

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

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

For the fiscal year ended December 31, 2010
Commission File No.: 0-30718

SIERRA WIRELESS, INC.

(Exact name of Registrant as specified in its charter)

Canada

(Jurisdiction of incorporation or organization)

Primary Standard Industrial Classification Doe (if applicable): 3663

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

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

(Address and telephone number of principal executive offices)

**CT Corporation
111 Eighth Avenue
New York, New York 10011
(212) 894-8940**

(Agent for service in the United States)

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

Common Shares

(Title of Class)

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

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this Form:

Annual Information Form Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **31,222,786 Common Shares without par value as at December 31, 2010**

Indicate by check mark whether the Registrant, by filing the information contained in this Form, is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), If "yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes No

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes [] No [✓]

A. Disclosure Controls and Procedures

Disclosure controls and procedures are defined by the Securities and Exchange Commission (the “Commission”) as those controls and other procedures that are designed to ensure that information required to be disclosed by the Registrant in reports filed or submitted by it under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms.

The Registrant’s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Registrant’s disclosure controls and procedures and have determined that such disclosure controls and procedures were effective as of the end of the period covered by this Annual Report. A discussion of the Registrant’s disclosure controls and procedures can be found in its Management’s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2010, filed as Exhibit No. 1.3 to this Annual Report, under the heading “Disclosure Controls”.

B. Management’s Annual Report on Internal Control Over Financial Reporting

See Management’s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2010, filed as Exhibit No. 1.3 to this Annual Report, under the heading “Internal Control Over Financial Reporting — Management’s Annual Report on Internal Control Over Financial Reporting”.

C. Attestation Report of the Registered Public Accounting Firm

The attestation report of KPMG LLP (“KPMG”), the independent registered public accounting firm of the Registrant, is included in KPMG’s report, dated March 18, 2011, to the shareholders of the Registrant, which accompanies the Registrant’s audited consolidated financial statements for the fiscal year ended December 31, 2010, filed as Exhibit 1.2 to this Annual Report.

D. Changes in Internal Control Over Financial Reporting

See Management’s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2010, filed as Exhibit No. 1.3 to this Annual Report, under the heading “Internal Control Over Financial Reporting — Changes in Internal Control Over Financial Reporting”.

E. Notice of Pension Fund Blackout Period

The Registrant was not required by Rule 104 of Regulation BTR to send any notice to any of its directors or executive officers during the fiscal year ended December 31, 2010.

F. Audit Committee Financial Expert

The Registrant’s Board of Directors has determined that S. Jane Rowe is the audit committee financial expert, within the meaning of General Instruction B(8)(b) of Form 40-F. Ms. Rowe is independent within the meaning of Rule 10A-3 under the Exchange Act and as that term is defined by the rules and regulations of the Nasdaq Stock Market, Inc. (“Nasdaq”).

The Commission has indicated that the designation of a person as an audit committee financial expert does not make such person an “expert” for any purpose, impose any duties, obligations or liability on such person that are greater than those imposed on members of the Audit Committee and the Board of Directors who do not carry this designation, or affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

G. Code of Ethics

The Registrant's Board of Directors has adopted a code of ethics (the "Code") that applies to all directors, officers and employees. A copy of the Code may be obtained at www.sierrawireless.com. The Registrant will provide a copy of the Code without charge to any person that requests a copy by contacting the Corporate Secretary at the address that appears on the cover of this Annual Report on Form 40-F.

H. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed by KPMG, the Registrant's independent auditor, for the fiscal years ended December 31, 2010 and 2009, for professional services rendered by KPMG for the audit of the Registrant's annual financial statements or services that are normally provided by KPMG in connection with statutory and regulatory filings or engagements for such fiscal years were \$1,150,000 and \$859,000, respectively.

Audit-Related Fees

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2010 and 2009, for assurance and related services rendered by KPMG that are reasonably related to the performance of the audit or review of the Registrant's financial statements and are not reported above as audit fees were nil and nil, respectively.

Tax Fees

The aggregate fees billed by KPMG for the fiscal years ended December 31, 2010 and 2009, for professional services rendered by KPMG for tax compliance, tax advice, transfer pricing services, tax planning and other services were \$55,350 and \$75,000, respectively.

Tax fees for 2010 and 2009 were primarily for tax compliance and transfer pricing services.

All Other Fees

There were no fees billed by KPMG for the fiscal years ended December 31, 2010 and 2009, except as described above.

Audit Committee Pre-Approval Policies and Procedures

Since the enactment of the Sarbanes-Oxley Act of 2002 on July 30, 2002, all audit and non-audit services performed by the Registrant's outside auditors are pre-approved by the audit committee of the Registrant.

I. Off-Balance Sheet Arrangements

The Registrant is not a party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

J. Tabular Disclosure of Contractual Obligations

See Annual Information Form dated March 18, 2011, filed as Exhibit No. 1.1 to this Annual Report, under the heading "Contractual Obligations".

K. Identification of Audit Committee

The Registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act comprised of three individuals: S. Jane Rowe (Chair), Paul G. Cataford and Charles E. Levine. Each of the members of the audit committee is independent, within the meaning of Rule 10A-3 under the Exchange Act and as that term is defined by the rules and regulations of the Nasdaq.

L. Critical Accounting Policies

A discussion of the Registrant's critical accounting policies can be found in its Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2010, filed as Exhibit No. 1.3 to this Annual Report, under the heading "Critical Accounting Estimates".

M. Nasdaq Exemptions

The rules and regulations of the Nasdaq require each listed issuer to provide that a quorum for its shareholders' meetings be at least 33 1/3 percent of the issuer's outstanding shares. The Registrant has been granted an exemption from this requirement because it is contrary to generally accepted business practices in Canada, the Registrant's country of domicile. The Registrant has had the benefit of this exemption in the current and prior year.

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

N. Interactive Data File

The Registrant is currently not required to submit to the Commission, nor post on its corporate website, an Interactive Data File.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

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

B. Consent to Service of Process

A Form F-X, as amended, signed by the Registrant and the Registrant's agent for service of process with respect to the Common Shares has previously been filed with the Commission. Any change to the name or address of the Registrant's agent for service shall be communicated promptly to the Commission by amendment to the Form F-X referencing the file number of the Registrant.

SIGNATURES

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

SIERRA WIRELESS, INC.
(Registrant)

/s/ DAVID G. MCLENNAN
David G. McLennan,
Chief Financial Officer and Secretary

Date: March 18, 2011

EXHIBIT INDEX

Exhibit No.	Document
1.1	Annual Information Form for the fiscal year ended December 31, 2010, dated March 18, 2011
1.2	Audited Consolidated Financial Statements for the fiscal year ended December 31, 2010, prepared in accordance with U.S. generally accepted accounting principles
1.3	Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2010
23.1	Consent of KPMG LLP
31.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIERRA WIRELESS, INC.
ANNUAL INFORMATION FORM
for the Fiscal Year Ended December 31, 2010

Dated: March 18, 2011

Sierra Wireless, Inc.
Annual Information Form
March 18, 2011

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Annual Information Form are not based on historical facts and constitute forward-looking statements or forward-looking information within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities laws (“forward-looking statements”) including our outlook for the short and longer term and our strategy, plans and future operating performance. Forward-looking statements are provided to help you understand our views of our short and longer term prospects. We caution you that forward-looking statements may not be appropriate for other purposes. We will not update or revise our forward-looking statements unless we are required to do so by securities laws.

Forward-looking statements:

- Typically include words and phrases about the future such as “outlook”, “may”, “estimates”, “intends”, “believes”, “plans”, “anticipates” and “expects”;
- Are not promises or guarantees of future performance. They represent our current views and may change significantly;
- Are based on a number of material assumptions, including those listed below, which could prove to be significantly incorrect:
 - Our ability to develop, manufacture and sell new products and services that meet the needs of our customers and gain commercial acceptance;
 - Our ability to continue to sell our products and services in the expected quantities at the expected prices and expected times;
 - Expected transition period to our 4G products;
 - Expected cost of goods sold;
 - Expected component supply constraints;
 - Our ability to “win” new business;
 - That wireless network operators will deploy next generation networks when expected;
 - Our operations are not adversely disrupted by component shortages or other development, operating or regulatory risks;
 - Expected tax rates and foreign exchange rates.
- Are subject to substantial known and unknown material risks and uncertainties. As a result, our actual results, achievements and developments in our business may differ significantly from our current expectations. These risk factors and others are discussed in our Management’s Discussion and Analysis of Financial Condition and Results of Operations, which may be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov and in our other regulatory filings with the Securities and Exchange Commission in the United States and the Provincial Securities Commissions in Canada. Certain of these material risks are listed below:
 - Actual sales volumes or prices for our products and services are lower than we expect for any reason including, without limitation, the continuing uncertain economic conditions, price and product competition, different product mix, the loss of any of our significant customers, competition from new or established wireless communication companies.
 - The cost of products sold are higher than planned or necessary component supplies are not available, are delayed or are not available on commercially reasonable terms.
 - We are unable to enforce our intellectual property rights or are subject to litigation that has an adverse outcome.
 - The development and timing of the introduction of our new products is later than we expect or is indefinitely delayed.

- Transition periods associated with the migration to new technologies are longer than we expect.

CURRENCY

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

CORPORATE STRUCTURE

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

Sierra Wireless was incorporated under the *Canada Business Corporations Act* on May 31, 1993. The Articles of Sierra Wireless were amended by a Certificate of Amendment issued March 29, 1999 to remove the private company provisions and restrictions on share transfer. The Articles of the Company were further amended by Certificates of Amendment issued May 13, 1999 and May 14, 1999 to: (i) re-designate and change all existing Common Shares in the capital of the Company to new Common Shares in the capital of the Company (the “Common Shares”); (ii) change the rights attached to all Preference Shares in the capital of the Company (the “Preference Shares”) and to remove each existing series of Preference Shares; and (iii) consolidate the Common Shares on the basis of one post-consolidation Common Share for 1.5 pre-consolidation Common Shares.

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

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

Name	Jurisdiction of Incorporation or Organization
Sierra Wireless America, Inc.	Delaware, U.S.A.
Sierra Wireless (UK) Limited	United Kingdom
Sierra Wireless (Asia-Pacific) Limited	Hong Kong
Sierra Wireless (Australia) Pty Limited	Australia
Sierra Wireless Technology (Shenzhen) Ltd.	China
Sierra Wireless Japan KK	Japan
Sierra Wireless France SAS	France
Sierra Wireless Luxembourg S.à.r.l.	Luxembourg
Sierra Wireless S.A.	France
Sierra Wireless Hong Kong Limited	Hong Kong
Sierra Wireless Services and Solutions S.A.	France

Sierra Wireless South Africa (Proprietary) Limited	South Africa
Wavecom Korea Co. Ltd.	Korea
Nexgen Software SAS	France
Sierra Wireless Northern Europe Ltd.	United Kingdom
Wavecom Participacoes e Representacoes Ltda	Brazil
Wavecom Deutschland GmbH.	Germany

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

We are a global leader in providing cellular wireless solutions for the Machine-to-Machine (“M2M”) and Mobile Computing markets. We develop and market a range of wireless products that include mobile broadband devices for mobile network operators, embedded modules and embedded software for original equipment manufacturers (“OEMs”), intelligent gateways and routers for industrial, commercial and public safety applications, and an innovative cloud-based services platform for delivering device management and end-to-end application solutions in M2M. Our solutions connect people and machines to wireless networks around the world.

In the Mobile Computing market, we are recognized as a leader in new air interface standards, including fourth generation (“4G”) wireless technologies such as Long Term Evolution (“LTE”), Worldwide Interoperability for Microwave Access (“WiMAX”) and High Speed Packet Access Plus (“HSPA+”). We work closely with our operator customers, such as AT&T Inc. (“AT&T”), Sprint Nextel Corporation (“Sprint”), and Telstra Corporation Limited (“Telstra”), and with our OEM customers to be first to market with new mobile broadband devices that provide high performance, mobile internet connectivity for their end customers.

In the M2M market, we are a global market leader and we continue invest in our leading product portfolio and global reach to both expand our offering and grow our market share. Our M2M wireless solutions, including our AirPrime™ wireless embedded modules, AirLink™ intelligent gateways and routers, and AirVantage™ M2M cloud platform are used by a wide range of OEMs, enterprises and service providers to wirelessly enable their M2M applications. Our M2M customers cover a broad range of industries, including consumer electronics, networking equipment, automotive, energy, security, sales and payment, industrial control and monitoring, fleet management, field service and healthcare.

Recent developments that have influenced the general progression of the Company’s business include:

New 4G products. In the first quarter of 2010, we began shipping our AirCard® W801 Mobile Hotspot, the world’s first wireless mobile hotspot that combines 3G (EV-DO Rev A) with 4G (WiMax) and Wi-Fi technologies. Also known as the Overdrive™ 3G/4G Mobile Hotspot launched by Sprint, this product turns a single Internet connection into a wireless LAN that can be shared by multiple users. Our AirCard W801 was subsequently launched by Clearwire as the Clear Spot® 4G+ and Time Warner Cable as the Intelligo later in 2010. In the first quarter, we also announced the AirCard 312U, known as the Telstra Ultimate USB modem, the world’s first 4G dual-carrier HSPA+ device. In the second quarter of 2010, we began commercial shipments of the Sprint 3G/4G USB 250U mobile broadband modem, also known as the AirCard 250U. Clearwire subsequently launched

the same product as the Clear 4G+ Mobile USB Series S. In the fourth quarter of 2010, we launched and began commercial shipments of the AT&T USBConnect Shockwave, the first device for AT&T's 4G HSPA+ network. We also announced our first 4G LTE devices, a portfolio of LTE embedded modules with support for all major networks technologies, targeted at device manufacturers integrating LTE connectivity in mobile computing and M2M applications. In the first quarter of 2011, we expanded our LTE product line up with the introduction of the AirCard 754S mobile hotspot and the AirCard 320U USB modem. We also launched the AirCard 319U with Telstra, a 4G dual-carrier HSPA+ USB modem.

New product introductions in M2M. We reinforced our leadership position in M2M with the launch of new products and solutions. During 2010, we introduced several new AirPrime wireless embedded module products, including:

- The AR Series - the industry's first suite of embedded wireless modules designed specifically for automotive manufacturers;
- The SL Series - offering wireless connectivity in a compact, lightweight LGA form factor for use in high-volume and space restricted applications;
- The XM0110 GPS Module - enabling rapid GPS integration with our wireless module families; and
- The 4G MC Series - offering high speed LTE and dual-carrier HSPA+ air interfaces.

In February 2011, we introduced the GX400, our next-generation platform for AirLink intelligent gateways and routers that includes cloud-based device management, extensive hardware and software enhancements, mil-spec ruggedness, GPS functionality and associated location-based services, and advanced configuration options with comprehensive expandability.

Expanded software, solution, and service offerings in M2M. We continue to expand our position in the M2M value chain with the introduction of new software, solutions and services. We have recently announced enhancements to our OpenAT operating system and Embedded Application Framework to further accelerate the development of native M2M embedded applications on AirPrime embedded modules. These announcements include a new release of the M2M Embedded Developer Studio integrated development environment, the integration of the WirelessIDEA library developed by Aplix Corporation to enable Java applications, the release of a new, advanced integrated debugger, and ease-of-use enhancements for remote device management. In 2010, we introduced enhancements to our secure cloud platform for M2M applications under the AirVantage brand and announced significant new capabilities including: expanded support for AirLink and AirPrime device management services, enhancements to the web services application programming interface (API), expanded subscription management functionality, and platform integration with operator networks at TELUS Corporation ("Telus"), Koninklijke KPN N.V. ("KPN") and AT&T. We also extended the AirVantage platform with the launch of our Smart Automation feature set to simplify the connection to industrial equipment and to enable complete end-to-end solutions for industrial M2M applications.

New organizational structure. On September 23, 2010, we implemented a new organizational structure designed to sharpen our focus on distinct market opportunities and accelerate profitable growth. The new organizational structure establishes three business units – M2M Embedded Solutions, Mobile Computing, and Solutions & Services. Dedicated sales, marketing and research and development ("R&D") functions within each business unit bring teams closer to their customers. Common wireless platforms, an integrated supply chain, and a strong global presence provide leverage and highly competitive scale. Concurrent with the implementation of the new organizational structure, 60 full time positions, representing approximately 6% of our global workforce, were eliminated as a result of expected improved operating efficiencies. These reductions were substantially completed during the fourth quarter of 2010 and are expected to result in an operating expense reduction of approximately \$1.0 million per quarter. However, investments to support new growth opportunities are expected to offset these expense reductions. In 2010, we incurred a pre-tax

charge of \$4.4 million for severance and other costs related to this program, which included \$0.5 million of stock-based compensation expense.

Acquisition and successful integration of Wavecom S.A. On December 2, 2008, we announced an all-cash offer to purchase all of the ordinary shares and OCEANEs convertible bonds (“OCEANEs”) of Wavecom S.A. (“Wavecom”), a global leader in wireless M2M solutions headquartered in Issy-les-Moulineaux, France. The total value of the transaction was approximately €18.0 million and was comprised of cash consideration of €8.50 per share of Wavecom and €31.93 per OCEANE. The transaction was implemented by way of concurrent but separate public tender offers in both France and the United States. On February 27, 2009, we completed our acquisition of 84.32% of the outstanding shares and 99.97% of the outstanding OCEANEs of Wavecom, representing 90.57% of the voting rights of Wavecom. Following a statutory re-opening of the tender offer and our purchase of Wavecom shares on the market, we increased our ownership of the voting rights of Wavecom from 90.57% to 95.4% and, on April 29, 2009, completed our acquisition of all of the remaining Wavecom shares, except for certain shares held by employees that are subject to a hold period, and OCEANEs by way of a squeeze-out. The Wavecom shares and OCEANEs have been delisted from the Euronext and the American Depository Shares have been delisted from the Nasdaq Stock Market Inc. (“Nasdaq”).

The acquisition and successful integration of Wavecom has significantly expanded and diversified our position in the global M2M market. The addition of Wavecom enhanced our product and service offering in M2M by adding highly sophisticated wireless module platforms and solutions which integrates the necessary software and hardware on embedded devices that can be used for a wide variety of applications. In addition to a broadened product offering, the acquisition increased our scale and capabilities in both Europe and Asia. The result of the combination of Sierra Wireless and Wavecom is a global leader that is uniquely positioned to benefit from the anticipated growth in wireless M2M.

Cost Reduction Program. On January 29, 2009, prior to the acquisition of Wavecom, we implemented an expense reduction program that was completed during the first quarter of 2009 and included the elimination of 56 positions, representing 10% of our workforce. In the first quarter of 2009, we incurred a pre-tax charge of approximately \$1.6 million related to the program, which included \$0.5 million of stock-based compensation expense. Also prior to our acquisition of Wavecom, Wavecom implemented a cost savings program and reorganization. The first portion of this plan, related to its operations in the United States, began in late 2008. In the second quarter of 2009, the staff reduction program in France related to this reorganization was implemented. A total of 77 positions in France were impacted, and all of these positions were phased out by September 30, 2010. On May 15, 2009, we announced further cost reduction initiatives related to the integration of Wavecom and Sierra Wireless that included combining the R&D and product operations of both organizations. As a result, the Wavecom location in Research Triangle Park, North Carolina, was closed in the fourth quarter of 2009. R&D activities from this location were transitioned primarily to the Sierra Wireless location in Carlsbad, California. In 2010, we included an additional provision for costs of the leased North Carolina location, costs related to subleasing a portion of the Issy-les-Moulineaux location, as well as costs of additional employees in Europe who were terminated. In 2010, restructuring costs related to these programs were \$3.2 million, including \$0.1 million of stock-based compensation expense, compared to \$19.0 million in 2009, including \$0.4 million of stock-based compensation expense.

Highlights of our financial performance include:

In 2009, our revenue was \$526.4 million, compared to \$567.3 million in 2008. The decrease in revenue was primarily a result of a decrease in sales of our AirCards and sales of our embedded modules to portable computing original equipment manufacturers (“PC OEM”) customers, partially offset by an increase in revenue from the Wavecom acquisition. Gross margin was 33.7% in 2009,

compared to 28.1% in 2008. The increase resulted primarily from product cost reductions, early synergies from the Wavcom acquisition, as well as the addition of higher margin products from the Wavcom acquisition. Loss from operations was \$37.7 million in 2009, compared to earnings from operations of \$44.6 million in 2008. Our loss from operations included acquisition costs of \$7.8 million, restructuring costs of \$20.0 million, integration costs of \$3.8 million and acquisition related amortization of \$11.8 million. Our net loss was \$39.9 million, or loss per share of \$1.29, in 2009, compared to net earnings of \$62.6 million, or diluted earnings per share of \$2.00, in 2008.

In 2010, we achieved record annual revenue of \$650.3 million, compared to \$526.4 million in 2009. The increase in revenue was driven by a combination of strong performance in our M2M business line, which grew to \$332.4 million in 2010, up 54% from \$216.5 million in 2009, and stable sales in our Mobile Computing business line, which were \$317.9 million in 2010 compared to \$309.9 million in 2009. M2M revenue represented 51% of sales in 2010, proving that our diversification strategy is working. Gross margin was 29.3% in 2010, compared to 33.7% in 2009. The decline resulted primarily from a shift in product mix to include a higher contribution from consumer M2M customers. Loss from operations was \$10.4 million in 2010, compared to loss from operations of \$37.7 million in 2009. Our loss from operations in 2009 included transaction costs of \$7.8 million, restructuring costs of \$20.0 million, integration costs of \$3.8 million and acquisition related amortization of \$11.8 million. Our net loss was \$14.5 million, or loss per share of \$0.47, in 2010, compared to a net loss of \$39.9 million, or loss per share of \$1.29, in 2009.

NARRATIVE DESCRIPTION OF THE BUSINESS

Industry Background

We operate in the wireless communications solutions industry, which involves providing voice and data services using cellular wireless technologies. These technologies include second generation (“2G”) standards such as GSM/GPRS/EDGE and CDMA/1xRTT, third generation (“3G”) standards such as UMTS (including HSPDA and HSUPA) and EV-DO, fourth generation (“4G”) standards such as HSPA+, LTE and WiMAX, and Wi-Fi. The industry typically includes: wireless network operators, who deploy, own and operate wireless networks and provide service to end users; infrastructure vendors, who provide the networking equipment and software to build, including equipment such as base stations, routers and backhaul equipment; device manufacturers, who provide voice and data communication devices that use the network, such as handsets, mobile broadband modems, and embedded modules; and software application vendors, who offer the end user applications to enterprises and consumers that utilize the wireless networks. We primarily participate in the industry as a data device manufacturer, but also increasingly offer software solutions to our enable end customer applications.

Recent market trends in the wireless communications industry include:

Increased wireless network coverage and data speeds. Mobile network operators around the world continue to invest in network upgrades to add 3G and, increasingly, 4G technologies, enabling mobile broadband connectivity of up to 100 megabits per second (“Mbps”). The operators also continue to improve network coverage, improving the ubiquity of cellular wireless access around the world.

Technology improvements in devices and software. Improvements in wireless chipset technology, including greater integration, higher speeds, and lower power consumption, are driving advances in cellular devices including on-board application processing, faster, more efficient data transfer, smaller form factors, lower hardware costs, and longer battery life. These advances have enabled the significant growth in new wireless devices such as smartphones, USB modems, mobile hotspots, tablets and other devices, such as e-readers, with integrated wireless embedded modules.

Lower, more flexible service pricing. Mobile network operators are introducing new wireless service pricing models to enable subscriber growth in both Mobile Computing and M2M. These include

offerings such as tiered pricing and pre-pay for mobile broadband service and more flexible data packages for M2M applications, as well as generally lower costs for data plans.

We expect these trends, and others, to provide solid growth opportunities in both the M2M and mobile computing markets. With higher speeds and more ubiquitous coverage, the number of business professionals and individual consumers utilizing notebooks, netbooks, tablets and other consumer devices on wireless networks will increase. In addition, lower service costs and more advanced, lower cost devices are expected to unlock many new M2M applications that were previously not feasible.

Products and Solutions

Sierra Wireless offers four product lines to address the mobile computing and M2M markets:

AirCard Mobile Broadband Devices. AirCard mobile broadband devices provide a simple way to connect notebooks, netbooks, tablets and other consumer electronic devices to the Internet from virtually anywhere, over 3G and 4G mobile broadband networks. AirCard products are available in various form factors – including mobile hotspots, USB modems, and PC Express cards – to suit a variety of customer needs. In addition, AirCard products support major mobile broadband technologies, including LTE, HSPA+, HSPA, EV-DO, WiMAX and Wi-Fi, across various frequency bands around the world.

AirPrime Wireless Embedded Modules. AirPrime Wireless Embedded Modules provide a wide variety of options for OEMs to embed cellular wireless connectivity into their products for both M2M and Mobile Computing applications. The AirPrime embedded module product portfolio includes various air interfaces from 2G to 4G, GSM or CDMA networks and a variety of form factors – from PCI Express MiniCards to surface-mount modules, with various levels of functionality from modem-only functionality to fully programmable devices.

AirLink Intelligent Gateways and Routers. The AirLink family of intelligent gateways and routers provides customers the ability to add cellular wireless connectivity in various industrial, enterprise and in-vehicle applications. The product portfolio includes rugged, industrial-grade 2G and 3G gateways with serial, Ethernet and Wi-Fi connectivity, commercial-grade 3G routers, and low-cost, programmable 2G and 3G gateways. The AirLink products feature powerful ALEOS embedded intelligence, enabling rapid device configuration and seamless integration with various industrial equipment, and AirLink Management Services, providing easy-to-use web-based remote management and control.

AirVantage M2M Cloud Platform. AirVantage is a comprehensive wireless M2M cloud computing platform that accelerates the deployment and lowers the cost for customers implementing new wireless M2M applications. Key features include: subscription management for managing cellular subscriptions with operators, device management for remotely managing cellular communication devices, and asset management for remotely monitoring and controlling the connected machine or asset. The platform also includes a powerful set of M2M application development tools and an open web services application programming interface (“API”) to support rapid development and integration.

Our revenue by product line for the years ended December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
AirCard Mobile Broadband Devices	45%	56%
AirPrime Wireless Embedded Modules	46	34
AirLink Intelligent Gateways and Routers	7	8
Other	2	2
	<u>100%</u>	<u>100%</u>

M2M Business

Our M2M business includes our AirPrime Wireless Embedded Modules (excluding sales to PC OEMs), AirLink Intelligent Gateways and Routers and AirVantage M2M Cloud Platform. Our M2M revenue was \$332.4 million in 2010, compared to \$216.5 million in 2009, an increase of \$115.9 million or 54%.

We believe that the market for our M2M products continues to offer profitable growth opportunities. The M2M market is competitive and our future success will depend in part on our ability to continue to develop differentiated products and services that meet our customers' evolving technology, design, schedule and price requirements.

AirPrime Wireless Embedded Modules for M2M (excludes PC OEM embedded modules)

With the acquisition of Wavecom in 2009 and subsequent product launches and customer design wins, we have significantly expanded our global position in wireless embedded solutions for M2M. Our line-up of embedded modules is the broadest in the industry and is used by a wide range of OEMs to wirelessly enable their products and solutions. We also have several innovations that we believe further bolster our competitive position, including an internally developed protocol stack tailored to M2M, embedded SIM technology and a powerful Embedded Application Framework. The Sierra Wireless Embedded Application Framework consists of an M2M-specific operating system ("Open AT"), a range of software libraries, and a comprehensive integrated development environment and tool suite. Unique in the market, this framework enables AirPrime embedded modules to natively support a complete embedded application on the module, accelerating M2M application development and lowering total cost for OEMs. Our M2M OEM customers cover a broad range of industries including consumer electronics, networking equipment, automotive, energy, security, sales and payment, industrial control and monitoring, fleet management, field service and healthcare.

In 2010, sales of our M2M embedded module products increased 62% to \$274.5 million, compared to \$169.2 million in 2009, primarily as a result of strong contribution from sales to consumer, sales and payment, networking, energy and automotive OEM customers. Sales of M2M embedded modules for consumer e-book reader applications were approximately 24% of M2M embedded module product sales in 2010.

During 2010, we also introduced several new products, including a suite of new AirPrime MC Series embedded modules designed for LTE networks, enabling manufacturers to take advantage of the latest generation of high-speed mobile networks, which deliver up to 100 Mbps download speeds and 50 Mbps upload speeds. We secured design wins for our new LTE modules and shipped small sample volumes in 2010. The AirPrime MC7750 module supports LTE, EV-DO and HSPA+ networks, while the AirPrime MC7700 and MC7710 modules support LTE and HSPA+ in different frequency bands.

In 2010, we also introduced the industry's first suite of embedded wireless modules designed specifically for automotive manufacturers – setting a new standard for "automotive-grade" wireless modules. The new Sierra Wireless AirPrime AR Series intelligent embedded modules are based on more than a decade of experience in meeting the needs of automotive customers. They are the first wireless modules designed and developed from the ground up to achieve the highest level of compliance with automotive specifications, providing an unmatched level of quality and performance under harsh operating conditions. We have multiple design wins for the AirPrime AR Series with leading automotive manufacturers. We expect commercial shipments of these modules to begin in mid-2011.

We launched and began shipping our new AirPrime SL Series intelligent embedded modules. Designed to suit the needs of manufacturers of small host devices in high-volume production, such as e-book readers, personal navigation devices and gaming devices, the Sierra Wireless AirPrime SL Series

offers HSPA and EDGE connectivity in a compact, lightweight form factor. Our AirPrime SL6087 EDGE wireless module won the GSM Association award for Best 2G Module in 2010.

During 2010, we began shipping our new AirPrime MC8801, designed for HSPA+ Dual Carrier networks with peak network downlink speeds of 42 Mbps. To provide a more cost effective alternative for manufacturers that do not require the top speed, our new AirPrime MC8704 and AirPrime MC8705 intelligent embedded modules for HSPA+ networks are expected to be available in early 2011.

We also began shipping our new AirPrime XM0110 GPS Module, which provides easy-to-use and optimized GPS feature integration for wireless applications requiring location information. PFK Electronics (Pty) Ltd. (“PFK”), a designer and manufacturer of automotive security products in South Africa, is integrating this product into a series of products for fleet management, asset tracking and stolen vehicle recovery.

During 2010, we also announced several significant new design wins. These include:

- EDM I Limited (“EDMI”), based in Singapore, integrated our AirPrime WMP100 intelligent embedded module into its electronic energy meter to enable EDM I customers to control power consumption and read meters in real time.
- Together, PFK and inthinc, inc., a company focused on developing solutions to positively impact driver behavior, are also using our AirPrime WMP100 to enhance road safety by ensuring their devices can reliably connect to central systems in real time.
- A.P. Systems, an Italian supplier of information and communication technology to utilities and public administrations, selected our AirPrime WMP100 and Open AT application framework to provide wireless connectivity in its smart wireless multi-metering solution.
- TomTom Automotive (“TomTom”) selected the Sierra Wireless AirPrime Intelligent Embedded Modules to provide cellular connectivity to TomTom’s integrated navigation systems for Renault and Mazda.
- Aisino Corporation also selected the Sierra Wireless AirPrime Q2686 for integration into its network billing machine deployments in China.
- RS TechMedic BV, a medical technology provider in the Netherlands, is using the Sierra Wireless AirPrime Q2687 EDGE wireless module in its multi-purpose remote patient monitoring device used by health care professionals.

Additionally, we announced a collaboration with Harman International Industries (“Harman”), a leading global audio and infotainment group, to lead the automotive industry in innovations to bring 4G LTE broadband connectivity to automotive customers.

AirLink Intelligent Gateways and Routers

Our AirLink Intelligent Gateways and Routers are sold to customers in a wide variety of vertical markets including public safety, transportation, field service, energy, industrial, and financial services. Our broad AirLink product line up is an integral part of our M2M offering, covering multiple form factor needs and wireless technologies. We continue to believe that there are profitable growth prospects for our AirLink intelligent solutions and we intend to capture these opportunities through segment, product line and geographical expansion. Furthermore, we are focused on fully integrating our AirLink gateway products with our hosted AirVantage cloud platform so that we can deliver advanced services and end to end solutions to the markets we serve.

In 2010, revenue from AirLink Intelligent Gateways and Routers increased 19% to \$48.6 million from \$41.0 million in 2009 primarily due to growth in North America and expansion in Europe and Asia.

During the first quarter of 2010, together with Prumaro d.o.o. and local integrator Telos d.o.o., we announced the deployment of Prumaro’s GEM interactive digital signage application, powered by our

AirLink Pinpoint X mobile communications gateway in public buses and kiosks throughout Slovenia's capital of Ljubljana.

During the second quarter of 2010, together with NetMotion Wireless, a provider of secure mobile productivity and management software, we announced a joint marketing agreement to deliver combined mobile data solutions for emergency first responders and utility workers. Our AirLink in-vehicle GPS gateways and routers now support Garmin's Fleet Management Interface, which simplifies the integration of AirLink gateways with Garmin's personal navigation devices used in conjunction with dispatch or automatic vehicle location systems. During the second quarter of 2010, we began shipping our Sierra Wireless AirLink MP895.

In the third quarter of 2010, Itron selected the Sierra Wireless AirLink Raven X and Raven XE Intelligent M2M Gateways to provide the primary cellular connection in its new CCU 100, a key component of its ChoiceConnect fixed network platform. Through a joint marketing agreement, the two companies have also agreed to leverage their combined marketing and sales resources to co-market the solution to utility customers. During the third quarter of 2010, we began shipping our Raven XE platforms with quad-band HSPA support and we also announced our collaboration with Pulse Energy, a provider of building energy management solutions, to deliver cellular deployments that enable customers to more efficiently monitor and manage energy usage.

In the fourth quarter of 2010, the San Jose Police Department selected the Feeney Wireless solution that integrates the Sierra Wireless AirLink 3G gateway and allows officers to submit citations and gain immediate access to critical law enforcement data directly from their vehicles. Together with Accel Networks, we also announced a joint marketing agreement to deliver secure, reliable wireless solutions for customers deploying retail transaction and networking applications.

AirVantage M2M Cloud Platform

Our AirVantage platform provides web-based solutions and services that enable application providers, OEMs and mobile network operators to accelerate the deployment of complete M2M solutions for managing remote equipment and assets. Our services platform is scalable, secure and compatible with a broad range of available wireless devices and networks. The platform includes advanced functionality for subscriber management (including billing and rating), device management and asset management and includes a fully integrated development environment, enabling our partners and customers to bring end to end M2M solutions to market quickly. We view our AirVantage platform and solutions capability as a strategic technology asset and differentiation enabler, and we are fully integrating our hardware product lines, including AirPrime embedded modules and AirLink gateways and routers, with the platform.

During the first quarter of 2010, we signed a services contract with IBM to host a new services platform dedicated to our software as a service M2M offering. The new hosting facility is expected to support a growing number of North American customers, including Orbcomm Inc., which is currently live on the platform. We announced a new Consumer Device Management application for the Sierra Wireless AirVantage Services Platform that offers wireless network operators and M2M solution providers a simple, cost effective way to deploy and manage mass market consumer devices. In addition, together with the French wireless network operator Bouygues Telecom, we introduced a new bundled offer for wireless M2M communication that targets industrial, sales and payment, and security solutions. The bundle gives access to Bouygues Telecom's prepaid pan-European data airtime on the new Sierra Wireless AirLink GL6100 GSM/GPRS modem with Embedded SIM and includes a one year subscription to AirLink Management Services, powered by AirVantage, for remote diagnosis and software upgrades.

During the second quarter of 2010, we added important new features to the platform, achieved key customer deployment milestones and secured new solution design wins in the energy management and outdoor advertising segments.

During the third quarter of 2010, NURI Telecom, a South Korean company specializing in next generation automatic meter reading solutions, selected our AirPrime Q2686 intelligent embedded module to integrate into its advanced meter reading solution and will also use our AirVantage Management Services for AirPrime to remotely monitor, manage and upgrade application software and firmware on the devices once they are in the field.

During the fourth quarter of 2010, TELUS selected the Sierra Wireless AirVantage services platform to provide service management for connected devices. Under a multi-year strategic agreement, TELUS will integrate the Sierra Wireless AirVantage services platform into its network operations to provide M2M customers with online access to a comprehensive suite of M2M service creation, delivery and management capabilities, making it simpler and faster to bring M2M services to market and opening new service opportunities.

Mobile Computing Business

Our mobile computing business includes our AirCard Mobile Broadband Devices and AirPrime embedded modules for PC OEM customers. Our mobile computing revenue increased 3% to \$317.9 million in 2010, compared to \$309.9 million in 2009. This increase was due to higher sales of embedded modules to PC OEMs, partially offset by lower AirCard sales in the first half of 2010. In mobile computing, we expect to continue to distinguish ourselves by offering the most advanced mobile broadband devices in the world supporting the latest technology standards and by providing our mobile network operator and PC OEM customers with devices that meet exceptionally high quality and performance standards.

AirCard Mobile Broadband Devices

Our AirCard mobile broadband device family, including our mobile hotspot, USB modem and PC card devices sold to wireless operators around the world, provide a simple way to connect notebooks, netbooks and other consumer electronic devices to the mobile internet, over 3G and 4G wireless networks.

In 2010, sales of our AirCard products decreased by 1% to \$291.5 million, compared to \$295.0 million in 2009, primarily due to lower volumes in the first quarter of 2010, but largely offset by strong sales of recently launched products and the addition of new customers for these products in mid-2010.

We believe that the market for our AirCard products continues to offer profitable opportunities. Competition in this market continues to be intense and our future success will depend in part on our ability to continue to develop differentiated products that meet our customers' evolving technology, design, schedule and price requirements.

During the first quarter of 2010, we began shipping the Sierra Wireless AirCard W801 Mobile Hotspot, the world's first wireless mobile hotspot that combines 3G (EV-DO Rev A) with 4G (WiMax) and Wi-Fi technologies. Also known as the Overdrive™ 3G/4G Mobile Hotspot launched by Sprint, this product turns a single Internet connection into a wireless LAN that can be shared by multiple users. DNA Ltd., a Finnish telecommunications company, began offering its customers even faster connections with our modem devices, the first time Sierra Wireless USB modems have been commercially available in Finland. Also in the first quarter of 2010, we announced that the Sierra Wireless AirCard product line will provide a Windows 7 Device Stage experience across multiple devices. We are the first mobile broadband modem supplier to deploy a Device Stage experience, which provides customers with more convenient, intuitive access to their device and account information.

During the second quarter of 2010, we began commercial shipments of the Sprint 3G/4G USB 250U mobile broadband modem from Sierra Wireless, also known as the AirCard 250U, with download speeds up to 10 times faster than 3G in any of the Sprint 4G markets. We also began commercial shipments of

our AirCard 250U to Clear, called the Series S 4G+ modem, along with our AirCard W801 3G/4G Mobile Hotspot. Time Warner Cable announced that IntelliGo, also known as the AirCard W801 3G/4G Mobile Hotspot, is available on the Time Warner Cable 4G network with Road Runner Mobile. In addition, AT&T announced the availability of our Sierra Wireless AirCard 890, an HSPA device with a 2-in-1 form factor that supports both PC card and ExpressCard slots.

During the third quarter of 2010, we announced new AirCard USB modems and mobile hotspots supporting the latest LTE network technologies and data rates. These new devices are expected to be introduced in the first half of 2011. Our AirCard 312U, also called the Telstra Ultimate USB modem, became commercially available in Australia during this quarter. The AirCard 312U, operating on Dual Carrier HSPA+ networks, was the world's first HSPA+ modem that supported download speeds of up to 42 Mbps, doubling the downlink speeds of current HSPA+ networks.

During the fourth quarter of 2010, we continued to have strong positions with AT&T and Telstra for shipments of our HSPA AirCards, as well as with Sprint for shipments of our 3G/4G Mobile Hotspot and 3G/4G USB modems. During the fourth quarter of 2010, we launched and commenced commercial shipments of the AT&T USBConnect Shockwave (our AirCard USB 308), the first device for AT&T's HSPA+ network.

AirPrime Wireless Embedded Modules for PC OEMs

In 2010, revenue from sales of our AirPrime Wireless Embedded Modules to PC OEM customers increased 91% to \$23.4 million from \$12.2 million in 2009.

In 2010, we made good progress in re-energizing our position in the market and have secured six new design wins with Tier 1 and Tier 2 PC OEMs for platforms scheduled to launch in 2011. During 2010, Fujitsu selected us to provide 3G mobile broadband for several new models in Fujitsu's LIFEBOOK series notebooks. Panasonic Computer Solutions Company, manufacturer of the durable, reliable Panasonic Toughbook® mobile computers, announced that it would deploy our Gobi2000™ module across its Toughbook line of rugged mobile computers. We have new design wins with three Tier 1 PC OEM customers that we expect will launch mobile computing platforms with our embedded modules commencing in mid 2011.

We believe that these new design wins will enable us to grow our revenue from PC OEM customers in subsequent quarters. Our ability to secure additional design wins in the PC OEM market will depend on being successful in developing products and offering services that meet our customers' technology, design, schedule and price requirements.

Customers

Our products are used by a variety of end-users and many end-user applications. The users range from home consumers, to sales people and mobile executives, to police officers and utility workers as well as automotive manufacturers and utility companies. We sell our products primarily through indirect channels including wireless operators, OEMs, distributors and value added resellers. Historically, a majority of our sales have come from North American markets. With the acquisition of Wavecom in 2009, our revenue by geography has become much more diverse. As our wireless technology platforms and customer base have diversified, we have built sales and distribution teams to focus on developing our truly international business. We have dedicated sales and distribution teams for the Europe, Middle East and Africa ("EMEA"), Asia-Pacific, Latin American and North American regions. Our approach to distribution takes advantage of our existing relationships with wireless operators, resellers and OEMs in order to maximize the productivity of our sales team.

Wireless Operators

Wireless operators play two key roles in our distribution strategy. First, wireless operators are resellers for us, purchasing our products (primarily AirCard products) and then reselling them to end-user customers through their business and retail channels. Second, the wireless operator sales team often works with our sales team to jointly sell both Mobile Computing and M2M wireless solutions to OEMs and to enterprise and government end-user customers. The wireless operator channel provides us with extended customer reach, while the operators are able to leverage our wireless data expertise to help sell their products and services. We have invested a great deal of time and resources in cultivating our relationships with wireless operators and view these relationships as a critical success factor.

Original Equipment Manufacturers

OEMs are companies that integrate our embedded modules into devices they manufacture and sell to end-user customers through their own direct sales force and indirect distribution channels. Our embedded modules have been integrated into a range of OEM devices, such as notebooks, e-readers, payment terminals, enterprise and SOHO routers, industrial handhelds, energy meters, and automobiles. We sell to OEMs both directly and indirectly through distributor partners around the world.

Resellers and Distributors

Resellers purchase our products either directly from us or from our distributor network and resell them to carriers, OEMs and end-user customers. In order to support our global resellers and OEMs, we have established a global network of distribution partners. Distributors ensure that our products are available to a large number of resellers and OEM customers around the world.

Resellers often combine our products with other elements of an overall solution, such as computer hardware, application software and bundled communication services and deliver a complete solution to the end-user customer. Resellers include IT VARs, system integrators and application solution providers.

Product Development

We have built a reputation in the wireless data industry for creating state-of-the-art, high-quality products within aggressive timeframes. Our development team of approximately 477 full time employees, located in Richmond, British Columbia, Carlsbad and Newark, California, Issy-Les-Moulineaux, France, Toulouse, France, Hong Kong and Shenzhen, China, is skilled in the areas of radio frequency, hardware, embedded software, host software, web-based software, semiconductor and mechanical design. Combined, this team is highly experienced in the design of small form factor, high performance, low cost wireless data and voice devices. Our product development team combines leaders with extensive experience in their fields with younger graduates from leading universities. Each of our three business units (M2M Embedded Solutions, Mobile Computing and Solutions and Services) has dedicated development teams.

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

Products that result from this process are designed and tested to cellular industry standards and introduced to our high-volume contract manufacturing partners for production and delivery to our

customers. Included in the development effort is the certification of our products with industry and regulatory standards bodies and wireless operators.

A group of senior engineers develops and monitors our development processes within an ISO-9001 approved framework or ISOTS16949 for automotive grade products. These processes are applied across all development projects to ensure uniformity. For example, we have adopted a core-wireless engine design approach to leverage development efforts across multiple different products. This is also intended to help our customers utilize our different products with moderate additional integration effort on their part.

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

Marketing

Our marketing team is responsible for providing product management, strategic marketing and marketing communications for our products on a global basis.

Product Management & Segment Marketing

Members of both the product management and segment marketing teams play an active role in our core team approach to developing and managing individual products through their entire product life cycle. Emphasis is placed on understanding customer needs, developing the business case, determining competitive positioning and pricing, and ensuring product completeness, which includes documentation, packaging, collateral, promotional material and marketing programs. This team also develops and manages the portfolio roadmap for our products and interfaces with end customers regarding business opportunities and product requirements.

Marketing Communications

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

- Global corporate and product branding and messaging;
- Supporting products with artwork, collateral and packaging;
- Managing the web site content;
- Supporting the retail activities of our customers and our sales team;
- Actively seeking editorial coverage and placing advertisements in industry, business and trade publications;
- Actively participating in industry associations;
- Meeting with opinion leaders and industry analysts; and
- Participating in targeted conferences and trade shows.

We also work with our channel partners to develop programs to encourage customer adoption and promotion of our products. Through marketing strategies including market analysis, branding, design,

packaging and promotions, we launch products into the marketplace that complement customer launch timelines.

Manufacturing

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

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

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

We use Flextronics International Ltd., a large global electronics manufacturing services (“EMS”) provider, as our primary contract manufacturer and logistics partner to provide an end-to-end supply chain solution. This includes design support, procurement, low cost manufacturing and repair in China and fulfillment services. By using its fully integrated supply chain services, we expect to optimize product costs, improve alignment with our increasingly international customer base and achieve increased operating efficiencies and scalability. Our more complex, lower volume products are manufactured by other EMS partners.

Competition

Mobile Computing and M2M are both large and growing markets around the world that continue to attract significant competition. More competitors are entering the market and some of these competitors are large corporations with strong manufacturing scale and financial resources at their disposal. However, our market leadership and expertise, combined with rapidly evolving technology, creates an opportunity for us to effectively differentiate ourselves.

AirCard Mobile Broadband Devices: We have established a technology leadership position by being early to market with leading edge, high performance, high quality, reliable products that support the latest wireless technologies, including LTE, HSPA+ and dual-mode EV-DO/WiMAX. Our primary competitors include ZTE Corporation (“ZTE”), Huawei Technologies Corporation (“Huawei”), Novatel Wireless, Inc. (“Novatel”), Franklin Wireless Corp. and LG Electronics Canada Inc.

AirPrime Wireless Embedded Modules: We are the global market leader in embedded modules and enjoy significant competitive advantages, including the broadest product portfolio, a global footprint, strong relationships with global OEMs and network operators, and unique software differentiation. Our primary competitors include Gemalto NV (who acquired Cinterion Wireless Modules GmbH in June 2010), Telit Communications Plc, and SIMCom Wireless Solutions Co., Ltd. in the M2M market and Ericsson, Novatel and Huawei in the Mobile Computing market.

AirLink Intelligent Gateways and Routers: We believe that the market for wireless intelligent gateways is fragmented from a segment, customer and competition standpoint. In the segments where we compete, we believe that our market share is high, particularly in North America and we are expanding our position globally based on highly differentiated products and strong channel partnerships. Our competitors in this line of business vary by segment and geography and include Digi International Inc., BlueTree Wireless Data Inc., CalAmp Corp., and Multi-Tech Systems, Inc.,

AirVantage M2M Cloud Platform: Our AirVantage services platform is unique in the industry and a strategic differentiator of our M2M solutions overall. Depending on the customers served, our competitors include network operators who have developed their own service delivery systems, nPhase, Jasper Wireless, Inc. and Axeda Corporation.

Employees

As of December 31, 2010 we had a total of 880 full time employees, 236 of whom are at our head office in Richmond, British Columbia, with the balance being located across the United States, Canada, Europe and Asia. Of the 880 employees, 477 are involved in product development, 79 are involved in manufacturing, 164 are sales and support personnel, 47 are marketing personnel and 113 are in finance and administration. Employees have access to corporate-funded ongoing training and professional development opportunities, both on-the-job and through outside educational programs. Cash compensation, our employee stock option plan, our employee restricted share unit plan and our retirement plan contribution program are complemented by internal recognition programs and career advancement opportunities. We believe our relationships with our employees are positive.

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

Intellectual Property

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

We currently hold 102 United States patents and 237 international patents. Additional patent applications are pending. When we consider it to be advantageous, we utilize our intellectual property portfolio and access the intellectual property of third parties by entering into commercial licenses and cross-licenses.

Governmental Regulation

Our products are subject to certain mandatory regulatory approvals in the United States, Canada, the European Union ("EU") and other regions in which we operate. In the United States, the Federal Communications Commission regulates many aspects of communications devices, including radiation of electromagnetic energy, biological safety and rules for devices to be connected to the telephone network. In Canada, similar regulations are administered by the Ministry of Industry, through Industry Canada. EU directives provide the comparable regulatory guidance in Europe.

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

Additional Information Concerning Our Business

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

RISK FACTORS

Our business is subject to significant risks and uncertainties and past performance is no guarantee of future performance. These risks and uncertainties are described in our Management Discussion and Analysis for the year ended December 31, 2010, which can be found on our website at www.sierrawireless.com or at www.sedar.com, and filed as Exhibit 1.3 to our Annual Report on Form 40-F.

DIVIDENDS

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized capital consists of an unlimited number of Common Shares, of which, at March 18, 2011, 31,248,525 are issued and outstanding, and an unlimited number of Preference Shares, issuable in series, of which none are issued and outstanding. Our board of directors is authorized to determine the designation, rights and restrictions to be attached to the Preference Shares upon issuance.

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

The Common Shares carry no pre-emptive or conversion rights other than rights granted to holders of Common Shares under the Shareholders Rights Plan implemented and ratified by our shareholders on April 27, 2000 and re-adopted by our shareholders on April 28, 2003, April 25, 2006 and May 5, 2009. The Shareholder Rights Plan is designed to encourage the fair treatment of our shareholders in connection with any take-over offer for our outstanding Common Shares. The Shareholder Rights Plan provides our board of directors and shareholders with 60 days, which is longer than prescribed by applicable securities laws governing take-over bids, to fully consider any unsolicited take-over bid without undue pressure, to allow our board of directors, if appropriate, to consider other alternatives to maximize shareholder value and to allow additional time for competing bids to emerge. If a bid is made to all shareholders, is held open for at least 60 days and is accepted by shareholders holding more than 50% of the outstanding Common Shares, or is otherwise approved by our board of directors, then the Shareholder Rights Plan will not affect the rights of shareholders. Otherwise, all shareholders, except the parties making a take-over bid, will be able to acquire a number of additional Common Shares equal to 100% of their existing outstanding holdings at half the market price. Thus, any party making a take-over bid not permitted by the Shareholder Rights Plan could suffer significant dilution.

Credit Facilities

At December 31, 2010, we have a credit agreement with The Toronto-Dominion Bank and Canadian Imperial Bank of Commerce, that provides for a one-year revolving term credit facility (the “Revolving Facility”) expiring January 28, 2011 in an amount not to exceed \$10.0 million. The Revolving Facility is to be used for working capital requirements and is secured by a pledge against all of our assets. At December 31, 2010, there were no borrowings under the Revolving Facility and we were in compliance with the covenants associated with the credit facility.

On January 27, 2011, we signed an amended and restated credit agreement, on similar terms, which extended our Revolving Facility to January 28, 2013.

During the first quarter of 2010, we obtained a letter of credit to ensure our performance to a third party customer in accordance with specified terms and conditions. At December 31, 2010, we had \$0.5 million (2009 – nil) outstanding under the letter of credit, which approximates its fair value. The letter of credit expires in September 2011.

MARKET FOR SECURITIES

Our Common Shares are listed on the Toronto Stock Exchange (“TSX”), and trade under the symbol “SW”. Our Common Shares are also listed on Nasdaq and trade under the symbol “SWIR”.

Set out below are the price ranges and volume of Common Shares of Sierra Wireless, Inc. that traded on the TSX for the year ended December 31, 2010.

2010	<u>Low</u> <u>Cdn \$</u>	<u>High</u> <u>Cdn \$</u>	<u>Total Monthly</u> <u>Volume</u>
January	11.18	13.47	3,226,300
February	8.61	12.96	4,907,800
March	8.22	9.19	2,873,800
April	8.10	9.64	2,695,500
May	7.52	8.48	2,070,200
June	6.98	8.38	1,026,400
July	6.98	9.65	1,730,300
August	8.18	9.89	1,890,000
September	8.77	10.98	2,292,400
October	10.53	12.63	2,126,300
November	10.49	12.46	4,128,100
December	10.88	15.24	2,249,100

Set out below are the price ranges and volume of Common Shares of Sierra Wireless, Inc. that traded on Nasdaq for the year ended December 31, 2010.

2010	<u>Low</u> <u>US \$</u>	<u>High</u> <u>US \$</u>	<u>Total Monthly</u> <u>Volume</u>
January	10.67	13.02	4,618,000
February	8.08	12.16	7,797,400
March	8.00	9.05	5,212,900
April	7.97	9.58	5,237,700
May	6.95	8.34	5,258,400
June	6.62	8.03	2,846,300
July	6.54	9.38	3,842,100
August	7.73	9.67	3,228,200
September	8.35	10.71	3,066,000
October	10.24	12.42	5,307,400
November	10.25	12.30	6,891,600
December	10.78	15.30	4,796,200

DIRECTORS AND EXECUTIVE OFFICERS

The tables set forth below list the directors and executive officers of the Company as at March 18, 2011, indicating their name, municipalities of residence, their respective positions and offices held with the Company, the length of service and their principal occupations within the five preceding years.

Each director is elected at our annual meeting of shareholders to serve until the next annual meeting or until a successor is elected or appointed, unless such director resigns or is removed earlier. To the knowledge of Sierra Wireless, the directors and executive officers as a group, beneficially own, directly or indirectly, or exercise control or discretion over, 627,602 Common Shares (not including Common Shares issuable upon the exercise of stock options or unvested restricted stock units), representing as of March 18, 2011 approximately 2.0% of the issued and outstanding Common Shares.

Directors

Name, Position and Residence	Principal Occupation or Employment in the Preceding Five Years ⁽¹⁾	Director Since
Jason W. Cohenour President, CEO and Director Washington, U.S.A.	President and Chief Executive Officer of the Company from October 2005 to present; Chief Operating Officer of the Company from August 2004 to October 2005	October 2005
Gregory D. Aasen ⁽³⁾ Director British Columbia, Canada	Independent Outside Director; Chief Strategy Officer of PMC-Sierra, Inc. (a broadband communications company) from September 2005 to June 2007; Vice-President and General Manager, Communication Products Division of PMC-Sierra, Inc. from 2004 to September 2005	December 1997

Name, Position and Residence	Principal Occupation or Employment in the Preceding Five Years ⁽¹⁾	Director Since
Robin Abrams Director California, U.S.A.	Independent Outside Director; Interim Chief Executive Officer of ZiLOG Inc. (an embedded solutions company) from August 2006 to February 2007; President and Chief Executive Officer of Firefly Mobile (a mobile communications company for the youth market) from June 2004 to July 2006	February 2010
Paul G. Cataford ^{(2) (4)} Director Alberta, Canada	Independent Outside Director; President and Chief Executive Officer of Zephyr Sleep Technologies (a developer and manufacturer of sleep-related medical devices) from April 2010 to present; President and Chief Executive Officer of University Technologies International Inc. (a technology transfer and commercialization company) from 2004 to March 2009	July 1998
Charles E. Levine ^{(2) (3) (4)} Chairman and Director California, U.S.A.	Independent Outside Director	May 2003
S. Jane Rowe ⁽²⁾ Director Ontario, Canada	Independent Outside Director; Senior Vice-President, Teachers' Private Capital, Ontario Teachers' Pension Plan from October 2010 to present; Executive Vice-President, Special Accounts Management and Retail Credit Risk of Scotiabank from August 2009 to October 2010; Executive Vice-President, Executive Offices, Scotiabank from August 2008 to August 2009; Executive Vice-President, Domestic Personal Lending and Insurance and President and CEO of Scotia Mortgage Corporation from May 2006 to July 2007, Vice Chairman of Maple Trust Company from May 2006 to July 2007; Vice Chairman of Travelers Leasing Corporation from February 2007 to July 2007; President and Chief Executive Officer of Roynat Capital from August 2004 to May 2006	March 1998
David B. Sutcliffe ⁽⁴⁾ Director British Columbia, Canada	Corporate Director from October 2005 to present; Chief Executive Officer of the Company from May 1995 through October 2005	June 1995
Kent P. Thexton ⁽³⁾ Director British Columbia, Canada	Independent Outside Director; Managing Partner, i-wireless LLC (US based Mobile Virtual Network Operator ("MVNO")) from November 2006 to present; President and Chief Executive Officer of SEVEN Networks, Inc. (an application software company) from April 2004 to October 2006; Chief Marketing and Products Officer and member of the Board of Directors of O2 PLC (a European Mobile Operator, now part of Telefonica) from November 2001 to March 2004	March 2005

Notes:

- (1) The information as to "principal occupation" has been furnished by the respective directors
- (2) Member of the Audit Committee
- (3) Member of the Human Resources Committee
- (4) Member of the Governance and Nominating Committee

Executive Officers

Name, Position and Province or State and Country of Residence	Principal Occupation in the Preceding Five Years	Length of Service
Jason W. Cohenour President and Chief Executive Officer Washington, U.S.A.	President and Chief Executive Officer of the Company since October 2005; Chief Operating Officer of the Company from August 2004 to October 2005	14 years
David G. McLennan Chief Financial Officer and Secretary British Columbia, Canada	Chief Financial Officer of the Company from March 2004 to present	7 years
Philippe Guillemette Chief Technology Officer British Columbia, Canada	Chief Technology Officer of the Company from September 2010 to present; Senior Vice President, Advanced Technology of the Company from March 2009 to September 2010; Chief Technology Officer of Wavecom, Inc. from February 2003 to March 2009	2 years
Bill Dodson Senior Vice President, Operations British Columbia, Canada	Senior Vice President, Operations of the Company from September 2004 to present;	9 years
A. Daniel Schieler Senior Vice President and General Manager, Mobile Computing Business Unit California, U.S.A.	Senior Vice President and General Manager, Mobile Computing Business Unit of the Company from September 2010 to present; Senior Vice President, Worldwide Sales of the Company from January 2005 to September 2010	7 years
Didier Dutronc Senior Vice President and General Manager, M2M Embedded Solutions Business Unit and Regional General Manager, Europe Issy-les-Moulineaux, France	Senior Vice President and General Manager, M2M Embedded Solutions Business Unit and Regional General Manager, Europe of the Company from September 2010 to present; Senior Vice-President, Marketing of the Company from March 2009 to September 2010; Managing Director, Wavecom Asia-Pacific Ltd. from September 2004 to March 2009	2 years

Name, Position and Province or State and Country of Residence	Principal Occupation in the Preceding Five Years	Length of Service
Emmanuel Walckenaer Senior Vice President and General Manager, Solutions and Services Business Unit Issy-les-Moulineaux, France	Senior Vice President and General Manager, Solutions and Services Business Unit of the Company from September 2010 to present; Senior Vice President and General Manager, AirVantage Business Unit of the Company from March 2009 to September 2010; Vice President of Intelligent Device Services of Wavecom, S.A. from 2007 to March 2009; Senior Vice President, Wireless Solution Delivery and Support of Gemalto N.V. from 2006 to 2007; Senior Vice President, Wireless Product – Telecom Business Unit of Gemplus International S.A. from 2003 to 2006.	2 years
James B. Kirkpatrick Senior Vice-President, Engineering, Mobile Computing Business Unit California, U.S.A.	Senior Vice-President, Engineering, Mobile Computing Business Unit of the Company from September 2010 to present; Chief Technical Officer of the Company from September 2004 to September 2010	7 years
Pierre Teyssier Senior Vice-President, Engineering, M2M Embedded Solutions Business Unit and Regional General Manager, Asia Pacific Hong Kong, PRC	Senior Vice-President, Engineering, M2M Embedded Solutions Business Unit and Regional General Manager, Asia Pacific of the Company from September 2010 to present; Senior Vice President, Engineering and Regional General Manager, Asia Pacific of the Company from March 2009 to September 2010; Vice President, Operations and Smart Business Solutions of Wavecom, S.A. from January 2008 to March 2009; Vice President, Operations of Wavecom S.A. from October 2004 to January 2008	2 years
Jason L. Krause Senior Vice President, Corporate Development and Marketing British Columbia, Canada	Senior Vice President, Corporate Development and Marketing of the Company from January 2011 to present; Vice President, Corporate Development of the Company from January 2009 to January 2011; Director of Business Development of the Company from July 2007 to January 2009	3 years

None of the directors or executive officers of the Corporation is, as at the date of this Annual Information Form (“AIF”), or was within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Corporation) that:

- a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation which, in each case, was in effect for a period of more than 30 consecutive days (each, an “order”) that was issued

while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or

- b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

CODE OF BUSINESS CONDUCT AND ETHICS

In 2003, the Board of Directors adopted a Code of Business Conduct and Ethics applying to all directors, officers, employees and contractors of the Company and each affiliate and subsidiary of the Company, including the Company's Chief Executive Officer, Chief Financial Officer and other senior officers, to ensure that we conduct our business in accordance with the highest standards of business conduct and ethics. The Board of Directors approved an updated version of the Code of Business Conduct and Ethics in December 2005, October 2008 and March 2011. There have been no waivers granted from the Code of Business Conduct and Ethics since its adoption. The Code of Business Conduct and Ethics is available on the Company's website at www.sierrawireless.com or on SEDAR at www.sedar.com.

AUDIT COMMITTEE

Mandate of the Audit Committee

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

1. Purpose and Scope

The audit committee ("**Committee**") was established by the Board of Directors ("**Board**") of Sierra Wireless Inc. ("**Company**") to assist the Board in fulfilling its responsibilities for oversight of the following:

- the Company's systems of internal and disclosure controls;
- the Company's financial reporting process including the Company's financial statements and other financial information provided by the company to its shareholders, the public and others in accordance with applicable securities and corporate legislation and the Company's disclosure Policy;
- the Company's compliance with financial, accounting, legal and regulatory requirements including the Company's Code of Business Conduct;
- the appointment, compensation, independence, oversight, communication with, performance and change of the Company's external and independent auditors (the "Auditors");
- the Company's process for identification of the principal risks of the Company's business and ensuring that an appropriate process is in place to manage risks across the enterprise; and
- the fulfillment of the other responsibilities set forth in this Mandate.

2. Organization, Membership and Meetings

- Committee members shall meet the requirements of the Toronto Stock Exchange, the NASDAQ Exchange, the Securities and Exchange Commission, the securities commissions of each of the Provinces of Canada in which the Company is a reporting issuer and any other regulatory agency that may have jurisdiction over the operations of the Company from time to time.
- The Committee shall consist of three or more directors who are "independent" as defined by applicable law, regulations, guidelines and policies, and as determined by the Governance and Nominating Committee ("**GNC**") of the Board.

- All members of the Committee shall be “financially literate”, and at least one member of the Committee shall be a “financial expert”. “Financially literate” and “financial expert” will have the respective meanings set out in applicable law, regulations, guidelines and policies.
- Members of the Committee shall be appointed annually by the Board on the recommendation of the GNC. Members may be replaced by the Board at any time, but shall otherwise serve until a successor has been named.
- No committee member may serve on the compensation committee of another company if any director of the Company is, or has been in the past three years an employee of that other company.
- No member shall be affiliated with the Company or any subsidiary.
- The Committee shall meet from time to time, as it deems necessary, but at least four times per year.
- The presence in person or by telephone of a majority of Committee members shall constitute a quorum for any meeting of the Committee.
- The Committee may include management at its meetings, but shall also hold an executive session at each meeting at which only independent directors are present.
- The Committee shall maintain written minutes of its meetings, which minutes will be filed in the corporate minute book.

3. Authority and Responsibilities

3.1. External Audit:

- Recommend to the Board the appointment and compensation of the Auditors. Oversee the work of the Auditors (including resolution of disagreements between Management and the Auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company.
- Review in advance and pre-approve all non-audit services to be provided to the Company or its subsidiaries by the Auditors, as permitted by applicable governance rules and in particular Section 10A of the Securities Exchange Act of 1934 and, in connection therewith, to approve all fees and other terms of engagement. The Committee shall also review and pre-approve all disclosures required to be included in any public filings with respect to non-audit services. The Committee may delegate to one or more members the authority to pre-approve non-audit services, provided a report is made to the Committee at its next scheduled meeting. The Committee may consult with Management but shall not delegate these responsibilities to Management.
- Communicate directly with the Auditors.
- Review the performance of the Auditors on at least an annual basis.
- On an annual basis, review and discuss with the Auditors all relationships the Auditors have with the Company in order to evaluate the Auditors’ continued independence. The Committee: (i) shall ensure that the Auditors submit to the Committee on an annual basis a written statement delineating all relationships and services that may impact the objectivity and independence of the Auditors; (ii) shall discuss with the Auditors any disclosed relationship or services that may impact the objectivity and independence of the Auditors; and (iii) shall satisfy itself as to the Auditors’ independence.
- At least annually, obtain and review an annual report from the Auditors describing (i) the Auditors’ internal quality control procedures and (ii) any material issues raised by the most recent internal quality control review, or peer review, of the Auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Auditors, and any steps taken to deal with any such issues.
- Confirm that the rotation of the lead audit partner, or the lead audit partner responsible for reviewing the audit, for the Company’s Auditors complies with the requirements of the Canadian and US regulatory authorities.
- Review all reports required to be submitted by the Auditors to the Committee particularly including those required by Section 10A of the Securities Exchange Act of 1934.

- Review, based upon the recommendation of the Auditors and Management, the scope and plan of the work to be done by the Auditors for each fiscal year.

3.2. Financial statements:

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

3.3. Periodic and annual reviews:

- Periodically review with each of Management and the Auditors (i) any significant disagreement between Management and the Auditors in connection with the preparation of the financial statements, (ii) any difficulties encountered during the course of the audit or review (including any restrictions on the scope of work or access to required information), and (iii) Management's response to each.
- Periodically discuss with the Auditors, without Management being present (i) their judgments about the quality, appropriateness, and acceptability of the Company's accounting principles and financial disclosure practices, as applied in its financial reporting, and (ii) the completeness and accuracy of the Company's financial statements.
- Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the Auditors or Management. Review with the Auditors and Management, at appropriate intervals, the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.
- Review with Management, the Auditors and the Company's counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including significant changes in accounting standards or rules as promulgated by the Canadian Institute of Chartered Accountants, the securities regulators having jurisdiction over the Company or other regulatory authorities with relevant jurisdiction.
- Obtain and review an annual report from Management relating to the accounting principles used in preparation of the Company's financial statements (including those policies for which Management is required to exercise discretion or judgments regarding the implementation thereof).
- On a quarterly basis, obtain and review a report from Management summarizing the Company's investments in cash or cash equivalents and marketable securities.
- On an annual basis, review the Company's Treasury Investment Policy.

3.4. Discussions with Management:

- Review and discuss with Management the Company's annual and interim earnings press releases (including the use of "pro forma" or "adjusted" non-GAAP information), financial information and

earnings guidance provided to analysts and rating agencies as well as all other material public disclosure documents such as the Company's AIF, management information circular and any prospectuses.

- Review and discuss with Management all material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses.
- Inquire about the application of the Company's accounting policies and their consistency from period to period, and the compatibility of these accounting policies with generally accepted accounting principles, and (where appropriate) the Company's provisions for liabilities that may have a material impact on the financial statements of the Company.
- Review and discuss with Management the Company's major financial risk exposures and the steps Management has taken to monitor and control such exposures (including Management's risk assessment and risk management policies).
- Review and discuss with Management all disclosures made by the Company concerning any material changes in the financial condition or operations of the Company.
- The Committee will meet periodically and separately with the Company's counsel to review material legal affairs of the Company and the Company's compliance with applicable law and listing standards.
- Obtain explanations from Management for unusual variances in the Company's annual financial statements from year to year, and review annually the Auditors' letter of the recommendations to Management and Management's response.

3.5. Internal controls and disclosure:

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

3.6. Risk Management and Compliance

- Ensure that in addition to the Committee's oversight of management's process to identify and manage key financial risks, the Company has in place a process for enterprise risk management whereby the Committee reviews the enterprise's most critical risks and tracks management's actions to manage such risks.
- Review with management and the senior risk management executive the charter, activities, staffing and organizational structure of the risk management function.
- Discuss with the senior risk management executive any issues that may have been brought forward concerning compliance with the Company's Code of Business Conduct.
- Ensure that there are no unjustified restrictions or limitations on the activities of the risk management function and review and concur in the appointment, replacement or dismissal of the senior risk management executive.
- On an annual basis, review the effectiveness of the risk management function
- On a regular basis, meet separately with the senior risk management executive to discuss any matters that the Committee or the senior risk management executive believes should be discussed

3.7. Reporting obligations:

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

3.8. Other:

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

4. External and Internal Linkages

- The Board
- The CEO and Senior Management
- The senior Risk Management executive
- Outside Consultants and Advisors

- The Corporate Governance and Nominating Committee

Composition of the Audit Committee

We have a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). S. Jane Rowe (Chair), Paul G. Cataford and Charles E. Levine are the current members of the Audit Committee. Each of them is an independent director and is financially literate as such terms are defined by applicable Canadian and U.S. securities laws. The Board of Directors has determined that Ms. Rowe is the Audit Committee’s financial expert within the meaning of General Instruction B(8)(b) of Form 40-F. The Securities and Exchange Commission (“SEC”) has indicated that the designation or identification of a person as an audit committee financial expert does not make such person an “expert” for any purpose, impose any duties, obligations or liability on such person that are greater than those imposed on members of the audit committee or board of directors who do not carry this designation or identification, or affect the duties, obligations or liabilities of any other member of the audit committee or board of directors.

Relevant Education and Experience

S. Jane Rowe is an independent director. Ms. Rowe is currently the Senior Vice-President, Teachers’ Private Capital, Ontario Teachers’ Pension Plan. Previously, she was the Executive Vice-President, Special Accounts Management and Retail Credit Risk of Scotiabank from August 2009 until October 2010, the Executive Vice-President, Executive Offices of Scotiabank from August 2008 until August 2009 and the Executive Vice-President, Domestic Personal Lending and Insurance and President and CEO of Scotia Mortgage Corporation, the mortgage subsidiary of Scotiabank from May 2006 until July 2007. Ms. Rowe was also Vice Chairman of Maple Trust Company and Travelers Leasing Corporation, both of which are wholly-owned subsidiaries of Scotiabank. Prior to May 2006, Ms. Rowe was the President and Chief Executive Officer of Roynat Capital. Ms. Rowe has an extensive background in the financial services and banking industry with over 20 years of experience with the Scotiabank Group. Ms. Rowe holds a Bachelor of Commerce degree with honours from Memorial University of Newfoundland, an MBA from York University and has received the Institute of Corporate Directors certified designation (ICD.D).

Paul G. Cataford is an independent director. Mr. Cataford is currently the President and Chief Executive Officer of Zephyr Sleep Technologies. Previously, he was the President and Chief Executive Officer of University Technologies Inc., a wholly-owned subsidiary of the University of Calgary that is responsible for the university’s technology commercialization, from 2004 until March 2009. Mr. Cataford’s other experience includes consulting, Executive Managing Director of BMO Nesbitt Burns Equity Partners Inc. from 2001 to 2002 and Managing Director and President of BCE Capital Inc. from 1997 to 2001. Mr. Cataford is also the Chair of the audit committee for Hemisphere GPS, Inc. (formerly CSI Wireless, Inc.). Mr. Cataford has extensive knowledge of venture capital investing and technology. Mr. Cataford completed a Mechanical Engineering Degree at Queen’s University and an MBA, specializing in finance and international business, at York University. Mr. Cataford has received the Institute of Corporate Directors certified designation (ICD.D) from the Rotman School of Management.

Charles E. Levine is an independent director of technology focused companies, including Openwave Systems and RCN Corporation, and a management consultant. He has a track record of developing brands into large businesses, most notably when he was President and Chief Operating Officer of Sprint PCS (now Sprint Nextel) where he oversaw revenue growth to over \$10 billion in four and a half years and at AT&T, where he turned around the Consumer Products and Small Business Markets, winning Popular Electronics Product of the Year for one video conferencing product. He has held senior management positions at CAD Forms Technology and Octel Communications (now part of Lucent). Mr. Levine was named Marketer of the Year in 1999 by MC Magazine and CEO of the Year in 2001 by Frost & Sullivan for his notable achievements at Sprint PCS. He holds an MBA (Marketing) from the J.L.

Kellogg Graduate School of Management-Northwestern University, and a bachelor's degree in Economics from Trinity College.

Reliance on Certain Exemptions

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

Audit Committee Oversight

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

Pre-approval Policies and Procedures

The Audit Committee has the sole authority to review in advance and pre-approve all audit and non-audit services to be provided to the Company or its subsidiaries by the external auditor, as well as all fees and other terms of engagement. The Audit Committee may delegate to one or more members the authority to pre-approve non-audit services, provided a report is made to the Audit Committee at its next scheduled meeting. For the fiscal years ended December 31, 2010 and 2009, all of the audit and non-audit services below were pre-approved by the Audit Committee.

Auditor Independence

Sierra Wireless's Audit Committee has concluded that KPMG LLP, the Company's independent registered chartered accountants (the "Auditors"), is independent under applicable rules and guidelines and, in particular, that the Auditors are free from conflicts of interest that could impair their objectivity in conducting the audit of the Company's financial statements. The Audit Committee is required to approve all audit and non-audit related services performed by our Auditors, and our Auditors are not permitted to perform services for us prohibited for an independent auditor under applicable Canadian and United States regulations, including the Sarbanes-Oxley Act of 2002.

Auditors' Fees

	<u>2010</u>	<u>2009</u>
Audit fees	\$ 1,150,000	\$ 859,000
Tax fees	55,350	75,000
Audit-related fees	nil	nil
All other fees	nil	nil

Audit Fees

Audit fees for 2010 include fees related to the audit of our year-end financial statements, audit of our internal control over financial reporting, review of our interim financial statements, and services that are normally provided by the Auditors in connection with statutory and regulatory filings or engagements for such year. Audit fees for 2009 include fees related to the audit of our year-end financial statements, audit of our internal control over financial reporting, review of our interim financial statements, review of the Wavecom business acquisition report, audit of the opening balance sheet of Wavecom and services that are normally provided by the Auditors in connection with statutory and regulatory filings or engagements for such year.

Tax Fees

Tax fees for 2010 and 2009 are primarily for tax compliance and transfer pricing services.

Audit-Related Fees

Audit-related fees consist of fees for assurance and related services by the Auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported above as Audit Fees. No audit-related fees were billed by the Auditors in 2010 or 2009.

All Other Fees

No other fees were billed by the Auditors in 2010 or 2009 for services other than those reported in the preceding paragraphs.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures for the Company. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed with securities regulatory authorities is recorded, processed, summarized and reported within time periods specified in applicable securities regulations, and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

An evaluation was carried out under the supervision of, and with the participation of, our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2010. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2010 to ensure that information required to be disclosed by us in the reports we file or submit under applicable securities laws and regulations is recorded, processed, summarized, and reported within the time periods specified thereby.

We do not expect that our disclosure controls and procedures will prevent all error and all fraud, if any. Control procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedures are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. We considered these limitations during the development of our disclosure controls and procedures and will periodically re-evaluate them to ensure they provide reasonable assurance that such controls and procedures are effective.

Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting, as of December 31, 2010, based on the framework set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on its evaluation under this framework, management concluded that our internal control over financial reporting was effective as of that date.

KPMG LLP (“KPMG”), an independent registered public accounting firm, who audited and reported on our consolidated financial statements as at December 31, 2010 and 2009, has issued an attestation report on management’s assessment of our internal control over financial reporting as of December 31, 2010. The attestation report is included in our consolidated financial statements.

Changes in Internal Control Over Financial Reporting

There have been no changes in Sierra Wireless’ internal control over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

International Financial Reporting Standards (“IFRS”)

In November 2008, the SEC announced a proposed roadmap for comment regarding the potential use by U.S. registrants of financial statements prepared in accordance with IFRS. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. On February 24, 2010, the SEC issued a statement describing its position regarding global accounting standards. Among other things, the SEC stated that it has directed its staff to execute a work plan, which will include consideration of IFRS as it exists today and after completion of various “convergence” projects currently underway between U.S. and international accounting standards setters. By the end of 2011, assuming completion of certain projects and the SEC staff’s work plan, it is expected that the SEC will decide whether to incorporate IFRS into the U.S. financial reporting system. We will continue to monitor the development of the potential implementation of IFRS.

LEGAL PROCEEDINGS

In December 2010, a patent holding company, Mayfair Wireless, LLC, filed a patent litigation lawsuit in the United States District Court for the District of Delaware asserting patent infringement by a number of parties, including us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In October 2010, a patent holding company, Eon Corp. IP Holdings, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of parties including telecommunication carrier companies including Sprint Nextel Corporation. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In July 2010, Americans for Fair Patent Use, LLC filed a lawsuit in the United States District Court for the Eastern District of Texas asserting false patent marking by a number of device manufacturers, including Sierra Wireless America, Inc., and telecommunication carrier companies, including Sprint Nextel Corporation and Cellco Partnership d/b/a Verizon Wireless. The litigation makes certain allegations that products sold by us and our competitors were falsely marked with a number of patents that had expired or that do not cover the marked products. We are currently assessing our potential liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In May 2010, a patent holding company, Golden Bridge Technology Inc., filed a patent litigation lawsuit in the United States District Court for the District of Delaware asserting patent infringement by a number of telecommunication carrier companies, including AT&T Mobility LLC. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In February 2010, a patent holding organization, Commonwealth Scientific and Industrial Research Organisation, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a telecommunication carrier, Cellco Partnership d/b/a Verizon Wireless. The litigation makes certain allegations concerning the wireless modems sold to the carrier by us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In September 2009, a patent holding company, Xpoint Technologies Inc., filed a patent litigation lawsuit in the United States District Court for the District of Delaware asserting patent infringement by a number of parties, including AT&T Mobility LLC. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In July 2009, a patent holding company, WIAV Networks, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of parties, including wireless device manufacturers, including us. The Texas court has transferred the litigation to the United States District Court for the Northern District of California. The California court has dismissed the litigation against a number of parties, including us.

In July 2009, a patent holding company, SPH America, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a number of device manufacturers, including us, and computer manufacturers, including Hewlett-Packard Co., Panasonic Corporation, General Dynamics Itronix Corporation and Fujitsu America and Fujitsu Japan. The litigation, which has been transferred to the United States District Court for the Southern District of California, makes certain allegations concerning the wireless modules sold to the computer manufacturers by us, our competitors, and some of our customers with whom we have supply agreements. We are assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In July 2009, a patent holding company, Celltrace, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of telecommunication carrier companies including Sprint Spectrum, LP and AT&T Mobility LLC. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. In the meantime, the carrier companies have provisionally withdrawn their indemnification demands against us. Although there can be no assurance that an unfavorable 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 lawsuit.

In June 2009, a patent holding company, Saxon Innovations, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by wireless device manufacturers, including us. The patents have been sold to a patent holding company, Norman IP Holdings LLC. Following the sale, Norman IP Holdings LLC has agreed to a confidential settlement of the litigation, and the settlement will not have a material adverse effect on our operating results.

In June 2009, a patent holding company, MSTG Inc., filed patent litigation lawsuits in the United States District Court for the Northern District of Illinois asserting patent infringement by a number of telecommunication carrier companies, including Sprint Spectrum, LP and AT&T Mobility LLC. The carriers have notified us that the lawsuits make certain allegations concerning the wireless data cards and modems sold to those carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In January 2009, a patent holding company, DNT LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a number of telecommunication carrier companies, including Sprint Spectrum, LP and Nextel, Verizon Wireless and T-Mobile USA, Inc. The litigation made certain allegations concerning the wireless modems sold to the carriers by us and our competitors. Following a trial in December 2009, the Court received a jury verdict of patent non-infringement and invalidity. Subsequently, the parties reached a mutually agreeable settlement, the details of which are confidential. DNT LLC filed an Unopposed Motion for Dismissal on December 29, 2010 in the Court of Appeal.

Since early December 2008, Wavecom and its subsidiary Wavecom, Inc. have been involved in litigation with a contracting counterparty, Temic Automotive of North America (Continental Group). In the first quarter of 2010, Temic Automotive of North America, Inc., d/b/a/ Continental and Continental AG, Wavecom, Inc., Wavecom, S.A., Sierra Wireless, Inc., Sierra Wireless Americas, Inc., and Sierra Wireless, S.A. reached a mutually agreeable settlement of the lawsuits filed early December 2008 in North Carolina Business Court and New York State Court. The details of the settlement agreement are confidential.

On February 6, 2008, Wavecom filed a civil proceeding in the Supreme Court of the State of New York (USA) against Siemens AG and two of its U.S. subsidiaries. In August 2009, Sierra Wireless S.A., Wavecom, Inc., Siemens AG, Siemens Corporation, and Siemens Energy and Automation, Inc. reached a mutually agreeable settlement of the lawsuit filed in New York State Court and the case was dismissed in September 2010. The details of the settlement agreement are confidential.

In September 2007, a patent holding company, NTP, Inc., filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a telecommunication carrier, AT&T Mobility LLC. In December 2010, AT&T Mobility LLC made certain allegations concerning the wireless modems sold to them by us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In November 2007, a patent holding company, Technology Patents LLC, filed a patent litigation lawsuit in the United States District Court for the Southern Division of the District of Maryland asserting patent infringement by companies in the cellular phone industry, including a telecommunication carrier, AT&T Mobility LLC. In August 2010, AT&T Mobility LLC made certain allegations concerning the wireless modems sold to them by us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

We are engaged in certain other claims and 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.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2010, the Company did not have any off-balance sheet finance or special purpose entities.

CONTRACTUAL OBLIGATIONS

The following table specifies our known contractual obligations as of December 31, 2010:

<u>Contractual Obligations</u> <i>(in thousands of U.S. dollars)</i>	<u>Payments due by period</u>				<u>More than 5 years</u>
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	
Operating lease obligations.....	\$ 21,265	6,739	5,521	4,172	4,833
Capital lease obligations	587	324	228	35	—
Purchase obligations ⁽¹⁾	85,524	85,524	—	—	—
Other long-term liabilities ⁽²⁾	<u>24,724</u>	<u>—</u>	<u>13,947</u>	<u>10,777</u>	<u>—</u>
Total	<u>\$ 132,100</u>	<u>\$ 92,587</u>	<u>\$ 19,696</u>	<u>\$ 14,984</u>	<u>\$ 4,833</u>

Note

- (1) Purchase obligations represent obligations with certain contract manufacturers to buy a minimum amount of designated products between January 2011 and June 2011. In certain of these arrangements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.
- (2) Other long-term liabilities include the long-term portions of accrued royalties and marketing development funds.

QUORUM EXEMPTION

The rules and regulations of the Nasdaq require each listed issuer to provide that a quorum for its shareholders' meetings be at least 33 1/3 percent of the issuer's outstanding shares. The Company has been granted an exemption from this requirement because it is contrary to generally accepted business practices in Canada, the Company's country of domicile. The Company has had the benefit of this exemption in the current and prior year.

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

REGISTRAR AND TRANSFER AGENT

The Registrar and Transfer Agent for the Common Shares in Canada is Computershare Investor Services Inc., 510 Burrard Street, Vancouver, British Columbia, and in the United States is Computershare Trust Company, N.A., 350 Indiana Street, Suite 800, Golden, Colorado. These offices and the principal offices of Computershare Investor Services Inc. in the City of Toronto maintain the register of Common Shares and can effect transfers and make deliveries of certificates for Common Shares.

MATERIAL CONTRACTS

Other than the Shareholder Rights Plan disclosed under the heading "Description of Capital Structure", the Company is not a party to any material contracts as defined in National Instrument 51-102.

EXPERTS

KPMG LLP, independent registered chartered accountants, have audited the Company's consolidated financial statements as at December 31, 2010 and 2009, and for each of the years in the three year period

ended December 31, 2010 as set forth in their reports. KPMG LLP has advised the Company that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia and in accordance with the applicable rules and regulations of the SEC.

ADDITIONAL INFORMATION

Additional information relating to the Company:

- (a) may be found on the System for Electronic Analysis and Retrieval (“SEDAR”) at www.sedar.com and on the SEC’s Electronic Document and Gathering Retrieval System (“EDGAR”) at www.sec.gov;
- (b) including directors’ and officers’ remuneration and indebtedness, principal holders of the Company’s securities and securities authorized for issuance under equity compensation plans, is contained in the Company’s Information Circular for its most recent annual meeting of shareholders; and
- (c) is provided in the Company’s audited financial statements and management discussion and analysis for the years ended December 31, 2010 and 2009.

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Sierra Wireless, Inc. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States and, where appropriate, reflect management's best estimates and judgments. Where alternative accounting methods exist, management has chosen those methods deemed most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality, and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls over financial reporting as described in "Management's Annual Report on Internal Control Over Financial Reporting" on page 22 of Management's Discussion and Analysis.

The Company's Audit Committee is appointed by the Board of Directors annually and is comprised exclusively of outside, independent directors. The Audit Committee meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The Audit Committee considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the independent auditors. KPMG LLP have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been independently audited by KPMG LLP, Chartered Accountants, on behalf of the shareholders, in accordance with the standards of the Public Company Accounting Oversight Board (United States) with respect to the consolidated financial statements for the year ended December 31, 2010. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

/s/ Jason W. Cohenour

Jason W. Cohenour
President and Chief Executive Officer
March 18, 2011

/s/ David G. McLennan

David G. McLennan
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Sierra Wireless, Inc.

We have audited the accompanying consolidated balance sheets of Sierra Wireless, Inc. (“the Company”) and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with United States generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 18, 2011 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG LLP

Chartered Accountants
Vancouver, Canada
March 18, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Sierra Wireless, Inc.

We have audited Sierra Wireless, Inc.'s ("the Company") internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 18, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Chartered Accountants
Vancouver, Canada
March 18, 2011

SIERRA WIRELESS, INC.

Consolidated Statements of Operations

(Expressed in thousands of United States ("U.S.") dollars, except per share amounts)

(Prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"))

	Years ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenue	\$ 650,341	\$ 526,384	\$ 567,308
Cost of goods sold	<u>459,976</u>	<u>349,092</u>	<u>407,639</u>
Gross margin.....	<u>190,365</u>	<u>177,292</u>	<u>159,669</u>
Expenses:			
Sales and marketing.....	51,599	54,835	34,290
Research and development, net (note 17).....	88,035	80,066	54,657
Administration	36,357	36,553	21,336
Acquisition costs (note 3(a)).....	—	7,785	—
Restructuring (note 4).....	7,640	20,605	—
Integration (note 5)	5,110	3,859	—
Amortization	<u>11,990</u>	<u>11,313</u>	<u>4,814</u>
	<u>200,731</u>	<u>215,016</u>	<u>115,097</u>
Earnings (loss) from operations	(10,366)	(37,724)	44,572
Foreign exchange gain (loss)	(7,000)	1,261	20,583
Other income (expense).....	<u>(241)</u>	<u>(4,399)</u>	<u>5,579</u>
Earnings (loss) before income taxes	(17,607)	(40,862)	70,734
Income tax expense (recovery) (note 16).....	<u>(2,808)</u>	<u>340</u>	<u>8,151</u>
Net earnings (loss)	(14,799)	(41,202)	62,583
Net loss attributable to the non-controlling interest.....	<u>(258)</u>	<u>(1,303)</u>	<u>—</u>
Net earnings (loss) attributable to Sierra Wireless, Inc.....	<u>\$ (14,541)</u>	<u>\$ (39,899)</u>	<u>\$ 62,583</u>
Earnings (loss) per share (note 18):			
Basic	\$ (0.47)	\$ (1.29)	\$ 2.00
Diluted	<u>\$ (0.47)</u>	<u>\$ (1.29)</u>	<u>\$ 2.00</u>

See accompanying notes to consolidated financial statements.

SIERRA WIRELESS, INC.

Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars, except number of shares)

(Prepared in accordance with U.S. GAAP)

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 85,443	\$ 107,491
Short-term investments (note 6).....	26,405	26,898
Accounts receivable, net of allowance for doubtful accounts of \$4,606 (2009 – \$6,504).....	117,397	86,466
Inventories (note 7).....	22,134	24,708
Deferred income taxes (note 16).....	9,577	6,168
Prepaid expenses and other.....	<u>24,542</u>	<u>14,039</u>
	285,498	265,770
Fixed assets (note 8).....	22,635	27,956
Intangible assets (note 9).....	69,024	86,674
Goodwill (note 9).....	90,953	95,064
Deferred income taxes (note 16).....	836	1,794
Other assets.....	<u>622</u>	<u>7,261</u>
	<u>\$ 469,568</u>	<u>\$ 484,519</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable.....	\$ 63,451	\$ 71,035
Accrued liabilities.....	74,019	54,419
Deferred revenue and credits.....	987	750
Current portion of long-term liabilities (note 10).....	1,470	3,371
Current portion of obligations under capital leases (note 10).....	<u>324</u>	<u>293</u>
	140,251	129,868
Long-term liabilities (note 10).....	24,724	35,860
Obligations under capital leases (note 11).....	263	245
Deferred income taxes (note 16).....	1,143	1,950
Shareholders' equity:		
Share capital (note 12)		
Authorized		
Unlimited number of common and preference shares with no par value		
Common shares, 31,222,786 (2009 – 31,048,907) issued and outstanding.....	327,668	326,043
Treasury shares, at cost 643,042 (2009 – 1,086,652).....	(3,908)	(6,442)
Additional paid-in capital.....	16,926	13,133
Deficit.....	(33,167)	(18,626)
Accumulated other comprehensive loss.....	<u>(5,471)</u>	<u>(37)</u>
	302,048	314,071
Non-controlling interest in Wavecom S.A.....	<u>1,139</u>	<u>2,525</u>
Total shareholders' equity.....	<u>303,187</u>	<u>316,596</u>
	<u>\$ 469,568</u>	<u>\$ 484,519</u>

Commitments and contingencies (note 19)

See accompanying notes to consolidated financial statements.

/s/ Jason W. Cohenour
JASON W. COHENOUR
Director

/s/ S. Jane Rowe
S. JANE ROWE
Director

SIERRA WIRELESS, INC.
Consolidated Statements of Shareholders' Equity
(Expressed in thousands of U.S. dollars, except number of shares)
(Prepared in accordance with U.S. GAAP)

	<u>Common Shares</u>		<u>Treasury Shares</u>		<u>Additional</u>	<u>Warrants</u>		<u>Retained</u>	<u>Accumulated</u>	<u>Non-</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Number</u>	<u>Amount</u>	<u>Earnings</u>	<u>Other</u>	<u>controlling</u>	
					<u>Capital</u>			<u>(Deficit)</u>	<u>(Loss)</u>	<u>Interest</u>	
Balance December 31, 2007 ...	31,334,617	\$328,323	—	\$ —	\$ 6,374	138,696	\$ 1,538	\$ (40,602)	\$ (309)	\$ —	\$295,324
Net income.....	—	—	—	—	—	—	—	62,583	—	—	62,583
Net unrealized gain (loss) on short-term investments	—	—	—	—	—	—	—	—	(21)	—	(21)
Reclassification adjustment for realized losses (gains) on investments	—	—	—	—	—	—	—	—	(419)	—	(419)
Comprehensive income.....											<u>62,143</u>
Common share cancellation (note 12)	(407,700)	(4,274)	—	—	—	—	—	(708)	—	—	(4,982)
Purchase of treasury shares for RSU distribution	—	—	174,508	(2,498)	—	—	—	—	—	—	(2,498)
Distribution of vested RSUs ...	—	—	(53,486)	1,011	(1,011)	—	—	—	—	—	—
Expiry of warrants (note 19(b)(iv))	—	—	—	—	1,538	(138,696)	(1,538)	—	—	—	—
Stock option tax benefit related to U.S. employees	—	—	—	—	57	—	—	—	—	—	57
Stock option exercises (note 12).....	105,037	1,844	—	—	(821)	—	—	—	—	—	1,023
Stock-based compensation (note 13)	—	—	—	—	<u>6,381</u>	—	—	—	—	—	<u>6,381</u>
Balance December 31, 2008 ...	31,031,954	325,893	121,022	(1,487)	12,518	—	—	21,273	(749)	—	357,448
Acquisition of non- controlling interest (note 3(a))	—	—	—	—	—	—	—	—	—	13,357	13,357
Exercise of Wavecom S.A. stock options.....	—	—	—	—	(2,751)	—	—	—	166	6,733	4,148

	<u>Common Shares</u>		<u>Treasury Shares</u>		<u>Additional</u>	<u>Warrants</u>		<u>Retained</u>	<u>Accumulated</u>	<u>Non-</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Number</u>	<u>Amount</u>	<u>Earnings</u>	<u>Other</u>	<u>controlling</u>	
					<u>Capital</u>			<u>(Deficit)</u>	<u>(Loss)</u>	<u>Interest</u>	
Subsequent tender offer and squeeze-out of Wavecom S.A. (note 3(a))	—	—	—	—	(1,647)	—	—	—	(93)	(17,829)	(19,569)
Issuance of Wavecom S.A. free shares.....	—	—	—	—	(1,568)	—	—	—	31	1,537	—
Comprehensive income (loss):											
Net loss	—	—	—	—	—	—	—	(39,899)	—	(1,303)	(41,202)
Other comprehensive income (loss):											
Reclassification adjustment for realized losses (gains) on investments.....	—	—	—	—	—	—	—	—	21	—	21
Foreign currency translation	—	—	—	—	—	—	—	—	587	30	617
Comprehensive loss											<u>(40,564)</u>
Purchase of treasury shares for RSU distribution	—	—	1,141,388	(6,417)	—	—	—	—	—	—	(6,417)
Distribution of vested RSUs ...	—	—	(175,758)	1,462	(1,462)	—	—	—	—	—	—
Stock option exercises (note 12).....	16,953	150	—	—	(54)	—	—	—	—	—	96
Stock-based compensation (note 13)	—	—	—	—	8,097	—	—	—	—	—	8,097
Balance December 31, 2009 ...	31,048,907	326,043	1,086,652	(6,442)	13,133	—	—	(18,626)	(37)	2,525	316,596
Issuance of Wavecom S.A. free shares.....	—	—	—	—	(229)	—	—	—	32	(1,356)	(1,553)
Comprehensive income (loss):											
Net loss	—	—	—	—	—	—	—	(14,541)	—	(258)	(14,799)
Other comprehensive income (loss):											

	<u>Common Shares</u>		<u>Treasury Shares</u>		<u>Additional Paid-in Capital</u>	<u>Warrants</u>		<u>Retained Earnings (Deficit)</u>	<u>Accumulated Other Comprehen- sive Income (Loss)</u>	<u>Non- controlling Interest</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>		<u>Number</u>	<u>Amount</u>				
Reclassification adjustment for realized losses (gains) on investments	—	—	—	—	—	—	—	—	(0)	—	(0)
Foreign currency translation	—	—	—	—	—	—	—	—	(5,466)	228	(5,238)
Comprehensive loss											(20,037)
Distribution of vested RSUs ...	—	—	(443,610)	2,534	(2,534)	—	—	—	—	—	—
Stock option tax benefit related to U.S. employees	—	—	—	—	151	—	—	—	—	—	151
Stock option exercises (note 12).....	173,879	1,625	—	—	(551)	—	—	—	—	—	1,074
Stock-based compensation (note 13)	—	—	—	—	6,956	—	—	—	—	—	6,956
Balance December 31, 2010 ...	<u>31,222,786</u>	<u>\$ 327,668</u>	<u>643,042</u>	<u>\$ (3,908)</u>	<u>\$ 16,926</u>	<u>—</u>	<u>\$ —</u>	<u>\$ (33,167)</u>	<u>\$ (5,471)</u>	<u>\$ 1,139</u>	<u>\$303,187</u>

See accompanying notes to consolidated financial statements.

SIERRA WIRELESS, INC.
Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)
(Prepared in accordance with U.S. GAAP)

	Years ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:			
Net earnings (loss)	\$ (14,799)	\$ (41,202)	\$ 62,583
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities			
Amortization	34,990	32,704	16,309
Stock-based compensation (note 13)	6,956	8,097	6,381
Non-cash restructuring and other	(859)	5,911	—
Tax benefit related to stock option deduction	151	—	57
Deferred income tax	(3,374)	282	(3,842)
Loss (gain) on disposal	(95)	204	377
Gain on sale of investments	—	—	(565)
Unrealized foreign exchange loss (gain) on restricted cash	—	15,653	(18,416)
Unrealized foreign exchange loss on term loan (note 15(c))	—	1,215	—
Changes in operating assets and liabilities			
Accounts receivable	(35,671)	20,175	14,759
Inventories	(11,399)	15,676	(8,043)
Prepaid expenses and other assets	7,104	3,888	248
Accounts payable	12,406	(1,301)	7,468
Accrued liabilities	(290)	(12,793)	8,668
Deferred revenue and credits	480	(810)	149
Net cash provided by (used in) operating activities	<u>(4,400)</u>	<u>47,699</u>	<u>86,133</u>
Cash flows from investing activities:			
Business acquisitions, net of cash acquired of \$139,785 (note 3)	—	(26,493)	(35)
Acquisition of OCEANE convertible bonds (note 3)	—	(104,767)	—
Decrease (increase) in restricted cash	—	175,820	(173,057)
Purchase of Wavcom S.A. free shares	(1,553)	—	—
Proceeds on disposal	99	155	2
Purchase of fixed assets	(12,580)	(13,296)	(19,653)
Increase in intangible assets	(3,976)	(6,543)	(3,025)
Purchase of long-term investments	—	—	(20,131)
Proceeds on sale of long-term investments	—	—	39,797
Purchase of short-term investments	(48,310)	(68,333)	(237,366)
Proceeds on maturity of short-term investments	<u>48,799</u>	<u>59,560</u>	<u>313,775</u>
Net cash provided by (used in) investing activities	<u>(17,521)</u>	<u>16,103</u>	<u>(99,693)</u>
Cash flows from financing activities:			
Proceeds on issuance of term loan (note 15(c))	—	102,716	—
Repayment of term loan (note 15(c))	—	(103,931)	—
Financing costs	—	(3,971)	—
Issuance of common shares, net of share issue costs	1,074	96	1,023
Purchase of treasury shares for RSU distribution	—	(6,417)	(2,498)
Repurchase of common shares	—	—	(4,982)
Proceeds on exercise of Wavcom options	—	4,148	—
Decrease in long-term liabilities	<u>(2,615)</u>	<u>(2,238)</u>	<u>(349)</u>
Net cash provided by (used in) financing activities	<u>(1,541)</u>	<u>(9,597)</u>	<u>(6,806)</u>
Effect of foreign exchange on cash and cash equivalents	<u>1,414</u>	<u>(9,972)</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents	(22,048)	44,233	(20,366)
Cash and cash equivalents, beginning of year	<u>107,491</u>	<u>63,258</u>	<u>83,624</u>
Cash and cash equivalents, end of year	<u>\$ 85,443</u>	<u>\$ 107,491</u>	<u>\$ 63,258</u>

Supplementary information (note 20)

See accompanying notes to consolidated financial statements.

SIERRA WIRELESS, INC.
Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, except per share amounts and number of shares)
(Prepared in accordance with U.S. GAAP)

1. Nature of operations

We were incorporated under the Canada Business Corporations Act on May 31, 1993. We provide leading edge wireless solutions for the machine-to-machine (“M2M”) and mobile computing markets. We develop and market a range of products that include wireless modems for mobile computers, embedded modules and software for original equipment manufacturers (“OEMs”), intelligent wireless gateway solutions for industrial, commercial and public safety applications, and an innovative platform for delivering device management and end-to-end application services. We also offer professional services to OEM customers during their product development and launch process, leveraging our expertise in wireless design, software, integration and certification to provide built-in wireless connectivity for mobile computing devices and M2M solutions. Our products, services and solutions connect people, their mobile computers and machines to wireless voice and mobile broadband networks around the world.

2. Significant accounting policies

Management has prepared these consolidated financial statements in accordance with U.S. GAAP.

(a) Principles of consolidation

Our consolidated financial statements include the accounts of Sierra Wireless, Inc. and its wholly-owned subsidiaries from their respective dates of formation or acquisition. We have eliminated all significant intercompany balances and transactions. The ownership of the other non-controlling interest holders of consolidated subsidiaries is reflected as non-controlling interest and is not significant.

(b) Use of estimates

In preparing these consolidated financial statements in conformity with U.S. GAAP, management makes estimates and assumptions that affect revenue recognition and the reported amounts of assets, particularly the recoverability of accounts receivable, inventory, fixed assets, intangible assets, goodwill and deferred income taxes, as well as royalty and warranty accruals, lease provisions, 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) Foreign currency translation

Our functional or primary operating currency is the U.S. dollar.

For financial statements of operations whose functional currency is the U.S. dollar but the transactions are in currencies other than the U.S. dollar, the monetary assets and liabilities denominated in a currency other than the U.S. dollar are translated at the exchange rate in effect at the balance sheet date, and the resulting exchange rate gains and losses are recognized in net earnings (loss). The non-monetary assets denominated in a currency other than the U.S. dollar are translated at the historical exchange rate in effect on the date of the transaction.

The financial statements for operations whose functional currency is not the U.S. dollar are translated into U.S. dollars at the exchange rates in effect at the balance sheet dates for assets and liabilities, at historical rates for equity, and at average rates for revenues and expenses. The accumulated unrealized translation gains and losses in these operations are recorded as a component of other comprehensive income (loss).

(d) Cash equivalents

Cash equivalents include short-term deposits, which are all highly liquid securities having a term to maturity of three months or less when acquired. We value our short-term deposits at amortized cost. The carrying amounts approximate fair value due to the short maturities of these instruments.

(e) Short-term investments

Short-term investments, all of which we categorize as available-for-sale, are carried at quoted market value. We reflect unrealized holding gains (losses) related to available-for-sale investments, after deducting amounts allocable to income taxes, as part of accumulated other comprehensive income (loss), a separate component of shareholders' equity. These gains (losses) are removed from comprehensive income (loss) when the investments mature or are sold on an item-by-item basis.

We regularly evaluate the realizable value of short-term investments, and if circumstances indicate that a decline in value is other-than-temporary, we recognize an impairment charge. To determine whether to recognize an impairment charge, we consider various factors, such as the significance of the decline in value, how long the investment has been below market value, changes that would impact the financial condition of the investee, and the likelihood that the investment will recover its value before it matures or is disposed of.

(f) Inventories

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

(g) Fixed assets

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

Furniture and fixtures.....	3-5 years
Research and development equipment.....	3-10 years
Production equipment.....	3-5 years
Tooling.....	1½-3 years
Computer equipment.....	1-5 years
Software.....	1-5 years
Office equipment.....	3-5 years

We amortize leasehold improvements and leased vehicles on a straight-line basis over the shorter of the initial lease term or their useful lives.

Amortization of research and development equipment is included in research and development expense. Amortization of tooling and production equipment is included in cost of goods sold. All other amortization is included in amortization expense.

(h) Intangible assets

The useful life of intangible assets is the period over which the assets are expected to contribute to our future cash flows. When determining the useful life, we consider the following: (i) expected use of the asset; (ii) useful life of a related intangible asset; (iii) any legal, regulatory or contractual provisions that limit the useful life; (iv) any legal, regulatory, or contractual renewal or extension provisions without substantial costs or modifications to the existing terms and conditions; (v) the effects of obsolescence, demand, competition and other economic factors; (vi) the expected level of maintenance expenditures relative to the cost of the asset required to obtain future cash flows from the asset.

The amortization policies with regard to specific intangible assets are as follows:

Patents and trademarks

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

License fees

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

Intellectual property, in-process research and development, customer relationships and databases

Consideration paid for intellectual property, in-process research and development (“IPRD”), customer relationships and databases is amortized on a straight-line basis over three to nine years.

Backlog

Consideration paid for backlog is amortized on a straight-line basis over one year.

Non-compete covenants

Consideration paid for non-compete covenants is amortized over the term of the agreement.

(i) Goodwill

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

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

(j) Impairment of long-lived assets

We monitor the recoverability of long-lived assets, which includes fixed assets and intangible assets, other than goodwill, based on factors such as future asset utilization and the future undiscounted cash flows expected to result from the use of the related assets. Our policy is to record an impairment loss in the period when we determine that the carrying amount of the asset will not be recoverable. At that time the carrying amount is written down to fair value. Intangible assets with indefinite lives are tested annually for impairment and in interim periods if certain events occur indicating that the carrying value of the intangible assets may be impaired.

(k) Income taxes

We account for income tax uncertainties in accordance with the asset and liability approach. Under this approach, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Tax law and rate changes are reflected in income in the period such changes are enacted. We record a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. We include interest and penalties related to income taxes, including unrecognized tax benefits, in income tax expense (recovery).

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. We regularly assess the potential outcomes of examinations by tax authorities in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, income taxes payable and deferred taxes in the period in which the facts that give rise to a revision become known.

We recognize the windfall tax benefits associated with the exercise of stock options by U.S. employees to additional paid-in capital ("APIC") when realized. This tax benefit is not recognized until the deduction reduces U.S. taxes payable and all U.S. loss carryforwards have been utilized.

(l) Warranty costs

We accrue warranty costs upon the recognition of related revenue, based on our best estimates, with reference to past and expected future experience. If there is a change in these estimates, we adjust our accrual accordingly. Warranty costs are included in accrued liabilities in our consolidated balance sheet.

(m) Market development costs

We accrue for co-operative advertising costs upon the later of the recognition date of the related revenue or the date at which the co-operative advertising is available. Market development costs are recorded in sales and marketing expense.

(n) Stock-based compensation

We measure the fair value of share-based compensation at the grant date based on the estimated fair value of the award using the Black-Scholes valuation model and recognize this cost over the employee's requisite service period using the straight line method. Stock-based compensation is described further in note 13.

(o) Revenue recognition

We recognize revenue from sales of products and services upon the later of transfer of title or upon shipment of the product to the customer or rendering of the service, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and 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.

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

(p) Research and development

We expense research and development costs as they are incurred. Certain software development costs for costs associated with the development of computer software to be sold, leased or marketed are capitalized once technological feasibility is reached.

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

(q) Financial instruments

We measure certain financial instruments and other items at fair value. Unrealized gains and losses on items for which the fair value option have been elected are reported in earnings.

To determine the fair value, we use the fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use to value an asset or liability and are developed based on market data obtained from independent sources. Unobservable inputs are inputs based on assumptions about the factors market participants would use to value an asset or liability. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 inputs are quoted market prices for identical instruments are available in active markets.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. If the asset or liability has a contractual term, the input must be observable for substantially the full term. An example includes quoted market prices for similar assets or liabilities in active markets.
- Level 3 inputs are unobservable inputs for the asset or liability and will reflect management's assumptions about market assumptions that would be used to price the asset or liability.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

(r) Derivatives

We occasionally use derivatives, such as foreign currency forward and option contracts, to hedge the foreign exchange risk on cash flows from commitments denominated in a foreign currency. Derivatives that are not designated as hedging instruments are measured at fair value at each balance sheet date and any resulting gains and losses from changes in the fair value are recorded in other income (expense). Gains and losses from the effective portion of foreign currency forward and option contracts that are designated as cash flow hedges are recorded in other comprehensive income (loss).

(s) Share issue costs

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

(t) Earnings (loss) per common share

We calculate basic earnings (loss) per share based on the weighted-average number of common shares outstanding for the year. If, in a reporting period, we have had in-the-money outstanding dilutive stock options and warrants, we calculate diluted earnings (loss) per share using the treasury stock method. Under the treasury stock method, the number of dilutive shares, if any, are determined by the proceeds from the exercise price of the options, the amount of unrecognized stock-based compensation, the estimated tax benefit that would be recognized when the options by U.S. employees are exercised, and the average market price of the shares for the period, that could be used to repurchase stock during the reporting period.

(u) Comprehensive income (loss)

We report comprehensive income (loss), which includes our net earnings (loss) as well as changes in equity from other non-owner sources. In our case, the other changes in equity included in comprehensive income (loss) are comprised of foreign currency cumulative translation adjustments and unrealized gains or losses on available-for-sale investments. The reclassification adjustment for other-than-temporary losses on marketable securities included in net earnings (loss) results from the recognition of the unrealized losses in the statements of operations when they are no longer viewed as temporary. Comprehensive income (loss) is presented in the consolidated statements of shareholders' equity.

(v) Investment tax credits

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

(w) Comparative figures

We have reclassified certain of the figures presented for comparative purposes to conform to the financial statement presentation we adopted for the current year.

(x) Recent accounting pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU No. 2009-13) pertaining to multiple-deliverable revenue arrangements. The new guidance will affect accounting and reporting for companies that enter into multiple-deliverable revenue arrangements with their customers when those arrangements are within the scope of Accounting Standards Codification (ASC) 605-25 "Revenue Recognition - Multiple-Element Arrangements". The new guidance will eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The new guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Because we will apply the guidance prospectively to agreements entered into subsequent to January 1, 2011, it is not practical to estimate the impact of the new guidance on our consolidated statements of financial position or results of operations.

In April 2010, the FASB issued ASU No. 2010-17, Revenue Recognition — Milestone Method (ASU 2010-017). ASU 2010-017 provides guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This ASU is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after June 15, 2010. Early adoption is permitted; however, we have elected to implement ASU 2010-17 prospectively, and as a result, the effect of this guidance will be limited to future transactions. We do not expect adoption of this standard to have a material impact on our financial position or results of operations as we have no material research and development arrangements which will be accounted for under the milestone method.

3. Acquisition of Wavecom S.A.

On December 2, 2008, we announced an all-cash offer to purchase all of the ordinary shares and OCEANE convertible bonds (“OCEANES”) of Wavecom, a global leader in wireless M2M solutions headquartered in Issy-les-Moulineaux, France. The total value of the transaction was approximately €18,000. Consideration consisted of €8.50 per share of Wavecom and €31.93 per OCEANE. The transaction was implemented by way of concurrent but separate public tender offers in both France and the United States for all Wavecom shares, all American Depository Shares (“ADSs”) representing Wavecom shares and all OCEANES issued by Wavecom.

On February 27, 2009, we completed our acquisition of 84.32% of the outstanding shares and 99.97% of the outstanding OCEANES of Wavecom, representing 90.57% of the voting rights of Wavecom, for cash consideration of \$144,859 (€13,508) and \$104,767 (€2,093), respectively. During March 2009, we purchased 160,643 shares on the open market for cash consideration of \$1,850 (€1,365), resulting in the acquisition of 85.34% of the outstanding shares. Following a statutory re-opening of the tender offer, we increased our ownership of the voting rights of Wavecom from 90.57% to 95.4% for cash consideration of \$11,817 (€9,908). On April 29, 2009, we completed our acquisition of all of the remaining Wavecom shares, except for certain shares held by employees that are subject to a hold period, and OCEANES by way of a squeeze-out for cash consideration of \$7,752 (€8,851). The Wavecom shares and OCEANES have been delisted from Euronext and the ADSs have been delisted from the NASDAQ Global Market (“Nasdaq”).

The goodwill of \$56,911 arising from the acquisition resulted from the combination creating a global leader that is uniquely positioned to benefit from the anticipated growth in wireless for mobile computing and M2M markets. The acquisition has significantly expanded and diversified our position in the global M2M market, broadened our product offerings and increased our scale and capabilities in Europe and Asia. Any goodwill allocated on the acquisition will not be deductible for tax purposes.

The results of Wavecom have been included in our consolidated financial statements from February 27, 2009. The financial results for the year ended December 31, 2009 include revenue of \$119,607 and net loss attributable to Sierra Wireless, Inc. of \$43,758.

Wavecom acquisition and financing costs recognized in 2009 of \$11,756 were expensed as follows: \$7,785 in acquisition costs and \$3,971 in other income (expense).

We have obtained a third party valuation of the assets acquired and liabilities assumed. The following table summarizes the fair value of the identifiable assets acquired and liabilities assumed:

Cash and marketable securities	\$139,785
Other current assets.....	51,753
Property and equipment	9,916
Intangible assets	71,354
Goodwill	56,911
Other long-term assets	5,231
Deferred income tax.....	<u>1,110</u>
Total assets acquired.....	336,060
Current liabilities	52,284
OCEANE convertible bonds.....	104,870
Capital lease obligations	657
Long-term liabilities	462
Other long-term liabilities.....	17,645
Deferred income tax.....	76
Non-controlling interest.....	<u>13,357</u>
Net assets acquired.....	<u>\$146,709</u>

The fair value of the non-controlling interest at February 27, 2009 of \$13,357 was based on the fair market price determined in the tender offer of \$10.85 (€8.50) per ordinary share (see also note 14).

The following table presents details of the estimated purchased intangible assets:

	<u>Estimated Useful Life (in years)</u>	<u>Amount</u>
Intellectual property	3-6	\$ 30,510
In-process research and development	3-9	18,425
Customer relationships	5	16,387
Brand portfolio.....	5	3,295
Non-compete covenant	2	<u>2,737</u>
Total purchased intangible assets.....		<u>\$ 71,354</u>

Pro forma information

The following pro forma information presents our operating results by giving effect to the purchase price allocations set out above, as if the acquisition had been completed as of January 1, 2008. The pro forma amounts are not intended to be indicative of the results that would have actually been obtained if the acquisition occurred as of January 1, 2008 or that may be obtained in the future. If the acquisition of Wavecom had occurred as of January 1, 2008, the pro forma operating results would have been as follows:

	<u>2009</u>	<u>2008</u>
Revenue.....	\$542,657	\$757,808
Net loss attributable to Sierra Wireless, Inc.	(56,372)	(6,601)
Loss per share	\$ (1.80)	\$ (0.21)

4. Restructuring and other charges

(a) September 2010 restructuring

On September 23, 2010, we implemented a new business unit structure that resulted in a reduction of our workforce by 60 employees. These reductions were substantially completed during the fourth quarter of 2010. For the year ended December 31, 2010. The total workforce reduction charges recognized in 2010 of \$4,420 includes \$474 for accelerated stock-based compensation expense and the remainder represents severance and benefits associated with the terminated employees. The remaining liability of \$1,679 (December 31, 2009 – nil) is expected to be substantially paid by the second quarter of 2011.

(b) May 2009 Restructuring

On May 15, 2009, we implemented further cost reduction initiatives related to the integration of Wavecom with Sierra Wireless that included combining the research and development (“R&D”) and product operations of both organizations. As a result, the Wavecom location in Research Triangle Park, North Carolina was closed in the fourth quarter of 2009. R&D activities from this location were transitioned primarily to the location in Carlsbad, California. The cost reduction initiatives related to the workforce reduction were substantially completed during the third quarter of 2010. The current and long-term portions of the facilities restructuring of \$811 and \$743 (December 31, 2009 – \$455 and \$760), respectively, are expected to be substantially paid by the second quarter of 2014.

In the first quarter of 2010, the Wavecom location in Brazil was closed resulting in \$217 of restructuring charges related to employee terminations. The liability related to this workforce reduction was paid by March 31, 2010.

(c) January 2009 Restructuring

In January 2009, we implemented an expense reduction program to reduce labor costs. We reduced our workforce by 56 employees, all of whom were terminated in the first quarter of 2009. The total workforce reduction charges recognized in the first quarter of 2009 of \$1,622 included \$501 for accelerated stock-based compensation and the remainder represented severance and benefits associated with the terminated employees. The liability related to this program was substantially paid by the end of the third quarter of 2009.

(d) *Wavecom Restructuring*

In October 2008, prior to our acquisition of Wavecom, Wavecom announced a cost savings program and a proposed reorganization. The first portion of this plan, related to its operations in the United States, began in late 2008. In the second quarter of 2009, the staff reduction program in France related to this reorganization was implemented. A total of 77 positions in France were impacted, all of which were phased out by September 2010. In the third quarter of 2009, the restructuring charge of \$4,504 primarily related to the exit of a portion of our building in France and excluded the impairment of leasehold improvements of \$152 recorded in amortization. The remaining liability related to the workforce reduction has been substantially paid. The Wavecom facilities restructuring liability is nil as at December 31, 2010.

In the year ended December 31, 2010, additional employees were terminated resulting in restructuring charges of \$2,739, including \$66 of accelerated stock based compensation. The remaining liability related to employee termination costs is expected to be substantially paid by the first quarter of 2011.

(e) *Prior Restructurings*

In the second quarter of 2005, we announced our decision to exit our Voq professional phone initiative. In addition to the exit of the Voq initiative, we made certain non-Voq related reductions to our operating expenses and assets.

Of the facilities restructuring liability outstanding at December 31, 2010, \$71 (2009 – \$130) is from the 2005 restructuring and \$146 (2009 – \$267) arises from prior restructurings. The current and long-term portions of the facilities restructuring are \$217 and nil, respectively (2009 – \$206 and \$191).

The following tables summarize the changes to the restructuring provisions at December 31, 2010 and December 31, 2009:

	<u>Workforce Reduction</u>	<u>Facilities</u>	<u>Total</u>	<u>Restructuring Charge</u>	<u>Impairment Charge</u>
<u>September 2010 Restructuring</u>					
Period charges	\$ 4,420	\$ —	\$ 4,420	\$ 4,420	\$ —
Cash payments	(2,332)	—	(2,332)	—	—
Non-cash stock-based compensation.....	(474)	—	(474)	—	—
Foreign exchange	<u>65</u>	<u>—</u>	<u>65</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2010.....	<u>\$ 1,679</u>	<u>\$ —</u>	<u>\$ 1,679</u>	<u>\$ 4,420</u>	<u>\$ —</u>

	<u>Workforce Reduction</u>	<u>Facilities</u>	<u>Total</u>	<u>Restructuring Charge</u>	<u>Impairment Charge</u>
<u>May 2009 Restructuring</u>					
Period charges	\$ 3,897	\$ 1,318	\$ 5,215	\$ 5,215	\$ 240
Cash payments	(2,669)	(103)	(2,772)	—	—
Non-cash stock-based compensation.....	(404)	—	(404)	—	—
Foreign exchange	<u>387</u>	<u>—</u>	<u>387</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2009.....	1,211	1,215	2,426	<u>\$ 5,215</u>	<u>\$ 240</u>
Period charges	217	1,048	1,265	1,265	—
Cash payments	(1,409)	(709)	(2,118)	—	—
Foreign exchange	<u>(11)</u>	<u>—</u>	<u>(11)</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2010.....	<u>\$ 8</u>	<u>\$ 1,554</u>	<u>\$ 1,562</u>	<u>\$ 1,265</u>	<u>\$ —</u>

<u>January 2009 Restructuring</u>	<u>Workforce Reduction</u>	<u>Facilities</u>	<u>Total</u>	<u>Restructuring Charge</u>	<u>Impairment Charge</u>
Period charges.....	\$ 1,622	\$ —	\$ 1,622	\$ 1,622	\$ —
Cash payments.....	(1,089)	—	(1,089)	—	—
Non-cash stock-based compensation	<u>(501)</u>	<u>—</u>	<u>(501)</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2009	32	—	32	<u>\$ 1,622</u>	<u>\$ —</u>
Cash payments.....	(32)	—	(32)	—	—
Revisions to prior accruals.....	—	—	—	—	—
Balance at December 31, 2010	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<u>Wavecom Restructuring</u>	<u>Workforce Reduction</u>	<u>Facilities</u>	<u>Total</u>	<u>Restructuring Charge</u>	<u>Impairment Charge</u>
Balance at acquisition.....	\$ 595	\$ —	\$ 595	\$ —	\$ —
Period charges	9,555	4,260	13,815	13,815	93
Cash payments.....	(6,246)	(993)	(7,239)	—	—
Revisions to prior accruals	(47)	—	(47)	(47)	—
Foreign exchange.....	<u>61</u>	<u>(40)</u>	<u>21</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2009	3,918	3,227	7,145	<u>\$ 13,768</u>	<u>\$ 93</u>
Period charges	2,739	1,248	3,987	3,987	—
Cash payments.....	(5,739)	(2,256)	(7,995)	—	—
Non-cash stock-based compensation.....	(66)	—	(66)	—	—
Revisions to prior accruals	(125)	(1,907)	(2,032)	(2,032)	—
Foreign exchange.....	<u>(247)</u>	<u>(312)</u>	<u>(559)</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2010	<u>\$ 480</u>	<u>\$ —</u>	<u>\$ 480</u>	<u>\$ 1,955</u>	<u>\$ —</u>

<u>Prior Restructurings</u>	<u>Workforce Reduction</u>	<u>Facilities</u>	<u>Total</u>	<u>Restructuring Charge</u>	<u>Impairment Charge</u>
Balance at December 31, 2008.....	\$ —	\$ 509	\$ 509	\$ —	\$ —
Cash payments	—	(284)	(284)	—	—
Revisions to prior accruals.....	—	<u>172</u>	<u>172</u>	—	—
Balance at December 31, 2009.....	\$ —	\$ 397	\$ 397	<u>\$ —</u>	<u>\$ —</u>
Cash payments	—	(316)	(316)	—	—
Revisions to prior accruals.....	—	<u>136</u>	<u>136</u>	—	—
Balance at December 31, 2010.....	<u>\$ —</u>	<u>\$ 217</u>	<u>\$ 217</u>	<u>\$ —</u>	<u>\$ —</u>

Total provision balances, December 31, 2010.....	<u>\$ 2,167</u>	<u>\$ 1,771</u>	<u>\$ 3,938</u>		
Total provision balances, December 31, 2009.....	<u>\$ 5,161</u>	<u>\$ 4,839</u>	<u>\$ 10,000</u>		
Total charges for the year ended December 31, 2010.....				<u>\$ 7,640</u>	<u>\$ —</u>
Total charges for the year ended December 31, 2009.....				<u>\$ 20,605</u>	<u>\$ 333</u>
Total charges for the year ended December 31, 2008.....				<u>\$ —</u>	<u>\$ —</u>

5. Integration costs

During 2010, we incurred additional integration costs related to the acquisition of Wavecom of \$5,110 (2009 – \$3,859; 2008 – nil), which included the cost of employees retained for integration activities, related travel expenses, office relocation expenses, and consulting fees.

6. Short-term investments

Investments, all of which are classified as available-for-sale, were comprised of government treasury bills and securities. Our outstanding short-term investments have contractual maturities ranging from one to four months from the date of purchase.

7. Inventories

	<u>2010</u>	<u>2009</u>
Electronic components	\$ 5,578	\$10,932
Finished goods.....	<u>16,556</u>	<u>13,776</u>
	<u>\$22,134</u>	<u>\$24,708</u>

8. Fixed assets

	<u>2010</u>		Net
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Book Value</u>
Furniture and fixtures	\$ 4,570	\$ 3,548	\$ 1,022
Research and development equipment	33,266	24,822	8,444
Tooling	39,095	31,548	7,547
Computer equipment	7,209	5,760	1,449
Software.....	8,152	6,489	1,663
Leasehold improvements.....	6,000	4,728	1,272
Leased vehicles.....	979	521	458
Office equipment.....	<u>2,535</u>	<u>1,755</u>	<u>780</u>
	<u>\$101,806</u>	<u>\$ 79,171</u>	<u>\$ 22,635</u>

	<u>2009</u>		Net
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Book Value</u>
Furniture and fixtures	\$ 4,486	\$ 3,226	\$ 1,260
Research and development equipment	29,785	18,833	10,952
Tooling	32,711	24,730	7,981
Computer equipment	6,444	4,409	2,035
Software.....	7,208	5,371	1,837
Leasehold improvements.....	6,129	4,019	2,110
Leased vehicles.....	753	328	425
Office equipment.....	<u>2,734</u>	<u>1,378</u>	<u>1,356</u>
	<u>\$ 90,250</u>	<u>\$ 62,294</u>	<u>\$ 27,956</u>

9. Goodwill and intangible assets

Goodwill of \$90,953 (2009 – \$95,064) primarily relates to the February 2009 acquisition of Wavecom (note 3), the May 2007 acquisition of AirLink Communications, Inc., and the August 2003 acquisition of AirPrime, Inc.

Annual impairment tests for goodwill have been performed, which resulted in no impairment loss. We assessed the realizability of goodwill during the fourth quarter of 2010 and determined that the fair value exceeded the carrying amount. Therefore, the second step of the impairment test that measures the amount of an impairment loss by comparing the implied fair market value with the carrying amount of goodwill for each reporting unit was not required. There was no impairment of goodwill during the years ended December 31, 2010, 2009, or 2008.

The components of intangible assets at December 31, 2010 and 2009 are as follows:

		<u>2010</u>	<u>Net</u>
	<u>Cost</u>	<u>Accumulated</u>	<u>Book</u>
		<u>Amortization</u>	<u>Value</u>
Patents and trademarks	\$ 10,877	\$ 4,250	\$ 6,627
Licenses	58,024	25,309	32,715
Intellectual property	6,856	6,086	770
Customer relationships	26,678	13,520	13,158
Non-compete.....	2,872	2,632	240
In-process research and development	<u>16,767</u>	<u>1,253</u>	<u>15,514</u>
	<u>\$ 122,074</u>	<u>\$ 53,050</u>	<u>\$ 69,024</u>

		<u>2009</u>	<u>Net</u>
	<u>Cost</u>	<u>Accumulated</u>	<u>Book</u>
		<u>Amortization</u>	<u>Value</u>
Patents and trademarks	\$ 10,494	\$ 3,213	\$ 7,281
Licenses	54,751	17,849	36,902
Intellectual property	6,856	5,558	1,298
Customer relationships	27,856	8,569	19,287
Non-compete.....	3,064	1,277	1,787
In-process research and development	<u>20,631</u>	<u>512</u>	<u>20,119</u>
	<u>\$ 123,652</u>	<u>\$ 36,978</u>	<u>\$ 86,674</u>

10. Long-term liabilities

	<u>2010</u>	<u>2009</u>
Facilities restructurings (note 4)	\$ 1,771	\$ 4,839
TPC liability (note 19(b)(iv)).....	1,404	1,729
Accrued royalties	14,756	22,242
Marketing development funds	7,253	9,358
Retirement reserve	<u>1,010</u>	<u>1,063</u>
Total long-term liabilities	\$26,194	\$39,231
Less: current portion of long-term liabilities	<u>1,470</u>	<u>3,371</u>
Long-term liabilities	<u>\$24,724</u>	<u>\$35,860</u>

11. Obligations under capital lease

Future minimum lease payments under capital leases at December 31, 2010 are as follows:

2011	\$ 332
2012	153
2013	79
2014	<u>35</u>
	599
Less: amount representing interest.....	<u>(12)</u>
	587
Less: current portion	<u>(324)</u>
Long-term portion.....	<u>\$ 263</u>

12. Share capital

Share repurchase program

On May 21, 2008, we received regulatory approval allowing us to purchase up to 1,567,378 of our common shares by way of a normal course issuer bid (“the Bid”) on the Toronto Stock Exchange (“TSX”) and the NASDAQ Global Market (“Nasdaq”).

During the year ended December 31, 2008, 407,700 common shares were purchased for an aggregate purchase price of \$4,982 and subsequently cancelled. The amount paid to acquire the shares over and above the average carrying value was charged to retained earnings. No additional shares were purchased prior to termination of the Bid.

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 shall be the lesser of a rolling number equal to 10% of the number of issued and outstanding common shares from time to time or 7,000,000 common shares. Based on the number of shares outstanding as at December 31, 2010, stock options exercisable into 862,551 common shares are available for future allocation under the Plan.

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 term.

Stock option activity since December 31, 2007 is presented below:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>		<u>Weighted Average Remaining Contractual Life In Years</u>	<u>Aggregate Intrinsic Value U.S.\$</u>
		<u>Cdn.\$</u>	<u>U.S.\$</u>		
Outstanding, December 31, 2007.....	1,927,320	18.01	18.19	2.7	2,385
Granted	574,674	15.73	14.96		
Exercised.....	(105,037)	9.94	9.45		599
Forfeited.....	<u>(165,987)</u>	18.48	17.57		
Outstanding, December 31, 2008.....	2,230,970	19.68	16.13	2.5	—
Granted	502,414	4.97	4.05		
Exercised.....	(16,953)	6.01	5.57		54
Forfeited.....	<u>(558,343)</u>	25.71	21.47		
Outstanding, December 31, 2009.....	2,158,088	13.51	12.83	2.5	3,246
Granted	698,972	9.12	8.76		
Exercised.....	(173,879)	6.38	6.18		792
Forfeited.....	<u>(423,453)</u>	12.36	11.84		
Outstanding, December 31, 2010.....	<u>2,259,728</u>	12.51	12.54	2.4	7,878
				<u>Exercisable, end of year</u>	<u>Aggregate Intrinsic Value</u>
<u>December 31,</u>					
2008				1,132,244	—
2009				1,188,034	204
2010				1,197,931	1,529

The intrinsic value of outstanding and exercisable stock options is calculated as the quoted market price of the stock at the balance sheet date less the exercise price of the option.

The following table summarizes the stock options outstanding at December 31, 2010:

Range of Exercise Prices	Options Outstanding				Options Exercisable		
	Number of Options	Weighted Average Remaining Contractual	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercise Price	
		Life	Cdn.\$	U.S.\$		Cdn.\$	U.S.\$
	In years						
\$3.98 – \$8.50 (Cdn.\$3.97 – Cdn.\$8.48)	443,184	3.4	5.39	5.41	100,503	4.44	4.46
\$8.51 – \$12.56 (Cdn.\$8.49 – Cdn.\$12.53)	551,029	4.1	9.06	9.11	9,666	11.93	11.98
\$12.57 – \$15.91 (Cdn.\$12.54 – Cdn.\$15.81)	603,596	0.9	14.48	14.54	529,731	14.31	14.38
\$15.92 – \$29.41 (Cdn.\$15.82 – Cdn.\$29.10)	<u>661,919</u>	1.6	18.36	18.49	<u>558,031</u>	18.50	18.62
	<u>2,259,728</u>	2.4	12.51	12.54	<u>1,197,931</u>	15.41	15.50

The options outstanding at December 31, 2010 expire between February 6, 2011 and November 16, 2015.

Employee stock purchase plan

On March 31, 2009, we terminated our employee stock purchase plans for U.S. and Canadian and other non-U.S. employees (together, the “ESPP Plans”) that enabled eligible employees and directors to acquire common shares over the facilities of the TSX and Nasdaq. In the years ended December 31, 2009 and 2008, participants purchased a total of 10,734 and 36,183 common shares, respectively at a weighted-average price of \$5.51 per share and \$12.27 per share, respectively.

Restricted stock plans

During 2007, we established non-vested restricted stock plans for U.S. and non-U.S. employees (together, the “RSPs”) to provide long-term incentives to certain executives and other key employees and to support the objective of employee share ownership through the granting of restricted share units (“RSUs”). There is no exercise price and no monetary payment is required from the employees to the Company upon receipt of the RSUs or upon the subsequent issuance of shares to settle the award. Under the RSPs, independent trustees purchase the common shares over the facilities of the TSX and Nasdaq. The trust funds are variable interest entities and are included in these consolidated financial statements as treasury stock.

RSUs vest over three years, in equal amounts on the anniversary date of the date of the grant. Vested RSUs are settled annually upon vesting by delivery of a common share of Sierra Wireless, Inc. for each vested unit.

The following table summarizes the RSU activity since the inception of the RSPs:

	<u>Number of RSUs</u>	<u>Weighted Average Grant Date Fair Value</u>		<u>Weighted Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
		<u>Cdn.\$</u>	<u>U.S.\$</u>	<u>In years</u>	<u>U.S.\$</u>
Outstanding, December 31, 2007.....	160,500	21.07	19.50	2.4	2,383
Granted	205,048	15.95	15.80		
Vested	<u>(53,486)</u>	21.25	19.50		862
Outstanding, December 31, 2008.....	312,062	19.61	16.08	1.9	1,819
Granted	842,131	5.08	4.18		
Vested	<u>(175,758)</u>	16.54	14.01		1,186
Forfeited.....	<u>(2,551)</u>	17.18	14.43		
Outstanding, December 31, 2009.....	975,884	6.88	6.53	1.9	10,349
Granted	328,496	9.10	8.75		
Vested	<u>(443,610)</u>	8.21	7.82		4,159
Forfeited.....	<u>(32,779)</u>	6.56	6.29		
Outstanding, December 31, 2010.....	<u>827,991</u>	6.81	6.83	1.3	12,346

Warrants

Warrants issued under our agreement with the Government of Canada's Technology Partnerships Canada ("TPC") program (see note 19(b)(iv)) for the purchase of 138,696 of our common shares at Cdn. \$20.49 per share, expired unexercised on December 30, 2008.

13. Stock-based compensation

The following table summarizes the classification of the stock-based compensation expense recognized in the Consolidated Statements of Operations for the non-vested share awards related to the stock option plan and restricted stock plans as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cost of goods sold	\$ 492	\$ 552	\$ 545
Sales and marketing.....	1,403	1,411	1,511
Research and development	1,315	1,215	1,199
Administration	3,143	3,131	3,126
Restructuring	540	905	—
Integration.....	<u>—</u>	<u>42</u>	<u>—</u>
Stock-based compensation expense	<u>\$ 6,893</u>	<u>\$ 7,256</u>	<u>\$ 6,381</u>

As of December 31, 2010, the unrecognized stock-based compensation costs related to non-vested stock options and RSUs were \$3,782 and \$2,972, respectively (2009 – \$4,412 and \$3,812; 2008 – \$6,314 and \$3,185) which are expected to be recognized over a weighted average period of 2.2 and 1.6 years, respectively (2009 – 1.9 and 1.7 years; 2008 – 2.4 and 1.8 years).

RSUs are valued at the grant date market price of the underlying securities and the compensation expense is recognized on a straight-line basis over the three-year vesting period based on the estimated number of awards expected to vest. The expense recognized in our consolidated statement of operations for the year ended December 31, 2010 was \$3,597 (2009 – \$3,267; 2008 – \$1,888).

We calculate the fair value of stock options granted using the Black-Scholes valuation model. Under this method, the weighted average fair value of stock options granted in 2010 was \$4.21 (2009 – \$1.89; 2008 – \$7.01) using the following assumptions:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expected dividend yield.....	0	0	0
Expected stock price volatility.....	60%	57%	54%
Risk-free interest rate.....	1.90%	1.84%	3.11%
Expected life of options.....	4 years	4 years	4 years
Estimated forfeiture rate.....	3.50%	3.50%	3.50%

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 risk-free instruments 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. We estimate forfeitures at the time of grant and, if necessary, revise that estimate if actual forfeitures differ and adjust stock-based compensation expense accordingly.

Wavecom stock option, warrant plans and free shares

Prior to our acquisition of Wavecom, Wavecom granted founders' warrants and stock options to its employees, stock options to employees of its subsidiaries, warrants to some members of its board of directors and free shares to its employees of its subsidiaries. Under the terms of the plans, the options and warrants give the right to purchase one share of Wavecom per option or warrant at an exercise price based either on the stock market price of Wavecom shares on the grant date, or on the average stock market price of Wavecom shares over the twenty trading days prior to the date of grant (in accordance with French Law). The stock-based compensation related to the pre-acquisition Wavecom plans recognized in the Consolidated Statements of Operations is as follows:

	<u>2010</u>	<u>2009</u>
Cost of goods sold.....	\$ —	\$ 11
Sales and marketing.....	11	150
Research and development.....	14	218
Administration.....	39	462
	<u>\$ 64</u>	<u>\$ 841</u>

14. Non-controlling interest

The non-controlling interest represents shares held by Wavecom employees under their long-term incentive plan. The shares have vested, but are subject to a hold period for tax purposes. We have entered into a put/call agreement with these employees to purchase back the shares at €8.50 per share upon expiry of the tax hold period. Until that time, the shares are considered non-controlling interest.

The following table summarizes the effects of changes in our ownership interest of Wavecom on our equity:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net income (loss) attributable to Sierra Wireless.....	\$ (14,541)	\$ (39,899)	\$ 62,583
Transfer (to) from the non-controlling interest			
Decrease in paid-in capital for issuance of Wavecom shares on exercise of stock options.....	—	(2,751)	—
Decrease in paid-in capital for purchase of Wavecom shares in subsequent tender and squeeze-out.....	—	(1,647)	—
Increase in paid-in capital for issuance of Wavecom shares on issuance of free shares.....	(229)	(1,568)	—
Net transfers (to) from the non-controlling interest.....	(229)	(5,966)	—
Change from net loss attributable to Sierra Wireless and transfers (to) from non-controlling interest.....	<u>\$ (14,770)</u>	<u>\$ (45,865)</u>	<u>\$ 62,683</u>

15. Financial instruments

(a) Fair value of financial instruments

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and current portions of long-term liabilities, approximate their fair value due to their short maturities. Short-term investments are carried at fair market value, their book value as at December 31, 2010 was \$26,404 (2009 – \$26,898). Based on borrowing rates currently available to us for loans with similar terms, the carrying value of our obligations under capital lease and long-term liabilities approximates their fair value.

(b) Concentrations of business risk

We depend on a small number of customers for a significant portion of our revenue. In 2010, two customers individually accounted for more than 10% of our revenue and, in aggregate, these two customers represented 26% of our revenue. In fiscals 2009 and 2008, these same two customers individually accounted for more than 10% of our revenue and, in aggregate, represented 40% and 53% of our revenue, respectively.

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

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

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

Although substantially all of our revenues are received in U.S. dollars, we incur operating costs and have obligations related to our facilities restructuring that are denominated in other currencies. Fluctuations in the exchange rates between these currencies could have a material impact on our business, financial condition and results of operations. During the year ended December 31, 2009, we recorded an unrealized foreign exchange loss of \$15,653 (2008 – gain of \$18,416) on the restricted cash of €136,766 (\$191,473) held for the Wavecom tender offer and an unrealized foreign exchange loss of \$1,215 on the payment of the term loan related to the acquisition of Wavecom.

We are generating an increasing portion of our revenue from sales to customers outside of North America including Europe, the Middle East and Asia. We have experienced increased exposure to Euro fluctuations due to the acquisition of Wavecom. Wavecom, whose functional currency is the Euro, occasionally uses derivatives such as foreign currency forward and options contracts, to reduce the foreign exchange risk on cash flows from firm and highly probable commitments denominated in U.S. dollars. To manage our foreign currency risks, we may enter into more such contracts should we consider it to be advisable to reduce our exposure to future foreign exchange fluctuations.

We are subject to risks typical of an international business including, but not limited to, differing economic conditions, changes in political climate, differing tax structures other regulations and restrictions and foreign exchange rate volatility. Accordingly, our future results could be materially affected by changes in these or other factors.

(c) Credit facilities

In connection with our acquisition of Wavecom, we signed a credit agreement on December 1, 2008 with The Toronto Dominion Bank and Canadian Imperial Bank of Commerce that provided a one-year revolving term credit facility ("Revolving Facility") and a one-year non-revolving term credit facility ("Term Facility").

The Term Facility, not to exceed €218,000, was used to complete the acquisition of Wavecom ordinary shares and OCEANEs. The Term Facility was secured by cash of €136,766 and a pledge against all of our assets. On December 1, 2008, as required by French regulations, we drew a letter of credit in the amount of €218,000 issued under the Term Facility. On February 26, 2009, we borrowed €80,473 under the Term Facility to facilitate the purchase, on February 27, 2009, of 99.97% of the outstanding OCEANEs. On February 27, 2009, we completed the purchase of 84.32% of the outstanding Wavecom shares with €15,365 of our cash that secured the Term Facility and the letter of credit was reduced from €218,000 to €22,162. The OCEANEs were subsequently redeemed by Wavecom and on March 13, 2009 the loan of €80,473 under the Term Facility was repaid with those proceeds. On completion of the squeeze-out on April 29, 2009, the letter of credit was reduced to nil and the Term Facility was no longer available.

The Revolving Facility, not to exceed \$55,000, was to be used for working capital requirements and was secured by a pledge against all of our assets. On January 29, 2010, we signed an amended and restated credit agreement which renewed our Revolving Facility to January 28, 2011, and reduced the maximum amount from \$55,000 to \$10,000. On January 27, 2011, we signed an amended and restated credit agreement, on similar terms, which extended our Revolving Facility to January 28, 2013. Since December 1, 2008, we have not drawn on any amount under the Revolving Facility and as at December 31, 2010, we were in compliance with the covenants associated with the credit facility.

(d) Letters of credit

We have entered into a letter of credit under which we have issued performance and bid bonds to ensure our performance to a third party customer in accordance with specified terms and conditions. At December 31, 2010, we had a performance bond of \$315 (2009 – nil) that expires in September 2011, and bid bonds of \$229 (2009 – nil) that expire by the end of March 2011. The values of these bonds approximate their fair market values. We have not made any payments under these types of bonds.

On December 1, 2008, we drew a letter of credit in the amount of €218,000, which was issued under the €218,000 secured Term Facility to facilitate our acquisition of Wavecom. As of the completion of the squeeze-out of Wavecom shares, the letter of credit was reduced to nil and the Term Facility was no longer available.

(e) Derivatives

Sierra Wireless S.A. (formerly Wavecom S.A.), whose functional currency is the Euro, occasionally uses derivatives such as foreign currency forward and options contracts, to reduce the foreign exchange risk on cash flows from firm and highly probable commitments denominated in U.S. dollars. The fair value of these financial instruments is determined using published exchange rates to calculate the price that would be received to sell the asset or paid to transfer the liability related to the contracts. Accordingly, these foreign exchange contracts are classified in Level 2 of the fair value hierarchy. These instruments are recorded at fair value on the balance sheet in prepaid expenses and other. At December 31, 2010, there were no cash flow hedges. All derivatives that were outstanding at December 31, 2010 had maturity dates of less than 12 months. We believe that the counterparty risk on the foreign currency financial instruments being used is acceptable because we deal with major banks and financial institutions.

The following table presents the fair value of the derivative financial instruments at December 31, 2010:

	<u>Notional Amount</u>	<u>Fair Value</u>
Fair value of forward and option contracts selling U.S. dollars against Euros:	\$ —	€ 151

16. Income taxes

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

	<u>2010</u>	<u>2009</u>
Deferred tax assets		
Fixed assets	\$ 3,645	\$ 8,052
Loss carryforwards	62,451	65,467
Capital loss carryforwards	2,748	1,826
Scientific research and development expenses	20,753	17,265
Share issue costs	211	423
Reserves and other	<u>18,561</u>	<u>29,852</u>
Total gross deferred tax assets	108,369	122,885
Deferred tax liability		
Acquired intangibles	<u>11,034</u>	<u>23,659</u>
Total net deferred tax assets.....	97,335	99,226
Less valuation allowance	<u>88,064</u>	<u>93,214</u>
Net deferred tax assets	<u>\$ 9,271</u>	<u>\$ 6,012</u>

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

At December 31, 2010, we have approximately \$9,709 of capital loss carry-forwards for Canadian tax purposes that are available, indefinitely, to be deducted against future Canadian taxable capital gains. As well, we have approximately \$59,035 of scientific research and development expenditures available to be deducted against future Canadian taxable income that may be carried forward indefinitely and investment tax credits of approximately \$32,132 available to offset future Canadian federal and provincial income taxes payable. The investment tax credits expire commencing in 2012 until 2030. At December 31, 2010, our US subsidiary has \$1,455 and \$3,648 of federal and California R&D tax credit carried forward which will expire between 2024 and 2030. For 2011 to 2012, California limits the utilization of its credit to 50% of California tax payable.

In addition, at December 31, 2010, net operating loss carry-forwards for our foreign subsidiaries were \$13,106 for U.S. income tax purposes that expire in various amounts commencing in 2020 through 2029, \$159,084 for French income tax purposes, \$7,147 for Hong Kong income tax purposes, \$64 for Brazil income tax purposes, \$223 for Korea income tax purposes, \$209 for Luxembourg income tax purposes, and \$312 for German income tax purpose. Our foreign subsidiaries may be limited in their ability to use foreign net operating losses in any single year depending on their ability to generate significant taxable income. In addition, the utilization of these net operating losses is also subject to ownership change limitations provided by U.S. federal and specific state income tax legislation. Tax loss carry-forwards are denominated in the currency of the countries in which the respective subsidiaries are located and operate. Fluctuations in currency exchange rates could reduce the U.S. dollar equivalent value of these tax loss carry forwards in future years.

We have evaluated all uncertain tax positions and have determined that the unrecognized tax benefits at December 31, 2010 were \$8,754 (2009 – \$7,754). Of this total, \$6,909 (2009 – \$7,617) 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. As at December 31, 2010, we have accrued \$1,474 (2009 – \$1,135) for interest and penalties. Tax years ranging from 2004 to 2010 remain subject to examination in Canada, the United States, the United Kingdom, France, Germany, Australia, China, Hong Kong, Brazil and Luxembourg.

Effective tax rate

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Combined Canadian federal and provincial income taxes at expected rate of (2010 – 28.5%, 2009 – 30.00%, 2008 – 31.00%)	\$ (6,288)	\$(11,989)	\$ 21,927
Permanent and other differences.....	32	(8,969)	1,063
Change in tax legislation.....	—	(20,839)	—
Change in valuation allowance	(6,077)	42,801	(30,694)
Change in statutory tax rate and foreign tax rate	(1,470)	(1,759)	1,353
Stock based compensation expense	1,125	1,095	1,356
Adjustment to prior years	6,347	—	—
Foreign exchange gain adjustment.....	3,523	—	13,146
	<u>\$(2,808)</u>	<u>\$ 340</u>	<u>\$ 8,151</u>

Our provisions for income taxes consist of the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current			
Canadian	\$ —	\$ —	\$ —
Foreign.....	379	—	11,993
Total current.....	379	—	11,993
Deferred			
Canadian	(71)	(1,910)	—
Foreign.....	(3,116)	2,250	(3,842)
Total deferred.....	(3,187)	340	(3,842)
Income tax expense.....	<u>\$ (2,808)</u>	<u>\$ 340</u>	<u>\$ 8,151</u>

Reconciliation of unrecognized tax benefits

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Unrecognized tax benefits, opening balance.....	\$ 7,754	\$ 9,344	\$ 4,085
Gross increases – tax positions in prior period	1,227	237	3,369
Gross increases – tax positions in current period.....	—	(1,827)	1,890
Settlements	(127)	—	—
Reduction due to statute lapse	(100)	—	—
Unrecognized tax benefits, ending balance.....	<u>\$ 8,754</u>	<u>\$ 7,754</u>	<u>\$ 9,344</u>

17. Research and development

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Gross research and development	\$ 90,165	\$ 82,136	\$ 48,893
Government research and development repayments (recovery) (note 19).....	—	(754)	5,764
Government research and development tax credits.....	(2,130)	(1,316)	—
	<u>\$ 88,035</u>	<u>\$ 80,066</u>	<u>\$ 54,657</u>

18. Earnings (loss) per share

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Weighted-average shares used in computation of basic earnings per share.....	31,083	31,035	31,254
Weighted-average shares from assumed conversion of dilutive options	—	—	69
Weighted-average shares used in computation of diluted earnings per share.....	<u>31,083</u>	<u>31,035</u>	<u>31,323</u>

For the years ended December 31, 2010 and 2009, all potential dilutive options were anti-dilutive due to the loss.

19. Commitments and contingencies

(a) Operating leases

We lease equipment and premises with minimum future lease payments at December 31, 2010 as follows:

2011	\$ 7,058
2012	2,987
2013	2,767
2014	2,699
2015	1,508
Thereafter	<u>4,833</u>
	<u>\$ 21,852</u>

(b) Contingent liability on sale of products

- (i) Under license agreements, we are committed to make royalty payments based on the sales of products using certain technologies. We recognize royalty obligations as determinable in accordance with agreement terms. Where agreements are not finalized, we have recognized our current best estimate of the obligation. When the agreements are finalized, the estimate will be revised accordingly.
- (ii) We are a party to a variety of agreements in the ordinary course of business under which we may be obligated to indemnify a third party with respect to certain matters. Typically, these obligations arise as a result of contracts for sale of our products to customers where we provide indemnification against losses arising from matters such as potential intellectual property infringements and product liabilities. The impact on our future financial results is not subject to reasonable estimation because considerable uncertainty exists as to whether claims will be made and the final outcome of potential claims. To date, we have not incurred material costs related to these types of indemnifications.
- (iii) Under certain research and development funding agreements, we are contingently liable to repay up to \$3,167. Repayment under these agreements is contingent upon reaching certain revenue levels for specified products.
- (iv) Under an agreement with the Government of Canada's Technology Partnerships Canada ("TPC") program, we have received Cdn. \$9,999 to support the development of a range of third generation wireless technologies. Under the terms of the agreement, an amount up to a maximum of Cdn. \$13,000 is to be repaid based on annual sales, in excess of certain minimum amounts, of specified products commencing in 2004. As all funds available under this program were earned prior to 2004, during the years ended December 31, 2010 and 2009 we claimed nil. As of June 30, 2008, the repayable funding had been fully expensed. During the year ended December 31, 2010, we expensed nil (2009– nil; 2008– \$2,806) in research and development expense. 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 were exercisable at Cdn. \$20.49 per share for a term of five years from December 30, 2003. On December 30, 2008, the warrants expired unexercised.

In March 2004, we entered into a second agreement with TPC under which we were 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 was effective April 2003. Given the termination of the Voq professional phone initiative in the second quarter of 2005, no costs have been claimed under this agreement since June 2005. A total of Cdn. \$4,558 was funded by TPC for eligible development activity prior to the termination of the Voq initiative. Under the terms of the original agreement, royalty repayments, based on a percentage of annual sales in excess of certain minimum amounts, would be calculated over the period from April 2003 to December 2011. If royalty repayments were less than Cdn. \$16,455 by December 2011, repayments would have continued subsequent to December 2011 until the earlier of when this amount was reached or December 2014. In addition, all or part of the contribution was repayable upon the occurrence of certain prescribed events of default, including material breach or insolvency. During the year ended December 31, 2010, we have recorded, in research and development expense, the repayment of nil

(2009 – nil; 2008 – \$2,957). In March 2009, we signed an amended agreement under which we will pay a total of \$2,155 (Cdn. \$2,500), with payments due on March 1 for each of the next five years beginning March 1, 2009, in full and final satisfaction of all amounts owing, or to be owed, to TPC under this agreement. In the year ended December 31, 2010, we repaid \$476 (Cdn. \$500) (2009 – \$394 or Cdn. \$500). We had previously accrued the royalty repayments and as a result of the amended agreement, in the year ended December 31, 2009, we have reversed accruals in research and development expense totaling \$754 (Cdn. \$957).

- (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, 2008	\$	3,965
Acquisition of Wavocom (note 3(a)).....		791
Provisions		6,050
Expenditures		<u>(6,176)</u>
Balance, December 31, 2009		4,630
Provisions		5,945
Expenditures		<u>(6,516)</u>
Balance, December 31, 2010	\$	<u>4,059</u>

(c) Other commitments

We have entered into purchase commitments totalling approximately \$85,524 with certain contract manufacturers under which we have committed to buy a minimum amount of designated products between January 2011 and June 2011. In certain of these agreements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

(d) Legal proceedings

In December 2010, a patent holding company, Mayfair Wireless, LLC, filed a patent litigation lawsuit in the United States District Court for the District of Delaware asserting patent infringement by a number of parties, including us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In October 2010, a patent holding company, Eon Corp. IP Holdings, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of parties including telecommunication carrier companies including Sprint Nextel Corporation. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In July 2010, Americans for Fair Patent Use, LLC filed a lawsuit in the United States District Court for the Eastern District of Texas asserting false patent marking by a number of device manufacturers, including Sierra Wireless America, Inc., and telecommunication carrier companies, including Sprint Nextel Corporation and Cellco Partnership d/b/a Verizon Wireless. The litigation makes certain allegations that products sold by us and our competitors were falsely marked with a number of patents that had expired or that do not cover the marked products. We are currently assessing our potential liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In May 2010, a patent holding company, Golden Bridge Technology Inc., filed a patent litigation lawsuit in the United States District Court for the District of Delaware asserting patent infringement by a number of telecommunication carrier companies, including AT&T Mobility LLC. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an

unfavorable 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 lawsuit.

In February 2010, a patent holding organization, Commonwealth Scientific and Industrial Research Organisation, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a telecommunication carrier, Cellco Partnership d/b/a Verizon Wireless. The litigation makes certain allegations concerning the wireless modems sold to the carrier by us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In September 2009, a patent holding company, Xpoint Technologies Inc., filed a patent litigation lawsuit in the United States District Court for the District of Delaware asserting patent infringement by a number of parties, including AT&T Mobility LLC. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In July 2009, a patent holding company, WIAV Networks, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of parties, including wireless device manufacturers, including us. The Texas court has transferred the litigation to the United States District Court for the Northern District of California. The California court has dismissed the litigation against a number of parties, including us.

In July 2009, a patent holding company, SPH America, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a number of device manufacturers, including us, and computer manufacturers, including Hewlett-Packard Co., Panasonic Corporation, General Dynamics Itronix Corporation and Fujitsu America and Fujitsu Japan. The litigation, which has been transferred to the United States District Court for the Southern District of California, makes certain allegations concerning the wireless modules sold to the computer manufacturers by us, our competitors, and some of our customers with whom we have supply agreements. We are assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In July 2009, a patent holding company, Celltrace, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of telecommunication carrier companies including Sprint Spectrum, LP and AT&T Mobility LLC. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. In the meantime, the carrier companies have provisionally withdrawn their indemnification demands against us. Although there can be no assurance that an unfavorable 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 lawsuit.

In June 2009, a patent holding company, Saxon Innovations, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by wireless device manufacturers, including us. The patents have been sold to a patent holding company, Norman IP Holdings LLC. Following the sale, Norman IP Holdings LLC has agreed to a confidential settlement of the litigation, and the settlement will not have a material adverse effect on our operating results.

In June 2009, a patent holding company, MSTG Inc., filed patent litigation lawsuits in the United States District Court for the Northern District of Illinois asserting patent infringement by a number of telecommunication carrier companies, including Sprint Spectrum, LP and AT&T Mobility LLC. The carriers have notified us that the lawsuits make certain allegations concerning the wireless data cards and modems sold to those carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In January 2009, a patent holding company, DNT LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a number of telecommunication carrier companies, including Sprint Spectrum, LP and Nextel, Verizon Wireless and T-Mobile USA, Inc. The litigation made certain allegations concerning the wireless modems sold to the carriers by us and our competitors. Following a trial in December 2009, the Court received a jury verdict of patent non-infringement and invalidity. Subsequently, the parties reached a mutually agreeable settlement, the details of which are confidential. DNT LLC filed an Unopposed Motion for Dismissal on December 29, 2010 in the Court of Appeal.

Since early December 2008, Wavecom and its subsidiary Wavecom, Inc. have been involved in litigation with a contracting counterparty, Temic Automotive of North America (Continental Group). In the first quarter of 2010, Temic Automotive of North America, Inc., d/b/a/ Continental and Continental AG, Wavecom, Inc., Wavecom, S.A., Sierra Wireless, Inc., Sierra Wireless Americas, Inc., and Sierra Wireless, S.A. reached a mutually agreeable settlement of the lawsuits filed early December 2008 in North Carolina Business Court and New York State Court. The details of the settlement agreement are confidential.

On February 6, 2008, Wavecom filed a civil proceeding in the Supreme Court of the State of New York (USA) against Siemens AG and two of its U.S. subsidiaries. In August 2009, Sierra Wireless S.A., Wavecom, Inc., Siemens AG, Siemens Corporation, and Siemens Energy and Automation, Inc. reached a mutually agreeable settlement of the lawsuit filed in New York State Court and the case was dismissed in September 2010. The details of the settlement agreement are confidential.

In September 2007, a patent holding company, NTP, Inc., filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a telecommunication carrier, AT&T Mobility LLC. In December 2010, AT&T Mobility LLC made certain allegations concerning the wireless modems sold to them by us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In November 2007, a patent holding company, Technology Patents LLC, filed a patent litigation lawsuit in the United States District Court for the Southern Division of the District of Maryland asserting patent infringement by companies in the cellular phone industry, including a telecommunication carrier, AT&T Mobility LLC. In August 2010, AT&T Mobility LLC made certain allegations concerning the wireless modems sold to them by us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

We are engaged in certain other claims and 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.

20. Supplementary information

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<i>(a) Cash flow information:</i>			
Cash received			
Interest	\$ 223	\$ 745	\$ 6,330
Income taxes	217	921	13
Cash paid for			
Interest	396	874	—
Income taxes	1,329	4,435	8,492
<i>(b) Allowance for doubtful accounts:</i>			
Opening balance	\$ 6,504	\$ 1,989	\$ 1,939
Acquisition of Wavecom (note 3(a))	—	4,120	—
Bad debt expense	443	721	269
Write offs and settlements	(2,462)	(776)	(219)

Foreign exchange.....	<u>121</u>	<u>450</u>	<u>—</u>
Closing balance.....	<u>\$ 4,606</u>	<u>\$ 6,504</u>	<u>\$ 1,989</u>

(c) Other:

Rent expense.....	\$ 10,094	\$ 10,705	\$ 3,699
Foreign exchange gain (loss).....	(7,000)	1,261	20,017

21. Segmented information

We operate in the wireless communications solutions industry. Effective January 1, 2010, we integrated the legacy Sierra Wireless and Wavecom segments, and as a result, our reportable segments have changed from those reported at December 31, 2009. We operate in one segment, and all of our products and services are included in this segment. Senior management has access to information, and bases its decisions about allocating resources within one reportable segment.

As we do not evaluate the performance of our operating segment based on segment assets, management does not classify asset information on a segmented basis. Despite the absence of discrete financial information we do measure our revenue based on other forms of categorization such as by the products we produce and the geographic distribution in which our products are sold.

Revenue by product is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
AirCard® Mobile Broadband Devices.....	\$ 291,464	\$ 294,981	\$ 408,776
AirPrime™ Wireless Embedded Modules.....	298,384	181,379	120,185
AirLink™ Intelligent Gateways and Routers	48,626	41,005	30,832
Other	<u>11,867</u>	<u>9,019</u>	<u>7,515</u>
	<u>\$ 650,341</u>	<u>\$ 526,384</u>	<u>\$ 567,308</u>

In each of the three years ended December 31, 2010, 2009 and 2008, we had two customers that each accounted for more than 10% of our revenue. The revenue from these two customers is included within the mobile computing segment as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Customer A.....	\$ 105,469	\$ 119,635	\$ 183,271
Customer B	65,691	92,489	114,856

Revenue by geographical region based on the customer location to which the product is shipped is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Americas.....	\$303,311	\$312,991	\$397,338
Europe, Middle East and Africa (“EMEA”).....	89,048	87,547	50,956
Asia-Pacific	<u>257,982</u>	<u>125,846</u>	<u>119,014</u>
	<u>\$650,341</u>	<u>\$526,384</u>	<u>\$567,308</u>

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") provides information for the year ended December 31, 2010, and up to and including March 18, 2011. This MD&A should be read together with our audited consolidated financial statements and the accompanying notes for the year ended December 31, 2010 (the "consolidated financial statements"). The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Except where otherwise specifically indicated, all amounts in this MD&A are expressed in United States dollars.

We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which requirements are different than those of the United States.

Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws. You should carefully read the cautionary note in this MD&A regarding forward-looking statements and should not place undue reliance on any such forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements".

Additional information related to Sierra Wireless, Inc., including our consolidated financial statements and our Annual Information Form, may be found on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

Overview

We provide leading edge wireless solutions for the machine-to-machine ("M2M") and mobile computing markets. We develop and market a range of products that include wireless modems for mobile computers, embedded modules and software for original equipment manufacturers ("OEMs"), intelligent wireless gateway solutions for industrial, commercial and public safety applications, and an innovative platform for delivering device management and end-to-end application services. We also offer professional services to OEM customers during their product development and launch process, leveraging our expertise in wireless design, software, integration and certification to provide built-in wireless connectivity for mobile computing devices and M2M solutions. Our products, services and solutions connect people, their mobile computers and machines to wireless voice and mobile broadband networks around the world.

We believe that the markets for mobile broadband connectivity and wireless M2M solutions have strong growth prospects. We believe that the key growth enablers for these markets include the continued deployment and upgrade of mobile broadband networks around the world, growth in the number and type of devices being wirelessly connected, growing strategic focus on M2M services by wireless operators and expanding end customer awareness of the availability of such services and their benefits.

Our acquisition and successful integration of Wavecom S.A. ("Wavecom"), a global leader in wireless M2M solutions headquartered in Issy-les-Moulineaux, France, on February 27, 2009, has enhanced our product and service offering in the global M2M market by adding highly sophisticated wireless module platforms and solutions which integrate all of the necessary software and hardware on embedded devices that can be used for a wide variety of applications. The result of the combination of Sierra Wireless and Wavecom is a global leader that is uniquely positioned to benefit from the anticipated growth in the wireless M2M and mobile computing markets. The acquisition has significantly expanded and diversified our position in the global M2M market, broadened our product offerings and increased our scale and capabilities in Europe and Asia.

Our expanded line-up of M2M wireless solutions is used by a wide range of OEMs and enterprises to wirelessly enable their products and solutions. Our M2M customers cover a broad range of industries, including consumer electronics, networking equipment, automotive, energy, security, sales and payment, industrial control and monitoring, fleet management, field service and healthcare.

Our mobile computing products are used by businesses and consumers to enable mobile broadband access to the Internet, e-mail, remote databases and corporate and consumer applications.

We sell our products primarily through indirect channels including wireless operators, OEMs, distributors and value added resellers.

On December 2, 2008, we announced an all-cash offer to purchase all of the ordinary shares and OCEANES convertible bonds (“OCEANES”) of Wavecom. The total value of the transaction was approximately €18.0 million and was comprised of cash consideration of €8.50 per share of Wavecom and €1.93 per OCEANE. The transaction was implemented by way of concurrent but separate public tender offers in both France and the United States.

On February 27, 2009, we completed our acquisition of 84.32% of the outstanding shares and 99.97% of the outstanding OCEANES of Wavecom, representing 90.57% of the voting rights of Wavecom. Following a statutory re-opening of the tender offer and our purchase of Wavecom shares on the market, we increased our ownership of the voting rights of Wavecom from 90.57% to 95.4% and, on April 29, 2009, completed our acquisition of all of the remaining Wavecom shares, except for certain shares held by employees that are subject to a hold period, and OCEANES by way of a squeeze-out. The Wavecom shares and OCEANES have been delisted from the Euronext and the American Depository Shares have been delisted from the Nasdaq.

On January 29, 2009, prior to the acquisition of Wavecom, we implemented an expense reduction program that was completed during the first quarter of 2009 and included the elimination of 56 positions, representing 10% of our workforce. In the first quarter of 2009, we incurred a pre-tax charge of approximately \$1.6 million related to the program, which included \$0.5 million of stock-based compensation expense.

Also prior to our acquisition of Wavecom, Wavecom implemented a cost savings program and reorganization. The first portion of this plan, related to its operations in the United States, began in late 2008. In the second quarter of 2009, the staff reduction program in France related to this reorganization was implemented. A total of 77 positions in France were impacted, and all of these positions were phased out by September 30, 2010. On May 15, 2009, we announced further cost reduction initiatives related to the integration of Wavecom and Sierra Wireless that included combining the research and development (“R&D”) and product operations of both organizations. As a result, the Wavecom location in Research Triangle Park, North Carolina, was closed in the fourth quarter of 2009. R&D activities from this location were transitioned primarily to the Sierra Wireless location in Carlsbad, California. In 2010, we included an additional provision for costs of the leased North Carolina location, costs related to subleasing a portion of the Issy-les-Moulineaux location, as well as costs of additional employees in Europe who were terminated. In 2010, restructuring costs related to this program were \$3.2 million, including \$0.1 million of stock-based compensation expense, compared to \$19.0 million in 2009, including \$0.4 million of stock-based compensation expense.

On September 23, 2010, we implemented a new organizational structure designed to sharpen our focus on distinct market opportunities and accelerate profitable growth. The new organizational structure establishes three business units – M2M Embedded Solutions, Mobile Computing, and Solutions & Services. Dedicated sales, marketing and R&D functions within each business unit bring teams closer to their customers. Common wireless platforms, an integrated supply chain, and a strong global presence provide leverage and highly competitive scale. Concurrent with the implementation of the new organizational structure, 60 full time positions, representing approximately 6% of our global workforce, were eliminated as a result of expected improved operating efficiencies. These reductions were substantially completed during the fourth quarter of 2010 and are expected to result in an operating expense reduction of approximately \$1.0 million per quarter. However, investments to support new growth opportunities are expected to offset these expense reductions. In 2010, we incurred a pre-tax charge of \$4.4 million for severance and other costs related to this program, which included \$0.5 million of stock-based compensation expense.

Key factors that we expect will affect our results in the near term are general economic conditions in the markets we serve, seasonality in demand, the relative competitive position our products have within the wireless operators’ sales channels in any given period, the availability of components from key suppliers, timing of deployment of mobile broadband networks by wireless operators, wireless technology transitions, 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 our OEM customers achieve with sales of embedded solutions to end users and our ability to secure future design wins with both existing and new OEM customers. We expect that product and price competition from other wireless

communications device manufacturers will continue to be intense. As a result of these factors, we may experience volatility in our results on a quarter to quarter basis.

We expect Q1 2011 revenue to decline by approximately \$25.0 million compared to Q4 2010 as a result of lower AirCard sales due to product transitions with some operator customers, lower embedded module sales to a single large consumer M2M customer and normal seasonal fluctuations.

M2M Business

Our M2M business includes our AirPrime Wireless Embedded Modules (excluding sales to PC OEMs), AirLink Intelligent Gateways and Routers and AirVantage™ M2M Cloud Platform. Our M2M revenue was \$332.4 million in 2010, compared to \$216.5 million in 2009, an increase of \$115.9 million or 54%.

We believe that the market for our M2M products continues to offer profitable growth opportunities. The M2M market is competitive and our future success will depend in part on our ability to continue to develop differentiated products and services that meet our customers' evolving technology, design, schedule and price requirements.

AirPrime™ Wireless Embedded Modules (excludes PC OEM embedded modules)

With the acquisition of Wavecom, we have significantly expanded our global position in wireless embedded solutions for M2M. Our expanded line-up of AirPrime Wireless Embedded Modules is used by a wide range of OEMs to wirelessly enable their products and solutions. Our M2M OEM customers cover a broad range of industries including consumer electronics, networking equipment, automotive, energy, security, sales and payment, industrial control and monitoring, fleet management, field service and healthcare.

Our growth in the embedded M2M market has been strong due primarily to our acquisition of Wavecom and the expansion of sales of our M2M products into additional segments and regions. We believe that there are long-term growth and profitability prospects in the embedded M2M market and we plan to continue to invest to expand our leadership position.

In 2010, sales of our M2M embedded module products increased 62% to \$274.5 million, compared to \$169.2 million in 2009, primarily as a result of strong contribution from sales to consumer, sales and payment, networking, energy and automotive OEM customers. Sales of M2M embedded modules for consumer e-book reader applications were approximately 24% of M2M embedded module product sales in 2010.

During 2010, we introduced several new products, including a suite of new AirPrime MC Series embedded modules designed for LTE networks, enabling manufacturers to take advantage of the latest generation of high-speed mobile networks, which deliver up to 100 megabits per second ("Mbps") download speeds and 50 Mbps upload speeds. We secured design wins for our new LTE modules and shipped small sample volumes in 2010. The AirPrime MC7750 module supports LTE, EV-DO and HSPA+ networks, while the AirPrime MC7700 and MC7710 modules support LTE and HSPA+ in different frequency bands.

In 2010, we also introduced the industry's first suite of embedded wireless modules designed specifically for automotive manufacturers – setting a new standard for "automotive-grade" wireless modules. The new Sierra Wireless AirPrime™ AR Series intelligent embedded modules are based on more than a decade of experience in meeting the needs of automotive customers. They are the first wireless modules designed and developed from the ground up to achieve the highest level of compliance with automotive specifications, providing an unmatched level of quality and performance under harsh operating conditions. We have multiple design wins for the AirPrime AR Series with leading automotive manufacturers. We expect commercial shipments of these modules to begin in mid-2011.

We launched and began shipping our new AirPrime SL Series intelligent embedded modules. Designed to suit the needs of manufacturers of small host devices in high-volume production, such as e-book readers, personal navigation devices and gaming devices, the Sierra Wireless AirPrime SL Series offers HSPA and EDGE connectivity in a compact, lightweight form factor. Our AirPrime SL6087 EDGE wireless module won the GSM Association award for Best 2G Module.

During 2010, we began shipping our new AirPrime MC8801, designed for HSPA+ Dual Carrier networks with peak network downlink speeds of 42 Mbps. To provide a more cost effective alternative for manufacturers that do not require the top speed, our new AirPrime MC8704 and AirPrime MC8705 intelligent embedded modules for HSPA+ networks are expected to be available in early 2011.

We also began shipping our new AirPrime XM0110 GPS Module, which provides easy-to-use and optimized GPS feature integration for wireless applications requiring location information. PFK Electronics (Pty) Ltd. (“PFK”), a designer and manufacturer of automotive security products in South Africa, is integrating this product into a series of products for fleet management, asset tracking and stolen vehicle recovery.

During 2010, several of our customers selected our Sierra Wireless AirPrime WMP100, which combines embedded processor capability and wireless connectivity in a single device, to integrate into their wireless solutions. EDMI Limited (“EDMI”), based in Singapore, integrated our AirPrime WMP100 intelligent embedded module into its electronic energy meter to enable EDMI customers to control power consumption and read meters in real time. Together, PFK and inthinc, inc., a company focused on developing solutions to positively impact driver behavior, are also using our AirPrime WMP100 to enhance road safety by ensuring their devices can reliably connect to central systems in real time. And, A.P. Systems, an Italian supplier of information and communication technology to utilities and public administrations, selected our AirPrime WMP100 and Open AT application framework to provide wireless connectivity in its smart wireless multi-metering solution.

Our Sierra Wireless AirPrime Q series is designed for rapid mounting due to its industrial grade board-to-board connector, and brings scalability, allowing a single product design that can communicate on any cellular protocol, anywhere in the world. TomTom Automotive (“TomTom”) selected the Sierra Wireless AirPrime Intelligent Embedded Modules to provide cellular connectivity to TomTom’s integrated navigation systems for Renault and Mazda. Aisino Corporation also selected the Sierra Wireless AirPrime Q2686 for integration into its network billing machine deployments in China. RS TechMedic BV, a medical technology provider in the Netherlands, is using the Sierra Wireless AirPrime Q2687 EDGE wireless module in its multi-purpose remote patient monitoring device used by health care professionals. We also launched our new Sierra Wireless AirPrime Q2668 intelligent embedded module with China Mobile for use on its TD-SCDMA network.

Additionally, we collaborated with HARMAN, a leading global audio and infotainment group, to lead the automotive industry in innovations to bring 4G LTE broadband connectivity to automotive customers.

AirLink™ Intelligent Gateways and Routers

Our AirLink Intelligent Gateways and Routers are sold to public safety, transportation, field service, energy, industrial and financial organizations, and are among our highest gross margin products. We continue to believe that there are profitable growth prospects for our AirLink intelligent solutions and we intend to capture these opportunities through segment, product line and geographical expansion.

In 2010, revenue from AirLink Intelligent Gateways and Routers increased 19% to \$48.6 million from \$41.0 million in 2009 primarily due to growth in North America and expansion in Europe and Asia.

In the fourth quarter of 2010, the San Jose Police Department selected the Feeney Wireless solution that integrates the Sierra Wireless AirLink 3G gateway and allows officers to submit citations and gain immediate access to critical law enforcement data directly from their vehicles. Together with Accel Networks, we also announced a joint marketing agreement to deliver secure, reliable wireless solutions for customers deploying retail transaction and networking applications.

In the third quarter of 2010, Itron selected the Sierra Wireless AirLink™ Raven X and Raven XE Intelligent M2M Gateways to provide the primary cellular connection in its new CCU 100, a key component of its ChoiceConnect fixed network platform. Through a joint marketing agreement, the two companies have also agreed to leverage their combined marketing and sales resources to co-market the solution to utility customers. During the third quarter of 2010, we also collaborated with Pulse Energy, a provider of building energy management solutions, to deliver cellular deployments that enable customers to more efficiently monitor and manage energy usage. During the third quarter, we began shipping our Raven XE platforms with quad-band HSPA support.

During the second quarter of 2010, together with NetMotion Wireless, a provider of secure mobile productivity and management software, we announced a joint marketing agreement to deliver combined mobile data solutions for emergency first responders and utility workers. Our AirLink in-vehicle GPS gateways and routers now support Garmin's Fleet Management Interface, which simplifies the integration of AirLink gateways with Garmin's personal navigation devices used in conjunction with dispatch or automatic vehicle location systems. During the second quarter of 2010, we began shipping our Sierra Wireless AirLink MP895.

During the first quarter of 2010, together with Prumaro d.o.o. and local integrator Telos d.o.o., we announced the deployment of Prumaro's GEM interactive digital signage application, powered by our AirLink Pinpoint X mobile communications gateway in public buses and kiosks throughout Slovenia's capital of Ljubljana.

AirVantage™ M2M Cloud Platform

Our AirVantage M2M cloud platform provides solutions and services that enable application providers, OEMs and telecom operators to accelerate the deployment of complete M2M solutions for managing remote equipment and assets. These solutions are based on tools that facilitate the development and delivery of applications that are hosted on our AirVantage services platform. Our services platform is scalable, secure and compatible with a broad range of available wireless equipment.

During the fourth quarter of 2010, TELUS selected the Sierra Wireless AirVantage M2M cloud platform to provide service management for connected devices. Under a multi-year strategic agreement, TELUS will integrate the Sierra Wireless AirVantage M2M cloud platform into its network operations to provide M2M customers with online access to a comprehensive suite of M2M service creation, delivery and management capabilities, making it simpler and faster to bring M2M services to market and opening new service opportunities.

During the third quarter of 2010, NURI Telecom, a South Korean company specializing in next generation automatic meter reading solutions, selected our AirPrime Q2686 intelligent embedded module to integrate into its advanced meter reading solution and will also use our AirVantage Management Services for AirPrime to remotely monitor, manage and upgrade application software and firmware on the devices once they are in the field.

During the second quarter of 2010, we added important new features to the platform, achieved key customer deployment milestones and secured new solution design wins in the energy management and outdoor advertising segments.

During the first quarter of 2010, we signed a services contract with IBM to host a new services platform dedicated to our software as a service M2M offering. The new hosting facility is expected to support a growing number of North American customers, including Orbcomm Inc., which is live on the platform. We announced a new Consumer Device Management application for the Sierra Wireless AirVantage M2M Cloud Platform that offers wireless network operators and M2M solution providers a simple, cost effective way to deploy and manage mass market consumer devices. In addition, together with the French wireless network operator Bouygues Telecom, we introduced a new bundled offer for wireless M2M communication that targets industrial, sales and payment, and security solutions. The bundle gives access to Bouygues Telecom's prepaid pan-European data airtime on the new Sierra Wireless AirLink™ GL6100 GSM/GPRS modem with Embedded SIM and includes a one year subscription to Sierra Wireless' AirVantage™ Management Services for remote diagnosis and software upgrades.

Mobile Computing Business

Our mobile computing business includes our AirCard® Mobile Broadband Devices and AirPrime wireless embedded modules for PC OEM customers. Our mobile computing revenue increased 3% to \$317.9 million in 2010, compared to \$309.9 million in 2009. This increase was due to higher sales of embedded modules to PC OEMs, partially offset by lower AirCard sales in the first half of 2010.

AirCard® Mobile Broadband Devices

Our AirCard mobile broadband device family includes our AirCard branded PC cards, USB modems and mobile Wi-Fi hotspots. Our AirCards, sold to wireless operators around the world, provide a simple way to connect notebooks, netbooks and other electronic devices to the Internet, over 3G and 4G mobile broadband networks.

In 2010, sales of our AirCard products decreased by 1% to \$291.5 million, compared to \$295.0 million in 2009, primarily due to lower volumes in the first quarter of 2010, but largely offset by strong sales of recently launched products and the addition of new customers for these products in mid-2010.

We believe that the market for our AirCard products continues to offer profitable opportunities. Competition in this market continues to be intense and our future success will depend in part on our ability to continue to develop differentiated products that meet our customers' evolving technology, design, schedule and price requirements.

During the fourth quarter of 2010, we continued to have strong positions with AT&T and Telstra for shipments of our HSPA AirCards, as well as with Sprint and Clear for shipments of our 3G/4G Mobile Hotspot and 3G/4G USB modems. During the fourth quarter of 2010, we launched and commenced commercial shipments of the AT&T USBConnect Shockwave (our AirCard USB 308), the first device for AT&T's HSPA+ network.

During the third quarter of 2010, we announced new AirCard USB modems and mobile hotspots supporting the latest LTE network technologies and data rates. These new devices are expected to be introduced in the first half of 2011. Our AirCard 312U, also called the Telstra Ultimate USB modem, became commercially available in Australia during this quarter. The AirCard 312U, operating on Dual Carrier HSPA+ networks, was the world's first HSPA+ modem that supported download speeds of up to 42 Mbps, doubling the downlink speeds of current HSPA+ networks.

During the second quarter of 2010, we began commercial shipments of the Sprint 3G/4G USB 250U mobile broadband modem from Sierra Wireless, also known as the AirCard 250U, with download speeds up to 10 times faster than 3G in any of the Sprint 4G markets. We also began commercial shipments to Clear of our AirCard 250U, called the Series S 4G+ modem. Time Warner Cable announced that IntelliGo, also known as the Sierra Wireless AirCard W801 3G/4G Mobile Hotspot, is available on the Time Warner Cable 4G network with Road Runner Mobile. In addition, AT&T announced the availability of our Sierra Wireless AirCard 890, an HSPA device with a 2-in-1 form factor that supports both PC card and ExpressCard slots.

During the first quarter of 2010, we began shipping the Sierra Wireless AirCard W801 Mobile Hotspot, the world's first wireless mobile hotspot that combines 3G (EV-DO Rev A) with 4G (WiMax) and WiFi technologies. Also known as the Overdrive™ 3G/4G Mobile Hotspot launched by Sprint, this product turns a single Internet connection into a wireless LAN that can be shared by multiple users. DNA Ltd., a Finnish telecommunications company, began offering its customers even faster connections with our modem devices, the first time Sierra Wireless USB modems have been commercially available in Finland. Also in the first quarter of 2010, we announced that the Sierra Wireless AirCard product line will provide a Windows 7 Device Stage experience across multiple devices. We are the first mobile broadband modem supplier to deploy a Device Stage experience, which provides customers with more convenient, intuitive access to their device and account information.

AirPrime™ Wireless Embedded Modules for PC OEMs

In 2010, revenue from sales of our AirPrime Wireless Embedded Modules to PC OEM customers increased 91% to \$23.4 million from \$12.2 million in 2009.

In 2010, we made good progress in re-energizing our position in the market and have secured six new design wins with Tier 1 and Tier 2 PC OEMs for platforms scheduled to launch in 2011. During 2010, Fujitsu selected us to provide 3G mobile broadband for several new models in Fujitsu's LIFEBOOK series notebooks. Panasonic Computer Solutions Company, manufacturer of the durable, reliable Panasonic Toughbook® mobile computers, announced that it would deploy our Gobi2000™ module across its Toughbook line of rugged mobile computers. We have new design wins with three Tier 1 PC OEM customers that we expect will launch mobile computing platforms with our embedded modules commencing in mid 2011.

We believe that these new design wins will enable us to continue to grow our revenue from PC OEM customers in subsequent quarters. Our ability to secure additional design wins in the PC OEM market will depend on being successful in developing products and offering services that meet our customers' technology, design, schedule and price requirements.

Selected Annual Information

Years ended December 31,	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenue	\$650,341	\$526,384	\$567,308
Net earnings (loss)	(14,541)	(39,899)	62,583
Basic earnings (loss) per share.....	(0.47)	(1.29)	2.00
Diluted earnings (loss) per share	(0.47)	(1.29)	2.00
Total assets	469,568	484,519	462,386
Total long term liabilities.....	24,987	36,105	15,105

See discussion under “Results of Operations” for factors that have caused period to period variations.

Results of Operations

The following table sets forth our operating results for the three years ended December 31, 2010, expressed as a percentage of revenue:

Years ended December 31,	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenue	100.0%	100.0%	100.0%
Cost of goods sold	<u>70.7</u>	<u>66.3</u>	<u>71.9</u>
Gross margin.....	<u>29.3</u>	<u>33.7</u>	<u>28.1</u>
Expenses			
Sales and marketing	7.9	10.4	6.0
Research and development	13.5	15.2	9.6
Administration	5.6	7.0	3.8
Acquisition costs.....	—	1.5	—
Restructuring costs.....	1.2	3.9	—
Integration costs	0.8	0.7	—
Amortization	<u>1.9</u>	<u>2.2</u>	<u>0.8</u>
	<u>30.9</u>	<u>40.9</u>	<u>20.2</u>
Earnings (loss) from operations	(1.6)	(7.2)	7.9
Foreign exchange gain (loss)	(1.1)	0.2	1.0
Other income (expense)	<u>—</u>	<u>(0.8)</u>	<u>3.6</u>
Earnings (loss) before income taxes	(2.7)	(7.8)	12.5
Income tax expense (recovery)	<u>(0.4)</u>	<u>—</u>	<u>1.5</u>
Net earnings (loss) before non-controlling interest.....	(2.3)	(7.8)	11.0
Less: Non-controlling interest.....	<u>(0.1)</u>	<u>(0.2)</u>	<u>—</u>
Net earnings (loss)	<u>(2.2)%</u>	<u>(7.6)%</u>	<u>11.0%</u>

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

Years ended December 31,	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenue by business line			
M2M	51%	41%	16%
Mobile computing	<u>49</u>	<u>59</u>	<u>84</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Revenue by product			
AirCard Mobile Broadband Devices.....	45%	56%	73%
AirPrime Wireless Embedded Modules.....	46	34	21
AirLink Intelligent Gateways and Routers.....	7	8	5
AirVantage Solutions and Other	<u>2</u>	<u>2</u>	<u>1</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Revenue by geographical region			
Americas.....	46 %	59%	70%
Europe, Middle East and Africa (“EMEA”).....	14	17	9
Asia-Pacific	<u>40</u>	<u>24</u>	<u>21</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Non-GAAP Financial Measures

Our consolidated financial statements are prepared in accordance with U.S. GAAP on a basis consistent for all periods presented. In addition to results reported in accordance with U.S. GAAP, we use non-GAAP financial measures as supplemental indicators of our operating performance. The term “non-GAAP financial measure” is used to refer to a numerical measure of a company’s historical or future financial performance, financial position or cash flows that: (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with U.S. GAAP in a company’s statement of income, balance sheet or statement of cash flows; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. We refer to gross margin, earnings (loss) from operations, net earnings (loss) and diluted earnings (loss) per share adjusted for specific items that affect comparability as non-GAAP gross margin, non-GAAP earnings (loss) from operations, non-GAAP net earnings (loss) and non-GAAP diluted earnings (loss) per share, respectively. We disclose non-GAAP amounts as we believe that these measures provide better information on actual operating results and assist in comparisons from one period to another.

Readers are cautioned that non-GAAP financial measures do not have any standardized meaning prescribed by U.S. GAAP and therefore may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of the non-GAAP financial measures for the years ended December 31, 2010 and 2009 to our U.S. GAAP results:

(in millions of U.S. dollars)	<u>2010</u>	<u>2009</u>
Revenue – GAAP and Non-GAAP	\$ 650.3	\$ 526.4
Gross margin – GAAP	\$ 190.4	\$ 177.3
Stock-based compensation	<u>0.5</u>	<u>0.5</u>
Gross margin – Non-GAAP	<u>\$ 190.9</u>	<u>\$ 177.8</u>
Loss from operations – GAAP	\$ (10.4)	\$ (37.7)
Stock-based compensation	7.0	8.1
Transaction costs	—	7.8
Restructuring and other costs	7.1	20.0
Integration costs	5.1	3.8
Acquisition related amortization	<u>13.6</u>	<u>11.8</u>
Earnings from operations – Non-GAAP	<u>\$ 22.4</u>	<u>\$ 13.8</u>
Net loss – GAAP	\$ (14.5)	\$ (39.9)
Stock-based compensation, transaction, restructuring, integration and acquisition amortization costs, net of tax	31.1	50.3
Unrealized foreign exchange loss (gain)	7.0	(1.3)
Interest expense	—	4.4
Non-controlling interest	(0.2)	(0.9)
Tax impact related to net change in tax assets and adjustment for actual taxes filed	<u>(3.4)</u>	<u>0.5</u>
Net earnings – Non-GAAP	<u>\$ 20.0</u>	<u>\$ 13.1</u>
Loss per share – GAAP	\$ (0.47)	\$ (1.29)
Diluted earnings per share – Non-GAAP	\$ 0.64	\$ 0.42

Results of Operations – Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

Revenue increased to \$650.3 million for the year ended December 31, 2010, compared to \$526.4 million in the same period of 2009, an increase of 24%. The increase in revenue was primarily a result of an increase in sales of our M2M products. Our sales of M2M products increased primarily due to strong sales of our embedded modules to consumer, payment and automotive OEM customers and the inclusion of Wavecom products for the full twelve months of 2010, compared to only ten months in 2009 (the period since the date of acquisition on February 27, 2009).

Our revenue from customers in the Americas, EMEA and the Asia-Pacific region comprised 46%, 14% and 40%, respectively, of our total revenue in 2010, compared to 59%, 17% and 24%, respectively, of our total revenue in 2009. Our business in North America decreased by 3% compared to 2009 due primarily to a decrease in sales of our AirCards, partially offset by an increase in sales of our AirPrime and AirLink products. Our business in EMEA increased by 2% compared to 2009 due primarily to the increase in revenue from the Wavecom acquisition, partially offset by a decrease in sales of our AirCards and sales of embedded modules to PC OEM customers. Our business in the Asia-Pacific region increased 103% compared to 2009 due primarily to the increase in revenue from the Wavecom acquisition, as well as an increase in sales of our AirCards and sales of embedded modules to PC OEM customers.

In 2010, AT&T and Sprint each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 26% of our revenue. In 2009, these same two customers each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 40% of our revenue.

We expect Q1 2011 revenue to decline by approximately \$25.0 million compared to Q4 2010 as a result of lower AirCard sales due to product transitions with some operator customers, lower embedded module sales to a single large consumer M2M customer and normal seasonal fluctuations.

Gross margin

Gross margin amounted to \$190.4 million for the year ended December 31, 2010, or 29.3% of revenue, compared to \$177.3 million, or 33.7% of revenue, in the same period of 2009. The decrease in gross margin percentage resulted primarily from our newer AirCard products that have a lower gross margin in the early stages of their product cycle, lower selling prices for some of our products and a greater mix of lower margin consumer OEM embedded module sales. Gross margin included \$0.5 million of stock-based compensation expense in each of 2010 and 2009.

During the first quarter of 2011, we expect that our gross margin percentage will remain stable or increase slightly. Our gross margin percentage may fluctuate from quarter to quarter depending on product mix, competitive selling prices and our ability to reduce product costs.

Sales and marketing

Sales and marketing expenses were \$51.6 million for the year ended December 31, 2010, compared to \$54.8 million in the same period of 2009, a decrease of 6%. The decrease in sales and marketing costs is due primarily to cost reductions related to the integration of Sierra Wireless and Wavecom. Sales and marketing expenses included \$1.4 million of stock-based compensation expense in 2010, compared to \$1.6 million in 2009. Sales and marketing expenses as a percentage of revenue decreased to 7.9 % in the year ended December 31, 2010, compared to 10.4% in the same period of 2009, primarily due to the increase in revenue.

Research and development

Research and development expenses amounted to \$88.0 million for the year ended December 31, 2010, compared to \$80.1 million in the same period of 2009, an increase of 9.9%. The increase is due primarily to the inclusion of costs from the Wavecom acquisition for a full year, as well as increased investment in new product development, partially offset by cost reductions related to the integration of Sierra Wireless and Wavecom.

During 2009, we finalized our obligations with respect to our conditionally repayable research and development funding agreement with the Government of Canada's Technology Partnerships Canada ("TPC"). Under the terms of the original agreement, royalty repayments, based on a percentage of annual sales in excess of certain minimum amounts, would be calculated over the period from April 2003 to December 2011. If royalty repayments were less than Cdn \$16.5 million by December 2011, repayments would have continued subsequent to December 2011 until the earlier of when this amount was reached or December 2014. In March 2009, we signed an amended agreement under which we will pay a total of Cdn \$2.5 million, with payments due on March 1 for each of the next five years beginning March 1, 2009, in full and final satisfaction of all amounts owing, or to be owed, to TPC under this agreement. We had previously accrued payments under the original agreement and as a result of the amended agreement we have reversed accruals recorded in research and development expense totaling \$0.8 million during 2009.

Included in research and development expenses was \$1.3 million of stock-based compensation expense in 2010, compared to \$1.4 million in 2009.

Research and development expenses, excluding government research and development funding repayments, reversal of accruals and French research and development tax credits, were \$90.2 million, or 13.9% of revenue for the year ended December 31, 2010, compared to \$82.1 million, or 15.6% of revenue in the same period of 2009.

Administration

Administration expenses amounted to \$36.4 million, or 5.6% of revenue, for the year ended December 31, 2010, compared to \$36.6 million, or 7.0% of revenue, in the same period of 2009. Administration costs decreased primarily due to cost reductions related to the integration of Wavecom but offset by the inclusion of staff and costs from the Wavecom acquisition for a full year in 2010, compared to only ten months in 2009. Included in administration expenses was \$3.2 million of stock-based compensation expense in 2010, compared to \$3.6 million

in 2009.

Acquisition costs

Acquisition costs were nil for the year ended December 31, 2010, compared to \$7.8 million in the same period of 2009. The acquisition costs in 2009 were related to the acquisition of Wavecom.

Restructuring costs

For the year ended December 31, 2010, restructuring costs were \$7.6 million, compared to \$20.6 million in the same period of 2009.

On September 23, 2010, we implemented a new organizational structure designed to sharpen our focus on distinct market opportunities and accelerate profitable growth. The new organizational structure establishes three business units – M2M Embedded Solutions, Mobile Computing, and Solutions & Services. Concurrent with the implementation of the new business unit structure, 60 full time positions were eliminated as a result of expected improved operating efficiencies. These reductions were substantially completed during the fourth quarter of 2010. For the year ended December 31, 2010, we incurred a pre-tax charge of approximately \$4.4 million for severance and other costs related to this new organizational structure, which included \$0.5 million of stock-based compensation expense.

In the second quarter of 2009, as part of the Wavecom cost reduction initiatives announced prior to our acquisition of Wavecom, the staff reduction program in France was implemented. A total of 77 positions were impacted, and all of these positions were phased out by September 30, 2010. On May 15, 2009, we commenced further cost reduction initiatives related to the integration of Wavecom and Sierra Wireless that included combining the R&D and product operations. As a result, the Wavecom location in Research Triangle Park, North Carolina, was closed during the fourth quarter of 2009. During the second quarter of 2010 we included an additional provision for costs of the leased North Carolina location, costs related to subleasing a portion of the Issy-les-Moulineaux location, as well as costs of additional employees in Europe who were terminated. For the year ended December 31, 2010 restructuring costs related to this program were \$3.2 million, including \$0.1 million of stock-based compensation, compared to \$19.0 million, including \$0.4 million of stock-based compensation expense in the same period of 2009.

In 2009, prior to the acquisition of Wavecom, we also completed an expense reduction program that included the reduction of 56 positions. As a result, restructuring costs related to this program, comprised primarily of severance costs and stock-based compensation expense, amounted to \$1.6 million and included \$0.5 million of stock-based compensation expense in 2009.

Integration costs

In 2010, integration costs related to the acquisition of Wavecom were \$5.1 million, compared to \$3.9 million in 2009. Integration costs included the cost of consultants, employees retained for integration activities and related travel expenses.

Foreign exchange gain (loss)

Our foreign exchange loss was \$7.0 million in the year ended December 31, 2010, compared to a foreign exchange gain of \$1.3 million in 2009. Our foreign exchange loss for 2010 includes a net foreign exchange loss of \$4.7 million on an intercompany balance that the parent company has with its self-sustaining foreign operations that arose as a result of the Wavecom acquisition. Our foreign exchange gain for 2009 includes a net foreign exchange gain of \$19.5 million on an intercompany balance that the parent company has with its self-sustaining foreign operations that arose as a result of the Wavecom acquisition, partially offset by a realized foreign exchange loss of \$15.7 million on Euros that had been held for the Wavecom transaction.

Other expense

Other expense, which includes interest expense and interest income, was \$0.2 million in the year ended December 31, 2010, compared to other expense of \$4.4 million in the same period of 2009. Other expense in 2009 included \$4.1 million of financing costs and \$0.9 million of interest expense, of which \$0.7 million related to the credit

facilities that were set up in connection with the Wavecom acquisition. Interest income decreased to \$0.2 million in 2010, from \$0.6 million in 2009 due to a decrease in our cash and short-term investment balances that were used to fund the Wavecom acquisition, as well as a decline in interest rates.

Income tax expense

Income tax recovery was \$2.8 million for the year ended December 31, 2010, compared to \$0.3 million in the same period of 2009 due primarily to changes in tax assets as well as a tax provision adjustment relating to actual taxes filed.

Non-controlling interest

The non-controlling interest in the year ended December 31, 2010 was \$0.3 million, compared to \$1.3 million in the same period of 2009. The non-controlling interest represents the non-controlling interest in Wavecom's loss that results from the shares held by Wavecom employees under their long-term incentive plan. The shares have vested, but are subject to a hold period for tax purposes. We have entered into a put/call agreement with these employees to purchase back the shares at €8.50 per share upon expiry of the tax hold period. Until that time, the shares are considered the non-controlling interest. During 2010, the tax hold period expired for 152,672 shares, and we purchased those shares for \$1.6 million.

Net earnings (loss)

Our net loss amounted to \$14.5 million, or loss per share of \$0.47, for the year ended December 31, 2010, compared to a net loss of \$39.9 million, or loss per share of \$1.29, in the same period of 2009. Included in our net loss was \$7.0 million of stock-based compensation expense in 2010, compared to \$8.1 million in the same period of 2009.

The weighted average diluted number of shares outstanding increased to 31.1 million for the year ended December 31, 2010, compared to 31.0 million in 2009. The number of shares outstanding at December 31, 2010 was 31.2 million, compared to 31.0 million at December 31, 2009.

Results of Operations – Three Months Ended December 31, 2010 Compared to Three Months Ended December 31, 2009

Revenue

Revenue amounted to \$167.2 million for the three months ended December 31, 2010, compared to \$144.0 million in the same period of 2009. The increase in revenue was driven by broad based increases in sales in all of our major product categories and regions.

Our revenue from customers in the Americas, EMEA and the Asia-Pacific region comprised 45%, 15% and 40%, respectively, of our total revenue in the fourth quarter of 2010, compared to 52%, 15% and 33%, respectively, in the same period of 2009. Our business in North America increased by 1% compared to the fourth quarter of 2009 due primarily to an increase in sales of our M2M products, partially offset by a decrease in our AirCard and embedded module products. Our business in EMEA increased by 14% compared to the fourth quarter of 2009 due primarily to the increase in revenue from our embedded module products, partially offset by a decrease in sales of our AirCard products. Our business in the Asia-Pacific region increased 40% compared to the fourth quarter of 2009 due primarily to an increase in sales of our AirCard and sales of embedded module products to PC OEM customers.

In the fourth quarter of 2010, Sprint and Brightstar Logistics Pty. Ltd. each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 25% of our revenue. In the fourth quarter of 2009, AT&T and Sprint each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 28% of our revenue.

Gross margin

Gross margin amounted to \$48.9 million for the three months ended December 31, 2010, or 29.2% of revenue, compared to \$48.7 million, or 33.9% of revenue, in the same period of 2009. The decrease in gross margin percentage resulted primarily from our newer AirCard products that have a lower gross margin in the early stages of

their product cycle and a greater sales mix of lower margin consumer OEM embedded module sales. Gross margin included \$0.1 million of stock-based compensation expense in each of the fourth quarters of 2010 and 2009.

Operating expenses

Operating expenses were \$49.0 million in the fourth quarter of 2010, compared to \$49.8 million in the same period of 2009. This decrease is due primarily to a reduction in restructuring and integration costs associated with the Wavecom acquisition, as well as cost reductions related to the integration of Sierra Wireless and Wavecom. This decrease was partially offset by research and development investments being made to develop new products and an increase in amortization expense. Operating expenses for the fourth quarter of 2009 included the reversal of purchase price amortization of \$3.7 million, resulting from the adjustment of our estimate of the purchase price allocation to the actual allocation based on the third party valuation. Operating expenses included \$1.3 million of stock-based compensation expense in the fourth quarter of 2010, compared to \$1.5 million in the same period of 2009.

Net earnings (loss)

Net earnings were \$0.8 million, or diluted earnings per share of \$0.03 in the fourth quarter of 2010, compared to a net loss of \$2.7 million, or loss per share of \$0.09 in 2009. Our net earnings in the fourth quarter of 2010 included an unrealized foreign exchange loss of \$0.1 million on intercompany balances that the parent company has with its self-sustaining foreign operations, compared to an unrealized foreign exchange gain of \$0.8 million in the same period of 2009. Our net loss for the fourth quarter of 2009 also included a reduction in our valuation allowance of \$0.5 million that reduced our income tax expense. Included in our net earnings (loss) was \$1.4 million of stock-based compensation expense in the fourth quarter of 2010, compared to \$1.7 million in the same period of 2009.

Results of Operations – Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue

Revenue amounted to \$526.4 million for the year ended December 31, 2009, compared to \$567.3 million in the same period of 2008, a decrease of 7%. The decrease in revenue was primarily a result of a decrease in sales of our AirCards and sales of embedded modules to PC OEM customers, partially offset by an increase in revenue from the Wavecom acquisition. Our revenue for the year ended December 31, 2009 included Wavecom revenue of \$119.6 million for the period from February 27, 2009 until December 31, 2009.

Our revenue from customers in the Americas, EMEA and the Asia-Pacific region comprised 59%, 17% and 24%, respectively, of our total revenue in 2009, compared to 70%, 9% and 21%, respectively, of our total revenue in 2008. Our business in North America decreased by 21% compared to 2008 due primarily to a decrease in sales of our AirCards and embedded modules. Our business in EMEA increased by 72% compared to 2008 due primarily to the increase in revenue from the Wavecom acquisition, partially offset by a decrease in sales of our AirCards and embedded modules. Our business in the Asia-Pacific region increased 6% compared to 2008 due primarily to the increase in revenue from the Wavecom acquisition, partially offset by a decrease in sales of embedded modules to PC OEM customers and AirCards.

In 2009, AT&T and Sprint each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 40% of our revenue. In 2008, these same two customers each accounted for more than 10% of our revenue and, in the aggregate, these two customers represented approximately 53% of our revenue.

Gross margin

Gross margin amounted to \$177.3 million for the year ended December 31, 2009, or 33.7% of revenue, compared to \$159.7 million, or 28.1% of revenue, in the same period of 2008. The increase in gross margin percentage resulted primarily from product cost reductions, early synergies from the Wavecom acquisition, as well as the addition of higher margin products from the Wavecom acquisition. Gross margin included \$0.6 million of stock-based compensation expense in 2009, compared to \$0.5 million in 2008.

Sales and marketing

Sales and marketing expenses were \$54.8 million for the year ended December 31, 2009, compared to \$34.3 million in the same period of 2008, an increase of 60%. The increase in sales and marketing costs was due primarily to the addition of staff and costs from the Wavecom acquisition, partially offset by a reduction in expenses due to an increased focus on cost management, including the impact of restructuring programs. Sales and marketing expenses included \$1.6 million of stock-based compensation expense in 2009, compared to \$1.5 million in 2008. Sales and marketing expenses as a percentage of revenue increased to 10.4% in the year ended December 31, 2009, compared to 6.0% in the same period of 2008, primarily due to the addition of costs from the Wavecom acquisition as well as the decrease in revenue.

Research and development

Research and development expenses amounted to \$80.1 million for the year ended December 31, 2009, compared to \$54.7 million in the same period of 2008, an increase of 46%. The increase was due primarily to the addition of staff and costs from the Wavecom acquisition, partially offset by a reduction in accruals for government research and development funding repayments.

During 2009, we finalized our obligations with respect to our conditionally repayable research and development funding agreement with the Government of Canada's Technology Partnerships Canada ("TPC"). Under the terms of the original agreement, royalty repayments, based on a percentage of annual sales in excess of certain minimum amounts, would be calculated over the period from April 2003 to December 2011. If royalty repayments were less than Cdn \$16.5 million by December 2011, repayments would have continued subsequent to December 2011 until the earlier of when this amount was reached or December 2014. In March 2009, we signed an amended agreement under which we will pay a total of Cdn \$2.5 million, with payments due on March 1 for each of the next five years beginning March 1, 2009, in full and final satisfaction of all amounts owing, or to be owed, to TPC under this agreement. We had previously accrued payments under the original agreement and as a result of the amended agreement we have reversed accruals recorded in research and development expense totaling \$0.8 million during 2009.

Included in research and development expenses was \$1.4 million of stock-based compensation expense in 2009, compared to \$1.2 million in 2008.

Research and development expenses, excluding government research and development funding repayments and reversal of accruals, were \$82.1 million, or 15.6% of revenue for the year ended December 31, 2009, compared to \$48.9 million, or 8.6% of revenue in the same period of 2008.

Administration

Administration expenses amounted to \$36.6 million, or 7.0% of revenue, for the year ended December 31, 2009, compared to \$21.3 million, or 3.8% of revenue, in the same period of 2008. The increase in administration costs was primarily due to the addition of staff and costs from the Wavecom acquisition as well as increased legal fees associated with certain intellectual property matters. Included in administration expenses was \$3.6 million of stock-based compensation expense in 2009, compared to \$3.1 million in 2008.

Acquisition costs

Acquisition costs were \$7.8 million for the year ended December 31, 2009, compared to nil in the same period of 2008. The acquisition costs in 2009 were related to the acquisition of Wavecom.

Restructuring costs

During the second quarter of 2009, as part of the Wavecom cost reduction initiatives announced prior to our acquisition of Wavecom, the staff reduction program in France was implemented. A total of 77 positions were impacted and all of these positions were phased out by the third quarter of 2010. On May 15, 2009, we commenced further cost reduction initiatives related to the integration of Wavecom and Sierra Wireless that included combining the R&D and product operations. As a result, the Wavecom location in Research Triangle Park, North Carolina was closed during the fourth quarter of 2009. For the year ended December 31, 2009, restructuring costs related to the

closure of the Research Triangle Park location and additional cost reduction initiatives were \$19.0 million, which included \$0.4 million of stock-based compensation expense.

In the first quarter of 2009, we completed an expense reduction program that included the elimination of 56 positions. As a result, restructuring costs, comprised primarily of severance costs and stock-based compensation expense, amounted to \$1.6 million and included \$0.5 million of stock-based compensation expense.

For the year ended December 31, 2009, restructuring costs related to these two programs were \$20.6 million, compared to nil in the same period of 2008.

Integration costs

In 2009, integration costs related to the acquisition of Wavecom were \$3.9 million, compared to nil in 2008. Integration costs included the cost of employees retained for integration activities, related travel expenses and consulting fees.

Foreign exchange gain (loss)

Our foreign exchange gain was \$1.3 million in the year ended December 31, 2009, compared to a foreign exchange gain of \$20.6 million in 2008. Our foreign exchange gain for 2009 included a net foreign exchange gain of \$19.5 million on an intercompany balance that the parent company had with its self-sustaining foreign operations that arose as a result of the Wavecom acquisition, partially offset by a realized foreign exchange loss of \$15.7 million on Euros that had been held for the Wavecom transaction. Our foreign exchange gain for 2008 included an unrealized foreign exchange gain of \$18.4 million on Euros held for the Wavecom transaction.

Other income (expense)

Other expense, which included interest expense and interest income, was \$4.4 million in the year ended December 31, 2009, compared to other income of \$5.6 million in the same period of 2008. Other expense in 2009 included \$4.1 million of financing costs and \$0.9 million of interest expense, of which \$0.7 million related to the credit facilities that were set up in connection with the Wavecom acquisition, compared to nil for 2008. Interest income decreased to \$0.6 million in 2009, from \$5.6 million in 2008 due to a decrease in our cash and short-term investment balances that were used to fund the Wavecom acquisition, as well as a decline in interest rates.

Income tax expense

Income tax expense was \$0.3 million for the year ended December 31, 2009, compared to \$8.2 million in the same period of 2008 due primarily to a reduction in taxable income.

Non-controlling interest

The non-controlling interest in the year ended December 31, 2009 was \$1.3 million, compared to nil in the same period of 2008. The non-controlling interest represents the non-controlling interest in Wavecom's loss that results from the shares held by Wavecom employees under their long-term incentive plan. The shares have vested, but are subject to a hold period for tax purposes. We have entered into a put/call agreement with these employees to purchase back the shares at €8.50 per share upon expiry of the tax hold period. Until that time, the shares are considered the non-controlling interest.

Net earnings (loss)

Our net loss amounted to \$39.9 million, or loss per share of \$1.29, for the year ended December 31, 2009, compared to net earnings of \$62.6 million, or diluted earnings per share of \$2.00, in the same period of 2008. Included in net earnings (loss) was \$8.1 million of stock-based compensation expense in 2009, compared to \$6.4 million in 2008.

The weighted average diluted number of shares outstanding decreased to 31.0 million for the year ended December 31, 2009, compared to 31.3 million in 2008 because some securities, such as stock options, that are dilutive are not included in the total when we are in a loss position. In addition, under the Bid, we purchased and cancelled shares during the third quarter of 2008 which reduced the weighted average diluted number of shares outstanding. The

number of shares outstanding at December 31, 2009 and December 31, 2008 was 31.0 million.

International Financial Reporting Standards (“IFRS”)

In November 2008, the Securities and Exchange Commission (“SEC”) announced a proposed roadmap for comment regarding the potential use by U.S. registrants of financial statements prepared in accordance with IFRS. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. On February 24, 2010, the SEC issued a statement describing its position regarding global accounting standards. Among other things, the SEC stated that it has directed its staff to execute a work plan, which will include consideration of IFRS as it exists today and after completion of various “convergence” projects currently underway between U.S. and international accounting standards setters. By the end of 2011, assuming completion of certain projects and the SEC staff’s work plan, it is expected that the SEC will decide whether to incorporate IFRS into the U.S. financial reporting system. We will continue to monitor the development of the potential implementation of IFRS.

Legal Proceedings

In December 2010, a patent holding company, Mayfair Wireless, LLC, filed a patent litigation lawsuit in the United States District Court for the District of Delaware asserting patent infringement by a number of parties, including us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In October 2010, a patent holding company, Eon Corp. IP Holdings, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of parties including telecommunication carrier companies including Sprint Nextel Corporation. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In July 2010, Americans for Fair Patent Use, LLC filed a lawsuit in the United States District Court for the Eastern District of Texas asserting false patent marking by a number of device manufacturers, including Sierra Wireless America, Inc., and telecommunication carrier companies, including Sprint Nextel Corporation and Celco Partnership d/b/a Verizon Wireless. The litigation makes certain allegations that products sold by us and our competitors were falsely marked with a number of patents that had expired or that do not cover the marked products. We are currently assessing our potential liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In May 2010, a patent holding company, Golden Bridge Technology Inc., filed a patent litigation lawsuit in the United States District Court for the District of Delaware asserting patent infringement by a number of telecommunication carrier companies, including AT&T Mobility LLC. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In February 2010, a patent holding organization, Commonwealth Scientific and Industrial Research Organisation, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a telecommunication carrier, Celco Partnership d/b/a Verizon Wireless. The litigation makes certain allegations concerning the wireless modems sold to the carrier by us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In September 2009, a patent holding company, Xpoint Technologies Inc., filed a patent litigation lawsuit in the United States District Court for the District of Delaware asserting patent infringement by a number of parties, including AT&T Mobility LLC. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In July 2009, a patent holding company, WIAV Networks, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of parties, including wireless device manufacturers, including us. The Texas court has transferred the litigation to the United States District Court for the Northern District of California. The California court has dismissed the litigation against a number of parties, including us.

In July 2009, a patent holding company, SPH America, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a number of device manufacturers, including us, and computer manufacturers, including Hewlett-Packard Co., Panasonic Corporation, General Dynamics Itronix Corporation and Fujitsu America and Fujitsu Japan. The litigation, which has been transferred to the United States District Court for the Southern District of California, makes certain allegations concerning the wireless modules sold to the computer manufacturers by us, our competitors, and some of our customers with whom we have supply agreements. We are assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In July 2009, a patent holding company, Celltrace, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by a number of telecommunication carrier companies including Sprint Spectrum, LP and AT&T Mobility LLC. The litigation makes certain allegations concerning the wireless modems sold to the carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. In the meantime, the carrier companies have provisionally withdrawn their indemnification demands against us. Although there can be no assurance that an unfavorable 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 lawsuit.

In June 2009, a patent holding company, Saxon Innovations, LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Texas asserting patent infringement by wireless device manufacturers, including us. The patents have been sold to a patent holding company, Norman IP Holdings LLC. Following the sale, Norman IP Holdings LLC has agreed to a confidential settlement of the litigation, and the settlement will not have a material adverse effect on our operating results.

In June 2009, a patent holding company, MSTG Inc., filed patent litigation lawsuits in the United States District Court for the Northern District of Illinois asserting patent infringement by a number of telecommunication carrier companies, including Sprint Spectrum, LP and AT&T Mobility LLC. The carriers have notified us that the lawsuits make certain allegations concerning the wireless data cards and modems sold to those carriers by us and our competitors. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In January 2009, a patent holding company, DNT LLC, filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a number of telecommunication carrier companies, including Sprint Spectrum, LP and Nextel, Verizon Wireless and T-Mobile USA, Inc. The litigation made certain allegations concerning the wireless modems sold to the carriers by us and our competitors. Following a trial in December 2009, the Court received a jury verdict of patent non-infringement and invalidity. Subsequently, the parties reached a mutually agreeable settlement, the details of which are confidential. DNT LLC filed an Unopposed Motion for Dismissal on December 29, 2010 in the Court of Appeal.

Since early December 2008, Wavcom and its subsidiary Wavcom, Inc. have been involved in litigation with a contracting counterparty, Temic Automotive of North America (Continental Group). In the first quarter of 2010,

Temic Automotive of North America, Inc., d/b/a/ Continental and Continental AG, Wavecom, Inc., Wavecom, S.A., Sierra Wireless, Inc., Sierra Wireless Americas, Inc., and Sierra Wireless, S.A. reached a mutually agreeable settlement of the lawsuits filed early December 2008 in North Carolina Business Court and New York State Court. The details of the settlement agreement are confidential.

On February 6, 2008, Wavecom filed a civil proceeding in the Supreme Court of the State of New York (USA) against Siemens AG and two of its U.S. subsidiaries. In August 2009, Sierra Wireless S.A., Wavecom, Inc., Siemens AG, Siemens Corporation, and Siemens Energy and Automation, Inc. reached a mutually agreeable settlement of the lawsuit filed in New York State Court and the case was dismissed in September 2010. The details of the settlement agreement are confidential.

In September 2007, a patent holding company, NTP, Inc., filed a patent litigation lawsuit in the United States District Court for the Eastern District of Virginia asserting patent infringement by a telecommunication carrier, AT&T Mobility LLC. In December 2010, AT&T Mobility LLC made certain allegations concerning the wireless modems sold to them by us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

In November 2007, a patent holding company, Technology Patents LLC, filed a patent litigation lawsuit in the United States District Court for the Southern Division of the District of Maryland asserting patent infringement by companies in the cellular phone industry, including a telecommunication carrier, AT&T Mobility LLC. In August 2010, AT&T Mobility LLC made certain allegations concerning the wireless modems sold to them by us. We are currently assessing our obligations and our liability, if any, in respect of this litigation. Although there can be no assurance that an unfavorable 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 lawsuit.

We are engaged in certain other claims and 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 U.S. GAAP and we make certain 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.

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. 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. Government research and development arrangements are recognized as a reduction of the related expense when the criteria stipulated under the terms of the agreements have been met and when there is reasonable assurance the funding will be received.

- 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 and/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 generated primarily from our acquisitions of Wavecom in February 2009, AirLink in May 2007 and AirPrime in August 2003. Goodwill and intangible assets are assessed for impairment annually, or more often, if an event or circumstance indicates that an impairment loss may have been incurred.

We determined that we had one reporting unit as of December 31, 2010. We assessed the realizability of goodwill during the fourth quarter of 2010 and determined that the fair value exceeded the carrying amount 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 with the carrying amount of the goodwill of the reporting unit was not required. There was no impairment of goodwill during the years ended December 31, 2010 or 2009.

- We recognize and measure each tax position related to income tax positions taken or expected to be taken in a tax return. We have reviewed our tax positions to determine which should be recognized and measured according to the more likely than not threshold requirement. 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 (loss).

- 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 and other long-term liabilities. When the agreements are finalized, the estimate will be revised accordingly.
- If we are engaged in 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.
- We recognize stock-based compensation expense for all stock-based compensation awards based on the fair value at grant date. 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's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Liquidity and Capital Resources

Operating Activities

Cash used by operating activities was \$4.4 million for the year ended December 31, 2010, compared to cash provided by operating activities of \$47.0 million in the same period of 2009. The use of cash in operating activities in 2010 primarily resulted from our net loss of \$14.8 million adjusted for net non-cash items of \$37.8 million as well as changes in other operating assets and liabilities of \$27.4 million.

Investing Activities

Cash used by investing activities was \$17.5 million in 2010, compared to cash provided by investing activities of \$16.1 million in 2009. Cash used by investing activities was primarily for fixed and intangible assets of \$12.6 million and \$4.0 million, respectively, for the year ended December 31, 2010, compared to \$13.3 million and \$6.5 million, respectively, in the same period of 2009. Capital expenditures were primarily for production and tooling equipment, research and development equipment, computer equipment and software, while intangible assets were primarily for patents and software licenses. In 2010, we also purchased Wavecom shares for \$1.6 million, which reduced the non-controlling interest related to shares held by former Wavecom employees.

In 2009, cash provided by investing activities was due primarily to a reduction in restricted cash of \$175.8 million, offset by cash used for the acquisition of OCEANes of \$104.8 million, the acquisition of Wavecom net assets of \$146.7 million, which included cash acquired of \$139.8 million, and the acquisition of the remaining non-controlling interest of \$19.6 million.

In 2010, cash of \$0.5 million was generated from the net proceeds on maturity of short-term investments, compared to a use of cash of \$8.8 million to fund purchases of short-term investments, net of proceeds on maturity of short-term investments in 2009.

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 \$1.5 million in the year ended December 31, 2010, compared to \$9.6 million in the same period of 2009. During 2010, we used cash of \$2.6 million to repay long-term obligations, compared to \$2.2 million in 2009. In 2010, we also received proceeds of \$1.1 million from the exercise of stock options, compared to nil in 2009.

During 2009, we received proceeds from the term loan of \$102.7 million which was used to purchase the Wavecom OCEANEs and subsequently repaid the term loan with cash acquired from the acquisition of Wavecom. In 2009, we also used cash of \$4.0 million for financing costs related to the credit facilities that were set up to finance the Wavecom acquisition, \$6.4 million to fund our restricted share unit program and \$2.2 million to repay long term obligations. During 2009, we received proceeds from the exercise of Wavecom options of \$4.1 million.

As of December 31, 2010, we did not have any off-balance sheet finance or special purpose entities.

Cash Requirements

Our near-term cash requirements are primarily related to funding our operations, capital expenditures, completion of the purchase of the non-controlling interest of Wavecom and other obligations discussed below. We believe our cash, cash equivalents and short-term investments of \$111.8 million and cash generated from operations will be sufficient to fund our expected working capital requirements for at least the next twelve months based on current business plans. Our capital expenditures during the first quarter of 2011 are expected to be primarily for research and development equipment, tooling, leasehold improvements, software licenses and patents. However, we cannot assure you that our actual cash requirements will not be greater than we currently expect.

The following table quantifies our future contractual obligations as of December 31, 2010:

<u>Contractual Obligations</u> <i>(in millions of U.S. dollars)</i>	<u>Payments due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Operating lease obligations.....	\$ 21.3	\$ 6.8	\$ 5.5	\$ 4.2	\$ 4.8
Capital lease obligations	0.6	0.3	0.3	—	—
Purchase obligations ⁽¹⁾	85.5	85.5	—	—	—
Other long-term liabilities ⁽²⁾	24.7	—	13.9	10.8	—
Total.....	<u>\$ 132.1</u>	<u>\$ 92.6</u>	<u>\$ 19.7</u>	<u>\$ 15.0</u>	<u>\$ 4.8</u>

Note

(3) Purchase obligations represent obligations with certain contract manufacturers to buy a minimum amount of designated products between January 2011 and June 2011. In certain of these arrangements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

(4) Other long-term liabilities include the long-term portions of accrued royalties and marketing development funds.

As of December 31, 2010, we had tax obligations for uncertain tax positions of \$8.8 million.

Normal Course Issuer Bid

On May 21, 2008, we received regulatory approval to purchase up to 1,567,378 of our common shares by way of the Bid on the TSX and the Nasdaq, representing approximately 5% of the common shares outstanding as of May 21, 2008. The Bid commenced on May 26, 2008 and terminated on May 25, 2009. As of May 25, 2009, 407,700 common shares had been purchased at open market prices, for an aggregate purchase price of \$5.0 million, and subsequently cancelled. The amount paid to acquire the shares in excess of the average carrying value was charged to retained earnings in 2009.

Sources and Uses of Cash

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

- Net cash and short-term investments amounted to \$111.8 million at December 31, 2010, compared to \$134.4 million at December 31, 2009.
- Accounts receivable amounted to \$117.4 million at December 31, 2010, compared to \$86.5 million at December 31, 2009.
- We have a credit facility with two Canadian chartered banks as described below. At December 31, 2010 and 2009, there were no borrowings under this credit facility.

Credit Facilities

At December 31, 2010, we have a credit agreement with The Toronto-Dominion Bank and Canadian Imperial Bank of Commerce, that provides for a one-year revolving term credit facility (the “Revolving Facility”) expiring January 28, 2011 in an amount not to exceed \$10.0 million. The Revolving Facility is to be used for working capital requirements and is secured by a pledge against all of our assets. At December 31, 2010, there were no borrowings under the Revolving Facility and we were in compliance with the covenants associated with the credit facility.

On January 27, 2011, we signed an amended and restated credit agreement, on similar terms, which extended our Revolving Facility to January 28, 2013.

During the first quarter of 2010, we obtained a letter of credit to ensure our performance to a third party customer in accordance with specified terms and conditions. At December 31, 2010 we had \$0.5 million (2009 – nil) outstanding under the letter of credit, which approximates its fair value. The letter of credit expires in September 2011.

Outstanding Share Data

As of the date of this MD&A, there were stock options exercisable into 2,492,955 common shares and there were 932,124 restricted share units outstanding.

Market Risk Disclosure

We are exposed to currency fluctuations and exchange rate risk on all operations conducted in currencies other than the United States dollar. We cannot accurately predict the future effects of foreign currency fluctuations on our financial condition or results of operations.

The majority of our revenues are denominated in U.S. dollars while a significant amount of our research and development, marketing and administration costs are denominated in currencies other than the U.S. dollar; primarily the Canadian dollar and the Euro. To the extent that exchange rates between the U.S. dollar and the Canadian dollar and Euro fluctuate, we will experience an impact on our earnings.

We monitor our exposure to foreign exchange movements and seek to reduce our exposure in certain circumstances by denominating sales and purchase contracts in U.S. dollars where practical to do so. On occasion, we also use certain derivatives such as foreign currency forward and option contracts to reduce our foreign exchange risk. All derivatives that were outstanding at December 31, 2010 had maturity dates of less than 12 months. We believe that the counterparty risk on the foreign currency financial instruments being used is acceptable because we deal with major banks and financial institutions.

Related Party Transactions

During the year ended December 31, 2010, there were no related party transactions.

Disclosure Controls

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures for the Company. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed with securities regulatory authorities is recorded, processed, summarized and reported within time periods specified in applicable securities regulations, and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

An evaluation was carried out under the supervision of, and with the participation of, our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2010. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2010 to ensure that information required to be disclosed by us in the reports we file or submit under applicable securities laws and regulations is recorded, processed, summarized, and reported within the time periods specified thereby.

We do not expect that our disclosure controls and procedures will prevent all errors and all fraud, if any. Control procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedures are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. We considered these limitations during the development of our disclosure controls and procedures and will periodically re-evaluate them to ensure they provide reasonable assurance that such controls and procedures are effective.

Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the U.S. Securities Exchange Act of 1934 and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting, as of December 31, 2010, based on the framework set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its evaluation under this framework, management concluded that our internal control over financial reporting was effective as of that date.

KPMG LLP ("KPMG"), an independent registered public accounting firm, who audited and reported on our consolidated financial statements as at December 31, 2010 and 2009, has issued an attestation report on

management's assessment of our internal control over financial reporting as of December 31, 2010. The attestation report is included in our consolidated financial statements.

Changes in Internal Control Over Financial Reporting

There have been no changes in Sierra Wireless' internal control over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Quarterly Results of Operations

The following tables set forth certain unaudited consolidated statements of operations data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2010. 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 U.S. dollars except per share amounts and number of shares.

	<u>Quarter Ended</u>				<u>Year</u>
	<u>Mar 31</u>	<u>Jun 30</u>	<u>Sep 30</u>	<u>Dec 31</u>	<u>2010</u>
2010					
Revenue.....	\$151,317	\$159,116	\$172,732	\$167,176	\$650,341
Cost of goods sold.....	<u>104,983</u>	<u>112,906</u>	<u>123,778</u>	<u>118,309</u>	<u>459,976</u>
Gross margin.....	<u>46,334</u>	<u>46,210</u>	<u>48,954</u>	<u>48,867</u>	<u>190,365</u>
Expenses:					
Sales and marketing.....	14,156	13,183	12,137	12,123	51,599
Research and development.....	20,541	21,534	22,178	23,782	88,035
Administration.....	9,584	8,835	8,865	9,073	36,357
Restructuring costs.....	1,611	1,581	4,316	132	7,640
Integration costs.....	1,846	1,631	727	906	5,110
Amortization.....	<u>3,106</u>	<u>2,919</u>	<u>2,939</u>	<u>3,026</u>	<u>11,990</u>
	<u>50,844</u>	<u>49,683</u>	<u>51,162</u>	<u>49,042</u>	<u>200,731</u>
Loss from operations.....	(4,510)	(3,473)	(2,208)	(175)	(10,366)
Foreign exchange gain (loss).....	(3,658)	(5,460)	2,359	(241)	(7,000)
Other income (expense).....	<u>(130)</u>	<u>(103)</u>	<u>12</u>	<u>(20)</u>	<u>(241)</u>
Earnings (loss) before income taxes.....	(8,298)	(9,036)	163	(436)	(17,607)
Income tax recovery.....	<u>(689)</u>	<u>(399)</u>	<u>(499)</u>	<u>(1,221)</u>	<u>(2,808)</u>
Net earnings (loss) before non-controlling interest.....	(7,609)	(8,637)	662	785	(14,799)
Net loss attributable to non-controlling interest.....	<u>(88)</u>	<u>(82)</u>	<u>(48)</u>	<u>(40)</u>	<u>(258)</u>
Net earnings (loss).....	<u>\$ (7,521)</u>	<u>\$ (8,555)</u>	<u>\$ 710</u>	<u>\$ 825</u>	<u>\$ (14,541)</u>
Earnings (loss) per share:					
Basic.....	\$ (0.24)	\$ (0.28)	\$ 0.02	\$ 0.03	\$ (0.47)
Diluted.....	<u>\$ (0.24)</u>	<u>\$ (0.28)</u>	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ (0.47)</u>
Weighted average number of shares (in thousands):					
Basic.....	31,050	31,054	31,077	31,151	31,083
Diluted.....	<u>31,050</u>	<u>31,054</u>	<u>31,208</u>	<u>31,493</u>	<u>31,083</u>

	<u>Quarter Ended</u>				<u>Year</u>
	<u>Mar 31</u>	<u>Jun 30</u>	<u>Sep 30</u>	<u>Dec 31</u>	<u>2009</u>
2009					
Revenue.....	\$111,407	\$135,348	\$135,677	\$143,952	\$526,384
Cost of goods sold.....	<u>79,886</u>	<u>86,895</u>	<u>87,088</u>	<u>95,223</u>	<u>349,092</u>
Gross margin.....	<u>31,521</u>	<u>48,453</u>	<u>48,589</u>	<u>48,729</u>	<u>177,292</u>
Expenses:					
Sales and marketing.....	9,362	15,590	14,692	15,191	54,835
Research and development.....	14,964	22,672	22,546	19,884	80,066
Administration.....	6,547	10,792	9,589	9,625	36,553
Acquisition costs.....	6,522	804	364	95	7,785
Restructuring costs.....	1,726	8,869	5,332	4,678	20,605
Integration costs.....	254	936	1,332	1,337	3,859
Amortization.....	<u>2,420</u>	<u>5,001</u>	<u>4,889</u>	<u>(997)</u>	<u>11,313</u>
	<u>41,795</u>	<u>64,664</u>	<u>58,744</u>	<u>49,813</u>	<u>215,016</u>
Loss from operations.....	(10,274)	(16,211)	(10,155)	(1,084)	(37,724)
Foreign exchange gain (loss).....	(9,923)	10,957	1,981	(1,754)	1,261
Other expense.....	<u>(4,022)</u>	<u>(10)</u>	<u>(88)</u>	<u>(279)</u>	<u>(4,399)</u>
Loss before income taxes.....	(24,219)	(5,264)	(8,262)	(3,117)	(40,862)
Income tax expense (recovery).....	<u>(267)</u>	<u>1,229</u>	<u>(634)</u>	<u>12</u>	<u>340</u>
Net loss before non-controlling interest.....	(23,952)	(6,493)	(7,628)	(3,129)	(41,202)
Net loss attributable to non-controlling interest.....	<u>(287)</u>	<u>(622)</u>	<u>—</u>	<u>(394)</u>	<u>(1,303)</u>
Net loss.....	<u>\$ (23,665)</u>	<u>\$ (5,871)</u>	<u>\$ (7,628)</u>	<u>\$ (2,735)</u>	<u>\$ (39,899)</u>
Loss per share:					
Basic.....	\$ (0.76)	\$ (0.19)	\$ (0.25)	\$ (0.09)	\$ (1.29)
Diluted.....	<u>\$ (0.76)</u>	<u>\$ (0.19)</u>	<u>\$ (0.25)</u>	<u>\$ (0.09)</u>	<u>\$ (1.29)</u>
Weighted average number of shares (in thousands):					
Basic.....	31,032	31,032	31,032	31,042	31,035
Diluted.....	<u>31,032</u>	<u>31,032</u>	<u>31,032</u>	<u>31,042</u>	<u>31,035</u>

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

- The decrease in our net loss in the second quarter of 2009 compared to the first quarter of 2009 was a result of an increase in gross margin that resulted from product cost reductions and the addition of higher margin products from the acquisition of Wavecom, as well as a decrease in acquisition and financing costs and a foreign exchange gain. These decreases to our net loss were partially offset by an increase in operating expenses due to the acquisition of Wavecom, restructuring costs and income tax expense.
- In the third quarter of 2009, our loss from operations decreased to \$10.2 million from \$16.2 million in the second quarter of 2009, primarily as a result of a decrease in restructuring and acquisitions costs. Our operating expenses also decreased due partly to the impact of the restructurings that occurred in May 2009. Our net loss increased to \$7.6 million in the third quarter of 2009, compared to a net loss of \$5.9 million in the second quarter of 2009 as a result of a decrease in foreign exchange gain, partially offset by a decrease in income tax expense.
- In the fourth quarter of 2009, our loss from operations and net loss decreased to \$1.1 million and \$2.7 million, respectively, compared to \$10.2 million and \$7.6 million, respectively, in the third quarter of 2009, primarily as a result of the reversal of purchase price amortization. During the fourth quarter we received a

third party valuation report and revised our estimates of the fair value of the identifiable assets acquired and liabilities assumed which resulted in the adjustment of our purchase price amortization of intangible assets.

- In the first quarter of 2010, our loss from operations and net loss increased to \$4.5 million and \$7.5 million, respectively, compared to \$1.1 million and \$2.7 million, respectively, in the fourth quarter of 2009 primarily as a result of the increase in amortization expense. In the fourth quarter of 2009, a reversal of purchase price amortization was recorded to reflect the amounts in the third party valuation report and no such reversal occurred in the first quarter of 2010.
- In the second quarter of 2010, our loss from operations and net loss amounted to \$3.5 million and \$8.6 million, respectively, compared to \$4.5 million and \$7.5 million, respectively, in the first quarter of 2010. Our loss from operations decreased primarily due to operating cost reductions related to the integration of Wavecom and Sierra Wireless.
- In the third quarter of 2010, our loss from operations amounted to \$2.2 million, compared to \$3.5 million in the second quarter of 2010. Our loss from operations decreased primarily due to cost reductions and an increase in revenue. In the third quarter of 2010 we had net earnings of \$0.7 million compared to a net loss of \$8.6 million in the second quarter of 2010. Our net earnings increased primarily due to the decrease in the loss from operations and a foreign exchange gain of \$2.4 million in the third quarter of 2010, compared to a foreign exchange loss of \$5.5 million in the second quarter of 2010.
- In the fourth quarter of 2010, our loss from operations amounted to \$0.2 million, compared to \$2.2 million in the third quarter of 2010. Our loss from operations decreased primarily due to a reduction in restructuring costs. In the fourth quarter of 2010, net earnings were \$0.8 million, compared to net earnings of \$0.7 million in the third quarter of 2010. Net earnings in the fourth quarter of 2010 resulted primarily due to the decrease in loss from operations, a foreign exchange loss of \$0.2 million and an income tax recovery of \$1.2 million, compared to a foreign exchange gain of \$2.4 million and an income tax recovery of \$0.5 million in the third quarter of 2010.

Cautionary Note Regarding Forward-looking Statements

Certain statements and information in this report are not based on historical facts and constitute forward-looking statements or forward-looking information within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities laws (“forward-looking statements”) including our outlook for the short and longer term and our strategy, plans and future operating performance. Forward-looking statements are provided to help you understand our views of our short and longer term prospects. We caution you that forward-looking statements may not be appropriate for other purposes. We will not update or revise our forward-looking statements unless we are required to do so by securities laws.

Forward-looking statements:

- Typically include words and phrases about the future such as “outlook”, “may”, “estimates”, “intends”, “believes”, “plans”, “anticipates” and “expects”;
- Are not promises or guarantees of future performance. They represent our current views and may change significantly;
- Are based on a number of material assumptions, including those listed below, which could prove to be significantly incorrect:
 - Our ability to develop, manufacture and sell new products and services that meet the needs of our customers and gain commercial acceptance;
 - Our ability to continue to sell our products and services in the expected quantities at the expected prices and expected times;
 - Expected transition period to our 4G products;
 - Expected cost of goods sold;
 - Expected component supply constraints;

- Our ability to “win” new business;
 - That wireless network operators will deploy next generation networks when expected;
 - Our operations are not adversely disrupted by component shortages or other development, operating or regulatory risks;
 - Expected tax rates and foreign exchange rates.
- Are subject to substantial known and unknown material risks and uncertainties. As a result, our actual results, achievements and developments in our business may differ significantly from our current expectations. These risk factors and others are discussed below under “Risk Factors” and in our other regulatory filings with the SEC in the United States and the provincial securities commissions in Canada. Certain of these material risks are listed below:
 - Actual sales volumes or prices for our products and services are lower than we expect for any reason including, without limitation, the continuing uncertain economic conditions, price and product competition, different product mix, the loss of any of our significant customers, competition from new or established wireless communication companies.
 - The cost of products sold are higher than planned or necessary component supplies are not available, are delayed or are not available on commercially reasonable terms.
 - We are unable to enforce our intellectual property rights or are subject to litigation that has an adverse outcome.
 - The development and timing of the introduction of our new products is later than we expect or is indefinitely delayed.
 - Transition periods associated with the migration to new technologies are longer than we expect.

Risk Factors

Our business is subject to significant risks and uncertainties and past performance is no guarantee of future performance. The risks and uncertainties described below are those which we currently believe to be material, and do not represent all of the risks that we face. Other risks and uncertainties may become material in the future or ones we currently believe to be immaterial may become material in the future. If any of the following risks actually occurs, our business, financial condition and results of operations, as well as the market price of our common shares, could be materially adversely affected.

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:

- Design win cycles in our embedded module business;
- Price and product competition, which may result in lower selling prices for some of our products or lost market share;
- Price and demand pressure on our products from our customers as they experience pressure in their businesses;
- Concentration in our customer base;
- Seasonality in demand;
- 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 or shortages in component supplies;
- The ability to accurately forecast demand in order to properly align the purchase of components and the appropriate level of manufacturing capability;
- Potential commoditization and saturation in certain markets;

- 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 and the timing of sales orders and OEM and carrier customer sell through;
- The amount of inventory held by our channel partners;
- Possible cyclical fluctuations related to the evolution of wireless technologies;
- Possible delays in the manufacture or shipment of current or new products;
- Possible product quality or factory yield issues that may increase our cost of goods sold;
- Possible increased inventory levels;
- Possible fluctuations in certain foreign currencies relative to the U.S. dollar; and
- The achievement of milestones related to our professional services contracts.

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.

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 common shares. In addition, the global 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.

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/or loss of business with resulting reduced revenues and gross margins.

The wireless communications industry is highly competitive and we have experienced and expect to continue to experience intensified competition. More established and larger companies with different business models, strong brands and greater financial, technical and marketing resources sell products that compete with ours and we expect this competition to intensify. Business combinations by our competitors or the network carriers could weaken our competitive position. 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, more desired or better quality features 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.

Continued difficult or uncertain economic conditions could adversely affect our revenue and profitability.

A significant portion of our business is in the United States, Europe and the Asia-Pacific region and we are particularly exposed to the downturns and current uncertainties in those economies. The market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. To the extent that we experience further global economic deterioration, or deterioration in one of our large markets in the United States, Europe or the Asia-Pacific region, the resulting economic pressure on our customers may cause them to end their relationship with us, reduce or postpone current or expected purchase orders for our products, or suffer from business failure, resulting in a decline in our revenues and profitability that could be material.

It is difficult to estimate or project the level of economic activity, including economic growth, in the markets we serve. As our budgeting and forecasting is based on the demand for our products and services, these economic uncertainties result in it being difficult for us to estimate future revenue and expenses.

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

We sell our products through network carriers, resellers and OEMs and we are dependent on a limited number of customers for a significant portion of our revenue. Most of these network carriers, resellers and OEMs also sell products of our competitors. Accordingly, our business and future success depends on our ability to maintain and build on existing relationships and develop new relationships with network carriers, resellers and OEMs. If any of our significant 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. We expect that a limited number of significant customers will account for a significant portion of our revenues for the foreseeable future. In the year ended December 31, 2010, two customers individually accounted for more than 10% of our revenue, and in the aggregate, these two customers represented approximately 26% of our revenue.

In addition, our current customers purchase our products under 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.

We may infringe on the intellectual property rights of others.

Our business success depends on us not infringing on the intellectual property rights owned by 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 assertions or claims from third parties alleging that our products violate or infringe their intellectual property rights. We may be subject to these claims directly or through indemnities against these claims which we have provided to certain customers and other third parties. Our component suppliers and technology licensors do not typically indemnify us against these claims and therefore we do not have recourse against them in the event a claim is asserted against us or a customer we have indemnified. Activity in this area by third parties, particularly those with tenuous claims, is increasing, resulting in us taking a more aggressive defensive approach, which may result in increased litigation. In the last few years, patent claims have been brought against us by third parties whose primary (or sole) business purpose is to acquire patents and other intellectual property rights, and not to manufacture and sell products and services. These entities aggressively pursue patent litigation, resulting in increased litigation costs for us. We expect that this recent development will continue for the foreseeable future. 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 our intellectual property and may be required to cease selling our products that are subject to the claim;
- We may have to license 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 addition to being liable for substantial damages in the event of an unfavorable outcome in such a claim and our inability to either obtain a license from the third party on commercial terms or develop a non-infringing alternative, our business, operating results and financial condition may be materially adversely affected and we may have to cease the sale of certain products and restructure our business.

We license technology, intellectual property and software from third parties for use in our products and from time to time may be required to license additional intellectual property. In some cases, these 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.

We depend on single source suppliers for some components used in our products and if these suppliers are unable to meet our demand the availability of our products may be materially adversely affected.

Our products are comprised of components some of which are procured from single source suppliers, including where we have licensed certain software embedded in a component. From time to time, certain components used in our products have been, and may continue to be in short supply worldwide and shortages in allocation of components may result in a delay in filling orders from our customers, which may adversely affect our business. In addition, our single source suppliers may experience damage or interruption in their operations, become insolvent or bankrupt, or experience claims of infringement, all of which could delay or stop their shipment of components to us, which may adversely affect our business, operating results and financial condition. Alternate sources of components may not be available. If there is a shortage of any such components and we cannot obtain an appropriate substitute, we may not be able to deliver sufficient quantities of our products, we may lose business or customers and our operating results and financial condition may be materially adversely affected.

We depend on a limited number of third parties to purchase certain components and manufacture our products. 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 purchase of certain components and the manufacturing 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 at a reasonable cost. We currently rely on two manufacturers, either of whom may terminate the manufacturing contract with us at the end of any contract year. Our reliance on third party manufacturers subjects us to a number of risks, including the following:

- The absence of guaranteed or adequate manufacturing capacity;
- Reduced control over delivery schedules, production levels, manufacturing yields, costs and product quality;
- Potential business interruption;
- Their inability to secure adequate volumes of components in a timely manner at a reasonable cost; and
- Unexpected increases in manufacturing costs.

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.

Under our manufacturing agreements, in many cases we are required to place binding purchase orders with our manufacturers well in advance of our receipt of binding purchase orders from our customers. In this situation, we consider our customers' good faith, non-binding forecasts of demand for our products. As a result, if the number of actual products ordered by our customers is materially different from the number of products we have instructed our manufacturer to build (and purchase components in respect of), then, if too many components have been purchased by our manufacturer, we may be required to purchase such excess component inventory, or, if an insufficient number of components have been purchased by our manufacturer, we may not be in a position to meet all of our customers' requirements. If we are unable to successfully manage our inventory levels and respond to our customers' purchase orders based on their forecasted quantities, our business, operating results and financial condition could be adversely affected.

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 revenue 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, preferences 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 design and manufacture products at an acceptable cost 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.

We develop products to meet our customers' requirements. Original equipment manufacturer customers award design wins for the integration of wide area wireless embedded modules on a platform by platform basis. 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.

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.

Fluctuations in exchange rates between the U.S. dollar and other currencies, including the Canadian dollar, Euro and Australian dollar may affect our operating results.

We are exposed to fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar through our operations in Canada, the Euro primarily through our operations in Europe and the Australian dollar through sales to certain customers. To reduce our risk related to currency fluctuations, we purchase inventory, other cost of sales items and many of our services in U.S. dollars, where practical. However, some of our operating costs are still incurred in non-U.S. dollar currencies, primarily those relating to marketing, administration and a portion of our research and development. To the extent that there are fluctuations in the U.S. dollar relative to other currencies, our operating results may be negatively impacted.

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

We intend to continue to grow our international business. 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 international laws and enforcement relating to the protection of intellectual property;
- Language and cultural differences;
- Potential adverse tax consequences;
- Difficulty in managing a worldwide workforce in compliance with local laws, that vary from country to country; and
- Consumer protection laws that impose additional requirements on us or restrict our ability to provide limited warranty protection.

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 an employment agreement for any specific term. Our success depends in large part on the abilities and experience of our executive officers and other key employees. Competition for highly skilled management, technical, research and development and other key employees is intense in the wireless communications industry. We may not be able to retain our current executive officers or key employees and may not be able to hire and transition in a timely manner experienced and highly qualified additional executive officers and key employees as needed to achieve our business objectives. The loss of executive officers and key employees could disrupt our operations and our ability to compete effectively could be adversely affected.

We rely on certain internal processes, networks and systems to efficiently operate and report on our business.

Failure of these internal processes, networks or systems could negatively impact our ability to operate or accurately report on our business.

Acquisitions of companies or technologies, including our acquisition of Wavecom, 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 February 27, 2009, we completed our acquisition of Wavecom. 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;
- Possible use of cash to support the operations of an acquired business;
- Possible increase in foreign exchange translation risk depending on the denomination of the revenue and expenses of the acquired business;
- Disruption of our ongoing business;

- Diversion of management's time and attention away from our existing 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;
- As a result of the growth of our company, 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. As a result, our share price may decline; 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.

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, France or other 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 have been 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, in the future, we may 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 operating results, liquidity or financial 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 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 or expansion 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.

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, the Asia-Pacific region and other regions in which we operate. For example, 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 in which we may desire to sell products in the future.

**CONSENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

The Board of Directors
Sierra Wireless, Inc.

We consent to the inclusion in this annual report on Form 40-F of:

- Our Report of Independent Registered Public Accounting Firm dated March 18, 2011 on the consolidated balance sheets of Sierra Wireless, Inc. ("the Company") as at December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010
- our Report of Independent Registered Public Accounting Firm dated March 18, 2011 on the Company's internal control over financial reporting as of December 31, 2010

each of which is contained in this annual report on Form 40-F of the Company for the year ended December 31, 2010. We also consent to the incorporation by reference of each of the above reports into the Company's Registration Statement on Form S-8, File No. 333-147872.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada
March 18, 2011

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Jason W. Cohenour, certify that:

1. I have reviewed this annual report on Form 40-F of Sierra Wireless, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 18, 2011

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

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, David G. McLennan, certify that:

1. I have reviewed this annual report on Form 40-F of Sierra Wireless, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 18, 2011

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

**CERTIFICATE OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Sierra Wireless, Inc. (the "Corporation") on Form 40-F for the fiscal year ending December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jason W. Cohenour, Chief Executive Officer of the Corporation, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated at Richmond, British Columbia, Canada this March 18, 2011.

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

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**CERTIFICATE OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Sierra Wireless, Inc. (the “Corporation”) on Form 40-F for the fiscal year ending December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David G. McLennan, Chief Financial Officer of the Corporation, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated at Richmond, British Columbia, Canada this March 18, 2011.

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

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.