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# Q1 2007

FIRST QUARTER REPORT

FOR THE THREE MONTHS ENDED MARCH 31



## Report to Shareholders

The first quarter of 2007 was a period of record revenue, improved profitability, new product launches and strategic milestones.

Our improved revenue results were primarily driven by increased sales of our newer HSDPA and EV-DO AirCard products. Our strong top-line growth, combined with a higher gross margin, helped drive operating profit of \$5.5 million, our best quarterly operating profit in more than two years. We also generated \$10.0 million of cash from operations during the quarter.

The first quarter was also a busy period for new products launches. We commenced initial commercial shipments of our third-generation rugged mobile products for both HSDPA and EV-DO high-speed wireless networks, and our new USB modems for HSDPA. We also announced an agreement with Sprint to launch our new EV-DO USB modem on the Sprint Mobile Broadband Network. We expect that these new products will be important contributors to our financial results in the coming quarters. In the second quarter we expect to commence commercial shipments of our new ExpressCard product, the AirCard 597E for EV-DO. We also expect to commence commercial shipments of our new HSUPA PC cards, ExpressCards and embedded modules midway through the year.

While executing operationally, we also achieved an important strategic milestone, announcing the completion of a definitive agreement to acquire AirLink Communications, Inc. We expect that the acquisition of AirLink will expand our high gross margin product lines and help establish us as a leader in the rugged mobile and machine-to-machine (“M2M”) connectivity segments.

### Q1 2007 Results Compared to Q1 2006

For the three months ended March 31, 2007, our revenues increased by 89% to \$85.4 million, from \$45.2 million in the same period of 2006. This increase was the result of continued growth in sales of our HSDPA and EV-DO AirCard and embedded module products.

During the quarter, gross margin was 27.3% of revenue, compared to 36.8% in Q1 2006. The year-over-year change in gross margin percentage reflects increased product costs of our newer AirCard products, increased sales of lower margin embedded module products and a reduction in sales of our higher margin rugged mobile and legacy AirCard products. We believe our market is transitioning from a niche, low volume,

high gross margin segment to a mainstream, high volume, lower gross margin segment. We have been able to rapidly transition our business to this new model while maintaining profitability.

First quarter operating expenses were \$17.8 million in 2007, compared to \$14.8 million in 2006. Net earnings increased to \$5.3 million (diluted earnings per share of \$0.20) in Q1 2007, from \$2.6 million (diluted earnings per share of \$0.10) in the same period of 2006.

### Q1 Results Compared to Guidance

Our first quarter results exceeded guidance levels. Revenue of \$85.4 million was higher than our guidance of \$82.0 million. Earnings from operations of \$5.5 million significantly exceeded our guidance of \$2.5 million. Net earnings of \$5.3 million (diluted earnings per share of \$0.20), were much better than our guidance of net earnings of \$3.0 million (diluted earnings per share of \$0.12).

### Business Developments

The first quarter of 2007 included a number of business and corporate developments:

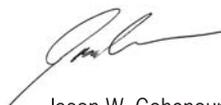
- We announced a definitive agreement to acquire AirLink Communications, Inc. Located in Hayward, California, AirLink is a privately held supplier of high-value fixed and mobile wireless data solutions for industrial and public safety applications. Under the terms of the agreement, we will pay \$10.0 million of cash consideration, subject to customary closing adjustments, and will issue approximately 1.3 million common shares of Sierra Wireless to the shareholders of AirLink. We expect the acquisition to close by the end of June 2007.
- We announced an agreement with Sprint to supply our new AirCard 595U USB modem for use on the Sprint Mobile Broadband EV-DO Rev A Network. The Sprint Mobile Broadband USB Modem (AirCard 595U) is now available through Sprint sales channels, including retail stores.
- We announced commercial availability of the AirCard 875 with Telefónica Móviles España. Telefónica was the first European network operator to launch our AirCard 875 PC card.

- We announced that debitel has added our AirCard 875 to its SURF@go product line to provide connectivity to 3G and HSDPA networks in Germany.
- We announced that the AirCard 875 is available in Australia through Telstra for use on Telstra's Next G™ HSDPA network.
- We announced that the Sierra Wireless AirCard 595 wireless wide-area network card will be the first card available in Canada capable of operating on TELUS' High Speed EV-DO Rev A network.
- FlipStart Labs selected our embedded modules to provide mobile broadband connectivity to the FlipStart super compact PC, which features a unique small clamshell design and full Windows support.
- Fujitsu Siemens Computers selected our MC8780 embedded module for integration into its LIFEBOOK P7230 professional notebook. The LIFEBOOK P7230 is the first in the Fujitsu Siemens product line to migrate to our HSUPA module and is expected to begin commercial shipments in Europe this summer.
- Dialogue Technology Corp. selected our MC8775V voice-enabled embedded module to provide integrated high-speed wireless HSDPA connectivity for its FlyBook line of ultra-portable notebook computers.
- We announced that Cisco Systems has integrated our 3G embedded modules into the new Cisco 3G Wireless Wide Area Network (WWAN) High-Speed WAN Interface Card (HWIC) solution for Cisco Integrated Services Routers. The new 3G Wireless HWIC solution is expected to deliver WAN fail-over and rapid deployment capability to new and existing Cisco Integrated Services Routers.
- Isochron selected our embedded modules to provide high-speed wireless connectivity for its innovative VendCast vending management solution.
- In response to increased customer activity in the Europe, Middle East and Africa region ("EMEA"), we expanded our relationship with our manufacturing partner, Flextronics, to add a configuration and distribution center for our products in Zalaegerszeg, Hungary. The Zalaegerszeg Center is now operational and supporting configuration, customization, packout, warehousing and reverse logistics for our EMEA customers.
- We introduced new AirCards and embedded modules for HSUPA networks. The new HSUPA networks will improve the speed at which mobile users can work, supporting theoretical uplink speeds of 2 Mbps and downlink speeds of 7.2 Mbps. We expect to commence commercial shipments of our new HSUPA PC cards, ExpressCards and embedded modules in mid-2007.

## Outlook

Looking forward, we believe the long-term prospects in the wide area wireless for mobile computing industry remain strong, driven by the accelerating worldwide deployment and promotion of high-speed mobile broadband networks. We view these developments as important growth catalysts for our business.

We believe that our current product portfolio and expanded roster of channels, combined with more new product releases and the addition of AirLink Communications, will drive continued revenue growth and improving profitability during 2007. I look forward to reporting to you on our continued progress in the months ahead.



Jason W. Cohenour  
President and Chief Executive Officer

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Certain statements in this report 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 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 report 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 or 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, 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](http://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. Many of these factors and uncertainties are beyond the control of the Company. Consequently, all forward-looking statements in this report 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.

# 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 May 3, 2007, has been prepared in accordance with accounting principles generally accepted in the United States (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](http://www.sedar.com).

## Overview

We provide leading edge wireless wide area modem solutions for mobile computing. 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. We also offer professional services to OEM customers during product development, leveraging our expertise in wireless design and integration to provide built-in wireless connectivity for notebook computers and other portable computing devices. Our products permit users to access wireless data and voice communications networks using laptop computers, handheld mobile computing devices, vehicle-based systems or fixed wireless terminals.

Wide area wireless for mobile computing 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 widely deployed cellular technologies and operate on the networks of major wireless operators around the world.

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

During 2006, we launched eight new products, including our UMTS/HSDPA AirCard® 875, UMTS/HSDPA MC8775 embedded module, EV-DO Revision A AirCard 595 and EV-DO Revision A MC5725 embedded module. These new product launches contributed significantly to our record annual revenue of \$221.3 million for 2006. We also expanded our global channels of distribution, adding important wireless operator channels like Orange, O2, Telefonica and Telstra, while solidifying our position with key existing customers such as AT&T (formerly Cingular

Wireless), Sprint and Verizon. We also expanded our OEM channels and, by the end of the 2006, had design wins with twelve PC OEM customers across multiple airlines.

Late in the first quarter of 2007, we began commercial shipments of three new products, including our UMTS/HSDPA and CDMA EV-DO Rev A rugged mobile products and our UMTS/HSDPA USB modems. We also introduced new AirCards, both PC card and ExpressCard form factors, and embedded modules for HSUPA networks that will offer significant speed advantages.

On March 6, 2007, we announced a definitive agreement to acquire AirLink Communications, Inc. ("AirLink"), a privately held developer and supplier of high value fixed and mobile wireless data solutions. The acquisition, which is expected to close by the end of June 2007, is consistent with our strategy of renewing and strengthening our emphasis on higher gross margin products and solutions. Under the terms of the definitive agreement, we will pay \$10.0 million of cash consideration, subject to customary closing adjustments, and will issue approximately 1.3 million common shares of Sierra Wireless to the shareholders of AirLink.

With the exception of the third quarter of 2006, we have achieved sequential quarterly revenue growth in the last nine quarters. During the third quarter of 2006, we experienced a slight reduction in sales of existing products to two of our largest customers, as we transitioned both of them to next generation products, which launched late in the quarter. In addition to improving revenue growth, we have been profitable for six consecutive quarters.

In the first quarter of 2007, our revenue increased 89% to a quarterly record of \$85.4 million, compared to \$45.2 million in the same period of 2006. Gross margin for the first quarter of 2007 was 27.3%, compared to 36.8% in the same period of 2006. We believe our market is transitioning from a niche, low volume, high gross margin segment to a mainstream, high volume, low margin segment. We have been able to rapidly transition our business to this new model while maintaining profitability. Net earnings were \$5.3 million, or diluted earnings per share of \$0.20 in the first quarter of 2007, compared to net earnings of \$2.6 million, or diluted earnings per share of \$0.10 in the same period in 2006. Net earnings for the first quarter of 2007 and the first quarter of 2006 each include \$0.9 million of stock-based compensation expense.

Our balance sheet remains strong, with \$93.9 million of cash, cash equivalents and short-term investments, compared to \$87.0 million at December 31, 2006. For the three months ended March 31, 2007, cash of \$10.0 million was provided by operations, compared to cash used in operations of \$0.8 million in 2006. The cash used in operations in the first quarter of 2006 includes a royalty payment for past sales of \$5.0 million to an intellectual property holder under an agreement entered into in December 2005.

We continue to believe that the long-term growth prospects in the wireless wide area modem solutions for mobile computing industry remain strong, driven by continued deployment of high speed next generation 3G networks by carriers worldwide. We believe the deployment of these networks, combined with active promotion by carriers and PC OEMs, will be a catalyst to increasing demand for high speed 3G wireless communications products, such as ours.

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, technology transitions in both CDMA EV-DO and UMTS/HSDPA, the rate of adoption by end-users, the timely launch and ramp up of sales of our new products currently under development, the level of success PC OEMs achieve with sales of embedded solutions, our ability to compete effectively and our successful integration of AirLink. We expect that product and price competition from other wireless communications device manufacturers will continue to be intense.

We have launched several new products during 2006 and in the first quarter of 2007. Our rejuvenated product line, expanded roster of sales channels, the expected addition of AirLink and strong market growth underpin our expectation of solid revenue growth and continued profitability in 2007. Specific product development and business development initiatives during the first quarter of 2007 include:

#### **AIRCARD PRODUCTS:**

**PCMCIA PC Cards:** In North America, we had strong shipments of our UMTS/HSDPA AirCard 875 to AT&T (formerly Cingular Wireless) and our EV-DO Revision A AirCard 595 to Verizon Wireless. We maintained a solid position at Sprint with sales of our AirCard 595. During the first quarter, we commenced shipments of our AirCard 595 to Telus in Canada. In Europe, we are continuing to supply UMTS/HSDPA PC cards to debitel in Germany, Bouygues Telecom and Orange in France, O2 and Orange in the UK, Swisscom Mobile and sunrise in Switzerland, Telefonica in Spain and other operators in Europe.

We introduced our AirCard 880/881 PC card for HSUPA networks during the first quarter of 2007. The AirCard 880/881 offers significant speed advantages with a maximum theoretical downlink speed of up to 7.2 Mbps and uplink speed of up to 2 Mbps. We expect to begin commercial shipments of these products in mid 2007.

**Express Cards:** During 2006, we announced the introduction of our ExpressCard product line, with the EV-DO Revision A AirCard 597E. Built for notebook computers with ExpressCard expansion slots, the AirCard 597E is expected to begin commercial shipments in the second quarter of 2007. We introduced our AirCard 880E/881E ExpressCards for HSUPA networks during the first quarter of 2007 and expect to begin commercial shipments in mid 2007.

**USB Wireless Modems:** Our new USB wireless modem will plug into the USB ports of both notebook and desktop computers. Late in the first quarter of 2007, we began commercial shipments of the AirCard 875U for HSDPA networks to an operator in Latin America. In the first quarter of 2007, we also announced Sprint had selected our AirCard 595U for EV-DO Revision A networks, and we commenced commercial shipments of this product early in the second quarter of 2007. We have secured purchase commitments for both of these products from additional major operators in the United States, Canada and Europe.

#### **EMBEDDED MODULES:**

With the commencement by multiple leading laptop manufacturers of embedding high-speed wireless wide area capability inside laptops, we believe that the opportunity for sales of embedded modules has increased significantly. Our experience and track record in embedded wireless for mobile computing has allowed us to establish an early leadership position in providing embedded 3G wireless solutions to major PC OEMs.

We have embedded module design wins with twelve PC OEM customers, including Lenovo and HP for both EV-DO and UMTS/HSDPA products, with Panasonic for EV-DO products, and with Fujitsu-Siemens Computers, ASUSTeK Computers, Dialogue Technology Corp. and Flipstart Labs for UMTS/HSDPA products. Itronix, a specialty laptop manufacturer, also embeds a variety of our products across a number of airlinks. Eight of our PC OEM customers currently have commercially available products featuring our 3G embedded module solutions, representing approximately 42 distinct platform and airlink combinations. We have secured next generation design wins for UMTS/HSUPA with three of our existing PC OEM customers.

In addition to our success with PC OEM customers, we continue to have a strong position with our non-PC OEM customers and have added design wins for fixed wireless terminal solutions as well. In the first quarter of 2007, we announced that Cisco Systems selected our 3G embedded modules for integration into their Integrated Service Routers for enterprise disaster recovery and rapid deployment applications. We also have design wins with Ericsson, Digi and others for fixed wireless terminal and router solutions.

We introduced our MC8780/8781 embedded modules for HSUPA networks during the first quarter of 2007 and expect to begin commercial shipments in mid 2007.

#### **RUGGED MOBILE PRODUCTS:**

Our rugged mobile products are sold to public safety and field service organizations and are our highest gross margin products. We experienced a decline in sales of products in this segment in 2006 as a result of not having 3G products to offer to our customers. Late in the first quarter of 2007, we began initial commercial shipments of both our MP 595 for EV-DO Revision A networks and MP 875 for UMTS/HSDPA 3.6 Mbps networks. The MP 595 is now certified for use on the Sprint Mobile Broadband Network and the MP 875 is certified for use on AT&T's Broadband Connect network. With the launch of these new products, and the expected addition of AirLink's high value fixed and mobile wireless data solutions for industrial and public safety products, we expect the rugged mobile and machine to machine ("M2M") segments of our business to grow and positively impact our financial results.

We believe our new product developments will provide us with a leading edge 3G product portfolio in both principal wireless technologies and across the AirCard, embedded module and rugged mobile markets. With our stronger product portfolio, we expect to continue to expand our business and improve our profitability.

## **Results of Operations**

The following table sets forth our operating results for the three months ended March 31, 2007 and 2006, expressed as a percentage of revenue:

Three months ended March 31,	2007	2006
Revenue	100.0%	100.0%
Cost of goods sold	72.7	63.2
Gross margin	27.3	36.8
Expenses		
Sales and marketing	4.8	8.3
Research and development	11.5	16.6
Administration	3.7	6.1
Amortization	0.8	1.7
	20.8	32.7
Earnings from operations	6.5	4.1
Other income	1.5	2.6
Earnings before income taxes	8.0	6.7
Income tax expense	1.8	1.0
Net earnings	6.2%	5.7%

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

Three months ended March 31,	2007	2006
Revenue by product		
AirCards	76%	72%
Embedded modules	21	18
Mobile	1	8
Other	2	2
	100%	100%
Revenue by distribution channel		
Wireless carriers	57%	51%
PC OEM	12	7
Other OEM	10	12
Resellers	21	30
	100%	100%
Revenue by geographical region		
Americas	62%	69%
Europe, Middle East and Africa ("EMEA")	19	18
Asia-Pacific	19	13
	100%	100%

## Results of Operations – Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

### *Revenue*

Revenue amounted to \$85.4 million for the three months ended March 31, 2007, compared to \$45.2 million in the same period of 2006, an increase of 89%. The increase in revenue was due primarily to an increase in sales of our UMTS/HSDPA and CDMA EV-DO Rev A PC cards and embedded modules.

Our revenue from customers in the Americas, EMEA and the Asia-Pacific region comprised 62%, 19% and 19%, respectively, of our total revenue in the first quarter of 2007 and 69%, 18% and 13%, respectively, in the same period of 2006. Our North American business has increased by 68% compared to the prior year as a result of sales of our UMTS/HSDPA AirCard 875, and sales of our CDMA EV-DO Rev A AirCard 595. In Europe, revenue increased by 102% compared to 2006 as a result of higher sales of our UMTS/HSDPA PC cards and embedded modules. Our business in the Asia-Pacific region has increased 186% in 2007, compared to 2006, due primarily to an increase in sales of our UMTS/HSDPA AirCard 875 and sales of embedded modules to PC OEM customers.

In the first quarter of 2007, AT&T (formerly Cingular Wireless) and Verizon Wireless each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 45% of our revenue. In the first quarter of 2006, these same two customers each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 38% of our revenue.

Recent product launches, combined with a growing market, rapid channel expansion, the expected addition of AirLink and an anticipated acceleration in new product launches in 2007, underpin our expectation of strong revenue growth throughout 2007.

### *Gross margin*

Gross margin amounted to \$23.3 million in the first quarter of 2007, or 27.3% of revenue, compared to \$16.7 million, or 36.8% of revenue, in the first quarter of 2006. The decline in gross margin percentage resulted primarily from increased product costs of our newer, lower margin AirCard products, increased sales of lower margin embedded module products and a reduction in sales of higher margin rugged mobile and legacy AirCard products. Stock-based compensation expense included in gross margin for each of the first quarters of 2007 and 2006 was \$0.1 million.

During 2007, we expect that continued pressure on selling prices in our AirCard and embedded module products, due to intense competition, combined with decreased sales of higher margin legacy AirCard products, will continue to put pressure on our

gross margins. We expect this to be partially offset by increased sales of our recently launched higher margin rugged mobile products, expected acquisition of higher margin AirLink products and lower cost of goods sold as a result of anticipated reductions in the cost of certain components and an expected increase in unit volume.

### *Sales and marketing*

Sales and marketing expenses were \$4.1 million in the first quarter of 2007, compared to \$3.8 million in the same period of 2006, an increase of 9.3%. Included in sales and marketing expenses in the first three months of 2007 is stock-based compensation of \$0.1 million, compared to \$0.3 million in the same period of 2006. Sales and marketing expenses as a percentage of revenue decreased to 4.8% in the first quarter of 2007, compared to 8.3% in the same period of 2006, due primarily to the increase in revenue for the first quarter of 2007. While managing sales and marketing expenses relative to revenue, we expect to continue to make selected investments in sales and marketing as we introduce new products, market existing products, expand our distribution channels and focus on key customers around the world.

### *Research and development*

Research and development expenses amounted to \$9.9 million in the first quarter of 2007, compared to \$7.5 million in the first quarter of 2006, an increase of 31.3%. The increase is due to the significant investment in new products being developed in both CDMA EV-DO and UMTS/HSDPA/HSUPA technologies and an increase in repayments of repayable government research and development funding. Included in research and development expense in the first quarter of each of 2007 and 2006 is \$0.2 million of stock-based compensation expense.

Research and development expenses, excluding government research and development funding repayments, were \$9.1 million, or 10.6% of revenue in the first quarter of 2007, compared to \$7.1 million, or 15.8% of revenue in the same period of 2006.

We expect research and development expenses to grow during 2007 as we continue to invest in new product development.

### *Administration*

Administration expenses amounted to \$3.1 million, or 3.7% of revenue, in the first quarter of 2007, compared to \$2.7 million, or 6.1% of revenue, in the first quarter of 2006. The increase in administration costs is primarily due to the inclusion of \$0.5 million of stock-based compensation for the first three months of 2007, compared to \$0.3 million in the same period of 2006.

### *Other income*

Other income was \$1.2 million in the first quarter of 2007, unchanged from the same period of 2006. Other income includes interest income, interest expense and foreign exchange gains and losses. Our foreign exchange gain in the first three months of both 2007 and 2006 was \$0.1 million.

### *Income tax expense*

Income tax expense was \$1.5 million in the first quarter of 2007, compared to \$0.5 million in the first quarter of 2006. The increase in income tax expense is due to an increase in taxable income in 2007 and the reduction of available loss carry forwards.

### *Net earnings*

Our net earnings amounted to \$5.3 million, or diluted earnings per share of \$0.20, in the three months ended March 31, 2007, compared to net earnings of \$2.6 million, or diluted earnings per share of \$0.10, in the same period of 2006. Net earnings for the first quarters of both 2007 and 2006 include \$0.9 million of stock-based compensation expense.

The weighted average diluted number of shares outstanding increased to 26.0 million in the first quarter of 2007, compared to 25.7 million in the same period of 2006.

## **Acquisition of AirLink Communications, Inc.**

On March 6, 2007, we announced a definitive agreement to acquire AirLink Communications, Inc. ("AirLink"), a privately held supplier of high value fixed and mobile wireless data solutions for industrial and public safety applications located in Hayward, California. Under the terms of the definitive agreement, Sierra Wireless will pay \$10.0 million of cash consideration, subject to customary closing adjustments, and will issue approximately 1.3 million common shares of Sierra Wireless to the shareholders of AirLink. The completion of the acquisition is expected by the end of June 2007.

The acquisition will combine AirLink, a leading provider of fixed, portable and mobile wireless connectivity devices, embedded software and remote device management software, with Sierra Wireless, a leading provider of wide area wireless solutions for mobile computing. The combined entity is expected to be a leader in mobile computing as well as rugged, intelligent mobile and M2M connectivity solutions. The acquisition is consistent with our strategy of renewing and strengthening our emphasis on higher gross margin products and solutions.

## **Income Tax**

Effective January 1, 2007, we adopted the Financial Accounting Standards Board ("FASB") Interpretation No. 48, entitled "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation provides specific guidance on how income tax uncertainties should be reflected in the financial statements. FIN 48 prescribes a recognition threshold and measurement method for the recognition of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, measurement (according to the more likely than not criterion), classification, interest and penalties, accounting in interim periods and disclosure requirements for uncertain tax positions. See discussion in Critical Accounting Estimates below.

Upon the adoption of FIN 48, only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized. We have analyzed our tax positions in accordance with FIN 48 and have concluded that there is no impact to our opening deficit.

## **Contingent Liabilities**

Sierra Wireless America, Inc., as successor to AirPrime, Inc., was named as a defendant in a class action complaint for alleged violations of federal and state securities laws allegedly occurring prior to the time AirPrime, Inc. was acquired by the Company. The settlement of this litigation was approved by the Superior Court of the State of California for the County of San Diego in February 2007 and has, since that date, become final. The settlement was recorded in the first quarter of 2007 and had no net effect on our income statement.

The Company and certain of our current and former officers are named as defendants in several class action complaints for alleged violations of federal securities laws, which were consolidated for pre-trial purposes in the U.S. District Court for the Southern District of New York. The plaintiffs filed a consolidated amended complaint on February 21, 2006 and the Company and the other defendants filed a motion to dismiss on April 7, 2006. On April 18, 2007, the Court dismissed the plaintiffs' consolidated complaint, without prejudice, for failure to provide sufficient facts supporting the allegations of securities fraud. If the plaintiffs intend to submit a second amended complaint, they must do so before May 9, 2007. We have given notice to our liability insurance carrier, which has agreed to pay our costs of defence 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. During 2005, we determined that the legal costs related to these complaints might exceed our policy retention amount of \$1,000. Accordingly, we recognized \$1,000 in 2005, of which \$596 remains accrued at March 31, 2007.

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, expenses and the related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, adequacy of allowance for doubtful accounts, adequacy of inventory reserve, valuation of goodwill and intangible assets, income taxes, adequacy of warranty reserve, royalty obligations, lease provision, contingencies and stock-based compensation. We base our estimates on historical experience, 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.

Other than the adoption of FIN 48 related to accounting for uncertainty in income taxes disclosed earlier, during the three months ended March 31, 2007, we did not adopt any new accounting policies or make changes to existing accounting policies that had a material impact on our consolidated financial statements.

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 collectibility is reasonably assured. Customers include resellers, original equipment manufacturers, wireless operators 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.

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.

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.

- 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 whether collection is reasonably assured: customer credit-worthiness, past transaction history with the customer, insured amounts, if any, 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 \$9.3 million and goodwill of \$18.2 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.

We assessed the realizability of goodwill related to our reporting unit during the fourth quarter of 2006 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.

- Effective January 1, 2007, we have adopted the provisions of FIN 48 to account for and report income tax uncertainties. Accordingly, we recognize and measure each tax position related to income tax positions subject to FASB Statement No. 109, "Accounting for Income Taxes" ("FAS No. 109") taken or expected to be taken in a tax return. We have reviewed our tax positions to determine which should be recognized and measured them according to the more likely than not threshold requirement in FIN 48. The tax benefits recognized in the financial statements are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

If the realization of a tax position 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 there is a change in the quality of our products, we will adjust our accrual accordingly.
- 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 as a result of changes in our assumptions used to estimate 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. As market conditions change, we will adjust our provision accordingly.
- 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.
- Effective January 1, 2006, we recognize stock-based compensation expense for all stock-based compensation awards based on the grant date fair value estimated in accordance with the provisions of FAS 123R. Under the fair value recognition provisions of FAS 123R, we recognize stock-based compensation expense for those shares expected to vest on a straight-line basis over the requisite service period of the award.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of subjective assumptions. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

### *Operating Activities*

Cash provided by operating activities was \$10.0 million in the first quarter of 2007, compared to cash used by operating activities of \$0.8 million in the same period of 2006. The source of cash in operating activities in the first three months of 2007 primarily resulted from net earnings of \$5.3 million adjusted for non-cash items of \$3.9 million and changes in other operating assets and liabilities of \$0.8 million.

### *Investing Activities*

Cash used by investing activities was \$20.7 million in the first quarter of 2007, compared to cash provided by investing activities of \$8.5 million in the same period of 2006. The cash used by investing activities in the first quarter of 2007 was due primarily to the purchase, net of the proceeds on maturity, of short-term investments of \$17.3 million, as compared to proceeds on maturity, net of purchases, of \$9.9 million in the same period of 2006. Expenditures on fixed assets, intangible and other assets were \$2.8 million, \$0.2 million and \$0.4 million, respectively, in the first quarter of 2007, compared to \$1.2 million, \$0.2 million and nil, respectively, in the same period of 2006. Capital expenditures were primarily for production and tooling equipment, research and development equipment, computer equipment and software, while intangible assets were primarily for software licenses and patents. Expenditures on other assets were primarily for costs related to our expected acquisition of AirLink.

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 \$0.4 million in the first quarter of 2007, compared to cash used by financing activities of \$0.2 million in the same period of 2006. The use of cash in the three months ended March 31, 2007 and 2006 was due to the repayment of long-term liabilities, partially offset from the proceeds on the exercise of stock options.

As of March 31, 2007, 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, the acquisition of AirLink, capital expenditures and other obligations discussed below. In the near term, we expect that our cash flow from operating activities will be positive. We believe our cash, cash equivalents and short-term investments of \$93.9 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. During the second quarter of 2007, we expect to close the acquisition of AirLink, the purchase price of which includes \$10.0 million of cash consideration, subject to customary closing adjustments. Our capital expenditures during the second quarter of 2007 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 March 31, 2007:

Payments due in fiscal	Operating Leases	Obligations under Capital Leases	Total
2007	\$ 2,304	\$ 3	\$ 2,307
2008	2,938	—	2,938
2009	2,258	—	2,258
2010	2,249	—	2,249
2011	1,264	—	1,264
Thereafter	98	—	98
Total	<u>\$ 11,111</u>	<u>\$ 3</u>	<u>\$ 11,114</u>

As of March 31, 2007, we have tax obligations for uncertain tax positions of \$1.3 million.

We have entered into purchase commitments totaling approximately \$88.3 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 \$88.3 million of product from certain contract manufacturers between April 2007 and June 2007.

### *Sources and Uses of Cash*

We have an unsecured revolving demand facility for \$10.0 million that bears interest at prime per annum. The balance at March 31, 2007 was nil (2006 — nil).

We have obtained letters of credit to ensure the performance of a third party in accordance with specified terms and conditions. At March 31, 2007, we had \$7.6 million outstanding under these letters of credit, which approximates the fair value.

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 acquisition, capital expenditures and commitments is cash, short-term investments, accounts receivable, borrowings and cash from operations, as follows:

- Net cash and short-term investments amounted to \$93.9 million at March 31, 2007, compared to \$87.0 million at December 31, 2006.
- Accounts receivable amounted to \$49.3 million at March 31, 2007, compared to \$57.4 million at December 31, 2006.
- We have a \$10.0 million unsecured revolving demand facility with a Canadian chartered bank that bears interest at prime. At March 31, 2007, there were no borrowings under this facility.

## Market Risk Disclosure

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.

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. 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.

We have available funds and very little debt, accordingly, we have not been materially adversely affected by significant interest rate fluctuations.

## Related Party Transactions

During the three months ended March 31, 2007, there were no material related party transactions.

## Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the first quarter of 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## Quarterly Results of Operations

The following tables set forth certain unaudited consolidated statements of operations data for each of the nine 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 2006 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.

Amounts are expressed in thousands of United States dollars except per share amounts and number of shares.

Quarter ended	March 31 2007
Revenue	\$ 85,428
Cost of goods sold	62,111
Gross margin	<u>23,317</u>
Expenses:	
Sales and marketing	4,097
Research and development	9,885
Administration	3,141
Amortization	668
	<u>17,791</u>
Earnings from operations	5,526
Other income	1,249
Income before income taxes	6,775
Income tax expense	1,518
Net income	<u>\$ 5,257</u>
Earnings per share:	
Basic	\$ 0.20
Diluted	<u>\$ 0.20</u>
Weighted average number of shares (in thousands):	
Basic	25,720
Diluted	<u>25,955</u>

	Quarter Ended				Year
	March 31	June 30	Sept. 30	Dec. 31	2006
<b>2006</b>					
Revenue	\$ 45,224	\$ 55,223	\$ 52,535	\$ 68,303	\$221,285
Cost of goods sold	28,567	36,366	36,651	50,524	152,108
Gross margin	16,657	18,857	15,884	17,779	69,177
Expenses:					
Sales and marketing	3,750	3,726	2,820	3,418	13,714
Research and development	7,528	8,905	8,830	8,824	34,087
Administration	2,747	3,301	3,427	3,404	12,879
Amortization	759	748	697	705	2,909
	14,784	16,680	15,774	16,351	63,589
Earnings from operations	1,873	2,177	110	1,428	5,588
Other income	1,175	1,306	1,146	1,627	5,254
Earnings before income taxes	3,048	3,483	1,256	3,055	10,842
Income tax expense (recovery)	461	(287)	188	684	1,046
Net income	\$ 2,587	\$ 3,770	\$ 1,068	\$ 2,371	\$ 9,796
Earnings per share:					
Basic	\$ 0.10	\$ 0.15	\$ 0.04	\$ 0.09	\$ 0.38
Diluted	\$ 0.10	\$ 0.15	\$ 0.04	\$ 0.09	\$ 0.38
Weighted average number of shares (in thousands):					
Basic	25,492	25,602	25,660	25,681	25,609
Diluted	25,736	25,959	25,874	25,856	25,857

	Quarter Ended				Year
	March 31	June 30	Sept. 30	Dec. 31	2005
<b>2005</b>					
Revenue	\$ 20,180	\$ 21,930	\$ 27,474	\$ 37,560	\$107,144
Cost of goods sold	13,055	27,852	17,883	23,058	81,848
Gross margin	7,125	(5,922)	9,591	14,502	25,296
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	691	679	728	899	2,997
	15,176	21,227	13,990	14,593	64,986
Earnings (loss) from operations	(8,051)	(27,149)	(4,399)	(91)	(39,690)
Other income	535	220	659	863	2,277
Earnings (loss) before income taxes	(7,516)	(26,929)	(3,740)	772	(37,413)
Income tax expense (recovery)	78	(222)	(662)	(139)	(945)
Net income (loss)	\$ (7,594)	\$ (26,707)	\$ (3,078)	\$ 911	\$ (36,468)
Earnings (loss) per share:					
Basic	\$ (0.30)	\$ (1.05)	\$ (0.12)	\$ 0.04	\$ (1.44)
Diluted	\$ (0.30)	\$ (1.05)	\$ (0.12)	\$ 0.04	\$ (1.44)
Weighted average number of shares (in thousands):					
Basic	25,358	25,364	25,381	25,439	25,385
Diluted	25,358	25,364	25,381	26,111	25,385

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:

- Revenue in the first quarter of 2007 increased significantly compared to the same period of 2006 as a result of increased sales of our UMTS/HSDPA and CDMA EV-DO Rev A PC cards and embedded module products that began shipping during the last half of 2006. Net earnings increased in the first quarter of 2007 due to an improvement in gross margin and continued operating cost control.
- Revenue in 2006 increased significantly compared to 2005 as a result of several new AirCard and embedded module product introductions and the expansion of our sales channels. During 2006, gross margin declined as a result of increased product cost for our newer AirCard products, higher sales of lower margin embedded module products and lower sales of higher margin rugged mobile products.
- Revenues were lower 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 quarter 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.

## Selected Annual Information

Years ended December 31,	2004	2005	2006
Revenue	\$211,205	\$107,144	\$221,285
Net earnings (loss)	24,920	(36,468)	9,796
Diluted earnings (loss) per share	0.96	(1.44)	0.38
Total assets	215,594	173,980	211,608
Total current and long-term portions of long term liabilities and obligations under capital lease	3,456	3,128	1,992

## Forward-looking Statements

Certain statements in this report 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 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 report 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 or 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 and 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 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](http://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. Many of these factors are beyond the control of the Company. Consequently, all forward-looking statements in this report 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.

## **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:

### **Our quarterly financial results are subject to fluctuations that could affect the market price of our common shares.**

Our revenue, gross margin, operating earnings and net earnings may vary from quarter to quarter and could be significantly impacted by a number of factors, including:

- Transition periods associated with the migration of new technologies;
- The development and timing of the introduction of our new products;
- The securing of channel slots for new products;
- The timing of sales orders and OEM and carrier customer sell through;
- Design win cycles in our embedded module business;
- The achievement of milestones related to our professional services contracts;
- The amount of inventory held by our channel partners;
- Price and product competition, which may result in lower selling prices for some of our products or lost market share;
- Possible cyclical fluctuations related to the evolution of wireless technologies;
- Product mix of our sales. Our products have different gross margins – for example the embedded module product line has lower gross margins than the higher margin rugged mobile product line;
- Possible delays in the manufacture or shipment of current or new products;
- Possible increased inventory levels;
- Concentration in our customer base;
- Possible delays or shortages in component supplies; and
- Possible product quality or factory yield issues that may increase our cost of goods sold.

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, gross margin and earnings in any given quarter. Therefore, our quarterly results are not necessarily indicative of our overall business, results of operations and financial condition.

Quarterly variations in operating results or any of the other factors listed above, changes in financial estimates by securities analysts, or other events or factors may result in wide fluctuations in the market price of our stock price. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many technology companies and that often have been unrelated to the operating performance of these companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of our common shares.

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

For the three months ended March 31, 2007, our net earnings were \$5.3 million. For the year ended December 31, 2006, our net earnings were \$9.8 million. However, as a result of the reduction in our business in 2005, we incurred a loss of \$36.5 million in that year. Our accumulated deficit at December 31, 2006 was \$73.1 million. While we had earnings from operations for each of the 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 continued sales of our current products and the successful development and commercialization of new products. While we have returned to profitability for six sequential quarters, if we cannot sustain profitability, our total losses will increase and we may be required to 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.

**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 communications industry is subject to rapid technological change, meaning that the wireless technology standards continually evolve, and there are frequent product introductions and short product life cycles. The wireless communications industry is highly competitive and we expect competition to increase and intensify. More established and larger companies with greater financial, technical and marketing resources sell products that compete with ours and we expect this competition to intensify. 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 and introduce new products before we do, 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, we may lose customer orders and market share and we may need to reduce the price of our products, resulting in reduced revenue and reduced gross margins.

**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 as we sell most of our products through network carriers, resellers and OEMs rather than directly to end user customers. Many of these carriers and resellers also sell products of our competitors. Accordingly, our business and future success depends on our ability to build on existing relationships and establish and develop new relationships with network carriers and resellers.

In the three months ended March 31, 2007, two customers individually accounted for more than 10% of our revenue and, in the aggregate, these two customers represented 45% of our revenue. In the last three fiscal years, there have been four different customers that individually accounted for more than 10% of our revenues. In the year ended December 31, 2006, two customers individually accounted for more than 10% of our revenue and, in the aggregate, these two customers represented 40% of our revenue. If any of these customers, for any reason, discontinues their relationship with us or reduces or postpones current or expected purchase orders for products or suffers from business failure, our revenues and profitability could decline, perhaps materially.

In addition, our current customers purchase our products under stand-alone purchase orders. Our customers have no contractual obligation to continue to purchase our products following our fulfillment of current purchase orders and if they do not continue to make purchases, our revenue and our profitability could decline, perhaps materially.

**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.

**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 have acquired and may continue to acquire additional assets and businesses principally relating to or complementary to our current operations. On March 6, 2007, we announced a definitive agreement to acquire AirLink. The acquisition is expected to close by the end of June 2007. 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 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.

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

The wireless communications industry is subject to rapid technological change. Our business and future success will depend, in part, on our ability to accurately predict and anticipate evolving wireless technology standards and 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, preference and requirements. Our ability to design, develop and commercially launch 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;
- The ability of third parties to complete and deliver on outsourced product development engagements; 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 may result in a decrease in the market price for our shares.

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 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 depend on wireless network carriers to offer acceptable 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. Our business and future growth depends, in part, on the successful deployment by network carriers of next generation wireless data and voice networks and the network carriers' ability to grow their subscriber base. If these network carriers delay the deployment of next generation networks or fail to offer effective and reliable service, or fail to price and market their services effectively, sales of our products will decline and our revenues will decrease.

**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. Activity in this area by third parties, particularly those with tenuous claims, is increasing, resulting in the Company taking a more aggressive approach, which may result in increased litigation. 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, some such licenses provide us with certain pass through rights for the use of other third party intellectual property. 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.

**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.

**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.

## Consolidated Statements of Operations and Deficit

(Expressed in thousands of United States dollars, except per share amounts)  
 (Prepared in accordance with United States generally accepted accounting principles (GAAP))  
 (Unaudited)

Three months ended March 31,	2007	2006
Revenue	\$ 85,428	\$ 45,224
Cost of goods sold	62,111	28,567
Gross margin	23,317	16,657
Expenses:		
Sales and marketing	4,097	3,750
Research and development	9,885	7,528
Administration	3,141	2,747
Amortization	668	759
	17,791	14,784
Earnings from operations	5,526	1,873
Other income	1,249	1,175
Earnings before income taxes	6,775	3,048
Income tax expense	1,518	461
Net earnings	5,257	2,587
Deficit, beginning of period	(73,061)	(82,857)
Deficit, end of period	\$ (67,804)	\$ (80,270)
Earnings per share for the period:		
Basic	\$ 0.20	\$ 0.10
Diluted	\$ 0.20	\$ 0.10
Weighted average number of shares (in thousands)		
Basic	25,720	25,492
Diluted	25,955	25,736

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

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

Three months ended March 31,	2007	2006
Net earnings	\$ 5,257	\$ 2,587
Other comprehensive income		
Unrealized gain (loss) on marketable securities	10	(31)
Comprehensive income	\$ 5,267	\$ 2,556

See accompanying notes to consolidated financial statements.

## Consolidated Balance Sheets

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

	March 31, 2007	December 31, 2006
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 35,364	\$ 46,438
Short-term investments (note 4)	58,495	40,554
Accounts receivable, net of allowance for doubtful accounts of \$1,833 (2006 – \$1,867)	49,297	57,441
Inventories (note 5)	27,945	18,889
Deferred income taxes	118	118
Prepaid expenses	5,193	6,032
	<u>176,412</u>	<u>169,472</u>
Fixed assets	14,140	13,400
Intangible assets	9,346	9,892
Goodwill	18,209	18,409
Other	381	435
	<u>\$ 218,488</u>	<u>\$ 211,608</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 27,768	\$ 16,608
Accrued liabilities	29,265	39,543
Deferred revenue and credits	859	633
Current portion of long-term liabilities (note 6)	529	841
Current portion of obligations under capital lease	3	6
	<u>58,424</u>	<u>57,631</u>
Long-term liabilities (note 6)	951	1,145
Shareholders' equity:		
Share capital (note 7)	222,088	221,861
Additional paid-in capital	4,027	3,240
Warrants	1,538	1,538
Deficit	(67,804)	(73,061)
Accumulated other comprehensive loss	(736)	(746)
	<u>159,113</u>	<u>152,832</u>
	<u>\$ 218,488</u>	<u>\$ 211,608</u>

Contingencies (note 11)

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

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

Three months ended March 31,	2007	2006
Cash flows from operating activities:		
Net earnings	\$ 5,257	\$ 2,587
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Amortization	2,809	2,124
Stock-based compensation (note 8)	885	881
Loss on disposal	—	6
Utilization of pre-acquisition tax losses	200	—
Changes in operating assets and liabilities		
Accounts receivable	7,505	993
Inventories	(9,056)	(7,929)
Prepaid expenses and other assets	1,274	598
Accounts payable	11,160	3,695
Accrued liabilities	(10,278)	(3,809)
Deferred revenue and credits	226	8
Net cash provided by (used in) operating activities	9,982	(846)
Cash flows from investing activities:		
Deferred acquisition costs (note 3)	(381)	—
Purchase of fixed assets	(2,826)	(1,215)
Proceeds on disposal of fixed assets	—	4
Increase in intangible assets	(177)	(179)
Purchase of short-term investments	(54,502)	(7,221)
Proceeds on maturity of short-term investments	37,210	17,095
Net cash provided by (used in) investing activities	(20,676)	8,484
Cash flows from financing activities:		
Issue of common shares, net of share issue costs	129	154
Repayment of long-term liabilities	(509)	(306)
Net cash used in financing activities	(380)	(152)
Net increase (decrease) in cash and cash equivalents	(11,074)	7,486
Cash and cash equivalents, beginning of period	46,438	64,611
Cash and cash equivalents, end of period	\$ 35,364	\$ 72,097

See supplementary cash flow information (note 12).

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

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For the three months ended March 31, 2007 and 2006  
(Expressed in thousands of United States dollars, except per share amounts and number of shares)  
(Prepared in accordance with United States GAAP)

## 1. Basis of Presentation

The accompanying interim financial information does not include all disclosures required under United States generally accepted accounting principles ("US GAAP") for annual financial statements. The accompanying interim financial information is unaudited and reflects all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of results for the interim periods. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our fiscal 2006 Annual Report.

## 2. Significant Accounting Policies

These interim financial statements follow the same accounting policies and methods of application as our annual financial statements, except as described in note 2(d).

### *(a) Principles of consolidation*

Our interim 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 (dissolved June 12, 2006), Sierra Wireless ULC and SWMS, Inc. from their respective dates of formation or acquisition. We have eliminated all significant intercompany balances and transactions.

### *(b) Use of estimates*

In preparing the financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets, particularly the recoverability of accounts receivable, inventory, fixed assets, intangible assets, goodwill and deferred income taxes, royalty and warranty accruals, other liabilities, stock-based compensation 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.

### *(c) 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 period.

### *(d) Recent accounting pronouncements*

Effective January 1, 2007, we adopted FASB Interpretation No. 48 entitled "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation prescribes a recognition threshold and measurement method for the recognition of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance related to uncertain tax positions on the derecognition, measurement (according to the more likely than not criterion), classification, interest and penalties, accounting in interim periods and disclosure. We have evaluated all tax positions in accordance with FIN 48, and have concluded that there is no impact to our opening deficit. Refer to note 10 for additional disclosure.

In February 2007, FASB issued SFAS No. 159 entitled "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" ("FAS No. 159"). FAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. FAS No. 159 is effective for fiscal years beginning after November 15, 2007. The impact, if any, that FAS No. 159 will have on our consolidated financial statements is not yet determinable.

For the three months ended March 31, 2007 and 2006  
(Expressed in thousands of United States dollars, except per share amounts and number of shares)  
(Prepared in accordance with United States GAAP)

### 3. Acquisition

On March 6, 2007, we announced a definitive agreement to acquire AirLink Communications, Inc. ("AirLink"), a privately held supplier of high value fixed and mobile wireless data solutions for industrial and public safety applications located in Hayward, California. Under the terms of the definitive agreement, Sierra Wireless will pay \$10,000 of cash consideration, subject to customary closing adjustments, and will issue approximately 1.3 million common shares of Sierra Wireless to the shareholders of AirLink. The completion of the acquisition is expected by the end of June 2007.

### 4. Investments

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

	Short-term	
	March 31, 2007	Dec. 31, 2006
Government treasury bills and securities	\$ 44,246	\$ 19,995
Government bonds	2,506	2,522
Commercial paper	11,743	18,037
	<u>\$ 58,495</u>	<u>\$ 40,554</u>

### 5. Inventories

	March 31, 2007	Dec. 31, 2006
Electronic components	\$ 7,080	\$ 7,511
Finished goods	20,865	11,378
	<u>\$ 27,945</u>	<u>\$ 18,889</u>

### 6. Restructuring and Other Charges

In June 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 2005, we incurred restructuring and other charges of \$18,485 associated with the writedown of inventory, fixed and intangible assets impairments, workforce reductions, royalty commitment provisions, charges related to excess facilities and other assets, and an increase to our deferred tax asset valuation allowance.

For the three months ended March 31, 2007, we recorded an adjustment to reduce the facilities restructuring provision of \$332 related to a change in estimate of the future operating expenses and the foreign exchange loss on the Canadian dollar denominated liability.

The following table summarizes the changes in the provision for restructuring and other changes for the three months ended March 31, 2007 and the balance of the provision as at March 31, 2007.

	Total	Inventory Provision	Facilities Restructuring
Balance at December 31, 2006	\$ 2,252	\$ 266	\$ 1,986
Cash payments	(174)	—	(174)
Decrease in facilities accrual	(332)	—	(332)
Balance at March 31, 2007	<u>\$ 1,746</u>	<u>\$ 266</u>	<u>\$ 1,480</u>

The current and long-term portions of the facilities restructuring are \$529 (December 31, 2006 – \$841) and \$951 (December 31, 2006 – \$1,145), respectively.

## SIERRA WIRELESS, INC.

For the three months ended March 31, 2007 and 2006  
(Expressed in thousands of United States dollars, except per share amounts and number of shares)  
(Prepared in accordance with United States GAAP)

### 7. Share Capital

#### *Common shares*

Changes in the issued and outstanding common shares are as follows:

	Number of Shares	Amount
Balance at December 31, 2006	25,708,331	\$ 221,861
Stock option exercises	26,052	227
Balance at March 31, 2007	25,734,383	\$ 222,088

#### *Stock option plan*

Under the terms of our employee Stock Option Plan (the "Plan"), our Board of Directors may grant options to employees, officers and directors. 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 after April 2005 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. Based on the number of shares outstanding as at March 31, 2007, stock options exercisable into 712,172 common shares are available for future allocation under the Plan. Since the amendment to the Plan, 410,521 common shares have been added to the number of common shares currently available for issue under the Plan, which are to be applied against the limit of 1,600,000 common shares.

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.

Stock option activity since December 31, 2006 is presented below:

	Number of Shares	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life In years	Aggregate Intrinsic Value ('000s)	
		Cdn.\$	U.S.\$		Cdn.\$	U.S.\$
Outstanding, December 31, 2006	1,971,772	\$ 16.64	\$ 14.22	2.8	\$ 6,530	\$ 5,581
Exercised	(26,052)	5.94	5.07		291	248
Forfeited or expired	(84,454)	25.84	22.02			
Outstanding, March 31, 2007	<u>1,861,266</u>	16.29	14.17	2.7	8,480	7,374
Exercisable, December 31, 2006	1,023,246	18.06	15.43		3,884	3,320
Exercisable, March 31, 2007	1,108,956	17.17	14.93		5,211	4,531

The intrinsic value of a stock option is calculated as the quoted market price of the stock at the balance sheet date, or date of exercise, less the amount an employee must pay to acquire the stock. The aggregate intrinsic value of stock options exercised in the three months ended March 31, 2006 was \$186.

For the three months ended March 31, 2007 and 2006  
 (Expressed in thousands of United States dollars, except per share amounts and number of shares)  
 (Prepared in accordance with United States GAAP)

## 8. Stock-based Compensation

The following table summarizes the classification of the stock-based compensation expense recognized in the Consolidated Statements of Operations and Deficit as follows:

Three months ended March 31,	2007	2006
Cost of goods sold	\$ 85	\$ 88
Sales and marketing	115	275
Research and development	172	171
Administration	513	347
	\$ 885	\$ 881

As of March 31, 2007, there was \$5,852 of total unrecognized compensation cost related to non-vested stock based compensation, which is to be recognized over a weighted average period of 1.2 years.

We calculate the fair value of stock options granted under the provisions of FAS No. 123R using the Black-Scholes valuation model. Under this method, the weighted average fair value of stock options granted during the three months ended March 31, 2007 was nil, as there were no options granted during that period (2006 - \$7.84). The following assumptions were used:

Three months ended March 31,	2006
Expected dividend yield	0
Expected stock price volatility	81%
Risk-free interest rate	4.09%
Expected life of options	4 years

There is no dividend yield because we do not pay, and do not plan to pay, cash dividends on our common shares. The expected stock price volatility is based on the historical volatility of our average monthly stock closing prices over a period equal to the expected life of each option grant. The risk-free interest rate is based on yields from Canadian Government Bond yields with a term equal to the expected term of the options being valued. The expected life of options represents the period of time that the options are expected to be outstanding based on historical data of option holder exercise and termination behaviour.

Under FAS No.123R stock-based compensation is recognized based on awards expected to vest, and is reduced for estimated forfeitures. We estimate forfeitures at the time of grant, and if necessary, revise that estimate if actual forfeitures differ.

## 9. Financial Instruments

We have obtained letters of credit to ensure the performance of a third party in accordance with specified terms and conditions. At March 31, 2007, we had \$7,551 (December 31, 2006 - \$3,237) outstanding under the letters of credit, which approximates the fair value.

## 10. Income Taxes

In accordance with FIN 48, we have evaluated all uncertain tax positions and have determined that the unrecognized tax benefits at the beginning of 2007 were \$1,348. This was increased by \$25 during the first quarter of 2007, resulting in unrecognized tax benefits of \$1,373 as at March 31, 2007. Of this total, \$648 (January 1, 2007 - \$623) represents the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

We recognize potential interest and penalties related to income tax matters in income tax expense. During the three months ended March 31, 2007, we recorded \$25 for interest and penalties. We had accrued \$188 for potential interest and penalties as at January 1, 2007.

Tax years ranging from 2001 to 2006 remain subject to examination in Canada, United States, United Kingdom and Hong Kong.

For the three months ended March 31, 2007 and 2006  
 (Expressed in thousands of United States dollars, except per share amounts and number of shares)  
 (Prepared in accordance with United States GAAP)

## 11. Contingencies

### (a) 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 \$3,168. 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 three months ended March 31, 2007 and 2006, we claimed nil. During the three months ended March 31, 2007, we recorded, in research and development expense, the accrued repayment of \$797 (2006 – \$394). 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 March 31, 2007, 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. As no further TPC funding is anticipated given the termination of the Voq professional phone initiative in the second quarter of 2005, there were no claims during the first quarter of 2007 or 2006. During the three months ended March 31, 2007, we have recorded, in research and development expense, the repayment of \$6 (2006 – \$3). 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 cash repayments were made in the three months ended March 31, 2007 (2006 – nil).

- (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, 2006	\$ 2,605
Provisions	1,218
Expenditures	(721)
Balance, March 31, 2007	<u>\$ 3,102</u>

### (b) Other commitments

We have entered into purchase commitments totaling approximately \$88,345 with certain contract manufacturers under which we have committed to buy a minimum amount of designated products between April 2007 and June 2007. In certain of these agreements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

For the three months ended March 31, 2007 and 2006  
 (Expressed in thousands of United States dollars, except per share amounts and number of shares)  
 (Prepared in accordance with United States GAAP)

(c) *Legal proceedings*

- (i) Sierra Wireless America, Inc., as successor to AirPrime, Inc., was named as a defendant in a class action complaint for alleged violations of federal and state securities laws allegedly occurring prior to the time AirPrime, Inc. was acquired by the Company. The settlement of this litigation was approved by the Superior Court of the State of California for the County of San Diego in February 2007 and has, since that date, become final. The settlement was recorded in the first quarter of 2007 and had no net effect on our income statement.
- (ii) The Company and certain of our current and former officers are named as defendants in several class action complaints for alleged violations of federal securities laws, which were consolidated for pre-trial purposes in the U.S. District Court for the Southern District of New York. The plaintiffs filed a consolidated amended complaint on February 21, 2006 and the Company and the other defendants filed a motion to dismiss on April 7, 2006. On April 18, 2007, the Court dismissed the plaintiffs' consolidated complaint, without prejudice, for failure to provide sufficient facts supporting the allegations of securities fraud. If the plaintiffs intend to submit a second amended complaint, they must do so before May 9, 2007. We have given notice to our liability insurance carrier, which has agreed to pay our costs of defence 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. During 2005, we determined that the legal costs related to these complaints might exceed our policy retention amount of \$1,000. Accordingly, we recognized \$1,000 in 2005, of which \$596 remains accrued at March 31, 2007.
- (iii) We are engaged in certain 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.

**12. Supplementary Information**

Three months ended March 31,	2007	2006
Cash received for		
Interest	\$ 1,101	\$ 951
Cash paid for		
Income taxes	252	39

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:

Three months ended March 31,	2007	2006
Customer A	\$ 20,435	\$ 12,863
Customer B	18,332	4,549





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