$5,876 were incurred in the second quarter of 2005 and an additional \$394 of which were incurred in the balance of the year. The following table summarizes the activity related to the cash portion of the 2005 restructuring and other charges during the period and the balance of the provision at December 31, 2005:

	Total	Cost of Goods Sold	Restructuring and Other
Second quarter 2005 restructuring.....	\$ 5,876	\$ 3,568	\$ 2,308
Additional facilities restructuring provision	380	—	380
Other adjustments.....	14	(93)	107
Cash payments	<u>(4,719)</u>	<u>(2,848)</u>	<u>(1,871)</u>
Balance at December 31, 2005	<u>\$ 1,551</u>	<u>\$ 627</u>	<u>\$ 924</u>

(b) Prior Restructurings

In the third quarter of 2003, we incurred restructuring and other charges as a result of our acquisition of AirPrime. During the year ended December 31, 2003, we recorded restructuring and other charges of \$1,220 as follows:

Fixed and intangible asset writedowns	\$ 605
Workforce reductions	325
Facilities restructuring	<u>290</u>
Total restructuring and other charges.....	<u>\$ 1,220</u>

The writedowns of fixed and intangible assets of \$605 were primarily for research and development equipment, test equipment and research and development licenses, which were no longer required. These assets were written down to nil. Workforce reduction charges of \$325 were related to the cost of severance and benefits associated with 11 employees whose employment was terminated. As of December 31, 2003, there were no remaining restructuring amounts to be paid related to workforce reductions. We also recorded an additional restructuring charge on facilities of \$290 as we made little progress in 2003 on a facilities restructuring that was originally announced in 2002.

In the last half of 2003, we also incurred integration costs of \$1,947 related to travel, facilities and costs related to eight existing employees who were retained for the transition period. These eight employees completed their integration activities and were terminated as of December 31, 2003 (see note 5).

The following table summarizes the provision for business restructuring programs initiated prior to 2005 and the balance of the provision at December 31, 2005 and December 31, 2004.

	<u>Facilities Restructuring</u>
Balance at December 31, 2003.....	\$ 3,594
Foreign exchange adjustment.....	289
Cash payments	<u>(1,378)</u>
Balance at December 31, 2004.....	2,505
Foreign exchange adjustment.....	154
Cash payments	<u>(759)</u>
Balance at December 31, 2005.....	<u>\$ 1,900</u>

5. Integration costs

In the third quarter of 2003, we also incurred integration costs related to the AirPrime acquisition of \$1,947, which included the costs of eight existing employees retained for the transition period. All of these employees completed their integration activities and were terminated as of December 31, 2003.

6. Investments

Investments, all of which are classified as available-for-sale, were comprised as follows:

	<u>Short-term</u>		<u>Long-term</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Government treasury bills.....	\$ —	\$ 4,439	\$ —	\$ —
Commercial paper.....	—	20,285	—	—
Government bonds.....	—	—	—	<u>14,762</u>
	<u>\$ —</u>	<u>\$ 24,724</u>	<u>\$ —</u>	<u>\$ 14,762</u>

Our short-term investments of \$24,724 (December 31, 2004 – nil) have contractual maturities ranging from three to

twelve months from the date of purchase. Our long-term investments of \$14,762 (December 31, 2004 – nil) have contractual maturities of one to two years when purchased.

7. Inventories

	<u>2004</u>	<u>2005</u>
Electronic components	\$ 5,276	\$ 1,675
Finished goods.....	<u>5,814</u>	<u>1,641</u>
	<u>\$11,090</u>	<u>\$ 3,316</u>

8. Fixed assets

	<u>Cost</u>	<u>2005</u> Accumulated Amortization and <u>Writedown</u>	<u>Net Book Value</u>
Furniture and fixtures	\$ 2,957	\$ 2,278	\$ 679
Research and development equipment	15,478	9,842	5,636
Tooling	11,097	8,326	2,771
Software.....	7,081	5,399	1,682
Leasehold improvements	2,451	1,916	535
Office equipment	<u>688</u>	<u>344</u>	<u>344</u>
	<u>\$ 39,752</u>	<u>\$ 28,105</u>	<u>\$ 11,647</u>

	<u>Cost</u>	<u>2004</u> Accumulated Amortization and <u>Writedown</u>	<u>Net Book Value</u>
Furniture and fixtures	\$ 2,825	\$ 1,802	\$ 1,023
Research and development equipment	11,393	8,324	3,069
Tooling	11,155	7,472	3,683
Software.....	6,095	4,401	1,694
Leasehold improvements	2,288	1,757	531
Office equipment	<u>350</u>	<u>306</u>	<u>44</u>
	<u>\$ 34,106</u>	<u>\$ 24,062</u>	<u>\$ 10,044</u>

As at December 31, 2005, assets under a capital lease with a cost of \$1,201 (2004 - \$1,222) and accumulated amortization of \$563 (2004 - \$179) are included in fixed assets.

9. Goodwill and intangible assets

Included in the acquisition of AirPrime in 2003 (see note 3) is goodwill of \$19,706 and intangible assets of \$5,270. The intangible assets acquired consisted of intellectual property, customer relationships, licenses, and databases. During 2004, goodwill decreased by \$479 due to the utilization of previously unrecognized pre-acquisition tax losses and certain purchase price adjustments.

The components of intangible assets at December 31, 2005 and 2004 are as follows:

	<u>Cost</u>	<u>2005 Accumulated Amortization and Writedown</u>	<u>Net Book Value</u>
Patents and trademarks	\$ 3,933	\$ 803	\$ 3,130
Licenses	13,051	8,046	5,005
Intellectual property	4,214	2,230	1,984
Customer relationships	940	445	495
Databases	<u>150</u>	<u>71</u>	<u>79</u>
	<u>\$ 22,288</u>	<u>\$ 11,595</u>	<u>\$ 10,693</u>

	<u>Cost</u>	<u>2004 Accumulated Amortization and Writedown</u>	<u>Net Book Value</u>
Patents and trademarks	\$ 3,482	\$ 382	\$ 3,100
Licenses	16,401	8,824	7,577
Intellectual property	4,214	1,474	2,740
Customer relationships	940	258	682
Databases	<u>150</u>	<u>41</u>	<u>109</u>
	<u>\$ 25,187</u>	<u>\$ 10,979</u>	<u>\$ 14,208</u>

The estimated aggregate amortization expense for each of the next five years is expected to be \$2,139 per year.

10. Long-term liabilities

	<u>2004</u>	<u>2005</u>
Facilities (note 4)	\$ 2,505	\$ 2,820
Less current portion	<u>758</u>	<u>894</u>
	<u>\$ 1,747</u>	<u>\$ 1,926</u>

Of the balance outstanding as at December 31, 2005, \$920 is from the 2005 restructuring and \$1,900 arises from prior restructurings (2004 – nil and \$2,505, respectively).

11. Obligations under capital lease

We lease research and development equipment, computer equipment and office furniture under capital leases, denominated in Cdn. dollars, and expiring at various dates in 2006 and 2007. As at December 31, 2005 our future minimum lease payments under capital leases were as follows:

	<u>Cdn.\$</u>	<u>U.S.\$</u>
2006	\$ 361	\$ 310
2007	<u>8</u>	<u>7</u>
	369	317
Less amount representing interest at approximately 11.8%	<u>10</u>	<u>9</u>
	359	308
Less current portion	<u>354</u>	<u>304</u>
	<u>\$ 5</u>	<u>\$ 4</u>

Interest expense on capital lease obligations for the year ended December 31, 2005 is \$43 (2004 - \$28).

12. Share capital

Stock option plan

Under the terms of our employee stock option plan, our Board of Directors may grant options to employees, officers and directors. The plan provides for granting of options at the fair market value of our stock at the grant date. Options generally vest over four years, with the first 25% vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each month thereafter. We determine the term of each option at the time it is granted, with options having a five year or a ten year term. Since February 1999, options have been granted with a five year term. During 2005, shareholders approved an amendment to the plan whereby the maximum number of shares available for issue under the plan is a rolling number equal to 10% of the number of issued and outstanding common shares from time to time, provided that no more than 1,600,000 common shares will be added to the number of common shares currently available for issue under the plan without the Company first obtaining shareholder approval. Prior to this amendment the number of shares available for issuance was a specified, fixed amount. Based on the number of shares outstanding as at December 31, 2005, stock options exercisable into 748,212 common shares are available for future allocation under the plan. Since this amendment to the plan through to December 31, 2005, 126,791 common shares have been added to the number of common shares currently available for issue under the plan, to be applied against the limit of 1,600,000 common shares.

Stock option activity since December 31, 2002 is presented below:

	Number of Shares	Weighted Average Exercise Price	
		Cdn.\$	U.S.\$
Outstanding, December 31, 2002.....	2,550,564	19.83	12.55
Granted	609,300	14.79	11.46
Exercised	(325,932)	4.90	3.80
Forfeited.....	<u>(1,107,572)</u>	54.86	42.53
Outstanding, December 31, 2003.....	1,726,360	11.58	8.98
Granted	566,813	30.77	25.43
Exercised	(535,160)	11.74	9.70
Forfeited.....	<u>(52,442)</u>	25.98	21.47
Outstanding, December 31, 2004.....	1,705,571	20.71	17.12
Granted	575,422	10.70	9.18
Exercised	(119,216)	5.34	4.58
Forfeited.....	<u>(362,344)</u>	31.71	27.21
Outstanding, December 31, 2005.....	<u>1,799,433</u>	18.48	15.86

<u>December 31,</u>	<u>Exercisable, end of year</u>
2003	714,345
2004	545,382
2005	959,717

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

<u>Range of Exercise Prices</u>	<u>Number of Shares</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>		
		<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>		<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>	
			<u>In years</u>	<u>Cdn.\$</u>		<u>U.S.\$</u>	<u>Cdn.\$</u>
\$0.77 - \$1.28 (Cdn.\$0.90 - Cdn.\$1.50)	21,398	2.0	\$ 1.50	\$ 1.29	21,398	\$ 1.50	\$ 1.29
\$1.29 - \$3.00 (Cdn.\$1.51 - Cdn.\$3.50)	203,830	1.6	3.45	2.96	194,549	3.31	2.84
\$3.01 - \$10.30 (Cdn.\$3.51 – Cdn.\$12.00)	373,319	3.6	9.29	7.97	109,702	8.13	6.98
\$10.30 - \$17.16 (Cdn.\$12.01 – Cdn.\$20.00)	437,958	3.6	15.34	13.16	121,593	15.73	13.50
\$17.17 - \$25.74 (Cdn.\$20.01 - Cdn.\$30.00)	459,178	2.6	23.51	20.17	373,797	22.93	19.67
\$25.75 - \$151.04 (Cdn.\$30.01 - Cdn.\$176.05)	<u>303,750</u>	3.1	38.01	32.61	<u>138,678</u>	35.41	30.38
	<u>1,799,433</u>	3.0	18.48	15.86	<u>959,717</u>	17.67	15.16

The options outstanding at December 31, 2005 expire between March 9, 2006 and October 28, 2010.

Employee Stock Purchase Plan

During 2005 we established employee stock purchase plans for U.S. and Canadian and other non-U.S employees (together, the “ESPP Plans”) to enable eligible employees and directors to acquire Common Shares over the facilities of the Toronto Stock Exchange and Nasdaq. The ESPP Plans do not allow the issuance of Common Shares from treasury. Eligible employees and directors may contribute up to 10% of base compensation to purchase Common Shares on the public markets. Under the U.S. plan, the purchase price to be paid by an eligible employee is 85% of the fair market value of the Common Shares, with us contributing the other 15%, plus any applicable commissions or transactional costs. The maximum number of Common Shares that can be purchased under the U.S. plan is 50,000 Common Shares. Under the non-U.S. plan we contribute an amount equal to 20% of the employee’s contribution, plus any applicable commissions or transactional costs. The ESPP Plans purchase shares at certain plan-defined dates. In 2005 participants purchased at total of 17,832 Common Shares at a weighted-average price of U.S.\$9.25 per share.

Warrants

There are outstanding warrants to purchase 138,696 of our common shares at Cdn. \$20.49 per share. The warrants are exercisable for a term of five years from December 30, 2003. The warrants were issued under our agreement with the Government of Canada’s Technology Partnerships Canada (“TPC”) program (see note 17(b)(iv)).

13. Financial instruments

Fair value of financial instruments

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and current portions of long-term liabilities, approximate their fair value due to their short maturities. Short and long term investments are carried at fair market value; their book values for December 31, 2005 were \$24,724 (2004 – nil) and \$14,762 (2004 – nil), respectively. Based on borrowing rates currently available to us for loans with similar terms, the carrying value of our obligations under capital lease and long-term liabilities approximates their fair value.

Concentrations of business risk

We depend on a small number of customers for a significant portion of our revenue. In 2005, two customers accounted individually for more than 10% of our revenue and, in aggregate, these customers represented 35% of our revenue. In the years ended 2004 and 2003, three different customers individually accounted for more than 10% of our revenue.

We maintain substantially all of our cash and cash equivalents with major financial institutions or government instruments. Corporate paper is uninsured. Our deposits with banks may exceed the amount of insurance provided on such deposits.

We outsource manufacturing of our products to third parties. We are dependent upon the development and deployment by third parties of their manufacturing abilities. The inability of any supplier or manufacturer to fulfill our supply requirements could impact future results. We have supply commitments to our outsource manufacturers based on our estimates of customer and market demand. Where actual results vary from our estimates, whether due to execution on our part or market conditions, we are at risk.

Financial instruments that potentially subject us to concentrations of credit risk are primarily accounts receivable. We perform on-going credit evaluations of our customer's financial condition and require letters of credit or other guarantees whenever deemed appropriate.

Although substantially all of our revenues are received in U.S. dollars, we incur operating costs and have obligations under capital leases that are denominated in Cdn. dollars. Fluctuations in the exchange rates between these currencies could have a material effect on our business, financial condition and results of operations. We mitigate this risk by denominating many of our payment obligations in U.S. dollars.

Line of credit

During 2005, we had an unsecured revolving demand facility for \$10,000, which bears interest at prime per annum. The balance at December 31, 2005 and 2004 was nil and this facility was not utilized at all during either of fiscal 2005 or fiscal 2004.

14. Income taxes

The composition of our deferred tax assets at December 31 is as follows:

	<u>2004</u>	<u>2005</u>
Deferred tax assets (liabilities)		
Fixed assets	\$ (1,026)	\$ 933
Loss carryforwards	6,623	19,601
Scientific research and development expenses	9,975	13,715
Share issue costs	1,110	737
Reserves and other	<u>3,357</u>	<u>3,287</u>
Total gross deferred tax assets	20,039	38,273
Less valuation allowance	<u>19,539</u>	<u>38,273</u>
Net deferred tax assets	<u>\$ 500</u>	<u>\$ —</u>

We believe that realization of our net deferred tax assets is currently not more likely than not. In assessing the realizability of our deferred tax assets, we considered whether it is more likely than not that some portion or all of our deferred tax assets will not be realized. The ultimate realization of our deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. We considered projected future taxable income and tax planning strategies in making our assessment.

At December 31, 2005, we had approximately \$26,741 of non-capital loss carryforwards for Canadian tax purposes that, if unutilized, will expire at various dates beginning in fiscal 2009 and ending in fiscal 2015. As well, we have approximately \$33,830 of scientific research and development expenditures available to be deducted against future Canadian taxable income that may be carried forward indefinitely and investment tax credits of approximately \$20,564 available to offset future Canadian federal and provincial income taxes payable. The investment tax credits expire commencing in 2010 until 2015.

In addition, at December 31, 2005, net operating loss carryforwards for our foreign subsidiaries were \$28,285 for United States income tax purposes and \$2,882 for U.K. income tax purposes. These carryforwards expire in various amounts commencing in 2019 through 2025. Our foreign subsidiaries may be limited in their ability to use foreign net operating losses in any single year depending on their ability to generate significant taxable income.

Effective tax rate

Our income tax expense for the year ended December 31 differs from that calculated by applying statutory rates for the following reasons:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Combined Canadian federal and provincial income taxes at expected rate of 34.85% (2004 - 35.6%, 2003 - 37.6%)	\$ 923	\$ 10,437	\$(13,038)
Permanent and other differences	(9)	(126)	468
Unrecognized tax assets	(635)	(5,780)	10,965
(Income) loss subject to tax at rates lower than statutory rate	(81)	(133)	160
Writedown of deferred tax asset	<u>—</u>	<u>—</u>	<u>500</u>
	<u>\$ 198</u>	<u>\$ 4,398</u>	<u>\$ (945)</u>

Our provisions for income taxes consist of the following:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Current			
Canadian	\$ 198	\$ 357	\$ (42)
Foreign	<u>—</u>	<u>4,041</u>	<u>(1,403)</u>
Total current.....	198	4,398	(1,445)
Deferred			
Canadian	—	(500)	500
Foreign	<u>—</u>	<u>500</u>	<u>—</u>
Total deferred.....	<u>—</u>	<u>—</u>	<u>500</u>
Income tax expense.....	<u>\$ 198</u>	<u>\$ 4,398</u>	<u>\$ (945)</u>

15. Research and development

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Gross research and development	\$16,471	\$27,170	\$31,258
Less government research and development funding	<u>477</u>	<u>2,643</u>	<u>893</u>
	<u>\$15,994</u>	<u>\$24,527</u>	<u>\$30,365</u>

Included in our gross research and development expense was a repayment of funding of \$865 (2004 - \$1,970; 2003 - \$258).

16. Earnings (loss) per share

The weighted-average number of shares outstanding (in thousands) used in the computation of earnings (loss) per share were as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Weighted-average shares used in computation of basic earnings (loss) per share	18,442	25,212	25,385
Weighted-average shares from assumed conversion of dilutive options	<u>547</u>	<u>852</u>	<u>—</u>
Weighted-average shares used in computation of diluted earnings (loss) per share	<u>18,989</u>	<u>26,064</u>	<u>25,385</u>

17. Commitments and contingencies

(a) Operating leases

We lease equipment and premises with minimum future lease payments denominated in Cdn. dollars at December 31, 2005 as follows:

	<u>Cdn.\$</u>	<u>U.S.\$</u>
2006	\$ 3,316	\$ 2,845
2007	3,406	2,922
2008	3,388	2,907
2009	2,597	2,228
2010	2,588	2,219
Thereafter.....	<u>1,565</u>	<u>1,343</u>
	<u>\$ 16,860</u>	<u>\$ 14,464</u>

(b) Contingent liability on sale of products

- (i) Under license agreements, we are committed to make royalty payments based on the sales of products using certain technologies. We recognize royalty obligations as determinable in accordance with agreement terms. Where agreements are not finalized, we have recognized our current best estimate of the obligation. When the agreements are finalized, the estimate will be revised accordingly.
- (ii) We are a party to a variety of agreements in the ordinary course of business under which we may be obligated to indemnify a third party with respect to certain matters. Typically, these obligations arise as a result of contracts for sale of our products to customers where we provide indemnification against losses arising from matters such as potential intellectual property infringements and product liabilities. The impact on our future financial results is not subject to reasonable estimation because considerable uncertainty exists as to whether claims will be made and the final outcome of potential claims. To date, we have not incurred material costs related to these types of indemnifications.
- (iii) Under certain research and development funding agreements, we are contingently liable to repay up to \$3,262. Repayment under these agreements is contingent upon reaching certain revenue levels for specified products.
- (iv) Under an agreement with the Government of Canada's Technology Partnerships Canada ("TPC") program, we have received Cdn. \$9,999 to support the development of a range of third generation wireless technologies. Under the terms of the agreement, an amount up to a maximum of Cdn. \$13,000 is to be repaid based on annual sales, in excess of certain minimum amounts, of specified products commencing in 2004. As all funds available under this program were earned prior to 2004, during the years ended December 31, 2005 and 2004, we claimed nil. During the year ended December 31, 2005, we have recorded, in research and development expense, the accrued repayment of \$847 (2004 - \$1,940; 2003 - nil). In addition, we issued warrants to TPC to purchase 138,696 common shares on December 30, 2003, valued at Cdn. \$2,000 based on the Black-Scholes option pricing model. The warrants are exercisable at Cdn. \$20.49 per share for a term of five years from December 30, 2003. As of December 31, 2005, no warrants have been exercised.

In March 2004, we entered into a second agreement with TPC under which we are eligible to receive conditionally repayable research and development funding up to Cdn. \$9,540 to support the development of a range of third generation wireless technologies. The agreement is effective April 2003. During the year ended December 31, 2005, we have claimed \$893 (2004 - \$2,643), which has been recorded as a reduction of research and development expense. Unless the second agreement is otherwise renegotiated, with the termination of the Voq professional phone initiative in the second quarter of 2005 no further TPC funding is anticipated. During the year ended December 31, 2005, we have recorded, in research and development expense, the accrued repayment of \$18 (2004 - nil). Under the terms of the agreement, repayment based on a percentage of annual sales, in excess of certain minimum amounts, will be made over the period from April 2003 to December 2011. The funding is repayable upon the occurrence of certain events of default, which include material change or insolvency events. If the payments during this period are less than Cdn. \$16,455, payments will continue subsequent to December 2011 until the earlier of when the amount is reached or December 2014. No repayments were made in 2005.

- (v) We accrue product warranty costs, when we sell the related products, to provide for the repair or replacement of defective products. Our accrual is based on an assessment of historical experience and on management's estimates. An analysis of changes in the liability for product warranties follows:

Balance, December 31, 2002.....	\$	1,163
Provisions		1,939
Increase due to acquisition (note 3)		418
Expenditures		<u>(1,179)</u>
Balance, December 31, 2003		2,341
Provisions		2,785
Expenditures		<u>(2,185)</u>
Balance, December 31, 2004.....	\$	2,941

Provisions	1,898
Expenditures	<u>(2,206)</u>
Balance, December 31, 2005	<u>\$ 2,633</u>

(c) Other commitments

We have entered into purchase commitments totaling approximately \$32,803 with certain contract manufacturers under which we have committed to buy a minimum amount of designated products between January 2006 and March 2006. In certain of these agreements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

(d) Legal proceedings

- (i) Sierra Wireless America, Inc., as successor to AirPrime, Inc., along with other defendants, has been served with the complaint of Joshua Cohen and David Beardsley and others, filed in the U.S. District Court for the Central District of California for alleged violations of federal and state securities laws allegedly occurring prior to the time AirPrime, Inc. was acquired by the Company. The plaintiffs filed the third amended complaint on July 7, 2005. In November of 2005, the District Court dismissed the third amended complaint, without prejudice, with respect to the Company and most of the other defendants. The plaintiffs did not file a fourth amended complaint and sought an order from the District Court dismissing the federal actions as to all defendants, with prejudice for the purposes of final judgment, however without prejudice to the state claims in the third amended complaint. The District Court so ordered on February 27, 2006. The plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit on March 8, 2006. We expect that it will be several months before they file their appeal brief. In December 2005, we were served with a similar class action complaint of David Beardsley and others, filed in the Superior Court of the State of California, County of San Diego, for alleged violations of state securities laws in connection with the same alleged facts. On February 6, 2006, we filed a Motion to Stay the state court action pending resolution of the nearly identical federal action. We expect the Motion to Stay will be heard by the San Diego Superior Court in late March, 2006. We have given notice to our liability insurance carrier, which has agreed to pay our costs of defense that exceed the policy's retention amount, subject to a reservation of rights in the event it is determined that the carrier has no liability for this litigation and without conceding any liability for payment of loss. We have also submitted an escrow claim notice under the escrow agreement dated August 12, 2003 relating to the acquisition of AirPrime and the escrow shareholders are disputing their obligations with respect to this complaint. Although there can be no assurance that an unfavourable outcome of the dispute would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend them. The Company has determined that it is not possible to establish a reasonable estimate of the possible loss, or range of possible loss, if any.
- (ii) The Company and certain of our current and former officers were named as defendants in several class action complaints filed in the U.S. District Court for the Southern District of New York and the U.S. District Court for the Southern District of California for alleged violations of federal securities laws. The actions filed in the U.S. District Court for the Southern District of California have been transferred to the U.S. District Court for the Southern District of New York. By order dated December 16, 2005, the U.S. District Court for the Southern District of New York consolidated all of the actions for pretrial purposes, appointed co-lead plaintiffs in the consolidated action, and approved the selection of co-lead counsel. The plaintiffs filed their consolidated amended complaint on February 21, 2006 and the defendants have until early April to file their Motion to Dismiss. We have given notice to our liability insurance carrier, which has agreed to pay our costs of defense that exceed the policy's retention amount, subject to a reservation of rights in the event that it is determined that the carrier has no liability for this litigation. Although there can be no assurance that an unfavourable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims are without merit and will vigorously defend the lawsuits. The Company has determined that it is not possible to establish a reasonable estimate of the possible loss, or range of possible loss, if any. However, the Company believes that it is probable that the legal costs related to these complaints may exceed our policy retention amount of \$1,000. Accordingly, we

accrued \$1,000 in our results of operations for the year ended December 31, 2005.

- (iii) On February 8, 2005, Sierra Wireless, Inc. was served with the first amended complaint of MLR, LLC filed in the U.S. District Court for the Northern District of Illinois Eastern Division for alleged patent infringement relating to our line of professional phones. We were added as a defendant in existing civil action No. 04 C 7044 MLR, LLC v. Kyocera Wireless Corporation and Novatel Wireless, Inc. Since that date, we have reached an agreement with MLR, under which we received non-royalty bearing licenses to use all of MLR's present and future patents for all of our products and MLR released us from all claims related to their patent portfolio. MLR has dismissed all claims against us in the lawsuit.
- (iv) In July 2001, Metricom, Inc. ("Metricom"), one of our customers, filed a Chapter 11 reorganization under the U.S. bankruptcy laws. We filed a proof of claim for amounts due to us totaling \$13,745. During 2002, we executed a global settlement with the reorganized debtor under which we agreed to reduce our general unsecured claim to \$10,250. We received a settlement of \$2,321 in 2003, of which \$513 was included in the determination of our net income for 2003 (2002 — \$1,808). In 2004, we received an additional \$513 that was included in our net income for 2004. In 2005, we have not received any additional proceeds from this settlement.
- (v) We are engaged in certain legal actions in the ordinary course of business and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

18. Supplementary information

	<u>2003</u>	<u>2004</u>	<u>2005</u>
(a) Cash flow information:			
Cash received			
Interest	\$ 500	\$ 1,660	\$ 2,792
Income taxes	24	4	1,590
Cash paid for			
Interest	62	32	59
Income taxes	62	2,649	470
Non-cash financing activities			
Purchase of fixed assets funded by obligations under capital lease.....	113	1,238	24
Issuance of common shares on acquisition (note 3).....	22,377	—	—
(b) Allowance for doubtful accounts:			
Opening balance	\$ 3,068	\$ 2,230	\$ 2,468
Acquisitions	62	—	—
Bad debt expense	375	366	(36)
Write offs and settlements	<u>(1,275)</u>	<u>(128)</u>	<u>(871)</u>
Closing balance.....	<u>\$ 2,230</u>	<u>\$ 2,468</u>	<u>\$ 1,561</u>
(c) Other:			
Rent expense.....	\$ 1,603	\$ 2,004	\$ 2,168
Foreign exchange gain (loss)	439	333	(951)

19. Segmented information

We operate in the wireless communications solutions industry and all sales of our products and services are made in this segment. Management makes decisions about allocating resources based on the one operating segment.

Revenues by product were as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Mobile.....	\$ 6,183	\$ 10,451	\$ 14,154
PC card	71,060	125,604	74,495
Embedded modules.....	20,961	70,044	13,419
Other	2,845	3,718	5,076
Research and development funding	<u>660</u>	<u>1,388</u>	<u>—</u>
	<u>\$101,709</u>	<u>\$211,205</u>	<u>\$107,144</u>

As at December 31, 2005, 43% (2004 - 47%) of our fixed assets are in Canada. In the year ended December 31, 2005, product sales in the Americas were 69% (2004 - 89%; 2003 - 73%).

We sell certain products through resellers, original equipment manufacturers, and wireless service providers who sell these products to end-users. The approximate sales to the significant channels are as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Customer A	less than 10%	less than 10%	\$ 17,545
Customer B	less than 10%	less than 10%	20,585
Customer C	less than 10%	\$ 55,718	less than 10%
Customer D	less than 10%	52,755	less than 10%
Customer E	\$ 18,044	less than 10%	less than 10%

20. Differences Between United States and Canadian Generally Accepted Accounting Principles (GAAP)

New Canadian securities regulations provide that financial statements filed by an SEC issuer may be prepared in accordance with United States GAAP provided that, if the SEC issuer previously filed or included in a prospectus financial statements prepared in accordance with Canadian GAAP, the issuer complies with certain disclosure requirements. Those requirements include explaining and quantifying the differences between Canadian and U.S. GAAP for the current and comparative periods presented.

The consolidated financial statements have been prepared in accordance with U.S. GAAP, which differ in certain material respects from those principles that would have been followed had our consolidated financial statements been prepared in accordance with Canadian GAAP. The following is a reconciliation of the net earnings (loss) between U.S. GAAP and Canadian GAAP for the years ended December 31, 2005, 2004, and 2003:

The Canadian GAAP consolidated financial statements follow the same accounting policies and methods of application as our annual consolidated financial statements.

	<u>Year ended December 31</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net earnings (loss) under U.S. GAAP	\$ 2,255	\$ 24,920	\$ (36,468)
Stock-based compensation expense (a)	(14,775)	(5,591)	(7,615)
Unrealized loss on short and long-term investments (d)	—	—	(91)
Stock option tax benefit difference (h)	—	51	75
Net earnings (loss) under Canadian GAAP	<u>\$ (12,520)</u>	<u>\$ 19,380</u>	<u>\$ (44,099)</u>
Earnings (loss) per share under Canadian GAAP			
Basic	\$ (0.68)	\$ 0.77	\$ (1.74)
Diluted	\$ (0.68)	\$ 0.75	\$ (1.74)

The most significant balance sheet differences between U.S. GAAP and Canadian GAAP are as follows:

	<u>December 31</u>	
	<u>2004</u>	<u>2005</u>
Share Capital, U.S. GAAP	\$ 218,805	\$ 219,398
Stock-based compensation expense (a)	3,762	4,250
Foreign currency translation (g)	(1,223)	(1,223)
Share Capital, Cdn. GAAP	<u>\$ 221,344</u>	<u>\$ 222,425</u>
Additional paid-in capital, U.S. GAAP	\$ 440	\$ 556
Stock-based compensation expense (a)	40,833	47,960
Stock option tax benefit difference (h)	(51)	(126)
Additional paid-in capital (Contributed surplus), Cdn. GAAP	<u>\$ 41,222</u>	<u>\$ 48,390</u>
Deficit, U.S. GAAP	\$ (46,389)	\$ (82,857)
Foreign currency translation (g)	978	978
Stock-based compensation expense (a)(i)	(44,595)	(52,210)
Unrealized loss on short and long-term investments (d)	—	(91)
Stock option tax benefit difference (h)	51	126
Deficit, Cdn. GAAP	<u>\$ (89,955)</u>	<u>\$ (134,054)</u>
Cumulative translation adjustments, U.S. GAAP	\$ (729)	\$ (820)
Foreign currency translation (g)	245	245
Loss on short and long-term investments (d)	—	91
Cumulative translation adjustments, Cdn. GAAP	<u>\$ (484)</u>	<u>\$ (484)</u>

(a) Stock-based compensation

- (i). Under U.S. GAAP, we have elected under FAS No. 123, "Accounting for Stock-based Compensation", to account for employee stock options using the intrinsic value method. This method is described in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As we grant all stock options with an exercise price equal to the market value of the underlying common shares on the date of the grant, no compensation expense is required to be recognized under APB 25.
- (ii). Effective January 1, 2004, under Canadian GAAP, we adopted the fair value recognition provisions of the amended Canadian Institute of Chartered Accountants Handbook ("HB") 3870, "Stock-based Compensation and Other Stock-based Payments" ("HB 3870"), which requires recognition of an estimate

of the fair value of stock-based awards in earnings. We have retroactively applied HB 3870, with restatement of prior periods to record the compensation cost that would have been recognized had the fair value recognition provisions of HB 3870 been applied to all awards granted to employees since the inception of the stock option plan.

(b) Research and development

Under U.S. GAAP, we expense research and development costs as they are incurred. Under Canadian GAAP, we expense research costs as they are incurred. Development costs are expensed unless they meet certain specified criteria for deferral and amortization. No development costs have been deferred during the years ended December 31, 2005, 2004, and 2003, as the criteria for deferral were not met.

(c) Other comprehensive income

Under U.S. GAAP, we report comprehensive income or loss in accordance with the provisions of Statement of Financial Accounting Standards No. 130 entitled "Reporting Comprehensive Income". Under Canadian GAAP, we are not required to report comprehensive income or loss.

(d) Short and long-term investments

Under U.S. GAAP, Statement of Financial Accounting Standards No. 115 entitled "Accounting for Certain Investments in Debt and Equity Securities", prescribes that available-for-sale investments are marked to market with the resulting unrealized gains (losses) being recorded in other comprehensive income, and subsequently reclassified to earnings at the time they are realized. Under Canadian GAAP, these investments are carried at the lower of cost and quoted market value, with unrealized losses recorded in net earnings (loss).

(e) Future income taxes

Under U.S. GAAP, tax rates applied in the calculation of future income taxes are those rates that are passed into law. Under Canadian GAAP, substantively enacted tax rates are used. There has been no impact to any of the numbers in the years ended December 31, 2003, 2004 and 2005.

(f) Investment tax credits

Under U.S. GAAP, investment tax credits are accounted for using the flow through method whereby such credits are accounted for as a reduction of income tax expense in the period in which the credit arises. Under Canadian GAAP, investment tax credits are accounted for using the cost reduction method whereby such credits are deducted from the expenses or assets to which they relate in the period in which their recoverability is reasonably assured. During the years ended December 31, 2003, 2004 and 2005, no investment tax credits were recorded.

(g) Foreign currency translation

During the year ended December 31, 1999, the Company changed its reporting and functional currency from Canadian dollars to U.S. dollars. Under U.S. GAAP, the shareholders' equity accounts were translated into U.S. dollars at the rate in effect at the original transaction date, while under Canadian GAAP, all amounts were translated into U.S. dollars at the rate in effect on December 31, 1999.

(h) Stock option tax deduction

The tax benefit related to the stock option deduction is calculated as the difference between the cumulative accounting deduction and the tax deduction. Because the accounting deduction is calculated differently under U.S. and Canadian GAAP, as discussed in note 20(a), the tax benefit recorded for accounting purposes is also different under each GAAP.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Sierra Wireless, Inc.

We consent to the use of our report dated January 26, 2006 included in this annual report on Form 40-F

/s/ KPMG LLP

Vancouver, Canada
January 26, 2006