



AASTRA TECHNOLOGIES LIMITED ANNUAL REPORT 2005

YOUR CONNECTION TO THE WORLD



CONNECTING THE WORLD

Aastra Technologies Limited is a global company at the forefront of the Enterprise Communication market. Aastra's wide range of innovative, integrated solutions address the needs of customers small and large, from the single-line business to the complex demands of the largest enterprises with multiple networked locations.

Aastra is focused on meeting our customers' communication technology needs while exceeding their expectations for value and performance. We are committed to supporting our client base and the evolution of their systems and networks through the development and implementation of open standard VoIP products and systems, mobility solutions, and advanced applications.

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THE COMPANY

Aastra develops, markets, and supports a comprehensive portfolio of products, systems, and applications for building and accessing communication networks. Aastra's products include a full range of both open standard Internet Protocol (IP)-based and traditional networking solutions including communications servers, gateways, telephone terminals, VoIP endpoints, wireless products, and advanced software applications. We serve both the business and residential markets. The company also manufactures and sells high-end network access servers and broadcast quality digital video networking and distribution gateways.

Aastra is well positioned to reach and serve its global market. The company markets its communications solutions and services around the world through direct and indirect sales channels, telecom equipment distributors, dealers, value added resellers, and major telephone companies in North America, EMEA, CALA, and the ASIAPAC region.

PRODUCT, APPLICATION AND SERVICE SOLUTIONS

Enterprise Communication Solutions

- Analog, digital, and system telephones
- Enterprise VoIP telephones
- Wireless products—DECT, WiFi, WDCT
- PBX and IP-PBX systems
- Open Standard Interface adapters and gateways
- Communication network platforms and applications

Applications

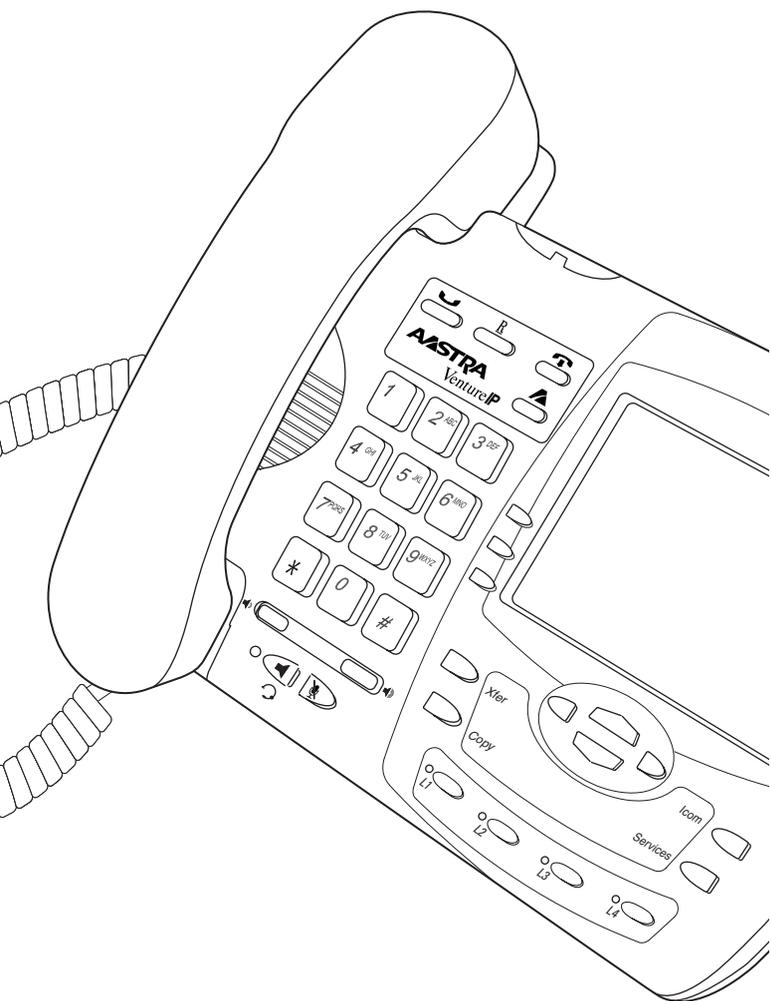
- Contact Center solutions and applications
- Unified messaging systems
- Integrated conferencing platforms
- Corporate networking solutions
- System administration tools

Network Access Equipment

- Encoders, decoders and multiplexers for video distribution over digital networks and broadcast media
- High-performance carrier class remote access servers

Global Support Services

- Customer service, support, and training
- Business consulting, network design and implementation
- Maintenance services



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HIGHLIGHTS 2005

AASTRA IN 2005

It was an exceptional year for our company. We experienced significant growth, more than doubling our sales revenues year-over-year. Net income grew by 9%, and our balance sheet remained strong. We brought to market several new products and system releases, launched a number of innovative applications, and introduced a hosted contact center solution that is at the forefront of the industry. We concluded two acquisitions, and worked on integrating these businesses into our operations while continuing to expand and strengthen our position as a major player within the global enterprise communications market.

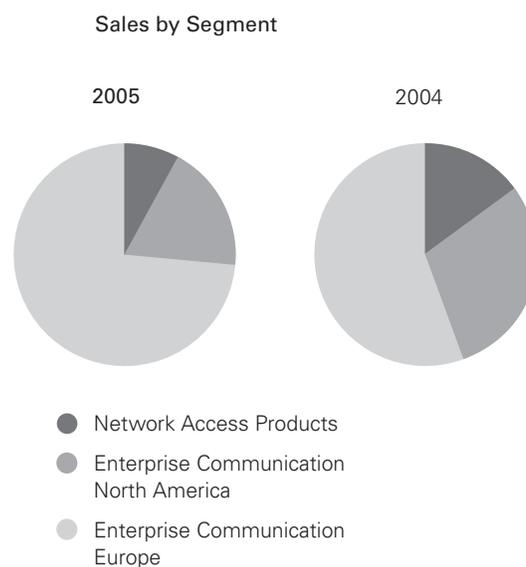
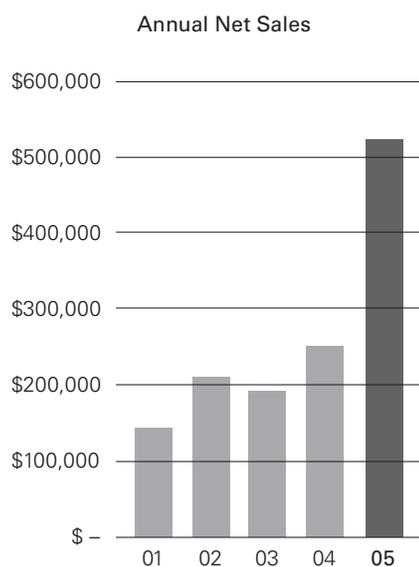
GROWING OUR GLOBAL SUCCESS – 2005 ACHIEVEMENTS

- Generated record revenues of \$522.6 million – a growth of 104%, closing the year with 31 consecutive quarters of profitability
- Increased our global presence and scope with two acquisitions:
 - EADS Telephony Business – February 28, 2005
 - DeTeWe Telecom Systems Business – July 31, 2005
- Launched several exciting new terminal products across all of our lines of business, including:
 - VoIP endpoints
 - WiFi, DECT, and WDCT mobility products
 - Audio Conference Bridge for VoIP and conventional PBX platforms
 - VentureIP, a peer-to-peer IP-based telephone system aimed at the SMB market
- Introduced new software releases for our Ascotel IntelliGate®, NeXspan®, Pointspan®, and OpenCom® PBX and IP-PBX platforms
- Entered the rapidly growing hosted contact center market with the launch of our Centergy® Virtual Contact Center solution
- Continued to expand our VideoRunner® Digital Video product line with the introduction of an HD encoder and a high efficiency SD encoder for the MPEG-2 marketplace

FINANCIAL HIGHLIGHTS

(In thousands of dollars— except percentage and per share amounts)

	2005	2004	2003	2002	2001
FINANCIAL PERFORMANCE					
Net Sales	\$ 522,561	256,119	191,662	212,672	144,886
Gross Margin	42.8%	48.9%	44.9%	42.9%	35.3%
Operating Income	\$ 31,732	25,009	20,684	39,615	26,405
Investment Income	\$ 1,145	2,364	3,560	2,316	1,588
Net Income	\$ 26,315	24,198	20,956	29,184	18,623
Basic Earnings Per Share	\$ 1.52	1.42	1.24	1.94	1.30
Diluted Earnings Per Share	\$ 1.46	1.38	1.20	1.87	1.27
FINANCIAL POSITION					
Net Working Capital	\$ 158,700	177,320	140,193	122,465	53,827
Total Assets	\$ 470,017	282,457	272,869	220,817	144,459
Shareholders' Equity	\$ 224,277	219,945	194,681	171,084	101,551
Book Value Per Share	\$ 14.23	12.75	11.43	10.13	6.98
Debt to Equity Ratio	1.1 to 1	0.3 to 1	0.4 to 1	0.3 to 1	0.4 to 1
Common Shares Outstanding	17,474	17,207	17,032	16,881	14,557



MESSAGE TO SHAREHOLDERS

Fiscal 2005 was another dynamic year of change and growth for our company. Our revenue more than doubled over the previous year, which itself was a record year for revenue. We clearly intensified our focus and strengthened our market position through the completion of two significant acquisitions of Enterprise Communication businesses in Western Europe.

We are pleased to report that our revenues for 2005 increased by \$266.5 million to a record level of \$522.6 million. This represents an increase of approximately 104% compared to 2004. Net earnings increased to \$26.3 million, as compared to \$24.2 million in 2004. Our fully diluted earnings per share increased to \$1.46 in 2005 from \$1.38 in 2004, and our return on equity was relatively stable at approximately 12% and 11% for 2005 and 2004, respectively.

While our earnings and return on equity metrics only indicate stable to modest improvements in 2005, we believe our revenue growth is a more accurate indication of the substantial strides that we made in 2005. We have more than doubled our revenue base and believe this significant revenue growth provides a foundation for appreciable earnings growth in the coming years.

Our acquisitions of the EADS Telephony Business in February 2005 and the DeTeWe Telecom Systems Business in July 2005 have allowed us to establish meaningful market positions in France and Germany – two of the largest economies in Western Europe. In addition, these two acquisitions contributed significantly to our product offerings in the Enterprise Communications market. The EADS acquisition improved our technology platform and added an installed customer base for networking large enterprises in Western Europe, while also adding complementary call center technologies in the United States. The DeTeWe acquisition added leading-edge wireless technology to our product offering. With these additions, we now have a comprehensive product offering for the voice segment of the Enterprise Communications market.

Fiscal 2005 was also the first full year of operating our Ascotel product division – which was acquired from Ascom in the fall of 2003 – under our restructured business model. This division demonstrated strong momentum, with sales growth of 8%, and contributed substantially to our overall profitability. However, removing the effect of foreign exchange factors by using local currencies in order to meaningfully measure operational performance on a yearly basis, growth in our Ascotel product division would have been 15%. The success of this group validates our restructuring model and clearly demonstrates the strength of the Ascotel product line, and more importantly, the capabilities of our Ascotel team.

One of the biggest impacts on our financial results in 2005 was the relatively strong currency appreciation of the Canadian dollar

against the Euro, Swiss franc, and US dollar, the currencies in which we transact most of our operations. We adopted the approach of keeping our non-operating cash requirements (i.e. excess cash) in Canadian dollars, as this is the currency in which we report our consolidated financial results. This approach had a short-term adverse impact on our earnings but we believe that it will minimize the long-term negative effect of further adverse currency fluctuations on the cumulative foreign currency translation adjustment account of our balance sheet. Of the \$102.0 million in cash, cash equivalents and short-term investments we held at end of 2005, approximately \$55.5 million was denominated in Canadian dollars, with the balance denominated in local currencies for our operational working capital requirements. Going forward, we will continue to review our excess foreign currency cash positions and assess the benefits of repatriating these into Canadian denominated funds and short-term investments.

Over the past three years, we acquired three major PBX suppliers in Western Europe: Ascotel, EADS, and DeTeWe. We have consolidated these operations so as to strengthen and focus our position in the Western European market for Enterprise Communication. Our consolidation was driven by globalization and the emergence of Voice over IP (VoIP). As we continue to integrate these acquired businesses, we are pleased to discover highly complementary operations and skill sets. From a marketing perspective, each has a clear strength in certain countries, and there have been minimal channel conflicts in selecting our product focus for each market. In R&D, there are clear centers of excellence, and we have directed each center to focus on what they do best while collaborating with the other groups to leverage technologies and know-how.

We are pleased that each technology center is gaining confidence about their position within the overall Aastra development team. We encourage open dialogue and extensive communication among the groups, so that we can offer coherent and comprehensive solutions to our customers for the particular needs of their market. We believe that establishing an efficient and effective internal communication strategy sets the foundation for our growth into a much larger corporation and our emergence as a strong global technology player.

Six years ago, we critically analyzed what would be an appropriate level of investment by us in VoIP. At that time, we only manufactured traditional telephones (i.e. digital and analog terminals). It was also

during that time we determined that VoIP terminals were about five times more expensive to produce than our traditional terminals, had inferior voice quality in comparison, and only offered a fraction of their functionality. Furthermore, the infrastructure to support VoIP systems at the enterprise level was at its infancy, and any developer of a VoIP terminal would have to contend with numerous chipset suppliers and varied VoIP standards.

Rather than just focusing on the development of VoIP terminals during this period, we expanded our business by acquiring meaningful positions in the Western European market for Enterprise Communications through our Ascotel, EADS, and DeTeWe acquisitions. As a result of these investments, we now have the size, scope and customer relationships that we need to meaningfully compete in the VoIP market, both at the VoIP terminal level as well as offering complete VoIP solutions to our customers.

Today, the cost to manufacture a VoIP terminal has decreased to less than twice the manufacturing cost of a digital terminal. Moreover, the voice quality of VoIP has improved significantly, and its functionalities are comparable with traditional PBXs. In conjunction with our acquisition strategy, we started our VoIP terminal development just over two years ago with the anticipation that cost, functionality, and infrastructure would soon be in a position to unleash demand for VoIP terminals in the market. We anticipate that, within the next three years, VoIP to the desktop will clearly accelerate. With our acquisitions, we now invest approximately \$60.0 million annually in R&D, and we expect that we will lead the VoIP transition as it accelerates. Our technology approach covers the use of open standards and open source technologies, and we will be encouraging third-party application enhancements. We expect to deliver complete voice solutions for both small and large enterprises. Our technology and product development will focus on various corded IP terminals; wireless WiFi and IP-DECT terminals; call center applications; and certain vertical industry applications. In addition, we anticipate on becoming leading participants in new areas, such as the use of open source applications and hosted solutions.

Overall, we are pleased with our performance in 2005, and, in particular, the performance of our Ascotel and digital video groups, both of which contributed at record levels. The restructurings of Aastra Matra and Aastra Intecom – the businesses acquired from EADS in

France and the U.S., respectively – have been substantially completed, and are now well positioned to contribute positively to Aastra as a whole. Given DeTeWe's operating losses in 2005, we have replaced the former management of DeTeWe with our team in order to effectively restructure its operations. We have presented our DeTeWe restructuring plan for 2006 to our workers' council and believe that, if implemented, our DeTeWe group will be better positioned to make positive contributions by the end of 2006.

While our IP terminal sales in North America have not yet achieved as much traction as we had anticipated, we believe that VoIP adoption is poised to accelerate and we are well positioned to take advantage of the market opportunities when it does. In support of this, one of our focuses this year is to greatly enhance our sales and marketing efforts for the North American market.

LOOKING FORWARD

The next three years will be exciting times for Aastra as we position ourselves for the accelerated transition to VoIP at the desktop. We believe that a certain amount of consolidation will continue in our industry, driven by the goal of delivering increasingly integrated solutions more efficiently. We are cautiously optimistic that our restructuring efforts will be mostly behind us by mid-year 2006, so that we can move forward with all parts of our organization delivering both financially and strategically. We have a strong foundation of leadership in technology and a seasoned team of more than 1,700 people. Our challenge is to grow and meaningfully compete in our industry; our focus is on functioning as a team and capitalizing on the new synergies that exist within a very much larger Aastra.



Francis Shen
Chairman & Co-CEO



Anthony Shen
Co-CEO
President & COO

March 20, 2006

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

The following discussion has been prepared by management and is a review of the consolidated operating results and financial position of Aastra Technologies Limited ("Aastra" or the "Company") based upon accounting principles generally accepted in Canada. This discussion and analysis should be read in conjunction with the consolidated financial statements of the Company, as well as the notes thereto, for the respective years. The Company maintains appropriate systems of internal control, policies, and procedures that provide management reasonable assurance that assets are safeguarded and that its financial information is reliable. All amounts are expressed in Canadian dollars unless otherwise stated. This disclosure is effective as of March 13, 2006.

This management discussion and analysis contains forward-looking statements that involve risks and uncertainties. Forward-looking statements include statements of plans, objectives, and expectations, and are intended to be identified by the use of words such as "anticipate," "believe," "estimate," "expect," and other similar expressions. The Company wishes to caution readers not to place undue reliance on such forward-looking statements, as actual results could differ materially from those anticipated. All forward-looking statements reflect management's current views with respect to future events, and are subject to certain risks and uncertainties and assumptions that have been made.

Aastra Technologies Limited develops markets, and supports a comprehensive portfolio of products, systems, and applications for building and accessing communication networks. Aastra's products include a full range of both open standard Internet Protocol (IP)-based and traditional networking solutions including communications servers, gateways, telephone terminals, VoIP endpoints, wireless products, and advanced software applications. We serve both the business and residential markets. The Company also manufactures and sells high-end network access servers and broadcast quality digital video networking and distribution gateways. The Company serves the majority of telephone companies and certain cable operators and broadcasters, and operates primarily in North America and Europe.

FISCAL 2005 FINANCIAL HIGHLIGHTS

Achieved record sales of \$522.6 million

Grew net income by 9% to \$26.3 million

Generated \$80.0 million of cash flow from operations

Closed the year with 31 consecutive quarters of profitability

Invested \$97.6 million in completing two acquisitions

Closed the year with \$102.0 million in cash and short term investments

OVERVIEW

Aastra's results for 2005 should be reviewed after considering the effect of three significant changes from 2004. First, Aastra acquired the EADS Telephony Business on February 28, 2005, which is comprised of businesses focusing on Enterprise Communication in Europe and the U.S. The European business is centered in France, and has operations in Belgium, Italy, Denmark, Spain, and Germany, where the NeXspan product line of PBX and IP-PBX telephone systems are sold. The U.S. business is focused on contact center solutions for medium and large enterprises through the sale of the Pointspan PBX and Centergy call center products. The EADS Telephony Business has been added to Aastra's European and North American Enterprise Communication segments for the ten months ended December 31, 2005.

Second, Aastra acquired the DeTeWe Telecom Systems Business on July 31, 2005. This business is focused in Germany with operations in Switzerland and primarily sells the OpenCom line of IP-PBX and PBX telephone systems. This line has a special focus on wireless solutions for the enterprise market. The operating results for the DeTeWe Telecom Systems Business have been included in the European Enterprise Communication segment for the five months ended December 31, 2005.

Third, during 2005 the rapid strengthening of the Canadian dollar against the Euro and the Swiss franc, and to a lesser extent the U.S. dollar, has had a significant negative effect on the results of the Company. The reporting currency of Aastra remains Canadian dollars and average exchange rates between Canadian dollars and the currencies previously mentioned were markedly lower in 2005 than in 2004. As a result, the strong results of the Company's European operations are masked by the increase in the value of the Canadian dollar during the year.

Selected Annual Information

(\$000's – except percentages and per share amounts)

	2005		2004		2003	
Sales	\$ 522,561	100.0%	\$ 256,119	100.0%	\$ 191,662	100.0%
Cost of goods sold	298,734	57.2%	130,894	51.1%	105,670	55.1%
Gross Margin	223,827	42.8%	125,225	48.9%	85,992	44.9%
Expenses (Income):						
Selling, general & administrative	119,390	22.8%	66,526	26.0%	34,231	17.9%
Research & development	50,931	9.7%	23,599	9.2%	20,599	10.7%
Amortization	17,496	3.4%	11,320	4.4%	9,551	5.0%
Foreign exchange loss (gain)	4,278	0.8%	(1,229)	(0.5%)	928	0.6%
Investment income	(1,145)	(0.2%)	(2,364)	(0.9%)	(3,560)	(1.9%)
Earnings before income taxes	32,877	6.3%	27,373	10.7%	24,243	12.6%
Income tax expense	6,562	1.3%	3,175	1.2%	3,287	1.7%
Net earnings	\$ 26,315	5.0%	\$ 24,198	9.5%	\$ 20,956	10.9%
Basic earnings per share	\$ 1.52		\$ 1.42		\$ 1.24	
Diluted earnings per share	\$ 1.46		\$ 1.38		\$ 1.20	
Total assets	\$ 470,017		\$ 282,457		\$ 272,247	
Total long-term liabilities	\$ 57,622		\$ 7,106		\$ 6,240	

SEGMENTS

The Company operates in two product focused segments: Network Access and Enterprise Communication. The operating segments have been reviewed during 2005 in the context of the acquisitions. The results of operations of the EADS Telephony Business and the DeTeWe Telecom Systems Business are part of the Company's Enterprise Communication segment. This product segment has been further broken down geographically between Europe and North America to reflect how management reviews the operations of the Company.

Aastra's reportable segments are strategic business units, which offer different products and services, and differ in technology and product risks. The Network Access Products segment develops and markets high quality network access products for broadcast, cable, and telecommunication markets; this segment includes the digital video and CVX remote server product lines. Key performance drivers of the Network Access Products segment include the ability to further develop the digital video technology and to serve our existing CVX customers in a timely and reliable manner.

The Enterprise Communication segment develops and markets a full line of enterprise or business telephony solutions, including IP-PBX and PBX telephone systems, analog, digital, and VoIP telephone terminals, as well as contact center software solutions. Key performance drivers of the Enterprise Communication segment include strengthening relationships with our distribution partners while remaining current on technology changes in our market, including VoIP and cordless technologies.

SALES

Sales by Segment

(\$000's – except percentages)

	2005		2004		Variance
European Enterprise Communication	\$ 384,619	73.6%	\$ 151,601	59.2%	\$ 233,018
North American Enterprise Communication	104,832	20.0%	69,442	27.1%	35,390
Network Access Products	33,110	6.4%	35,076	13.7%	(1,966)
Total Sales	\$ 522,561	100.0%	\$ 256,119	100.0%	\$ 266,442

Sales in the European Enterprise Communication segment increased by 154% to \$384.6 million in 2005 from sales of \$151.6 million in 2004. This segment includes a full year of sales of the Ascotel product line, acquired in 2003, ten months of sales of the NeXspan product line acquired from EADS, and five months of sales from the DeTeWe product lines. Excluding the impact of the acquisitions, sales from this segment would have been \$163.4 million, an increase of 8% from 2004 despite a significant negative impact from foreign exchange. Excluding the impact of foreign exchange, sales in this segment would have increased by 15% in 2005 as the Ascotel product line showed strength in many of its key markets including Spain and Switzerland. While the first half of 2005 was focused on completing the two acquisitions, during the second half of the year the primary focus in this segment was on restructuring the operations of the acquired businesses and beginning to integrate them with the existing Ascotel business in each of the countries where we operate. Sales in 2006 will be even more overwhelmingly weighted to this segment when the full year of each of these acquisitions is included in the Company's operating results.

Sales in the North American Enterprise Communication segment increased by 51% in 2005 to \$104.8 million from \$69.4 million due to the inclusion of sales from the Aastra Intecom business, acquired from EADS in February 2005. The sales of Aastra Intecom are derived from medium to large installation projects of the Pointspan PBX product line along with the Centergy call center solution. In addition, sales in this group are derived from on-going maintenance and support contracts. Excluding the impact of this acquisition, sales in this segment would have declined by 11% to \$61.6 million. While foreign exchange rates contributed to this decline, this decrease was also driven by weaker sales of analog and digital terminals in North America and a slower than expected uptake in sales of VoIP terminals to our traditional North American distribution partners.

Sales in the Network Access Products segment decreased slightly to \$33.1 million in 2005 from \$35.1 million in 2004. Sales relating to the CVX product line of remote access servers for dial-up internet traffic declined by 28% from \$14.6 million to \$11.3 million. At the late stage of this product's life cycle, the majority of sales were

derived from existing service contracts in 2005. With the continued shift to higher speed internet connectivity, sales in this product line will continue to decline in 2006. Sales of digital video products were \$21.8 million which, despite a negative impact from foreign exchange, was an increase of 6% from digital video sales of \$20.5 million in 2004. This increase is the net impact of a significant increase in sales of VideoRunner products and the decline in sales of the legacy WaveStar products.

Sales by Geographic Location

(\$'000's – except percentages)

	2005		2004	
Canada	\$ 28,116	5.4%	\$ 28,875	11.3%
United States	90,564	17.3%	53,275	20.8%
Europe	394,483	75.5%	161,696	63.1%
Other Foreign	9,398	1.8%	12,273	4.8%
	\$ 522,561	100.0%	\$ 256,119	100.0%

In 2004, revenue generated from customers in Europe had increased from 35.5% in 2003 to 63.1% of total revenue. This increase was a result of the Ascotel acquisition in September 2003, the operations of which are centered in Switzerland. This trend of revenues generated from Europe has continued through 2005, driven by growth in the sales of the Ascotel product line and the acquisitions of two additional European businesses.

Revenue from Europe increased from \$161.7 million or 63.1% of sales in 2004, to \$394.5 million or over 75.5% of sales in 2005. Revenue from the United States increased to \$90.6 million in 2005 from \$53.3 million in 2004 due to the acquisition of Aastra Intecom operating from Dallas, Texas. Revenue from Canada remained stable in dollar terms at \$28.1 million compared to \$28.9 million but decreased as a percentage of total revenue from 11.3% to 5.4%.

Effect of Foreign Exchange on Sales

The Company's reporting currency remains Canadian dollars. As indicated earlier, with only 5.4% of sales generated by customers in Canada the company's reported operating results are exposed to changes in exchange rates. The following chart shows the average exchange rates for 2004 and 2005 from selected foreign currencies to Canadian dollars and the declines of these foreign currencies against the Canadian dollars:

1 unit of foreign currency = Canadian dollars	2005	2004	\$ change	% change
U.S. dollar	1.2116	1.3015	(0.0899)	(6.9%)
Euro	1.5090	1.6169	(0.1079)	(6.7%)
Swiss franc	0.9746	1.0473	(0.0727)	(6.9%)
British pound	2.207	2.3842	(0.1772)	(7.4%)

As a result of the above foreign exchange changes, every sale in these foreign currencies made by Aastra became worth less in Canadian dollar terms. The chart below quantifies the effect on sales if exchange rates in 2005 had remained constant with 2004, and separates sales from acquisitions from the business that existed in 2004:

(\$'000's)	2005	2004
Total sales	\$ 522,561	\$ 256,119
Sales from businesses acquired in 2005	(264,447)	
Sales excluding acquisitions	\$ 258,114	
Add: impact on sales due to changes in foreign exchange	16,212	
Sales at 2004 average exchange rates	\$ 274,326	\$ 256,119
Increase in sales, excluding changes in foreign exchange	7.1%	

As demonstrated above, excluding acquisitions, if average exchange rates in 2005 had remained constant with 2004, sales would have increased by more than 7% compared to 2004. However, as a result of the strengthening Canadian dollar, actual sales growth in Canadian dollar terms was only 1% in 2005 when compared to 2004.

Gross Margin

Gross margin was 42.8% of sales in 2005 compared to 48.9% of sales in 2004, a decline of 6.1% of sales. The following table presents gross margin by operating segment for the years ended December 31, 2005 and 2004:

(\$000's – except percentages)	Gross Margin 2005	% of Segment Revenue	Gross Margin 2004	% of Segment Revenue
Enterprise Communication – Europe	\$ 158,409	41.2%	\$ 79,411	52.4%
Enterprise Communication – North America	48,001	45.8%	32,209	46.4%
Network Access	17,417	52.6%	13,605	38.8%
Total	\$ 223,827	42.8%	\$ 125,225	48.9%

The decline of the gross margin in the European Enterprise Communication segment is due to lower gross margins in the businesses acquired during 2005. Similar to the Ascotel acquisition in September 2003, management intends to apply cost-cutting measures with the aim of bringing the gross margins of these recently acquired businesses in line with its existing business units. It is expected that these cost-cutting activities will start to have an impact on increasing the margins from this segment in 2006. The gross margin of the North American Enterprise Communication segment remained relatively constant in 2005 at 45.8% compared to 46.4% in 2004, even with the inclusion of ten months of operating results from the lower margin Aastra Intecom business, as a result of a favourable product mix experienced on the digital telephone terminals.

The gross margin of the Network Access group increased from 38.8% to 52.6%, bringing it back in line with the gross margin experienced in 2003. During 2004, additional required inventory provisions in the CVX product line reduced margins in this segment. In addition, CVX sales in 2005 shifted towards higher margin service revenue which resulted in a positive impact on gross margins. Finally, digital video gross margins also improved in 2005 as a result of the shift in the sales mix towards the VideoRunner product line.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses increased to \$119.4 million or 22.8% of sales from \$66.5 million or 26.0% of sales in 2004. This increase was due to the inclusion of ten months of operating results of the EADS Telephony Business and five months of operating results of the DeTeWe Telecom Systems Business. Excluding the impact of the acquisitions, selling, general, and administrative expenses would have been \$64.0 million, a decrease of 3.8% from the 2004 total, as a result of improvements in operating costs across several areas of the business. Corporate expenses such as legal, insurance, audit, and public company costs continue to increase as the size of the Company increases and this partially offsets improvements that have been made in other operating expenses.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses were \$50.9 million or 9.7% of sales in 2005 compared to \$23.6 million or 9.2% of sales in 2004. Research and development expenses increased as a direct result of the increased research and development staff added in the two acquisitions during 2005. Excluding the impact of the acquisitions, research and development expenses would have totalled \$22.8 million, a decrease of 3.4% from the level experienced in 2004.

Across all its business units and segments, Aastra continues to explore synergies among its development groups in an effort to take advantage of development activities in the key emerging areas that will impact enterprise communications in the years ahead. In this regard, Aastra's development groups across Europe and North America will work together in 2006 toward achieving a unified, effective, and cost efficient product roadmap for its numerous product lines in each of its current markets.

Early in 2002, Aastra entered into an agreement with Technology Partnerships Canada. This program will provide Aastra a maximum of \$9.9 million in funding to reimburse 33% of eligible costs of a research project aimed at developing new wireless communication devices. The agreement specifies the repayment to be 2.2% of Gross Project Revenues to a maximum of \$20.6 million or until the repayment period expires on December 31, 2012.

A benefit of \$2.2 million was recorded in 2005 relating to government assistance received under the

Technology Partnerships of Canada Program. While this amount has been recorded as a reduction to research and development expense, management expects to repay the funding received under the agreement via the introduction of several new communication products. Such repayments will be recorded as royalty expenses at the time they are made. During 2005, Astra recorded a benefit of \$1.4 million, compared to \$1.2 million in 2004, relating to government investment tax credits earned from research and development activities. These tax credits were recorded as a reduction to reported research and development expenses. Astra continues to view its investment in strategic research and development as critical to its continued growth and success.

NON-OPERATING EXPENSES

Excluding the amortization of tooling, which is recorded as part of cost of goods sold, amortization expense increased by \$6.2 million to \$17.5 million in 2005 from \$11.3 million in 2004. Capital and intangible assets increased significantly due to the two business acquisitions completed in 2005. As a result, included in total amortization expense is \$5.3 million of depreciation on capital assets and \$4.0 million of amortization of intangible assets acquired during the year. Excluding the impact of the two acquisitions, amortization expenses would have decreased by 27% to \$8.2 million as certain intangible and capital assets acquired in 2000 became fully amortized.

Astra reported a loss from foreign exchange of \$4.3 million in 2005 compared to a gain of \$1.2 million in 2004. As mentioned earlier, the strengthening of the Canadian dollar has had a significant effect on the Company's operating results. In addition to the impact of the conversion of foreign operating results into Canadian dollars, the Company also incurs foreign exchange losses as cash is repatriated from its many foreign subsidiaries. During 2005, Astra has been able to achieve certain working capital improvements from the acquired businesses, and as a result began to repatriate cash from these operations in the second half of the year, leading to the majority of this foreign currency loss. It should also be noted that as a result of the increase in value of the Canadian dollar during the year, the Company has recorded a decrease in its cumulative foreign currency translation adjustment account ("CTA") of \$25.7 million. This CTA balance implies that in the absence of a strengthening of the Canadian dollar against the currencies that Astra does business in, the Company will continue to incur foreign currency losses if it sells its foreign investments or as it repatriates additional excess cash from these investments.

Investment income decreased to \$1.1 million in 2005 compared to \$2.4 million in 2004. This decrease is a result of the lower average cash balance of the Company during 2005 as net cash resources of \$97.6 million were used to complete the EADS and DeTeWe business acquisitions. The Company continues to invest excess cash primarily in highly liquid short-term instruments such as commercial paper and government bonds in an effort to achieve a reasonable low-risk rate of return on these balances.

Income tax expense was \$6.6 million in 2005 or 20% of pre-tax income compared to \$3.2 million or approximately 12% of pre-tax income in 2004. With the combined effect of the continued shift in taxable income into lower tax jurisdictions and making use of losses carried forward previously not recognized, the Company continued to experience a tax rate that is significantly lower than its statutory tax rate in Canada.

NET INCOME

The Company increased its net income to \$26.3 million, or \$1.46 diluted earnings per share, from \$24.2 million or \$1.38 diluted earnings per share in 2004. As noted earlier, the Company spent a significant amount of effort in 2005 restructuring, and then beginning to integrate two money-losing businesses. While we are pleased with the results of our efforts to date, the 2005 operating results have been impacted by the losses attributed to these two new business units. Excluding the impact of the acquisitions, net income would have been approximately \$33.2 million or \$1.84 diluted earnings per share, an increase of 37% over the results in 2004. In addition, as we have noted above, these operating results are net of a significant negative impact from foreign exchange as the Canadian dollar strengthened throughout 2005.

Quarterly Information

The following table presents key financial information by quarter for the current and previous two years:
(\$ 000's – except per share data)

	Sales	Net Income	Basic EPS	Diluted EPS
2005				
Quarter One	\$ 80,927	\$ 6,541	\$ 0.38	\$ 0.37
Quarter Two	125,778	7,022	0.41	0.39
Quarter Three	143,969	3,569	0.21	0.20
Quarter Four	171,887	9,183	0.52	0.50
2004				
Quarter One	\$ 63,964	\$ 4,605	\$ 0.27	\$ 0.26
Quarter Two	64,901	5,788	0.34	0.33
Quarter Three	60,537	3,653	0.21	0.21
Quarter Four	66,717	10,152	0.59	0.58
2003				
Quarter One	\$ 40,054	\$ 6,021	\$ 0.36	\$ 0.35
Quarter Two	33,071	2,885	0.17	0.17
Quarter Three	45,071	4,927	0.29	0.28
Quarter Four	73,466	7,123	0.42	0.41

The quarterly revenue trend indicates the significant changes to the Company in 2005 and its growth since entering the European enterprise communication market with the acquisition of the Ascotel group in September 2003. The year 2004 was one of stable growth and foreign exchange rates with respect to the major European currencies, while 2005 must be reviewed within the context of the two acquisitions completed during the year and the strengthening of the Canadian dollar. The fourth quarter of 2005 is the first quarter including full results of both the EADS Telephony Business and the DeTeWe Telecom Systems Business. Net income and EPS figures highlight the seasonality of our European focused business with the third quarter traditionally seasonally weaker than the first and second due to the European holiday schedules, while the fourth quarter is seasonally stronger as a result of pent up demand coming out of the third quarter.

Sales for the three months ended December 31, 2005 were \$171.9 million compared to sales of \$66.7 million for the same period in 2004, an increase of approximately 158%. Excluding the impact of the EADS Telephony Business and the DeTeWe Telecom Systems Business, as well as changes in foreign exchange, sales in the fourth quarter of 2005 would have increased by more than 11% over the fourth quarter of 2004.

Gross profit margin was 40% of sales for the three months ended December 31, 2005 compared to 51% of sales in the same quarter last year. While the gross margin on our existing product lines continued to be consistent to last year, this decrease is a result of lower gross margins experienced on the newly acquired product lines as expected.

Research and Development expenses in the fourth quarter of 2005 were \$16.2 million, or 9.5% of sales, compared to \$4.9 million or 7.4% of sales in the comparable quarter of 2004. Selling, general, and administrative expenses were \$33.1 million or 19.2% of sales in the quarter, compared to \$16.8 million or 25.2% of sales in the fourth quarter of 2004. In both cases, the increase over the fourth quarter of 2004 is a result of the increased operating costs added as a result of the acquisitions.

Primarily as a result of bringing certain foreign cash balances back to Canadian dollars from its European operations, Aastra recorded a foreign currency loss of \$2.8 million during the fourth quarter, compared to a foreign exchange gain of \$1.4 million in the fourth quarter of 2004.

As a result of the lower average cash balances, investment income declined to \$0.3 million in the fourth quarter of 2005, compared to \$0.6 million in the fourth quarter of 2004. Income tax expense was \$2.7 million in the fourth quarter, or 22.6% of pre-tax profits, compared to \$1.7 million or 14.5% of pre-tax profits in the fourth quarter of 2004. While income tax rates have continued to be impacted by profits in lower tax jurisdictions, there was a continued shift towards more of the Company's taxable income coming from higher tax jurisdictions in Europe.

As a result of the above, net earnings for the three months ended December 31, 2005 were \$9.2 million or \$0.51 diluted earnings per share, compared to \$10.2 million or \$0.58 diluted earnings per share in the same period in 2004.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2005, Aastra held \$102.0 million of cash, cash equivalents, and short-term investments, compared to \$129.0 million at the end of 2004.

On February 28, 2005, Aastra acquired certain shares and assets of the EADS Telephony Business for cash, net of cash acquired, of \$78.5 million. At December 31, 2005, Aastra recognized an outstanding payable to the Sellers for the final settlement amount of \$2.4 million, which was paid in full in the first quarter of 2006. On July 31, 2005, Aastra acquired certain shares of the DeTeWe Telecom Systems Business. An initial cash payment of \$21.4 million has been made to the Seller. The final settlement is expected to be completed in the first quarter of 2006, and is expected to total \$46.3 million, of which \$25.9 million will be in the form of a non-interest bearing loan repayable to the seller as certain lease receivables are collected by the acquired business.

During 2003, Aastra acquired, for cash of \$24.6 million, certain inventories, capital assets, and intangible assets of the Ascotel Group from Ascom Holdings AG. The acquisition was comprised of asset and share purchases for the aggregate purchase price of \$41.4 million. Under the purchase agreement, Aastra may be required to pay additional consideration upon the achievement of specific levels of revenue by the Ascotel Group. The maximum amount of contingent consideration payable of \$5.3 million has been recorded as a liability; however management now considers the likelihood of eventual payment of this amount to be doubtful. Any contingent consideration not earned will be recorded as earnings in the year it is reversed as all goodwill and intangible assets acquired in the acquisition have since been reduced to \$nil.

Cash flow from operations was \$80.0 million, an increase from \$54.5 million in 2004. This increase is primarily due to continued strong earnings as well as a decrease in inventories of \$23.2 million achieved through improved inventory management in both existing business units but primarily in the businesses acquired in 2005. Efforts are being made to bring the days sales outstanding of the accounts receivable balances of the acquired companies in Europe into line with the days sales outstanding of the Company's existing businesses. The businesses in Western Europe have significantly longer credit terms than North America; however the Company's goal is to achieve the best credit practices possible in each of the countries in which it operates across Europe. Aged receivables increased to 101 days in 2005 compared to 71 days in 2004. At the end of December 2005, Aastra had net working capital of \$158.7 million, compared to \$177.3 million as at December 31, 2005, as trade payables and accrued liabilities also increased throughout the year.

At December 31, 2005, the Company has approximately \$27.0 million of unused credit facilities, of which \$7.0 million were added during 2005 in order to protect its liquidity position. The Company is confident that its liquidity position will be very strong throughout 2006 on the strength of its remaining cash balances, its current unused and potential additional credit facilities, and the continued generation of cash flow from current operations.

During 2005, the Company issued \$3.0 million of common shares in accordance with the stock option plan. The number of outstanding common shares and stock options of Aastra Technologies Limited on March 13, 2006, was 17,559,584 and 1,222,500 respectively. The number of options vested and exercisable on March 13, 2006, was 752,500.

Contractual Obligations and Contingencies

The following table shows Aastra's contractual obligations: (\$000's)

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contingent consideration (1)	\$ 5,313	-	-	-	-
Purchase obligations (2)	3,197	3,197	-	-	-
Operating leases	76,903	16,312	21,238	15,186	24,167
Total Contractual Obligations	\$ 85,413	\$ 19,509	\$ 21,238	\$ 15,186	\$ 24,167

Notes:

- (1) Under the Ascotel purchase agreement, Aastra may be required to pay additional consideration upon the achievement of specific levels of revenue by the acquired business. Any contingent consideration payable is interest bearing and earned annually over a period of three years at a maximum of Swiss franc 2,000,000 plus interest in any one year. Management now considers the likelihood of eventual payment of this amount to be doubtful.
- (2) Aastra has entered into certain industry standard product purchase obligations with a number of third party manufacturers. Purchase obligations are based on a rolling one to three month forecast provided by Aastra with a particular flexibility percentage built into the agreement.

In connection with the business acquisition in 2002, the Company may be required to pay contingent consideration of up to \$60 million. Based on revenue levels achieved to date, management believes that the payment of this contingent consideration is not likely, and as such a liability has not been recorded in the financial statements.

RELATED PARTY TRANSACTIONS AND BALANCES

At December 31, 2005 and 2004, the Company had an unsecured loan receivable from a senior member of management in the amount of \$400,000. This loan receivable is due to be collected on or before December 31, 2007 unless otherwise extended by the Company.

OFF BALANCE SHEET TRANSACTIONS

Effective January 1, 2003, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline AcG-14 Disclosure of Guarantees, which requires certain disclosures of obligations under guarantees. The Company provides routine commercial letters of credit, letters of guarantee, contractual vendor rebates, and indemnifications to various third parties, whose terms range in duration and often are not explicitly defined.

BUSINESS RISKS AND UNCERTAINTIES

Management is in the early stages of integrating the DeTeWe Telecom Systems Business. There can be no assurance that Aastra will be able to successfully integrate and restructure this acquired business in order to return it to a position of long-term profitability and sustainable earnings growth. The integration of this foreign operation will present additional challenges that have not been encountered in the Company's previous acquisition integration efforts due to the various cultural differences and legal requirements of operating in Germany. Although we restructured the Aastra Matra product group and Aastra Intercom product group acquired under the EADS acquisition and integrated these groups into our European and North American operations, respectively, by the end of 2005, there can be no assurance that these operations will generate sustainable earnings growth or achieve long-term levels of profitability consistent with our other operations (such as the Ascotel group). While we believe that these operations have been restructured in order to be well positioned to contribute positive financial results, there can be no assurance that these operations will achieve such results.

While management has some experience conducting business outside of North America, some factors that may affect the business of our foreign operations may be unknown. The Company will be subject to a number of risks associated with international business activities that may increase our costs, lengthen sales cycles, and require significant management attention. International operations carry certain risks and associated costs, such as the complexities and expense of administering a business abroad; complications in both compliance with, and also unexpected changes in, regulatory requirements; foreign laws, including labour law requirements, international import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade protection barriers; potential adverse tax consequences; uncertainties of laws and enforcement relating to the protection of intellectual property; unauthorized copying of software; difficulty

in managing a geographically dispersed workforce in compliance with diverse local laws and customs; and other factors, depending upon the country involved. There can be no assurance that Aastra will not experience these factors in the future or that they will not have a material adverse effect on our business, results of operations, financial condition or prospects.

The Company is subject to growth-related risks, including capacity constraints and pressures on our management, internal systems, and controls. In the future, management will be required to continue to improve our financial and management controls, reporting systems, and procedures in order to manage our current operations and facilitate future growth.

Aastra has historically been dependent on a small number of very large customers. The top three customers accounted for approximately 22% of sales in 2005 and 18% in 2004. If any significant customer discontinues their relationship with Aastra for any reason, the operating results and financial condition of Aastra may be materially adversely affected. In addition, given the nature of Aastra's products and customers, Aastra generally receives purchase orders from its customers between one and three weeks prior to the required shipment dates. As a result, Aastra's quarterly financial results could be materially affected by the timing of substantial orders and shipments, as well as the timing of new product introductions.

Aastra currently outsources the manufacturing of its products to third party contract manufacturers. Aastra currently uses approximately ten key third party manufacturers, primarily located in China, Australia, France, Germany, and Hungary. While Aastra's business model is to generally have more than one supplier for its products, Aastra does have single source manufacturers for its NeXspan product line in France and DeTeWe product line in Germany. Although Aastra has taken several measures to control the quality and on-time delivery of its products by these manufacturers, Aastra is unable to control all aspects of its third party manufacturers. If a supplier discontinued or restricted the supply of any product for whatever reason, with or without penalty, Aastra's business may be harmed by the resulting delays. This could result in a material adverse affect on the financial condition of Aastra.

Aastra's products will be subject to the new European Union legislation, Restriction of Hazardous Substances, which will come into effect on July 1, 2006. This directive aims to restrict the use of six hazardous substances within electrical and electronic equipment. All products put on the market after the effective date must comply. If Aastra is unable to reach compliance on new products in a timely manner, Aastra's sales could be adversely affected.

As part of Aastra's business strategy, it may seek to grow by acquiring businesses, products, technologies or establishing joint ventures that it believes will complement its current or future business. Aastra may not effectively select acquisition candidates, successfully negotiate, finance, or integrate the acquired businesses and their personnel, or acquired products or technologies, into its business. Aastra cannot assure that it can complete any acquisition it pursues on favourable terms, nor that any acquisitions completed will ultimately benefit Aastra's business operating results, financial condition or prospects.

The industry in which Aastra competes has many participants, who own, or claim to own, intellectual property. From time to time, a third party may claim that Aastra infringes such third party's intellectual property rights or may challenge Aastra's rights to its own intellectual property. In such event, Aastra undertakes a careful review to determine what, if any, actions should be taken with respect to such a claim. Any claim, whether or not with merit, could be time-consuming to evaluate, result in costly litigation, cause product shipment delays or stoppages, or require Aastra to enter into licensing agreements that may require the payment of a license fee and/or royalties to the owner of the intellectual property. Such licensing agreements, if required, may not be available on royalty or other licensing terms acceptable to Aastra.

Customers outside of Canada and the United States accounted for approximately 77% of sales for the year ended December 31, 2005, compared to 68% in 2004. As a result, significant portions of receipts as well as payments are sourced from currencies other than Aastra's functional currency, the Canadian dollar. The majority of Aastra's foreign currency exposure relates to the movements in the United States dollar, Euro and Swiss franc, which may affect the operating results of Aastra, both positively and negatively. Derivative instruments are not currently used to reduce Aastra's foreign currency exposure.

As noted above, Aastra's sales are geographically concentrated in Europe. However, sales are also concentrated to Aastra's PBX systems and related accessories, which constituted 93.6% of sales in 2005, an increase from 86.3% in 2004. There can be no assurances that demand for these products will remain at current levels. Any fluctuations in demand could adversely affect the financial condition of the Company.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are used in determining the allowance for doubtful accounts, inventory valuation, warranty provision, restructuring accruals, pension liabilities, recoverability of goodwill and long lived assets, and tax assets and liabilities. Actual results could differ materially from those estimates and assumptions.

Aastra records an allowance for doubtful accounts for estimated credit losses based on customer and industry concentrations and the Company's knowledge of the financial condition of its customers. A change to these factors could impact the estimated allowance. Aastra values its inventory on a first-in, first-out basis at the lower of cost (determined on a weighted average cost basis) and replacement cost for production parts, and at the lower of cost (determined on a weighted average cost basis) and net realizable value for work-in-progress and finished goods. Aastra will write-down inventory where management considers inventory to be excess or obsolete based upon assumptions about future demand and market conditions. A change to these assumptions could impact the valuation of inventory. Aastra also provides for the estimated cost of product warranties based on certain assumptions relating to the quality of newly acquired product lines and historical product quality trends. A change to these factors could impact the estimated warranty accrual.

Aastra has recorded restructuring accruals relating to workforce reductions and facility consolidations. The restructuring accruals include employee severance and benefit costs and costs related to leased facilities that have been abandoned or subleased. The recognition of these charges requires management to make certain judgments and estimates regarding the nature, timing and amount associated with these plans. For leased facilities that have been abandoned or subleased, the estimated lease cost represents future lease payments subsequent to abandonment less estimated sublease income. To estimate future sublease income, the Company worked with independent brokers to determine the estimated tenant rents the Company could be expected to realize. The estimated amount of future liability may change, requiring additional restructuring charges or a reduction of the liabilities already recorded. At the end of each reporting period, the Company evaluates the appropriateness of the remaining accrued balances.

Aastra has pension costs and liabilities, which are determined from actuarial valuations. Actuarial valuations require management to make certain judgments and estimates relating to expected plan investment performance, salary escalation, compensation levels at the time of retirement, and retirement ages. The Company evaluates these assumptions on a regular basis taking into consideration current market conditions and historical data. A change in these factors could impact future pension expense.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Aastra tested goodwill for impairment at the reporting unit level by comparing the reporting unit's carrying value with its fair value. In determining a reporting unit's fair value, management made assumptions regarding future revenues, future profits, and discount rates. Future goodwill impairment tests may result in material impairment charges. Long-lived assets, including capital assets and intangible assets with finite useful lives, are amortized over their useful lives. Aastra periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, using assumptions relating to the future cash flows of the asset. Future long-lived asset impairment tests may result in material impairment charges.

The Company determines its income tax expense or recovery based on the net income earned or net loss where the ultimate tax outcome is uncertain and is subject to tax authority review. The final outcome of these matters may be different than the estimates originally made by management in determining the income tax provisions and changes in these estimates could impact the income tax provision in future periods.

CURRENT OUTLOOK

As indicated earlier, the Company worked actively in the second half of 2005 on restructuring the businesses acquired earlier in the year. These restructuring activities are still on-going, and are expected to be completed during the first half of 2006. As a result, the focus in the European Enterprise Communications segment will be to continue the integration of its operations in each country or region including bringing together employee groups across its business units in several cities across Europe. The goal of this effort is to benefit from economies of scale in each of these regions, and to simplify its operating structure to have one group focused on selling and servicing all Aastra products in each country while in the process decreasing extraneous operating expenses.

In addition, consistent with the approach that was followed on the Ascotel product line, as the integrated business units begin to show improved profitability from these continued restructuring and integration efforts, there will be an increased focus on revenue growth in each of our European markets. As these combined businesses are returned to financial health, management recognizes that continued growth is required to ensure that their long term financial stability is maintained.

In the North American Enterprise Communications segment, the focus will continue to be on introducing new VoIP products to our existing customers as well as expanding our sales channel partners. In the Network Access segment, we expect the CVX product line to continue to decline slowly as our customers adopt high speed internet network solutions and move away from dial-up networks. In addition, we expect the strong demand and growth in sales of the VideoRunner product line experienced in 2005 to continue into 2006, while at the same time the Company will continue to look at its strategic options with respect to this high growth product portfolio.

Aastra will also continue to explore synergies between its research and development groups in an effort to take advantage of development activities in the key emerging areas that will impact Enterprise Communications in the years ahead. In this regard, Aastra's development groups across Europe and North America will actively work together in 2006 towards achieving a unified, effective, and cost-efficient product roadmap for its numerous product lines in each of its current markets. As expected, there will be a particular focus on the introduction of new VoIP and wireless products into the product portfolio in the years ahead in order to meet the changing needs of the customers in our markets.

As discussed earlier, the Company ended 2005 with a cash, cash equivalents and short term investments balance of over \$102 million. This balance combined with expected continued strong cash flow from operations should ensure that the Company has significant cash flow to continue to explore additional investment or strategic initiatives in 2006. In addition, as already indicated, the Company recorded a \$25.7 decrease in its CTA balance during the year which implies that, in absence of a decline in the value of the Canadian dollar, the Company would realize additional foreign exchange losses in its income statement if it sells its foreign investments or it repatriates additional excess cash from its foreign subsidiaries. While it is true that the Company has a large degree of discretion as to if and when it repatriates cash, management currently expects to bring any excess cash balances back into Canadian dollars periodically throughout the year, and as a result may realize additional foreign exchange losses in 2006.

RECENT ACCOUNTING DEVELOPMENTS

Financial instruments:

In April 2005, the CICA issued Section 1530, "Comprehensive income," Section 3855, "Financial instruments — recognition and measurement," and Section 3865, "Hedges." The new standards will be effective for interim and annual financial statements commencing in 2007. Earlier adoption is permitted. The most significant impact of these standards will be the required presentation of a separate statement of comprehensive income, in which certain gains and losses that must be temporarily presented outside of net income will be presented.

Management is currently evaluating the impact of adopting these standards on the consolidated financial statements.

Non-monetary transactions:

CICA Section 3831, "Non-monetary transactions," establishes standards for the measurement and disclosure of non-monetary transactions. It requires non-monetary transactions to be measured at the more reliably measurable of the fair value of the asset given up and the fair value of the asset received, unless the transaction lacks commercial substance; the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange; neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or the transaction is a non-monetary non-reciprocal transfer to owners to which Section 3831.14 applies.

Section 3831 applies to all non-monetary transactions initiated in periods beginning on or after January 1, 2006. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Customer considerations:

In September 2005, the Emerging Issues Committee issued EIC 156, "Accounting for consideration given to a customer or reseller by a vendor," which provides guidance to companies that give incentives to customers or resellers in the form of cash, free goods, coupons and other considerations. The standard is effective for 2006. Management is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Accounting for pre-existing relationships between the parties of a business combination:

In May 2005, the Emerging Issues Committee issued EIC 154, "Accounting for pre-existing relationships between the parties of a business combination" which addresses various issues that arise upon a business combination where there are pre-existing relationships between the acquirer and the target entity. The guidance effectively requires the acquirer to treat the transaction as a multi-element arrangement involving a settlement or reacquisition of the pre-existing relationship and a purchase business combination. The consensus in this Abstract should be applied to business combinations completed after May 31, 2005. The application of this standard did not have a material impact on Aastra's consolidated financial statements.

Vendor rebates:

In January 2005, the CICA amended EIC 144, "Accounting by a customer (including a reseller) for certain consideration received from a vendor." The consensus is effective retroactively for periods commencing on or after February 15, 2005. The consensus requires companies to recognize the benefit of non-discretionary rebates for achieving specified cumulative purchasing levels as a reduction of the cost of purchases over the relevant period, provided the rebate is probable and reasonably estimable. Otherwise, the rebates would be recognized as purchasing milestones are achieved. The adoption of this standard did not have a material impact on Aastra's 2005 consolidated financial statements.

OTHER INFORMATION

Additional information relating to Aastra Technologies Limited can be found on SEDAR at www.sedar.com.

CONSOLIDATED FINANCIAL STATEMENTS OF AASTRA TECHNOLOGIES LIMITED YEARS ENDED DECEMBER 31, 2005 AND 2004

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and all other information included in this annual report has been prepared by and is the responsibility of management. The consolidated financial statements have been prepared in accordance with accounting principals generally accepted in Canada and reflect management's best estimates and judgments based on information currently available. All other financial information in the report is consistent with that contained in the financial statements. The Company maintains appropriate systems of internal control, policies and procedures that provide management with reasonable assurance that assets are safeguarded and that its financial information is reliable.

The board of directors carries out its responsibility for the consolidated financial statements in this annual report principally through its audit committee. This committee meets with management and the Company's independent auditors to review the Company's reported financial performance and to discuss audit, internal control accounting policy and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.



Francis N. Shen
Chairman of the Board



Allan J. Brett
Chief Financial Officer

Toronto, Canada
March 13, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Aastra Technologies Limited as at December 31, 2005 and 2004 and the consolidated statements of earnings, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada
March 13, 2006

Consolidated Balance Sheets

 (In thousands of Canadian dollars)
 December 31, 2005 and 2004

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,140	\$ 64,181
Short-term investments	47,885	64,853
Accounts receivable	144,480	50,149
Income taxes receivable	404	2,039
Inventories (note 5)	59,941	47,229
Net investment in leases (note 4)	2,071	756
Acquired lease receivables (note 2(a))	18,789	–
Prepaid expenses and other assets	9,457	2,193
Future income tax assets (note 11)	9,651	1,326
	346,818	232,726
Future income tax assets (note 11)	5,932	9,690
Net investment in leases (note 4)	2,793	1,793
Acquired lease receivables (note 2(a))	24,031	–
Capital assets (note 6)	39,378	16,974
Goodwill (note 7(a))	18,147	6,353
Intangible assets (note 7(b))	32,131	13,875
Other assets	787	1,046
	\$ 470,017	\$ 282,457
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Indebtedness (note 8(a))	\$ 5,640	\$ –
Accounts payable and accrued liabilities	121,068	44,095
Restructuring accruals (note 3)	16,973	–
Income taxes payable	11,426	8,972
Deferred revenue	13,960	2,339
Loan payable (note 2(a))	18,789	–
Future income tax liabilities (note 11)	262	–
	188,118	55,406
Contingent consideration payable (note 16)	5,313	6,300
Pensions (note 14)	16,506	707
Loan payable (note 2(a))	24,031	–
Future income tax liabilities (note 11)	8,623	–
Other long-term accruals	622	99
Restructuring accruals (note 3)	2,527	–
Shareholders' equity:		
Share capital (note 10(a))	105,370	102,407
Contributed surplus	1,110	333
Cumulative foreign currency translation adjustments	(25,512)	211
Retained earnings	143,309	116,994
	224,277	219,945
Commitments, contingencies and guarantees (note 16)		
	\$ 470,017	\$ 282,457

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

Consolidated Statements of Earnings

(In thousands of Canadian dollars, except per share amounts)
Years ended December 31, 2005 and 2004

	2005	2004
Sales	\$ 522,561	\$ 256,119
Cost of goods sold	298,734	130,894
	223,827	125,225
Expenses (income):		
Selling, general and administrative	119,390	66,526
Research and development	50,931	23,599
Amortization	17,496	11,320
Foreign exchange loss (gain)	4,278	(1,229)
Investment income	(1,145)	(2,364)
	190,950	97,852
Earnings before income taxes	32,877	27,373
Income taxes (note 11):		
Current	4,847	2,168
Future	1,715	1,007
	6,562	3,175
Net earnings	\$ 26,315	\$ 24,198
Earnings per share (note 10(d)):		
Basic	\$ 1.52	\$ 1.42
Diluted	1.46	1.38

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(In thousands of Canadian dollars, except share amounts)
Years ended December 31, 2005 and 2004

	Common Shares	Share Capital	Contributed Surplus	Cumulative Foreign Currency Translation Adjustments	Retained Earnings	Total
Balance, December 31, 2003	17,032,109	\$ 100,699	\$ 85	\$ 1,101	\$ 92,796	\$ 194,681
Shares issued on exercise of options	174,525	1,708	-	-	-	1,708
Stock-based compensation	-	-	248	-	-	248
Translation of self-sustaining operations	-	-	-	(890)	-	(890)
Net earnings	-	-	-	-	24,198	24,198
Balance, December 31, 2004	17,206,634	102,407	333	211	116,994	219,945
Shares issued on exercise of options	267,150	2,963	-	-	-	2,963
Stock-based compensation	-	-	777	-	-	777
Translation of self-sustaining operations	-	-	-	(25,723)	-	(25,723)
Net earnings	-	-	-	-	26,315	26,315
Balance, December 31, 2005	17,473,784	\$ 105,370	\$ 1,110	\$ (25,512)	\$ 143,309	\$ 224,277

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars, except per share data)
Years ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Net earnings	\$ 26,315	\$ 24,198
Items not involving cash:		
Amortization of capital assets	13,744	9,856
Amortization of intangible assets	7,335	6,206
Future income taxes	1,715	1,611
Stock-based compensation expense	777	248
Loss on short-term investments	739	-
Loss on sale of capital assets	1,112	-
Unrealized foreign exchange gains, net	-	(141)
Other	98	93
Change in non-cash operating working capital (note 13)	28,174	12,406
	80,009	54,477
Financing:		
Issuance of common shares on exercise of options	2,963	1,708
Bank indebtedness	4,966	(6,610)
	7,929	(4,902)
Investments:		
Maturity of short-term investments	67,126	67,301
Purchase of short-term investments	(50,897)	(75,842)
Proceeds on disposal of capital assets	752	-
Purchase of capital assets	(12,489)	(2,242)
Business acquisitions, net of cash acquired (note 2)	(97,587)	-
	(93,095)	(10,783)
Foreign exchange on cash held in foreign currency	(4,884)	(490)
Increase (decrease) in cash and cash equivalents	(10,041)	38,302
Cash and cash equivalents, beginning of year	64,181	25,879
Cash and cash equivalents, end of year	\$ 54,140	\$ 64,181
Supplemental cash flow information:		
Income taxes received	\$ 696	\$ 1,524
Interest received	699	1,169

See accompanying notes to consolidated financial statements.

Aastra Technologies Limited (the "Company") is incorporated under the Canada Business Corporations Act. Its principal business activities include the development and marketing of products and systems for accessing communication networks, including the Internet.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation and consolidation:

These consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in thousands of Canadian dollars unless otherwise specified. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

(b) Revenue recognition:

The Company's revenue is derived from sales of hardware and software products, installation, maintenance and other services and sales-type and operating leases of communication equipment. Revenue from product sales is recognized upon shipment, since title has passed to the customer, persuasive evidence of an arrangement exists, performance has occurred, receivables are reasonably assured of collection, customer specified test criteria have been met, and the earnings process is complete. The Company has no further performance obligations other than those under its standard manufacturing warranty.

For revenue arrangements with multiple deliverables, revenue is allocated to each separable element of the contract using the relative fair value method. The fair value of each element is determined based upon the price charged when the same element is sold separately. Installation services that are considered essential to the functionality of the related hardware are not separated from the hardware and revenue related to these combined units is recognized under the percentage-of-completion method using cost of services as a measure of progress to completion. Maintenance and training services revenue is recognized over the term of the agreement and as the services are provided. Amounts received in advance of revenue recognition are recorded as deferred revenue.

Sales-type leases are those where substantially all of the benefits and risks of ownership are transferred to the customer. Sales revenue recognized at the inception of the lease represents the present value of the minimum lease payments net of any executory costs and related profit included therein, computed at the interest rate implicit in the lease. Unearned finance income, effectively the difference between the total minimum lease payments and the aggregate present value, is deferred and recognized in earnings over the lease term to produce a constant rate of return on the investment in the lease. The cost or carrying value of the inventory being leased is recognized at the inception of the lease reduced by the present value of the unguaranteed residual accruing to the lessor.

Revenue from lease rentals under operating leases, where substantially all the benefits and risks incidental to ownership of the property do not transfer to the customer, are included in the determination of net earnings over the lease term on a straight-line basis representing the time pattern of the customers' benefit.

The Company estimates warranty and other allowances based on historical experience and makes a provision at the time the revenue is recognized.

(c) Cash and cash equivalents:

Cash and cash equivalents include highly liquid investments with maturity dates of less than 90 days from the date of acquisition and are stated at cost, which approximates their market value.

(d) Short-term investments:

Short-term investments include highly liquid instruments such as commercial paper, bonds and publicly traded stock. Commercial paper and bonds have a maturity date of 90 days or more from the acquisition date and are recorded at the lower of cost and market value. Publicly traded common and preferred stock, which is held for sale, is carried at the lower of cost and market value. At December 31, 2005, the cost and fair value of the publicly traded common and preferred stock included in short-term investments was approximately nil (2004-\$4,035) and nil (2004-\$4,128), respectively.

(e) Accounts receivable and net investment in leases:

The Company records an allowance for doubtful accounts against accounts receivable and net investments in leases. Allowances for doubtful accounts receivable and net investment in leases are based on the Company's assessment of the collectibility of specific customer balances, which is based upon review of the customer's credit profile, age of outstanding amounts, past collection experience and the underlying asset value of the equipment under lease where applicable.

(f) Inventories:

Raw materials are stated at the lower of cost, determined on a weighted average cost basis, and replacement cost. Work-in-progress and finished goods are stated at the lower of cost, determined on a weighted average cost basis, and net realizable value. In determining net realizable value, the Company considers the aging and future demand for the inventory.

(g) Investments:

Investments over which the Company is able to exercise significant influence are accounted for using the equity method. Other investments are recorded at cost. Investments are written down when there is evidence that there has been a decline in the value of those investments that is other than temporary.

(h) Impairment of long-lived assets:

Long-lived assets, including capital assets and intangible assets with finite useful lives, are amortized over their useful lives. The Company annually reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. The Company performs an impairment assessment of long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value, which is estimated as the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. At December 31, 2005 and 2004 no events or changes in circumstances had occurred which indicated that the carrying amounts of long-lived assets may not be recoverable.

(i) Goodwill and intangible assets:

- (i) Goodwill:** Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Company enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized, but tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in a similar manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

The Company has tested goodwill for impairment at December 31, 2005 and 2004 and determined there was no impairment in the carrying value.

- (ii) Intangible assets:** Intangible assets acquired in a business combination are recorded at their fair values, amortized over their estimated useful lives and tested for impairment as described in note 1(h).

Intangible assets with determinable lives are amortized over their estimated useful lives on a straight-line basis as follows:

Patents	5–10 years
Customer relationships	5–10 years
Trade name licence	5 years
Non-compete agreement	3 years
Order backlog	Revenue-producing period
Licensed technology	5–10 years

(j) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Tooling	5 years
Computer hardware	3–5 years
Equipment	5–10 years
Computer software	2–3 years
Furniture	5–9 years
Vehicles	4–5 years
Buildings	17–25 years
Leasehold improvements	Shorter of estimated useful life and lease term

Repairs and maintenance costs are expensed as incurred.

(k) Research and development costs:

Research costs, other than capital expenditures, are expensed in the year in which they are incurred. Development costs are expensed in the year incurred, unless such costs meet the criteria for deferral and amortization under GAAP. Amortization is provided on a straight-line basis generally over three to five years, commencing in the year that the new product development is completed and commercial production commences. On an ongoing basis, management reviews the unamortized balance to ensure that the deferred development costs continue to satisfy the criteria for deferral and amortization. Deferred development costs which no longer satisfy the criteria for deferral and amortization are written off. Research and development costs are reduced by related investment tax credits.

During 2005 and 2004, the Company has not deferred any development costs.

(l) Foreign currency translation:

Effective January 1, 2005, the Company determined that the facts and circumstances impacting the determination of functional currency for certain subsidiaries had changed such that those functional currencies shifted from the Canadian dollar to the local currency. This change in circumstances was accounted for on a prospective basis effective January 1, 2005.

- (i) Self-sustaining foreign operations:** Assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at each year end date. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rates for the year. The resulting exchange gains or losses on translation are included in the cumulative foreign currency translation adjustment component of share holders' equity. When there is a reduction in the Company's net investment in its self-sustaining foreign operations, the proportionate amount of the cumulative foreign currency translation adjustment is recognized in earnings.

(ii) Integrated foreign operations: Monetary assets and liabilities of integrated foreign operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at each year end date. Non-monetary assets and liabilities denominated in foreign currencies are translated at their historical exchange rates. Exchange gains or losses arising from the translation of monetary balances denominated in foreign currencies are recognized in earnings. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rates for the year, except for amortization, which is translated at the same rate as those used in translation of the corresponding assets. The resulting gains or losses are recognized in earnings.

(m) Income taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recognized for all significant temporary differences between the tax and accounting bases of assets and liabilities and for certain carryforward items. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment of the change.

The Company determines its income tax expense or recovery based on the net earnings or net loss incurred in various tax jurisdictions. In the ordinary course of business, there are many transactions and calculations where the ultimate tax outcome is uncertain and is subject to tax authority review. The final outcome of these matters may be different than the estimates originally made by management in determining the income tax provision and changes in these estimates could impact the income tax provision in future periods.

(n) Investment tax credits:

The Company is entitled to Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and a reduction of the related asset cost for items of a long-term nature, provided that the Company has reasonable assurance that the tax credits will be realized.

(o) Earnings per share:

Basic earnings per share are computed using the weighted average number of common shares that are outstanding during the year. Diluted earnings per share are computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options using the treasury stock method.

(p) Asset retirement obligation:

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in earnings as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is amortized over the remaining life of the asset.

(q) Stock option plan:

The Company applies The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments ("Section 3870"), that requires a fair value method of accounting be applied to all stock-based compensation to both employees and non-employees. The Company

has a stock option plan, as described in note 10(b). In accordance with the transitional provisions of Section 3870, the Company prospectively applied the fair value method for employee stock option awards granted after January 1, 2003 and, accordingly, has recorded the applicable compensation expense in the proceeding years. Prior to January 1, 2003, the Company accounted for its employee stock options using the settlement method and no compensation expense was recognized. The estimated fair value of the options, determined using the Black-Scholes option pricing model with the assumptions noted in note 10(c), is amortized to income over the vesting period, on a straight-line basis.

(r) Pension plans:

The Company operates pension plans for current and former employees of its subsidiaries in several European countries. The plans are accounted for as defined contribution plans or defined benefit plans according to their nature. Defined benefit obligations are calculated using actuarial valuation methods. Under defined benefits plans, the defined benefit obligation is determined using the projected benefit valuation method in plans where the projected benefits are based on length of service, projected salary levels and pension adjustments or the accumulated benefit method when projected salary levels do not impact projected benefits. The annual calculated net periodic pension costs, including past service costs, are charged to earnings. The Company does not provide any non-pension post-retirement benefits.

For the purpose of calculating expected return on plan assets, those assets are valued at fair value.

The Company uses the corridor method to amortize actuarial gains or losses (such as changes in actuarial assumptions and experience gains or losses) over the average remaining service life of the plan's participants. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the accrued pension benefit obligation or the market value of the plan assets.

Gains or losses on the plan's settlements or curtailments are recognized in earnings in the year in which they occur. Past service costs arising from a plan initiation or amendment are amortized by assigning an equal amount to each remaining service period up to the full eligibility date of each employee active at the date of the plan initiation or amendment who was not yet fully eligible for benefits at that date. When all, or almost all, of the employees are no longer active, past service costs are amortized on a straight-line basis over the average remaining life expectancy of the former employees.

The Company also has defined contribution plans providing pensions for its employees in Italy. The cost of the defined contribution plans is recognized based on the contributions required to be made during each period.

(s) Use of estimates:

Management estimates are used when accounting for items and matters such as allowances for uncollectible accounts receivable, inventory obsolescence, warranty provision, goodwill and intangibles, useful lives of long lived assets, estimated future taxes, pensions, stock-based compensation and provisions for contingent liabilities. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements of changes in estimates in future periods could be significant.

(t) Changes in accounting policies:

- (i) Generally accepted accounting principles:** CICA Handbook Section 1100, Generally Accepted Accounting Principles, was issued in October 2003, and was effective for fiscal years beginning on or after January 1, 2004. The section establishes standards for financial reporting in accordance with GAAP and clarifies the relative authority of various accounting pronouncements and other sources within GAAP. There was no impact to the Company upon implementing this new standard.

(ii) Revenue recognition: In December 2003, the Emerging Issues Committee of the CICA issued Emerging Issues Abstract ("EIC") 141, Revenue Recognition ("EIC 141"). EIC 141 summarizes the principles set forth in Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements issued by the US Securities and Exchange Commission. Under EIC 141, performance is achieved in a transaction involving the sale of goods when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; and the seller's price to the buyer is fixed or determinable. EIC 141 was applicable to the Company beginning January 1, 2004. The application of EIC 141 did not have a material impact on the Company's results of operations and financial condition.

(iii) Accounting for revenue arrangements with multiple deliverables: In December 2003, the Emerging Issues Committee of the CICA issued EIC 142, Accounting for Revenue Arrangements with Multiple Deliverables ("EIC 142"). EIC 142 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EIC 142 also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. EIC 142 was applicable to the Company beginning January 1, 2004. The application of EIC 142 did not have a material impact on the Company's results of operations and financial condition.

2. BUSINESS ACQUISITIONS:

(a) Acquisition of the DeTeWe Telecom Systems Business:

On July 31, 2005, the Company acquired all of the outstanding shares of DeTeWe Systems GmbH and DeTeWe Communications GmbH, two related companies (hereafter referred to as "DeTeWe Telecom Systems Business") from DeTeWe Deutsche Telephonwerke AG & Co KG ("the Seller"), a member of the Röchling Group, based in Germany. The acquired companies comprise a telecommunication systems business which develops, markets, and supports PBX telephone systems and certain wireless products.

The purchase price for the shares is \$46,284 (€31,130) of which approximately \$25,930 (€17,440) consists of a non-interest bearing vendor loan. At the closing date \$21,410 (€14,400) was settled from the cash and short-term investments on hand. The final purchase price is subject to adjustment upon receipt of the audited closing balance sheet of the acquired companies.

After the balance sheet date, final settlement terms have been agreed in principle by the Company and the Seller. Under these terms, an amount receivable from the Seller has been recognized on the balance sheet at December 31, 2005.

The amount of the vendor loan matches accounts receivable balances specified in the purchase and sale agreement on the balance sheet of the acquired company, which relate to leasing contracts. As part of the purchase and sale agreement, the Company has agreed to assume responsibility for the collection of specified pre-existing leasing receivables and remit payment to the Seller upon collection. The amount of the vendor loan payable assumed as part of the transaction matches the pre-existing leasing receivables specified in the purchase and sale agreement. Management believes it does not bear any of the economic risks associated with collection of these lease receivables as any amounts not recoverable from the customers will result in a reduction of that amount to the vendor loan payable by the Company to the Seller. The economic effect of this transaction is that the Company will act as an agent on behalf of the Seller. As the counterparties to the leasing receivables and the loan payable are not the same and as amounts under the two contracts may not, in all instances, be settled simultaneously, the amounts do not meet the criteria for offsetting as set out in CICA Handbook Section 3860, Financial Instruments—Presentation and Disclosure. The remaining balance of these leasing receivables and the related loan payable are recorded on a gross basis in the accompanying consolidated balance sheet as acquired lease receivables and loans payable, respectively.

The allocation of the purchase price to the fair value of assets and liabilities acquired is subject to change upon receipt of final audited balance sheets and external valuations. The purchase price will be allocated to the assets acquired (including identifiable intangible assets arising from the purchase) and liabilities assumed based on their estimated fair value at the date of acquisition.

The preliminary purchase price allocation based on the information available is as follows:

Assets acquired:	
Cash and cash equivalents	\$ 587
Current assets	74,599
Acquired lease receivables	55,398
Future income tax assets	3,246
Capital assets	10,174
Patents	4,974
Customer relationships	4,974
Goodwill	3,820
	157,772
Less liabilities assumed:	
Current liabilities	66,072
Loan payable	29,468
Future income tax liabilities	3,991
Pension liability	9,645
Other long-term liabilities	2,312
	111,488
Fair value of net assets acquired	\$ 46,284
Financed by:	
Cash	\$ 21,410
Vendor loan payable	25,930
Receivable due from Seller	(979)
Adjustment arising from foreign currency differences due to timing of receipt of payment	(77)
	\$ 46,284

(b) Acquisition of the EADS Telephony Business:

On February 28, 2005, the Company acquired all of the shares and certain assets of related businesses (hereafter collectively referred to as the "EADS Telephony Business") from EADS Telecom SAS, EADS Telecom Espana SA, EADS Telecom Deutschland GmbH, EADS Defence and Security System and EADS North America Inc. (related parties and the "Sellers"). These related businesses comprise the Sellers' global enterprise communication product offering, which includes IP telephony and multimedia call centres.

The purchase price for the acquired EADS Telephony Business was cash consideration of \$95,628 (€58,400) of which \$2,363 was paid subsequent to year end. This subsequent payment arose as a result of final negotiations related to the carrying value of the net assets acquired.

Included in the purchase and sale agreement was contingent consideration that became payable if the acquired businesses exceeded certain revenue targets for the year-ended December 31, 2005. It has been determined that the acquired entities did not meet these revenue targets and thus no additional consideration is payable.

The Company engaged a third party valuator to assist in its identification and valuation of intangible assets. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition as follows:

Assets acquired:	
Cash and cash equivalents	\$ 17,085
Current assets	98,510
Future income tax assets	891
Capital assets	21,615
Trade name license	2,400
Patents	14,500
Non-compete agreement	1,700
Order backlog	2,400
Customer relationships	3,300
Goodwill	9,796
	172,197
Less liabilities assumed:	
Indebtedness	1,337
Current liabilities	61,190
Future income tax liabilities	6,371
Pension liability	7,671
	76,569
Fair value of net assets acquired	\$ 95,628
Financed by:	
Cash	\$ 93,849
Payable due to Sellers, settled subsequent to year end	2,363
Adjustment arising from foreign currency differences due to timing of receipt of payment	(584)
	\$ 95,628

3. RESTRUCTURING ACCRUALS:

As part of the purchase price of the DeTeWe Telecom Systems Business and the EADS Telephony Business, the Company recorded liabilities for various restructuring initiatives. The planned actions included employee termination and lease exit costs primarily in France, Germany and the US. The balance remaining in the accrual for employee termination costs at December 31, 2005 relates to final severance settlements and is expected to be fully paid by December 31, 2006. Lease exit costs will be paid out over the remaining lease terms through 2014. Cash outlays are funded from cash on hand.

	Employee termination costs	Facility and exit costs	Total
Accrued on acquisition, February 28, 2005	\$ 15,200	\$ 2,404	\$ 17,604
Accrued on acquisition, July 31, 2005	6,856	2,134	8,990
Cash payments	(3,548)	(761)	(4,309)
Adjustment related to foreign exchange	(2,527)	(258)	(2,785)
Balance, December 31, 2005	15,981	3,519	19,500
Less current portion	15,981	992	16,973
	\$ -	\$ 2,527	\$ 2,527

4. NET INVESTMENT IN LEASES:

The Company's net investment in leases includes the following:

	2005	2004
Minimum lease payments receivable	\$ 5,395	\$ 2,960
Unearned finance income	(531)	(411)
	4,864	2,549
Less current portion	2,071	756
	\$ 2,793	\$ 1,793

During 2005, the Company recorded \$683 of finance income (2004 - \$540).

5. INVENTORIES:

	2005	2004
Raw materials	\$ 8,422	\$ 949
Work in progress	9,388	-
Finished goods	42,131	46,280
	\$ 59,941	\$ 47,229

6. CAPITAL ASSETS:

2005	Cost	Accumulated amortization	Net book value
Tooling	\$ 16,732	\$ 12,272	\$ 4,460
Computer hardware	12,693	8,927	3,766
Equipment	31,102	17,801	13,301
Computer software	6,626	4,620	2,006
Furniture	4,789	2,384	2,405
Vehicles	432	287	145
Building	4,511	141	4,370
Leasehold improvements	11,593	2,668	8,925
	\$ 88,478	\$ 49,100	\$ 39,378

2004	Cost	Accumulated amortization	Net book value
Tooling	\$ 7,982	\$ 7,078	\$ 904
Computer hardware	4,654	2,611	2,043
Equipment	24,384	14,542	9,842
Computer software	3,128	2,474	654
Furniture	1,477	777	700
Leasehold improvements	4,359	1,528	2,831
	\$ 45,984	\$ 29,010	\$ 16,974

During 2005, amortization of \$3,583 was included in cost of sales (2004 – \$4,747).
Included in equipment is \$6,150 (2004 – \$2,879) of equipment leased to customers.

7. GOODWILL AND INTANGIBLE ASSETS:

(a) Goodwill:

The following table summarizes the changes in goodwill since December 31, 2004:

Balance, December 31, 2003 and 2004	\$ 6,353
Goodwill recorded during fiscal 2005:	
EADS Telephony Business (note 2(b))	9,796
DeTeWe Telecom Systems Business (note 2(a))	3,820
Adjustment related to foreign exchange	(1,822)
Balance, December 31, 2005	\$ 18,147

(b) Intangible assets:

2005	Cost	Other (1)	Accumulated amortization	Net book value
Patents	\$ 35,602	\$ 3,147	\$ 17,008	\$ 15,447
Customer relationships	14,349	2,093	2,457	9,799
Trade name license	2,400	379	337	1,684
Non-compete agreement	1,700	269	393	1,038
Order backlog	2,400	379	713	1,308
Licensed technology	13,642	6,420	4,367	2,855
	\$ 70,093	\$ 12,687	\$ 25,275	\$ 32,131

2004	Cost	Other (1)	Accumulated amortization	Net book value
Patents	\$ 16,128	\$ 200	\$ 13,690	\$ 2,238
Customer relationships	6,075	524	1,500	4,051
Licensed technology	13,642	2,508	3,548	7,586
	\$ 35,845	\$ 3,232	\$ 18,738	\$ 13,875

(1) Other is the total of a decrease of \$6,084 (2004—an increase of \$104) related to the fluctuation in foreign exchange rates, a cumulative decrease of \$6,603 (2004—a decrease of \$2,936) due to a revaluation of future tax assets (note 11) and a decrease of \$ nil (2004—\$400) related to an acquisition adjustment.

8. INDEBTEDNESS:**(a) Credit facilities:**

The following table presents credit facilities in place at December 31, 2005:

	Interest rate	Authorized	Repayment terms	Drawn in Canadian dollars
Aastra Schweiz A/G	1.89%	10,000 Swiss franc	Quarterly interest payments	\$ 4,428
Aastra Lease SA	3.23%	620 Euro	Quarterly interest payments	798
Aastra Lease SA	3.60%	750 Euro	Monthly interest payments	414
Aastra Lease SA	5.67%	273 Euro	Monthly interest payments	-
Aastra Belgium SA	1.50%	20 Euro	Due on demand	-
Aastra Matra Benelux SA	1.50%	50 Euro	Due on demand	-
Aastra Telecom Europe A/S	3.60%	273 Euro	Due on demand	-
Aastra Telecom Norway AS	3.35%	273 Euro	Due on demand	-
Aastra Finland OY	3.65%	273 Euro	Due on demand	-
Aastra Sweden AB	2.60%	273 Euro	Due on demand	-
Aastra Italia SPA	4.00%	500 Euro	Due on demand	-
				\$ 5,640

Substantially all of the assets of the Company and certain of its subsidiaries have been pledged as security for borrowing under the credit facilities above.

(b) Bank facility:

The Company has an operating facility of up to \$20,000. The operating facility bears interest at prime plus 0.25% per annum and is repayable on demand. At December 31, 2005 and 2004, there were no borrowings outstanding.

The facilities are secured by a registered general assignment of accounts receivable, a general security agreement over all assets and guarantees and postponements of claims by related companies.

9. FINANCIAL INSTRUMENTS:

(a) The carrying values and estimated fair values of the Company's financial instruments are as follows:

- (i) The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, acquired lease receivables, indebtedness, accounts payable and accrued liabilities and loan payable approximate their fair values due to the short-term maturities of these instruments. The Company invests in only high-quality cash equivalents and short-term investments.
- (ii) The fair value of the Company's net investment in leases is not significantly different from its carrying value as it bears an interest rate that approximates current market rates.
- (iii) The fair value of the Company's contingent consideration payable is not determinable due to the contingent nature of the obligation.

(b) Risk management activities:

- (i) **Currency risk:** The Company is subject to currency risk through its activities in the United States and Europe. Unfavourable changes in the exchange rate may affect the operating results of the Company. The Company does not actively use derivative instruments to reduce its exposure to foreign currency risk. However, depending on the nature, amount and timing of foreign currency receipts and payments, the Company may enter into foreign currency contracts to mitigate the associated risks. As at December 31, 2005 and 2004, there were no foreign currency contracts outstanding.
- (ii) **Credit risk:** Financial instruments that potentially subject the Company to concentrations of credit risk are its accounts receivable and net investments in leases. The Company sells the majority of its products and services to telecommunication companies in Canada, United States and throughout Europe. Although the Company's exposure to credit risk associated with non-payment by these customers is affected by conditions or occurrences within its industry, the Company closely monitors extensions of credit and performs ongoing credit evaluations of its customers' financial condition to reduce its credit risk exposure. The Company maintains adequate reserve for potential credit losses as estimated by management.

The Company's three largest customers accounted for approximately 22% of sales in 2005 (2004–18%) and approximately 16% of accounts receivable at December 31, 2005 (2004–19%).

10. SHARE CAPITAL:**(a) Authorized:**

Unlimited preferred shares
Unlimited common shares

Issued:

	Number of common shares	Amount
Balance, December 31, 2003	17,032,109	\$ 100,699
Exercise of stock options	174,525	1,708
Balance, December 31, 2004	17,206,634	102,407
Exercise of stock options	267,150	2,963
Balance, December 31, 2005	17,473,784	\$ 105,370

(b) Stock options:

Pursuant to its stock option plan, the Company has granted stock options to certain employees, officers and directors. Under this plan, 3,000,000 common shares of the Company were reserved for the issuance of stock options. The plan provides that the terms of the options and the option price shall be fixed by the directors subject to restrictions imposed by any Canadian stock exchange on which the common shares are listed for trading. Stock options currently granted vest over periods from one to six years and expire between five and ten years from the date of grant.

Stock option transactions were as follows:

	Number of shares under option	Weighted average exercise price per option
Balance, December 31, 2003	1,417,475	\$ 11.51
Exercised	(174,525)	9.79
Cancelled	(61,250)	18.63
Balance, December 31, 2004	1,181,700	11.39
Granted	415,500	22.24
Exercised	(267,150)	11.09
Cancelled	(20,750)	19.34
Balance, December 31, 2005	1,309,300	\$ 14.77

At December 31, 2005, the range of exercise prices of stock options outstanding and exercisable is as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding, December 31, 2005	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable, December 31, 2005	Weighted average exercise price
\$9.00 – \$9.50	497,300	4.17	\$ 9.45	497,300	\$ 9.45
\$10.35 – \$10.50	16,250	0.43	10.43	16,250	10.43
\$12.00 – \$13.00	305,125	6.02	12.48	231,125	12.32
\$16.00 – \$18.55	34,775	1.91	17.39	17,400	17.69
\$20.00 – \$27.00	455,850	4.30	22.05	23,350	20.16
	1,309,300		\$ 14.77	785,425	\$ 10.83

(c) Stock-based compensation and other stock-based payments:

Options granted after January 1, 2003:

At December 31, 2005, the total fair value of the stock options granted after January 1, 2003 is \$4,751 (2004–\$989), which is amortized on a straight-line basis over the vesting periods of the options. For the year ended December 31, 2005, the Company recognized stock compensation expense of \$777 (2004–\$248) relating to the fair value of options granted. The unamortized portion is \$3,641 (2004–\$656).

The weighted average estimated fair value of options granted in 2005 was \$9.05. No options were granted during 2004. The fair value of the options granted during 2005 is calculated at the date of each grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005
	Options granted
Risk-free rate	3.24% to 3.62%
Dividend yield	–
Volatility factor of the expected market price of the Company's shares	45% to 50%
Expected option life	4 – 6 years

Options granted prior to January 1, 2003:

Prior to January 1, 2003, the Company accounted for its employee stock options using the settlement method and no stock-based compensation expense was recognized. For awards granted in 2002, Section 3870 requires the disclosure of pro forma net earnings and earnings per share information as if the Company had accounted for employee stock options under the fair value method. The pro forma effect of awards granted prior to January 1, 2002 has been excluded in the pro forma net earnings and pro forma basic and diluted net earnings per share information.

The pro forma disclosure relating to stock options granted in 2002 is as follows:

	2005	2004
Net earnings, as reported	\$ 26,315	\$ 24,198
Stock-based compensation expense	337	437
Net pro-forma earnings	\$ 25,978	\$ 23,761
Basic earnings per share, as reported	\$ 1.52	\$ 1.42
Pro-forma basic earnings per share	1.50	1.39
Diluted earnings per share, as reported	\$ 1.46	\$ 1.38
Pro forma diluted earnings per share	1.44	1.36

(d) Reconciliation between basic and diluted earnings per share:

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation.
Basic earnings per share calculation:

	2005	2004
Numerator for basic earnings per share: Net earnings	\$ 26,315	\$ 24,198
Denominator for basic earnings per share: Weighted average common shares	17,330,423	17,093,740
Basic earnings per share	\$ 1.52	\$ 1.42

Diluted earnings per share calculation:

	2005	2004
Numerator for diluted earnings per share: Net earnings	\$ 26,315	\$ 24,198
Denominator for diluted earnings per share: Weighted average common shares	17,330,423	17,093,740
Net common shares that would be issued assuming the proceeds from stock options are used to repurchase common shares at the average share price	690,198	416,367
Diluted weighted average common shares	18,020,621	17,510,107
Diluted earnings per share	\$ 1.46	\$ 1.38

Options to purchase 106,500 common shares were outstanding during the year ended December 31, 2004 but were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares. There were no anti-dilutive options outstanding for the year ended December 31, 2005.

11. INCOME TAXES:

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are as follows:

	2005	2004
Future income tax assets:		
Reserves	\$ 15,417	\$ 2,190
Share issue costs	321	561
Capital assets	921	297
Goodwill and intangible asset	1,261	175
Losses carried forward	26,990	29,282
Other	1,367	375
	46,277	32,880
Less valuation allowance	30,694	21,864
Total future income tax assets	15,583	11,016
Future income tax liabilities:		
Goodwill and intangible assets	8,466	-
Other	419	-
Total future income tax liabilities	8,885	-
Future income tax assets	\$ 6,698	\$ 11,016

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax asset, and the tax planning strategies in place when making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

During 2005, projections for the use of tax loss carryforwards acquired in an acquisition were reassessed, resulting in a current year increase to future income tax assets of \$10,381 (2004-\$2,936). Intangible assets established on acquisition were decreased by \$3,667 and the income tax expense was reduced by \$6,714.

Income tax expense differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rate of 36.12% (2004-36.12%) to earnings before income taxes. The reasons for the differences are as follows:

	2005	2004
Computed tax expense	\$ 11,875	\$ 9,887
Increase (decrease) resulting from:		
Effect of different tax rates on earnings of foreign subsidiaries	(3,770)	(6,170)
Permanent differences	842	(261)
Non-taxable portion of capital gain	(301)	(65)
Change in valuation allowance	(2,084)	(216)
	\$ 6,562	\$ 3,175

As at December 31, 2005, the Company has approximately \$88,449 (2004 – \$108,768) in non-capital losses relating to its foreign subsidiaries available to reduce future years' income for income tax purposes. A summary of the non-capital losses by year of expiry is as follows:

2006	\$ 221
2007	657
2008	33,731
2009	18,284
2010	1,325
2011	699
2013	479
2014	79
2024	10,393
Indefinite	22,581
	\$ 88,449

12. INVESTMENT TAX CREDITS:

The Company realized a benefit of \$1,394 (2004 – \$1,248) relating to investment tax credits. These tax credits are recorded as a reduction to research and development expenses in the year.

As at December 31, 2005, \$1,184 (2004 – \$1,200) is recorded as a reduction to income taxes payable.

13. CONSOLIDATED STATEMENTS OF CASH FLOWS:

The change in non-cash operating working capital consists of the following:

	2005	2004
Accounts receivable	\$ 9,131	\$ 17,068
Net investment in leases	802	(1,480)
Inventories	23,152	5,440
Prepaid expenses and other assets	(1,080)	(416)
Accounts payable and accrued liabilities	(11,997)	(10,011)
Income taxes payable	5,009	3,502
Deferred revenue	(490)	(1,697)
Pension liabilities	3,647	–
	\$ 28,174	\$ 12,406

14. PENSIONS:

The following table presents pension liabilities of the Company by type of plan:

	2005	2004
Defined contribution pension liabilities	\$ 1,344	\$ 707
Defined benefit pension liabilities	15,162	-
	\$ 16,506	\$ 707

The Company participates in various pension plans in Europe. In countries where there are legal requirements to fund these pension plans, the Company does so. In other countries no such obligation exists.

(a) Funded defined benefit pension plan:

In connection with an acquisition in 2003, the Company commenced participation in a contributory defined benefit pension plan which covers employees in Switzerland. The plan provides pensions based on years of service, years of contributions and earnings.

Actuarial estimates and maximum retirement benefits are based on projections of employees' compensation levels at the time of retirement, subject to certain adjustments. The most recent actuarial valuation was completed as of December 31, 2005. The next required valuation will be as of December 31, 2006.

The estimated present value of accrued plan benefits and the estimated market value of the net assets available to provide for these benefits for the years ended December 31 are as follows:

	2005	2004
Plan assets, at fair value	\$ 30,906	\$ 32,777
Defined benefit obligations	(32,706)	(36,804)
Funded status deficit	(1,800)	(4,027)
Unrecognized net experience loss	4,011	6,355
Valuation allowance	(2,211)	(2,328)
Net pension asset recognized	\$ -	\$ -

Pension fund assets consist primarily of fixed income and equity securities, valued at market value. The following information is provided on pension fund assets:

	2005	2004
Plan assets, beginning of year	\$ 32,777	\$ 45,114
Actual return on plan assets	2,668	(6,427)
Contributions by employees	1,081	1,444
Company contributions	1,094	1,520
Benefits paid	(1,468)	(653)
Settlement	-	(8,859)
Foreign exchange impact	(5,246)	638
Plan assets, end of year	\$ 30,906	\$ 32,777

Defined benefit obligations are outlined below:

	2005	2004
Defined benefit obligations, beginning of year	\$ 36,804	\$ 43,279
Service cost	816	951
Interest cost	1,056	1,342
Benefits paid	(1,468)	(653)
Employee contributions	1,081	1,444
Actuarial loss (gain)	307	(151)
Settlement	–	(10,020)
Foreign exchange impact	(5,890)	612
Defined benefit obligations, end of year	\$ 32,706	\$ 36,804

Net plan expense is outlined below:

	2005	2004
Service cost	\$ 816	\$ 951
Interest cost on accrued benefit obligations	1,056	1,342
Expected return on plan assets	(1,254)	(1,712)
Amortization of net loss	220	–
Other	256	939
Net plan expense	\$ 1,094	\$ 1,520

Actuarial assumptions:

	2005	2004
Weighted average discount rate for accrued benefit obligations	3.50%	3.50%
Weighted average rate of compensation increase	2.00%	2.00%
Weighted average expected long-term rate of return on plan assets	4.50%	4.50%

Allocation of plan assets:

Asset category	Target allocation	2005	2004
Equity securities	29%	37%	35%
Debt securities	25%	20%	20%
Cash	6%	10%	5%
Properties	40%	33%	40%
	100%	100%	100%

The Company makes contributions to the plan to secure the benefits of plan members and invests in permitted investments using the target ranges established by the Pension Committee of the pension fund. The Pension Committee reviews actuarial assumptions on an annual basis. The assumptions established including the expected long-term rate of return are based on the existing performance and trends and expected results.

Contributions:

	Employer	Employee	Total
Actual contributions during 2004	\$ 1,520	\$ 1,444	\$ 2,964
Actual contributions during 2005	1,094	1,081	2,175
Expected contributions during 2006	470	1,090	1,560

Employee contributions for 2006 are assumed to be at levels similar to 2005 on the assumption staffing levels in the Company will remain the same on a year over year basis.

(b) Unfunded pension plans:
Defined contribution pension liabilities:

In certain countries, particularly in Italy, the Company participates in state pension plans for which contributions expensed correspond to the contributions due to the state organizations. The Company's obligation is limited to the amount of contributions that are expensed. During 2005, the Company expensed \$225 (2004-\$118) of contributions to defined contribution plans.

Defined benefit pension liabilities:

As part of the acquisitions of the EADS Telephony Business and the DeTeWe Telecom Systems Business, the Company assumed the pension obligations related to certain European employees.

Independent actuaries calculate the Company's obligation in respect of these plans, using the accrued benefit valuation method. Actuarial assumptions comprise mortality, rates of employee turnover, projection of future salary levels and revaluation of future benefits. Future estimated benefits are discounted using discount rates appropriate to each country. These plans have differing characteristics. In Germany, retirees benefit from the receipt of a perpetual annuity during their retirement. In France, retirees benefit from a lump sum payment on the employee's retirement or departure.

The most recent actuarial valuations were completed as of December 31, 2005. The next required valuations will be as of December 31, 2006.

Defined benefit obligations are outlined below:

	2005	2004
Defined benefit obligations assumed on acquisition at February 28, 2005	\$ 6,594	\$ -
Defined benefit obligations assumed on acquisition at July 31, 2005	9,645	-
Service cost	302	-
Interest cost	373	-
Benefits paid	(133)	-
New entrants/transfers	103	-
Assumption changes	710	-
Actuarial gain	(174)	-
Foreign exchange impact	(1,726)	-
Defined benefit obligations, end of year	\$ 15,694	\$ -

Accrued benefit liabilities are outlined below:

	2005	2004
Accrued benefit liabilities assumed on acquisition at February 28, 2005	\$ 6,594	\$ -
Accrued benefit liabilities assumed on acquisition at July 31, 2005	9,645	-
Benefit expense	657	-
Foreign exchange impact	(1,734)	-
Accrued benefit liabilities, end of year	\$ 15,162	\$ -

The reconciliation of defined benefit obligations to accrued benefit liabilities is outlined below:

	2005	2004
Accrued benefit liabilities, end of year	\$ 15,162	\$ -
Unrecognized actuarial loss	532	-
Defined benefit obligations, end of year	\$ 15,694	\$ -

Net plan expense is outlined below:

	2005	2004
Service cost	\$ 302	\$ -
Interest cost on accrued benefit obligations	409	-
Amortization of net loss	(18)	-
Net plan expense	\$ 693	\$ -

Actuarial assumptions:

	2005	2004
Discount rate for accrued benefit obligations	4.00% to 4.50%	-
Rate of compensation increase	2.25% to 3.50%	-

15. SEGMENTED AND GEOGRAPHICAL INFORMATION:

Segment disclosures:

The Company operates in three business segments, Network Access Products, North American Enterprise Communication and European Enterprise Communication.

The Company's reportable segments are strategic business units, which offer different products and services and differ in technology and product risks. The Network Access Products segment develops and markets high quality network access product for broadcast, cable and telecommunication markets. The Enterprise Communication segment develops and markets a full line of residential and business telephones for the cable and telecommunication markets in Europe and in North America.

The following tables present the segmented statements of earnings for the years ended December 31, 2005 and 2004:

	Network Access Products	North American Enterprise Communication	European Enterprise Communication	Total consolidated
2005				
Sales	\$ 33,110	\$ 104,832	\$ 384,619	\$ 522,561
Cost of goods sold	15,693	56,831	226,210	298,734
Allocated selling, general and administrative expenses	17,417	48,001	158,409	223,827
	8,115	20,255	83,771	112,141
	\$ 9,302	\$ 27,746	\$ 74,638	\$ 111,686
Expenses (income):				
Corporate/unallocated selling, general and administrative expenses				7,249
Research and development				50,931
Amortization				17,496
Foreign exchange loss				4,278
Investment income				(1,145)
				78,809
Earnings before income taxes				\$ 32,877

2004	Network Access products	North American Enterprise Communication	European Enterprise Communication	Total consolidated
Sales	\$ 35,076	\$ 69,442	\$ 151,601	\$ 256,119
Cost of goods sold	21,471	37,233	72,190	130,894
	13,605	32,209	79,411	125,225
Allocated selling, general and administrative expenses	6,286	8,556	46,396	61,238
	\$ 7,319	\$ 23,653	\$ 33,015	\$ 63,987
Expenses (income):				
Corporate/unallocated selling, general and administrative expense				5,288
Research and development				23,599
Amortization				11,320
Foreign exchange gain				(1,229)
Investment income				(2,364)
				36,614
Earnings before income taxes				\$ 27,373

The following tables present sales to third party customers attributable to geographic location based on the location of the customer for the years ended December 31, 2005 and 2004:

	2005	2004
Canada	\$ 28,116	\$ 28,875
United States	90,564	53,275
Europe	394,483	161,696
Other foreign	9,398	12,273
	\$ 522,561	\$ 256,119

Total assets by reportable segment are as follows:

	2005	2004
European Enterprise Communication	\$ 234,588	\$ 61,917
North American Enterprise Communication	81,091	37,728
Network Access Products	17,345	29,316
Corporate/unallocated	136,993	153,496
	\$ 470,017	\$ 282,457

Capital expenditures by reportable segment are as follows:

	2005	2004
European Enterprise Communication	\$ 10,794	\$ 1,485
North American Enterprise Communication	1,531	637
Network Access Products	164	120
	\$ 12,489	\$ 2,242

Goodwill by reportable segment are as follows:

	2005	2004
European Enterprise Communication	\$ 11,794	\$ -
North American Enterprise Communication	6,353	6,353
	\$ 18,147	\$ 6,353

Capital assets, intangible assets and goodwill by geographical area are as follows:

	2005	2004
Canada	\$ 15,410	\$ 18,553
United States	18,021	9,179
Europe	56,119	9,275
Other foreign	106	195
	\$ 89,656	\$ 37,202

16. COMMITMENTS, CONTINGENCIES AND GUARANTEES:

(a) Lease commitments:

The future minimum annual lease payments under operating leases for rental premises, vehicles and equipment are as follows:

2006	\$ 16,312
2007	11,998
2008	9,240
2009	8,106
2010	7,080
Thereafter	24,167
	\$ 76,903

(b) Bluetooth Technology Partnership Canada Program:

During 2002, the Company entered into an agreement with Technology Partnerships Canada, which will provide the Company funding to a maximum of \$9,900 to reimburse 33% of eligible costs for a specific research project. To date, the Company has claimed approximately \$8,628 (2004-\$7,032) and received approximately \$8,025 (2004-\$5,825) from the program. During 2005, approximately \$2,209 (2004-\$2,342) had been recorded as a direct reduction of research and development expenses relating specifically to that project. The Company is obligated to pay a royalty of 2.2% of gross project revenues, during a royalty period from January 1, 2006 to December 31, 2010. If, by December 31, 2010, royalties paid are less than \$20,621, the royalty period extends until December 31, 2012.

(c) Contingent consideration for business acquisition in 2003:

In connection with the business acquisition in 2003, the Company may be required to pay additional consideration upon the achievement of specific levels of revenue by the acquired business. The maximum amount of contingent consideration payable of Swiss franc 6,000 has been recorded as a liability. As at December 31, 2005, the Canadian dollar equivalent of this amount is \$5,313 (2004-\$6,300). Any contingent consideration payable is interest bearing at EURIBOR set at the rate of the first business day of the calendar year in which the interest is applicable, and earned annually over a period of three years at a maximum of Swiss franc 2,000 plus interest in any one year. Contingent consideration has not been earned or paid in the years ended December 31, 2005 and 2004. Any contingent consideration not earned will be recorded in earnings.

(d) Contingent consideration for business acquisition in 2002:

In connection with the business acquisition in 2002, the Company may be required to pay contingent consideration of up to \$60,000. Based on revenue levels achieved to date, management believes that the payment of \$60,000 is not likely and no liability has been recorded for this amount.

(e) Litigation:

In the normal course of operations, the Company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the results of operations, financial position or liquidity of the Company.

(f) Guarantees:

In accordance with CICA Accounting Guideline 14, Disclosures of Guarantees, the Company's obligations under guarantees are not recognized in the financial statements but are disclosed. The Company provides routine commercial letters of credit, letters of guarantee, contractual vendor rebates and indemnifications to various third parties, whose terms range in duration and often are not explicitly defined.

17. COMPARATIVE FIGURES:

Certain 2004 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

CORPORATE DIRECTORY

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*Member of the Audit Committee

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Mississauga, Ontario

TRANSFER AGENT AND REGISTRAR

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