



DELIVERING GLOBAL ENTERPRISE COMMUNICATION SOLUTIONS

IP TELEPHONY • UNIFIED COMMUNICATIONS • MOBILITY



AASTRA TECHNOLOGIES LIMITED
ANNUAL REPORT 2007



GLOBAL LEADERSHIP IN ENTERPRISE COMMUNICATIONS SOLUTIONS

Aastra Technologies Limited is a global company at the forefront of the Enterprise Communications market. Aastra's wide range of innovative, integrated solutions addresses the communications needs of customers small and large, from single-line businesses to the complex requirements of multinational enterprises with numerous networked locations.

Aastra is dedicated to helping enterprises succeed by meeting their expanding communication technology needs while continuing to exceed their expectations for value and performance.

Aastra is committed to supporting our customers through the development and implementation of the latest in open standard VoIP products and systems, mobility solutions, and advanced applications. We are focused on R&D, with six different corporate Centers of Excellence, each devoted to innovation in a specific communication technology realm.

Aastra Technologies Limited is listed on the Toronto Stock Exchange under the symbol AAH.



Office 80IP Telephone and Expansion Module

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THE COMPANY

Aastra develops and delivers innovative, integrated solutions that address the communications needs of businesses – both large and small – around the world. Aastra enables enterprises to communicate and collaborate more efficiently and effectively by offering customers a full range of open standard IP-based and traditional communications networking products including terminals, systems, and applications.

Aastra is well positioned to serve its expanding global customer base. The company markets its Enterprise Communications solutions and services around the world through direct and indirect sales channels, distributors and Tier 1 service providers in North America, Europe, the Middle East and Africa, Central and Latin America, and throughout the Asia Pacific region.

PRODUCT, APPLICATION AND SERVICE SOLUTIONS

Enterprise Communication Solutions

- Analog, digital, and system telephones
- Open Standard Enterprise IP telephones
- Mobility products – DECT, IP DECT, WiFi
- PBX, converged PBX, IP-PBX systems
- Open Standard Interface adapters and media gateways
- Communication network platforms and applications

Applications

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

Global Support Services

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



NeXspan 500 supports up to 15,000 TDM subscribers and 8,000 IP subscribers

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OPERATIONAL AND FINANCIAL HIGHLIGHTS



Aastra 312w
WiFi Handset

2007 IN REVIEW

In 2007, Aastra continued to deliver both strong financial results and profitable growth, finishing the year with record revenues. We completed the restructuring of our DeTeWe business in Germany; realigned our European and North American R&D groups into focused Centers of Excellence; implemented several major product releases; and launched a number of new products and applications. Through a strong focus on R&D, guided by ongoing feedback from our expanding global customer base, we continued evolving our technology platforms while adding value for our Enterprise Communication customers.

OPERATIONAL HIGHLIGHTS

- Generated record revenues of \$606.6 million, closing the year with our 39th consecutive quarter of profitability.
- Completed the restructuring of our DeTeWe business in Germany, which included Aastra DeTeWe GmbH (formerly DeTeWe Systems GmbH), DeTeWe Communications GmbH, and their respective subsidiaries.
- Launched major releases for all of our European Enterprise Communications product platforms:
 - NeXspan
 - OpenCom
 - Ascotel/IntelliGateThese releases incorporated customer feature requests, implemented open standards such as SIP, and supported new corded and wireless terminals. These activities were coordinated with the launch of Computer Telephony (CTI), Call Center (ACP), and Unified Communications (UCP) applications for all platforms.
- Launched in Europe new proprietary IP and TDM terminals for our Ascotel and OpenCom product lines, a new WLAN terminal, and a dual mode DECT/WiFi base station.
- Developed and launched globally a new SIP DECT wireless solution with a new major release for our Open Mobility Manager. This has enabled us to launch SIP DECT as an OEM supplier to other major participants in our industry; it also enabled the launch of new DECT IP terminals for our European NeXspan product portfolio.
- Launched globally a complete family of SIP telephone terminals, and continued to deploy new releases demonstrating interoperability with many major call managers, as well as Aastra's own call manager platforms both in North America and Europe.
- Launched the SIP PointSpan Node (SPN) as a SIP migration strategy for our PointSpan installed base. This enables the deployment of Aastra SIP terminals with PointSpan functionality.
- Launched Clearspan as a next-generation campus VoIP network platform solution in North America.
- Launched Aastra OnDemand contact center services: a hosted service based on Aastra's PointSpan technology.
- Launched Aastra's EthoSourcing policy and code of conduct: a new ethical sourcing program to continuously monitor and improve, where needed, the working conditions and impact on the environment at factories where we manufacture our products.

ACQUISITION OF ERICSSON'S ENTERPRISE COMMUNICATION BUSINESS

On February 18, 2008, Aastra announced its agreement to acquire Ericsson's Enterprise Communication Business, which is comprised of leading IP-PBXs, converged PBX Systems, and Branch Office solutions. Subject to customary closing conditions, Aastra expects to complete the acquisition in April 2008. The product portfolio includes communications solutions for enterprises of all sizes, mobility solutions, telephone terminals, and services. We believe that this acquisition will provide Aastra with the increased scale and expanded customer base to be a leading player in Western Europe, while also increasing our footprint in a number of key global markets across Eastern Europe, Asia, Australia, the Middle East, Africa, and South America.

FINANCIAL HIGHLIGHTS

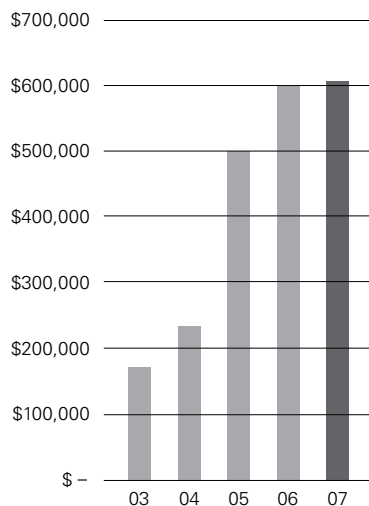
(In thousands of dollars – except percentage and per share amounts)

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|------------|------------|------------|------------|------------|
| Financial Performance | | | | | |
| Net Sales | \$ 606,589 | \$ 600,536 | \$ 500,759 | \$ 235,700 | \$ 173,912 |
| Gross Margin | 42.5% | 41.9% | 41.9% | 48.4% | 43.8% |
| Operating Income from Continuing Operations ² | \$ 44,258 | \$ 30,831 | \$ 30,170 | \$ 20,479 | \$ 20,002 |
| Net Earnings | \$ 35,767 | \$ 41,979 | \$ 26,315 | \$ 24,198 | \$ 20,956 |
| Basic Earnings Per Share | \$ 2.23 | 2.44 | 1.52 | 1.42 | 1.24 |
| Diluted Earnings Per Share | \$ 2.17 | 2.38 | 1.46 | 1.38 | 1.20 |
| Financial Position | | | | | |
| Net Working Capital | \$ 210,392 | \$ 190,238 | \$ 158,700 | \$ 177,320 | \$ 140,193 |
| Total Assets | \$ 446,470 | \$ 465,547 | \$ 470,017 | \$ 282,457 | \$ 272,869 |
| Shareholders' Equity | \$ 265,047 | \$ 242,333 | \$ 224,477 | \$ 219,945 | \$ 194,681 |
| Book Value Per Share | \$ 16.55 | 15.09 | 14.23 | 12.75 | 11.43 |
| Debt to Equity Ratio | 0.7 to 1 | 0.9 to 1 | 1.1 to 1 | 0.3 to 1 | 0.4 to 1 |
| Common Shares Outstanding | 16,015 | 16,010 | 17,474 | 17,207 | 17,032 |

Notes:

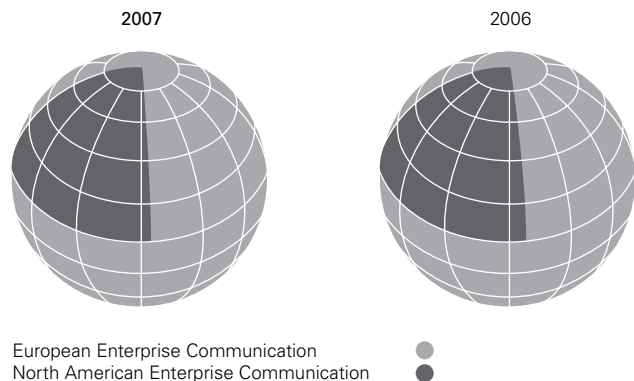
- (1) Results for prior years have been restated to reclassify results of the Digital Video business to discontinued operations.
 (2) Operating Income from Continuing Operations is defined as gross margin less selling, general and administrative, research, development and amortization expenses.

ANNUAL NET SALES



REVENUE BY GEOGRAPHICAL SEGMENT

| | 2007 | 2006 |
|---|----------------|----------------|
| European Enterprise Communication | 514,782 | 497,829 |
| North American Enterprise Communication | 91,807 | 102,707 |
| Total | 606,589 | 600,536 |



MESSAGE TO SHAREHOLDERS

In 2007, the North American economy underwent a fundamental change. Available credit tightened in the second half of the year from previous levels of excess created by lenient credit terms. For Aastra, the availability of excess credit during the first half of the year reduced our acquisition opportunities – private equity could tap this easy credit, driving valuations to lofty levels, which in our opinion, were unsustainable over the long term. During this period, we elected to not chase unsustainable valuations and instead we focused on refining our sales and marketing efforts, while also reorganizing our research and development teams for a more efficient and coordinated approach.



Aastra 6757i
SIP Telephone

Our patience and behind the scene efforts throughout 2007 were rewarded when we were presented with the opportunity to acquire Ericsson's Enterprise Communication business. The acquisition was announced on February 18, 2008 and is expected to be completed in April 2008. Although not reflected in the 2007 financial results, this acquisition has laid a foundation for transforming Aastra's future.

For 2007, we generated revenue of \$606.6 million, a slight increase over 2006 revenue of \$600.5 million. However, net earnings from continuing operations increased from \$23.6 million to \$35.9 million, an increase of 52.3%. Gross margins also improved from 41.9% to 42.5%. Although our earnings per share decreased from \$2.38 in 2006 to \$2.17 in 2007, this decline was attributable to the one-time gain in 2006 when we divested our Digital Video business. Excluding this one-time gain, our earnings per share from continuing operations would have increased from \$1.34 in 2006 to \$2.18 in 2007, an increase of 62.7%. Overall, our 2007 financial results reflect stable performance and operational improvements to our cost of goods sold and operating expenses, as well as the consolidation of our R&D activities. With our pre-tax operating margin at 7.8% in 2007 as compared to 4.5% in 2006, we are ready to focus on closing, transitioning, and integrating the announced Ericsson acquisition.

In 2007, we continued to streamline our operations, an effort that began in 2006. To

be more competitive, we transitioned over half of our labor-intensive terminal manufacturing activities to emerging markets. In doing so, we worked more closely with our contract manufacturers to improve their business practices. One important program implemented was our "EthoSourcing" policy, which sets standards on health and safety, working conditions, and the environment. We firmly believe this program ensures sustainable and reliable sources of supply. Overall, this program has been well received; our contract manufacturers acknowledge the need for such compliance as they transform their operations to provide world-class products on a sustainable level.

On the R&D side, we continued to consolidate, group, and align expertise previously spread out across our various R&D centers. In 2007, our teams were realigned as corporate Centers of Excellence. Each team is now focused on a core competence in support of all Aastra brands, a change from their traditional focus on historical product lines. Belgium manages applications, with a focus on web-based tools. France is developing large, resilient IP call managers. Switzerland is managing the evolution of our proprietary TDM and IP terminals. Germany is focused on mobility technologies, such as DECT and WiFi terminals, as well as system infrastructure. In North America, our teams continue to concentrate their activities on open standards, in particular SIP-based call servers and terminals, as well as carrier-grade campus area voice networks

and contact centers.

This realignment has enabled Aastra to eliminate overlapping projects and improve efficiencies, while still continuing to support our customers with maintenance releases for all of our core call managers and applications.

As we centralized our R&D management, we also undertook to separate our R&D efforts into research that is “incremental” and research that is innovative, which yields “new revenue opportunities.” In our market, an incremental R&D effort would typically be a successor to existing products: a product refresh or a maintenance software upgrade that would generate only an incremental revenue increase and, in certain circumstances, would sustain and protect our market share. The “new revenue opportunities” category includes products that are new offerings, targeting previously untapped revenue opportunities. Our goal is to allocate one third of our R&D budget to developing these new products.

During 2007, we introduced a number of successor products, including major software releases for all our call managers. The focus of these releases was to incorporate SIP standards, unified communications, and fixed mobile convergence. We introduced a new family of TDM and IP terminals for all our call servers. New revenue opportunities were created by our introduction of a full line of SIP phones, including SIP DECT for campus wireless systems. These products are not only compatible with our own systems, but they also work with most major third party call servers that support SIP. We continue to participate in the open source environment, such as Asterisk, where we ensure strong compatibility with our SIP phones. We have developed an Asterisk-based call manager solution for small businesses that we expect to launch in 2008. We also partnered with Microsoft to deliver a SIP-based call manager solution for small businesses that is driven by their Response Point softswitch. These call manager platforms will all use our SIP-based end points (handsets), a crucial commonality.

Because we focused our efforts in 2007 on improving our operational efficiency, we are prepared for the new challenge of completing, transitioning, and integrating the acquisition of Ericsson’s Enterprise Communication business. We believe this exciting acquisition will transform us into a truly global player. Our geographic footprint will change. Prior to the acquisition, we generated revenues as follows: 85% in

Western Europe, 14% in North America, and 1% in the rest of the world. After the acquisition, we expect our revenue to be generated as follows: 71% in Western Europe, 19% in the rest of the world, and 10% in North America. Moreover, we expect the acquisition to increase the number of countries in which we have business operations from 20 to 40 – a significant number. In addition, our products will be offered in more than 80 countries around the world and we expect our revenue opportunities to increase about two thirds from our current level.

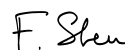
This acquisition will enable us to become one of the leading three suppliers, and possibly the number one supplier, of Enterprise Communications solutions in Western Europe. In terms of technological improvements, the acquisition will enable us to leverage Ericsson’s MX-ONE™, a global product with strong networking and mobile extension capabilities. Ericsson has long positioned itself as a leader in providing mobile solutions for Enterprise Communications, as demonstrated by its relationship with Microsoft, where Ericsson is the only mobility partner for unified communications. Aastra expects to build upon this relationship and looks forward to expanding our opportunities.

Looking Forward

When the acquisition of Ericsson’s Enterprise Communication business is completed, we will have expanded our global footprint and be poised to take advantage of new market opportunities. The acquisition will provide us with a credible market position in the emerging markets of Brazil, Russia, India, and China (BRIC) as well as established positions in Australia, Asia Pacific, Eastern Europe, and South Africa. Moreover, we will be able to leverage the channel partner strategy that enabled Ericsson to globally market its Enterprise Communication solutions in an efficiently scalable model.

The combined complementary operations of Aastra and Ericsson’s Enterprise Communication business will provide us with the size and scope to cover both large and small enterprises. We believe that this latest acquisition has now positioned us to become a global leader in the Enterprise Communications market. We will continue to focus on the long-term perspective, applying a steady and disciplined approach to growing our business. We look forward to achieving this goal in continuing partnership with our shareholders.

March 26, 2008



Francis Shen
Chairman
& Co-CEO



Anthony Shen
Co-CEO
President & COO

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 6, 2008.

Management's discussion and analysis may contain forward-looking information or forward-looking statements within the meaning of applicable securities legislation ("forward-looking statements"). Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, potentials, future events, or performance (often, but not always, using words or phrases such as "believes", "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", or "intends" or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken or achieved) are not statements of historical fact, but are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance or achievements, or developments in our business or in our industry, to differ materially from the anticipated results, performance, achievements, or developments expressed or implied by such forward-looking statements.

Please refer to the heading "Risk Factors" in our Annual Information Form for the year ended December 31, 2007 for the material factors that could cause our actual results to differ materially from the forward-looking statements contained herein. These factors include: the integration of our recent acquisitions and demand for our acquired products; our reliance on third party manufacturers and component suppliers (in general and related to the recently-acquired businesses); dependence on key personnel; risks related to expansion of our business operations – domestically and internationally; exchange rate fluctuations; risks related to future acquisitions, including the pending acquisition announced on February 18, 2008; requirements for additional financing of our business and any future acquisitions; credit terms extended to our customers; continued implementation of an enterprise resource planning system; potential fluctuations in quarterly financial results; possible volatility in our share price; product and geographic concentration in conjunction with the limited range of products that we sell; our historical dependence on some large customers; risks associated with product returns and product defects; our ability to protect our intellectual property; our potential vulnerability to computer and information systems security breaches; competition from third parties; rapid technological change as the Enterprise Communication market moves to Voice over Internet Protocol ("VoIP") technology; risk of third party claims for infringement of intellectual property rights by others; and risks related to technical standards and the certification of our products.

It is important to note that:

- Unless otherwise indicated, forward-looking statements describe our expectations as of the date of this management's discussion and analysis.
- We caution readers not to place undue reliance on these statements as our actual results may differ materially from our expectations if known and unknown risks or uncertainties affect our business, or if our estimates or assumptions prove inaccurate. Therefore, we cannot provide any assurance that forward-looking statements will materialize.
- We assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or any other reason.

FISCAL 2007 FINANCIAL HIGHLIGHTS

ACHIEVED RECORD SALES OF \$606.6 MILLION

NET EARNINGS FROM CONTINUING OPERATIONS INCREASED BY 52.3% TO \$35.9 MILLION

PRE-TAX OPERATING MARGIN AS A PERCENTAGE OF SALES IMPROVED TO 7.8%

CLOSED THE YEAR WITH 39 CONSECUTIVE QUARTERS OF PROFITABILITY

GENERATED \$47.7 MILLION OF CASH FLOW FROM CONTINUING OPERATIONS

CLOSED THE YEAR WITH \$133.2 MILLION IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

OVERVIEW OF THE COMPANY

Aastra Technologies Limited develops, markets, and supports a comprehensive portfolio of enterprise business telephony solutions, including hybrid IP-PBX and traditional PBX telephone systems. In addition, the Company offers a number of analog, digital, and open standard VoIP terminals, as well as a range of wireless DECT terminals and a significant number of advanced software applications, including contact center solutions. The Company serves a number of telephone companies ("telcos"), as well as a vast network of dealers and distributors, and operates primarily in North America and Europe.

OVERVIEW OF RESULTS OF OPERATIONS

The following table presents selected annual information for the years ended December 31, 2007, 2006 and 2005. The information has been prepared in accordance with accounting principals generally accepted in Canada and the amounts are in Canadian dollars.

Selected Annual Information

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

| | 2007 | | 2006 | | 2005 | |
|---|------------|--------|------------|--------|------------|--------|
| Sales | \$ 606,589 | 100.0% | \$ 600,536 | 100.0% | \$ 500,759 | 100.0% |
| Cost of goods sold | 349,051 | 57.5% | 348,906 | 58.1% | 291,188 | 58.1% |
| Gross margin | 257,538 | 42.5% | 251,630 | 41.9% | 209,571 | 41.9% |
| Operating expenses: | | | | | | |
| Selling, general & administrative | 145,229 | 23.9% | 144,334 | 24.0% | 115,908 | 23.1% |
| Research & development | 54,629 | 9.0% | 59,631 | 9.9% | 47,179 | 9.4% |
| Depreciation and amortization | 13,422 | 2.3% | 16,834 | 2.8% | 16,314 | 3.3% |
| Foreign exchange loss (gain) | 400 | 0.1% | (2,909) | (0.4%) | 4,278 | 0.9% |
| Investment income | (3,535) | (0.6%) | (4,361) | (0.7%) | (1,145) | (0.2%) |
| Other charges (income) | (170) | (0.0%) | 11,356 | 1.9% | – | 0.0% |
| Earnings from continuing operations before income taxes | 47,563 | 7.8% | 26,745 | 4.4% | 27,037 | 5.4% |
| Income tax expense | 11,655 | 1.9% | 3,168 | 0.5% | 4,226 | 0.8% |
| Net earnings from continuing operations | 35,908 | 5.9% | 23,577 | 3.9% | 22,811 | 4.6% |
| Earnings (loss) from discontinued operations, net of income taxes | (141) | (0.0%) | 18,402 | 3.1% | 3,504 | 0.7% |
| Net earnings | 35,767 | 5.9% | 41,979 | 7.0% | 26,315 | 5.3% |
| Earnings per share | | | | | | |
| from continuing operations: | | | | | | |
| Basic earnings per share | 2.24 | | 1.37 | | 1.32 | |
| Diluted earnings per share | 2.18 | | 1.34 | | 1.27 | |
| Earnings per share: | | | | | | |
| Basic earnings per share | 2.23 | | 2.44 | | 1.52 | |
| Diluted earnings per share | 2.17 | | 2.38 | | 1.46 | |
| Total assets | 446,470 | | 465,547 | | 470,017 | |
| Total long-term financial liabilities | 37,095 | | 51,140 | | 57,622 | |

PRODUCT SEGMENTATION

The Company operates in one product focused segment, Enterprise Communication. 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. Management reviews operations of this segment geographically and, as such, has split the disclosures presented below into North America and Europe.

There are two sets of key performance drivers for the Enterprise Communication segment. Where the Company has a direct sales relationship with the end customer, our ability to provide timely service and maintenance of the systems at our customers' sites is a key performance driver. The risk is that our customers experience system downtime, disrupting their operations. This is an essential performance driver of our Intecom business in the United States, which sells medium to large installed PBX systems and our DeTeVve Communications business in Germany, as well as our operations in Belgium, which sell and install small to medium sized IP-PBX and traditional PBX systems.

Where the Company has an indirect sales relationship with the end customer, the first key performance driver is our ability to maintain strong relationships with our sales channels, including telcos, distributors, and partners, which sell our products to the end customer. The Company strives to keep our sales channels educated and trained on all of our products in order for them to be able to sell to and service our end customers. The second key performance driver is our ability to offer a product road map and remain current on technological changes in our market, including VoIP, cordless technologies, and software applications for the enterprise customer.

SALES

Effect of Foreign Exchange on Sales

The Company's reporting and functional currency is the Canadian dollar while the 2007 results include only 3.1% of sales generated by customers in Canada. Foreign exchange rates between the Canadian dollar and major global currencies significantly affect the Company's reported operating results. The following chart shows the average exchange rates for 2007 and 2006 from selected foreign currencies to Canadian dollars. The variance represents the strengthening or weakening of these foreign currencies against the Canadian dollar during 2007:

| 1 unit of foreign currency = Canadian dollars | 2007 | 2006 | \$ variance | % variance |
|---|--------|--------|-------------|------------|
| U.S. dollar | 1.0740 | 1.1341 | (0.0601) | (5.3%) |
| Euro | 1.4690 | 1.4237 | 0.0453 | 3.2% |
| Swiss franc | 0.8945 | 0.9050 | (0.0105) | (1.2%) |
| British pound | 2.1475 | 2.0886 | 0.0589 | 2.8% |

The strengthening of the Canadian dollar against the U.S. dollar during 2007 means that if sales earned by the Company in the U.S. were equal in 2007 and 2006 they would be translated into fewer Canadian dollars in 2007 than in 2006. The opposite can be said of the Euro and British pound because the Canadian dollar weakened against these currencies during 2007. When holding the foreign currency sales equal between years, the translation of sales to Canadian dollars in 2007 is favorable.

If average exchange rates in 2007 had remained constant with 2006, sales earned would have decreased by approximately 0.6% compared to 2006 sales. The positive impact of the weakening of the Canadian dollar against the Euro and British pound outweighed the negative impact of the strengthening of the Canadian dollar against the U.S. dollar. The net positive impact on sales in the twelve-month period ended December 31, 2007 was approximately \$9.7 million.

Segment Sales by Geographic Distribution

| (\$000's – except percentages) | 2007 | | 2006 | | \$ variance |
|---|------------|--------|------------|--------|-------------|
| European Enterprise Communication | \$ 514,782 | 84.9% | \$ 497,829 | 82.9% | \$ 16,953 |
| North American Enterprise Communication | 91,807 | 15.1% | 102,707 | 17.1% | (10,900) |
| Total Sales | \$ 606,589 | 100.0% | \$ 600,536 | 100.0% | \$ 6,053 |

European Enterprise Communication sales increased by \$17.0 million or 3.4%, from \$497.8 million in 2006 to \$514.8 million in 2007. Excluding the positive effect of foreign exchange, European Enterprise Communication sales increased by only \$3.6 million or 0.7% between 2006 and 2007. Sales in Europe include the Ascotel, NeXspan, and OpenCom IP-PBX and PBX systems, as well as our IP terminals. The Company experienced strong sales in our German business, where we have a direct relationship with the end customer and provide integrated solutions, including products, service, and maintenance. Our sales were also strong in Switzerland, where we have a significant presence within the small and medium enterprise market. In April 2007, we purchased the controlling share in a business in Portugal, which has a strong relationship with the leading telco in the Portuguese market. This acquisition provided an increase of \$4.1 million in sales in 2007 when compared to 2006. While our business in Italy experienced a decrease in sales due to the general economic conditions in the country, sales in most other countries in Europe were generally comparable to 2006.

North American Enterprise Communication sales decreased by 10.6%, from \$102.7 million in 2006 to \$91.8 million in 2007. Excluding the negative effect of foreign exchange, North American Enterprise Communication sales decreased by \$7.2 million or 7.0%. North American sales include the Aastra Intecom business, which sells and services medium to large installation projects of the PointSpan PBX and the recently launched VoIP Clearspan product lines, as well as the Centergy call center solutions.

Sales in Canada decreased 8.9% from \$20.4 million in 2006 to \$18.6 million in 2007 mainly due to a decrease of \$2.6 million in sales of legacy analog and digital telephones. This decrease is partially offset by an increase of \$0.7 million in sales of VoIP telephone terminals.

Sales in the U.S. decreased 8.5% from \$71.9 million in 2006 to \$65.8 million in 2007, primarily as a result of a negative impact from foreign exchange of \$3.6 million. Sales of VoIP terminals increased from \$2.7 million to \$6.6 million and sales of analog and digital terminals decreased from \$26.0 million to \$22.2 million in 2007. In addition, U.S. sales were impacted by a decline in large system sales from \$16.1 million in 2006 to \$12.4 million in 2007 and related service revenue from \$26.4 million in 2006 to \$23.3 million in 2007.

Sales in North America also include sales of analog, digital, and open standard VoIP terminals. Included in North America are the results of other foreign jurisdictions, such as the Far East and Australia, which are managed from North America and are not reviewed separately by senior management. Sales in other foreign jurisdictions decreased from \$10.4 million in 2006 to \$7.4 million in 2007 as sales of analog and digital terminals continued to decline from \$9.7 million to \$6.4 million while sales of VoIP telephone terminals increased by \$0.3 million to \$1.0 million.

GROSS MARGIN

Gross margin increased slightly from 41.9% of sales in 2006 to 42.5% of sales in 2007. The following table presents gross margin by geographic distribution:

| (\$000's -- except percentages) | Gross Margin 2007 | % of Segment Revenue | Gross Margin 2006 | % of Segment Revenue |
|---|----------------------|-------------------------|----------------------|-------------------------|
| European Enterprise Communication | \$ 222,756 | 43.3% | \$ 205,515 | 41.3% |
| North American Enterprise Communication | 36,259 | 39.5% | 46,115 | 44.9% |
| Corporate | (1,477) | — | — | — |
| Total | \$ 257,538 | 42.5% | \$ 251,630 | 41.9% |

In Europe, gross margin increased from 41.3% in 2006 to 43.3% in 2007. Despite a marginal decline in average selling prices, we were able to decrease our cost of goods sold as we transferred the production of certain products to our vendors in Asia. At the same time, gross margin was positively impacted as a result of lower spending on overhead functions as we consolidated certain supply chain activities.

In North America, the gross margin decreased from 44.9% in 2006 to 39.5% in 2007. Gross margin in both the Intecom business and the terminals business in North America decreased. The revenue generated from large system product sales in Aastra Intecom, on which the Company earns higher gross margin, decreased in 2007 as a percentage of total revenue, thus resulting in lower gross margin percentage in this business. The North American terminals business experienced a decrease in gross margin as a result of the increased percentage of VoIP terminal sales, which generate a lower margin than our traditional analog and digital product lines.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses increased slightly from \$144.3 million in 2006 to \$145.2 million in 2007 and as a percentage of sales remained constant at approximately 23.9%. During 2007, Aastra increased its spending on marketing efforts by \$1.8 million, particularly in Europe, to gain brand recognition and to continue the transition from the NeXspan and DeTeWe product lines to the Aastra name. Labor costs remained relatively consistent with 2006 as our labor force has remained approximately the same since the restructuring that commenced in 2005 and was completed early in 2006. Additions to headcount in 2007 were focused mainly in the sales teams of both Europe and North America, where we have continued to transition our sales resources as the enterprise market transitions to IP.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses were \$54.6 million or 9.0% of sales in 2007 compared to \$59.6 million or 9.9% of sales in 2006.

In 2006, the research and development groups across Europe were realigned into Centers of Excellence in several locations. The Swiss research and development group is focused on the development of proprietary TDM and IP terminals, the French group on the development of large enterprise IP and IP-PBX communication systems, the German group on mobility technologies including DECT and WiFi mobility solutions, and the Belgian group on applications. This approach has allowed Aastra to better prioritize projects and has led to some substantial cost reductions as duplicated efforts across the groups have started to be eliminated. The North American research and development team has been working with these European groups to update proprietary terminal product lines for the OpenCom and NeXspan systems. In December 2007, Aastra completed a restructuring of the Intecom research and development team in order to better support the new Clearspan IP large enterprise solution launched at the end of 2007.

In 2008, we expect to see continued integration within our research and development groups in Europe and North America as we aim to streamline our expenditures and develop products to meet the needs of an international customer base. Such integration should continue to produce cost saving opportunities as additional overlaps and inefficiencies are eliminated. Through our current initiative attempts to achieve cost efficiency, we continue to see a controlled investment in research and development as a critical factor in the ability of the Company to create sustainable long-term growth in the enterprise communication equipment market.

Early in 2002, Aastra entered into an agreement with Technology Partnerships of Canada. This program provided Aastra a maximum of \$9.9 million in funding to reimburse 33% of eligible costs of a research project aimed at developing new wireless or VoIP communication devices. A final benefit of \$2.2 million was recorded in 2005 and no benefits were recorded in 2006 or 2007 relating to government assistance received under the Technology Partnerships of Canada Program. The agreement specifies repayment of the funding 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. Such repayments will be recorded as royalty expenses at the time they are made. In 2007, the Company paid royalties of \$0.1 million (2006 - \$nil) to Technology Partnerships of Canada.

During 2007, Aastra recorded a benefit of \$0.5 million, compared to \$0.8 million in 2006, 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.

DEPRECIATION AND AMORTIZATION

Excluding the depreciation of tooling, which is recorded as part of cost of goods sold, depreciation and amortization expense decreased from \$16.8 million in 2006 to \$13.4 million in 2007. Patents acquired in a 2001 acquisition from Nortel Networks and customer order backlog assets acquired in a 2005 acquisition from EADS were fully amortized during 2006, leading to the decrease in amortization expense from \$8.7 million in 2006 to \$6.4 million in 2007. In addition, depreciation of property and equipment decreased from \$8.1 million in 2006 to \$7.0 million in 2007 as a result of a lower volume of capital additions in the past few years.

FOREIGN EXCHANGE

Aastra recognized a loss on foreign exchange of \$0.4 million in 2007 compared to a gain of \$2.9 million in 2006. The foreign exchange loss experienced in 2007 was mainly recognized in North America where the Canadian dollar strengthened against the U.S. dollar. In addition, strong gains on foreign exchange from our operations in Europe were offset by foreign exchange losses resulting from a reduction in our net investments in certain foreign European subsidiaries. Our net investments were reduced as we repatriated foreign currencies from certain foreign subsidiaries during 2007. As cash is repatriated back to Canada from its self-sustaining foreign subsidiaries, a portion of the exchange gains and losses previously accumulated in other comprehensive income (loss) is recognized in income.

The foreign exchange gain experienced in 2006 was mainly recognized in Europe where the currency movements between the Swiss franc and the Euro were favorable. These gains in 2006 were offset partially by losses on exchange from the strength of the Canadian dollar against the U.S. dollar while the repatriation of foreign currencies back into Canada did not have a significant impact on foreign exchange losses in 2006.

INVESTMENT INCOME

Investment income decreased to \$3.5 million in 2007 compared to \$4.4 million in 2006. In the latter half of 2006 the Company used cash proceeds of \$51.2 million to repurchase its own shares and as a result there was a lower average short-term investment balance in 2007. In addition, the Company experienced losses in 2007 on certain investments in the second quarter of 2007 as interest rates began to increase, causing losses from fair value adjustments. Finally, the Company's investment income was negatively impacted as \$8.5 million of its long-term investment is invested in an asset-backed commercial paper ("ABCP") that has not been earning any interest since October 2007. Please refer to the sections titled "Other Charges" and "Fair Value of Asset-Backed Commercial Paper" for more information on this investment.

The Company continues to invest its excess cash primarily in highly liquid short-term instruments such as Canadian banker acceptances, treasury bills, and government bonds in an effort to achieve a low-risk rate of return on these balances while always maintaining the liquidity of these funds for other corporate purposes.

OTHER CHARGES (INCOME)

The following table presents the contents of the Consolidated Income Statement line item, Other Charges (Income):

| (\$000's) | 2007 | 2006 |
|--|------------|------------|
| Contingent consideration | \$ (1,789) | \$ (1,810) |
| Change in fair value of long-term investment in ABCP | 1,619 | - |
| Foreign exchange loss | - | 13,166 |
| Total | \$ (170) | \$ 11,356 |

Other charges (income) in the 2007 statement of income include the net effect of two transactions. First, we have recorded a gain from contingent consideration not earned by the Seller of the Ascotel Group in 2003. The payment of this consideration was contingent on the achievement of specific levels of revenue by the acquired business. During 2007 and 2006, the acquired business did not reach the specified levels of revenue and, as a result, the contingent consideration was not earned and the accrual for the payment was reversed, resulting in a gain of \$1.8 million (2006 – \$1.8 million) or 2.0 million Swiss francs (2006 – 2.0 million Swiss francs) in the income statement during the fourth quarter of each of these years. At December 31, 2007, a balance of \$1.7 million or 2.0 million Swiss francs remains relating to 2008 revenue levels.

Also included in the other charges (income) is a fair value adjustment loss of \$1.6 million relating to our investment in ABCP. In July 2007, the Company invested \$8.5 million in ABCP issued by Structured Investment Trust III ("SIT ABCP") which was rated R1-High by the Dominion Bond Rating Service at the time it was purchased. In August 2007, the market for trading certain ABCP in Canada was halted after several issuers of ABCP could not obtain financing to roll their investments. The fair value of the SIT ABCP was calculated using a going concern valuation approach and the inputs to this approach are discussed in the section below titled "Fair Value of Asset-Backed Commercial Paper."

Other charges in the 2006 statement of income includes a one-time foreign exchange loss incurred when one of the Company's U.S. subsidiaries made the decision to repurchase certain shares that it had previously issued to its Canadian parent company. This subsidiary used the proceeds from the sale of the Digital Video business, which

occurred on May 31, 2006 to repurchase the shares. As a result of this transaction, the Canadian company's net investment in the U.S. subsidiary was reduced resulting in a non-cash foreign exchange loss of \$13.2 million being reported in the income statement. This foreign exchange loss had previously been recognized in the accumulated other comprehensive income (loss) on the balance sheet.

INCOME TAX EXPENSE

Income tax expense was \$11.7 million or 24.5% of pre-tax income in 2007, compared to \$3.2 million in 2006 or 11.8% of pre-tax income. With the combined effect of earning taxable income in lower tax jurisdictions, as well as continuing to make use of a limited amount of additional tax loss carry forwards previously not recognized for accounting purposes, the Company has continued to report a tax rate that is significantly lower than its statutory tax rate in Canada.

DISCONTINUED OPERATIONS

On May 31, 2006, the Company sold its Digital Video business, centered in the U.S. with operations in the U.K. and Canada, to Harris Corporation for cash consideration of \$38.1 million (U.S. \$34.6 million). The sale of this business was driven by the Company's desire to focus its business efforts on the Enterprise Communication market. The sale of the Digital Video business met the criteria for presentation as discontinued operations and the results of the business are disclosed separately from those of continuing operations for the periods presented. In the first quarter of 2007, Aastra settled a post closing adjustment with Harris Corporation, which resulted in an expense of \$0.1 million. The following chart presents further information about the results of the Digital Video business for 2007 and 2006:

| (\$000's – except per share amounts) | 2007 | 2006 |
|--|----------|-----------|
| Sales | \$ – | \$ 9,157 |
| Earnings from discontinued operations, net of income taxes of \$ nil (2006 – \$559) | \$ – | \$ 839 |
| Gain on sale of discontinued operations, net of income taxes of \$ nil (2006 – \$10,061) and transaction costs | – | 17,563 |
| Post closing adjustment on the sale of discontinued operations, net of income tax recovery \$93 (2006 – \$ nil) | (141) | – |
| Total earnings from discontinued operations, net of income taxes | \$ (141) | \$ 18,402 |
| Earnings per share from discontinued operations: | | |
| Basic | \$ 0.01 | \$ 1.07 |
| Diluted | \$ 0.01 | \$ 1.04 |

NET EARNINGS

Net earnings from continuing operations increased from \$23.6 million in 2006 or 3.9% of sales to \$35.9 million or 5.9% of sales in 2007. The other charges (income) line item includes several one-time losses and non-cash gains in both 2006 and 2007. Excluding other charges (income), net earnings from continuing operations increased from \$34.9 million or 5.8% of sales in 2006 to \$35.7 million or 5.9% in 2007. The increase in net earnings from continuing operations, excluding other charges (income), was a result of the combined impact of modest increases in sales and gross margin, as well as a reduction in operating costs and amortization expenses during 2007.

Net earnings decreased from \$42.0 million in 2006 to \$35.8 million due to the impact of the gain on the sale of the Digital Video business in May 2006 as described above in the section titled "Discontinued Operations."

FAIR VALUE OF ASSET-BACKED COMMERCIAL PAPER

In July 2007, the Company invested in two asset-backed commercial papers ("ABCP"), which were rated R1-High by the Dominion Bond Rating Service at the time they were purchased. The Company invested \$5.2 million in ABCP issued by Lafayette Structured Credit Trust, which matured and was settled in full on October 27, 2007. The Company invested \$8.5 million in ABCP issued by Structured Investment Trust III, which is classified as a long-term investment held-for-trading on the Consolidated Balance Sheet. The SIT ABCP matured on October 10, 2007; however, neither principal nor interest were received, nor was any amount received subsequent to year-end.

In August 2007, the Dominion Bond Rating Service placed the issuer of the SIT ABCP "Under Review with Developing Implications." The Pan-Canadian Investors Committee ("Investors Committee") has been formed to restructure the pool of assets underlying the affected ABCP into longer term floating rate notes.

As the investment is not supported by observable market price or rates at December 31, 2007, the Company's management determined the fair value of the SIT ABCP using a going concern valuation approach to a discounted cash flow model to come up with a range of reasonably possible outcomes. The approach was chosen because we have assumed that the restructuring planned by the Investors Committee would be successful and that the floating rate notes received in place of the SIT ABCP would perform like any other financial instrument. The following inputs were factored into the valuation technique:

(a) Type of underlying assets

The Information Session for Third Party ABCP Holders held on December 24, 2007 by the Investors Committee suggested that the pooled assets be split into Senior Pooled Notes and Subordinated Pooled Notes in the Master Asset Partnership 2 ("MAP2"). The split of senior and junior notes will be based on the split in the SIT ABCP of higher rated assets versus lower rated assets. The Investors Committee did not give specific guidance for the SIT ABCP itself but indicated that the affected ABCPs would result in a range of senior to junior notes between 90% to 10% and 80% to 20%. Interest is expected to be paid on senior notes on a periodic basis over the term, while it is assumed that interest payments on the junior notes will occur only at the end of the term when the senior notes are fully liquidated.

(b) Term of investment

The SIT ABCP matured on October 10, 2007. On December 24, 2007, the Investors Committee suggested that the term of the pooled notes would be a range of between five and eight years.

(c) Coupon rate of interest

The Company understands that the cost of restructuring the pooled assets and the cost of the margin facility on MAP2 will lead to a decrease in the coupon rate of interest paid on the floating rates. The Company used a range of coupon rates from 3.10% to 3.75% in the valuation model, which includes an estimate of restructuring charges.

(d) Discount rate

The discounted cash flow valuation technique requires a discount rate to match the risks of this investment, now that the term of the investment is much longer than anticipated when it was purchased, and also to incorporate the liquidity and credit quality premiums. The yield on Canadian asset-backed AAA paper at December 31, 2007 is quoted as 5.35% to 5.45% depending on the maturity dates (five to seven years). The Company has added a premium for credit and liquidity risk of 100 basis points in the valuation model.

The output from the valuation technique has given the Company a range of reasonably possible fair values from \$6.3 million to \$7.7 million. The Company has recorded a fair value adjustment loss of \$1.6 million and the SIT ABCP is classified as a long-term asset on the Consolidated Balance Sheet at \$7.0 million.

The Company is continuing to monitor the progress of the Investors Committee. Based on existing knowledge, it is reasonably possible that changes in future conditions in the near term could require a material change in the recognized amount.

QUARTERLY INFORMATION

The following table presents key financial information by quarter for the current and previous year:

| (\$ 000's – except per share amounts) | | | | | | |
|---------------------------------------|------------|--|--|-----------------|--------------|----------------|
| | Sales | Net Earnings from Continuing Operations | Net Earnings from Discontinued Operations | Net Earnings | Basic EPS | Diluted EPS |
| 2007 | | | | | | |
| Quarter One | \$ 153,251 | \$ 8,300 | \$ (141) | \$ 8,159 | \$ 0.51 | \$ 0.50 |
| Quarter Two | 156,982 | 8,237 | – | 8,237 | 0.51 | 0.50 |
| Quarter Three | 141,148 | 7,112 | – | 7,112 | 0.44 | 0.43 |
| Quarter Four | 155,208 | 12,259 | – | 12,259 | 0.77 | 0.75 |
| 2006 | | | | | | |
| Quarter One | \$ 145,673 | \$ 7,543 | \$ 84 | \$ 7,627 | \$ 0.44 | \$ 0.42 |
| Quarter Two | 151,300 | (203) | 17,343 | 17,140 | 0.97 | 0.94 |
| Quarter Three | 142,777 | 4,678 | – | 4,678 | 0.27 | 0.27 |
| Quarter Four | 160,786 | 11,559 | 975 | 12,534 | 0.76 | 0.74 |

The quarterly sales figures in 2006 and 2007 highlight the seasonality of our third and fourth quarter operating results. As a result of the impact of the European vacation schedule, the third quarter sales and operating results are seasonally weaker than the first and second quarter. In addition, this results in the fourth quarter being seasonally stronger as a result of pent up demand created by the third quarter vacation schedule.

Sales for the three months ended December 31, 2007 were \$155.2 million compared to sales of \$160.8 million for the same period in 2006, a decrease of 3.5%. Sales in Europe increased from \$134.6 million in the three months ended December 31, 2006 to \$135.0 million in the same period in 2007. This increase is despite the fact that the average foreign exchange rates of the Euro, British pound and Swiss franc were lower in the three months ended December 31, 2007 than in the same period of 2006, indicating that local currency revenues increased in the 2007 period over the 2006 period. Holding exchange rates constant, the increase in revenues in European Enterprise Communication would have been an increase of 3.6% in the fourth quarter of 2007 compared to 2006,

representing the strongest quarterly year-over-year improvement for the year.

Sales in North America decreased from \$26.2 million in the three months ended December 31, 2006 to \$20.2 million in the same period in 2007, a decrease of 23.0%. The Canadian dollar was, on average, stronger against the U.S. dollar in the three months ended December 31, 2007 than the same period of 2006. Excluding the impact of foreign exchange, sales would have decreased 13.8% between the fourth quarter of 2007 and 2006 as a result of weakness in large system sales by Aastra Intecom and weaker sales of legacy analog and digital telephones. Sales of VoIP telephone terminals totaled \$2.8 million in the fourth quarter of 2007, compared to \$1.5 million in the fourth quarter of 2006, representing a 95.0% increase.

Gross margin was 42.8% of sales for the three months ended December 31, 2007, compared to 42.5% of sales in the same quarter last year. In Europe, gross margin increased from 43.5% in 2006 to 44.3% in 2007. In North America, gross margin decreased from 37.4% in 2006 to 34.8% in 2007 as a result of the customer shift to VoIP products.

Research and development expenses in the fourth quarter of 2007 were \$13.0 million, or 8.4% of sales, compared to \$16.0 million, or 9.9% of sales in the comparable quarter of 2006. Selling, general, and administrative expenses were \$35.0 million, or 22.5% of sales, in the quarter, compared to \$38.0 million, or 23.6% of sales, in the fourth quarter of 2006.

Aastra recorded a foreign currency loss of \$0.6 million during the fourth quarter of 2007, compared to a foreign exchange gain of \$1.9 million in the fourth quarter of 2006, as a result of the relative strength in the Canadian dollar in the fourth quarter of 2007, compared to a weakening in the Canadian dollar against the Euro and Swiss franc in the fourth quarter of 2006.

Investment income decreased from \$1.5 million in the fourth quarter of 2006 to \$1.0 million in the fourth quarter of 2007, as a result of lower average short-term investment balances.

As discussed above in the section titled "Fair Value of Asset-Backed Commercial Paper", the Company recorded a fair value adjustment loss on its SIT ABCP, during the fourth quarter of 2007, of \$1.6 million. During the fourth quarter, the Company became aware of additional information that would lead it to believe that its required investment period could be longer than previously anticipated while the resulting yield on this investment, subsequent to its restructuring, could be lower than previously anticipated. At September 30, 2007, the Company assessed the fair value of this investment to be equal to its book value and no fair value adjustment was recorded.

Income tax expense was \$3.6 million in the fourth quarter, or 22.9% of pre-tax net earnings from continuing operations, compared to \$3.0 million or 20.9% of pre-tax net earnings from continuing operations in the fourth quarter of 2006. While income tax rates have continued to be impacted by profits in lower tax jurisdictions, there was a shift towards more of the Company's taxable income coming from higher tax jurisdictions in Europe during the fourth quarter.

As a result of the above, net earnings for the three months ended December 31, 2007 were \$12.3 million, or \$0.75 diluted earnings per share, compared to \$12.5 million, or \$0.74 diluted earnings per share, in the same period in 2006.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, Aastra held \$133.2 million of cash, cash equivalents, and short-term investments, compared to \$115.7 million at the end of 2006.

Cash flow from operations was \$47.7 million in 2007, in comparison to \$54.6 million in 2006. At December 31, 2007, Aastra had net working capital of \$210.4 million, compared to \$190.2 million at December 31, 2006. Aged receivables decreased to 81 days in 2007, compared to 88 days in 2006. Aastra continues to pursue its goal of achieving the best credit policies possible in each of the countries in which it operates. However, customers in Western Europe generally have significantly longer credit terms than North America and, as a result, the consolidated accounts receivable turnover will continue to be longer than North American standards.

The Company used cash flow from discontinued operations of \$0.1 million in 2007 to settle post-closing adjustments on the sale of the Digital Video business. In 2006, discontinued operations were a source of cash flow of \$20.4 million. The main use of cash in financing activities during 2007 was the repayment of bank indebtedness. The disposition of the business took place on May 31, 2006.

Financing activities used cash flow of \$3.0 million during 2007 compared to a use of cash flow of \$52.5 million in 2006. The main use of cash in financing activities during 2007 was the repayment of bank indebtedness. The primary use of cash for financing activities during 2006 was a result of the decision to buy back certain of the Company's common shares for cancellation. This buyback was achieved through two initiatives, which in total used \$51.2 million during 2006. The first initiative began on August 4, 2006 when the Company received approval to commence a Normal Course Issuer Bid (the "Bid") for up to 877,551 of its common shares at prevailing market prices on the Toronto Stock Exchange. The Bid commenced August 9, 2006 and terminated on August 8, 2007. During the year ended December 31, 2006, 757,500 shares were repurchased under the Bid at an average per share value of \$28.36, for an aggregate purchase amount of \$21.5 million.

The second initiative began on November 10, 2006 when the Company received approval to repurchase for cancellation up to 2,066,666 of its common shares through a Dutch auction issuer bid, in a range of \$30.00 to \$33.00 per share (the "Offer"). The Offer expired on December 19, 2006 and 901,511 common shares were deposited and not withdrawn prior to the Company's notification and instruction to take up the deposited common shares. Pursuant to the terms of the Offer, the Company determined the purchase price to be \$33.00 per common share

to allow it to take up the maximum number of common shares deposited to the Offer for an aggregate purchase amount of \$29.8 million.

On August 8, 2007, the Company received approval to commence a second Normal Course Issuer Bid (the "2007 Bid") for up to 800,000 of its common shares at prevailing market prices on the Toronto Stock Exchange. The 2007 Bid commenced August 10, 2007 and will terminate on the earlier of August 9, 2008 or the date on which a total of 800,000 common shares have been repurchased pursuant to the terms of the 2007 Bid. From the commencement of the 2007 Bid to December 31, 2007, no shares have been repurchased.

On February 18, 2008, the Company announced that it has entered into an agreement with Telefonaktiebolaget LM Ericsson ("Ericsson") to acquire Ericsson's Enterprise Communication business for consideration of \$103 million (Swedish krone 650 million). The acquisition is scheduled to close in April 2008 and the Company expects to finance the acquisition through existing excess cash and short-term investments. In addition to the purchase price, the Company expects to invest approximately \$57.0 million in additional working capital to operate the acquired Ericsson business.

The Company is confident that its liquidity position will continue to be very strong throughout 2008 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. However, it will consider debt or equity financing during 2008 in light of the announced acquisition.

At December 31, 2007, the Company had approximately \$30.1 million (2006 – \$29.1 million) of available bank overdraft facilities to provide short-term financing, of which \$nil (2006 – \$2.4 million) was used. The Company had drawn \$1.2 million (2006 – \$0.8) on longer term credit facilities used to finance equipment leases in Europe.

The Company operates two stock option plans, the first of which was initiated during the year 2000 and is hereafter referred to as the "2000 Option Plan." The second plan was approved by shareholders at the Company's Annual General Meeting in May 2006 and is hereafter referred to as the "2006 Option Plan." Under the 2000 Option Plan, 3,000,000 common shares of the Company were reserved for the issuance of stock options and the Company granted stock options to certain employees, officers, and directors. The commencement of the 2006 Option Plan means that there will be no further grants under the 2000 Option Plan, from the date of its approval.

Under the 2006 Option Plan, the Company is able to grant options up to 10% of its outstanding share capital on the date of grant. Options are priced at the weighted average share price outstanding for the five days preceding the option grant date. The Company has granted stock options to certain employees, officers and directors. Stock options currently granted vest over periods from one to six years and expire between five and ten years from the date of grant. During 2007, the Company issued \$1.3 million (2006 – \$2.1 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 6, 2008, was 16,021,573 and 1,638,500 respectively. The number of options vested and exercisable on March 6, 2008 was 876,125.

Investing activities were a source of cash flow of \$14.7 million during 2007, compared to a use of cash flow of \$22.3 million in 2006. The main movement of cash flow from investing activities in both periods was the maturity of short-term investments, net of purchases of short-term investments, which was a source of cash flow in 2007 of \$36.6 million (2006 – use of cash flow of \$10.6 million). At December 31, 2007, excess cash was invested in highly liquid short-term instruments, which allowed the Company to meet its cash demands in short time frames. In 2007, the Company purchased an ABCP, which was rated R1(high) at the time it was bought for \$8.5 million. This ABCP is part of the pool of assets being restructured by the Investors Committee, as described above in the section titled "Fair Value of ABCP." The Company has estimated that the investment will now mature in five to eight years, based on the Information Session for Third Party ABCP Holders held on December 24, 2007 by the Investors Committee and, as such, it has been classified on the Consolidated Balance Sheet as a long-term investment. Cash flow was also used for the purchase of property and equipment of \$13.1 million in 2007 (2006 – \$11.5 million).

During 2003, Aastra acquired, for cash of \$24.6 million, certain inventories, property and equipment, and intangible assets of the Ascotel Group from Ascom Holdings AG. Under the Ascom purchase agreement, Aastra may be required to pay additional consideration upon the achievement of specific levels of revenue by the Ascotel Group. At December 31, 2007, the maximum amount of contingent consideration payable of \$1.7 million has been recorded as a liability. During 2007, contingent consideration of \$1.8 million (2006 – \$1.8 million) or 2.0 million Swiss francs (2006 – 2.0 million Swiss francs) was not earned as the business did not achieve the specified level of revenue, and this amount was recorded in earnings. Any further 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 already been reduced to \$nil.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The following table shows Aastra's contractual obligations:

| (000's) | | Less than | | | | After |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-------|
| | Total | 1 year | 1-3 years | 4-5 years | 5 years | |
| Contractual Obligations | | | | | | |
| Contingent consideration (1) | \$ 1,744 | \$ 1,744 | \$ - | \$ - | \$ - | |
| Purchase obligations (2) | 8,876 | 8,876 | - | - | - | |
| Long-term credit facilities | 1,185 | 272 | 592 | 321 | - | |
| Operating leases | 72,316 | 15,167 | 26,091 | 18,237 | 12,821 | |
| Total Contractual Obligations | \$ 84,121 | \$ 26,059 | \$ 26,683 | \$ 18,558 | \$ 12,821 | |

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.
- (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.

RELATED PARTY TRANSACTIONS

At December 31, 2006 the Company had a loan receivable from an officer in the amount of \$240,000. The loan was unsecured and non-interest bearing. The loan was repaid during 2007.

OFF BALANCE SHEET TRANSACTIONS

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. At December 31, 2007 and 2006, the Company had no off balance sheet arrangements other than those noted above.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Under Multilateral Instrument 52-109, the certifying officers of the Company are required to complete a Certification of Annual Filings regarding disclosure controls and procedures, as well as internal controls over financial reporting. At December 31, 2007 and 2006, the Company evaluated the effectiveness of the disclosure controls and procedures. The disclosure controls and procedures were effective and continue to be effective to provide reasonable assurance that material information considered necessary for disclosures was accumulated and communicated to management on a timely basis.

The Co-CEOs and the CFO have certified that internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with Canadian generally accepted accounting principles. To enhance the reliability of financial reporting, the Company continues to evaluate internal controls over financial reporting and, on an on-going basis, will implement necessary improvements to achieve an optimal balance between preventative and detective controls.

BUSINESS RISKS AND UNCERTAINTIES**For a more detailed description of the risks facing our business, please refer to the heading "Risk Factors" in our Annual Information Form for the fiscal year ended December 31, 2007.**

Aastra is subject to growth-related risks, including capacity constraints and pressures on management, internal systems and controls. The Company has experienced a period of growth in sales and operations, which in large part is attributable to recent acquisitions. Although the Company restructured its businesses in France and the United States (acquired under the EADS Acquisition), and its business in Germany (acquired under the DeTeWe Acquisition) and integrated these groups into its European and North American operations, respectively, there can be no assurance that these operations will generate sustainable earnings growth or achieve long-term levels of profitability consistent with the Company's other operations, such as the Ascotel group. While management believes 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. Given the unique culture of operating in France and Germany, including less flexibility in implementing labor restructurings, there can be no assurance that Aastra would be able to implement future restructurings on favorable terms in the event that economic and market circumstances require Aastra to further restructure these businesses.

While management has some experience conducting business outside North America, some factors that may affect the business of Aastra's 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, 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 some large customers. The top three customers accounted for approximately 15% of sales in 2007 and 16% in 2006. 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. If sales are not realized as anticipated, Aastra's quarter could be materially adversely affected and such results may not meet the expectations of analysts or investors.

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 North America, France, China, Australia, Germany, Hungary, and Russia. 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 discontinues or restricts 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 effect on the financial condition of Aastra.

As part of Aastra's business strategy, it may seek to grow by acquiring businesses, products, technologies or by 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 favorable terms, nor that any acquisitions completed will ultimately benefit Aastra's business operating results, financial condition, or prospects. In addition, Aastra is a new entrant into a number of markets, and its ability to succeed in these markets is hampered by certain risks. These risks include the establishment of strategic alliances, the establishment of new distribution channels, and market acceptance of products and services.

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 Canada and the United States accounted for approximately 86% of sales for the 12 months ended December 31, 2007, compared to 85% in 2006. 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 actively used to reduce Aastra's foreign currency exposure.

CRITICAL ACCOUNTING ESTIMATES

Management estimates are used when accounting for items and matters such as allowances for uncollectible accounts receivable, inventory obsolescence, valuation of financial instruments, warranty provision, valuation of assets acquired in business acquisitions, valuation of goodwill and intangible assets, useful lives of long-lived assets, estimated future taxes, pension plans, stock-based compensation, restructuring accruals, 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.

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 when 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.

The Company used a discounted cash flow valuation technique to determine the fair value of the SIT ABCP because there is currently no active trade on quoted stock markets. The inputs to this valuation technique required the Company to use estimates, such as the term of investment, the timing of payment of interest and principle, the interest rate and discount rate, and the split of senior versus junior notes. These estimates are subject to measurement uncertainty and any changes from estimates could have a material effect on future periods.

The Company engages a third party valuator to assist in the identification and valuation of intangible assets as part of its acquisition transactions. The third party valuator uses assumptions from management regarding future revenues, future profits, and discount rates. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Aastra tested 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 property and equipment 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 incurred in various tax jurisdictions. In the ordinary course of business, there are many transactions and calculations in which the ultimate tax outcome is uncertain and is subject to tax authority review. The final outcome of these matters may be different from 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.

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.

The Company granted options under the 2000 Option Plan and the 2006 Option Plan as discussed above. The estimated fair value of the stock options granted is determined using the Black-Scholes option-pricing model. Management uses its best estimates based on historical data for inputs into the option-pricing model, such as the volatility factor of the expected market price of the Company's shares, the expected life, and the expected rate of forfeiture of options.

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 in the liabilities already recorded. At the end of each reporting period, the Company evaluates the appropriateness of the remaining accrued balances. Costs associated with restructuring activities are recorded in accordance with the Canadian Institute of Chartered Accountants ("CICA") Emerging Issues Committee EIC 134, "Accounting for Severance and Termination Benefits," and EIC 135, "Accounting for Costs Associated with Exit and Disposal Activities."

Due to the nature of the Company's operations, contingencies may arise, the outcome of which is uncertain. Management assesses whether the outcome can be determined or is likely or unlikely based on the information available. The contingent outcomes are reassessed on a regular basis until the final outcome is known. When a contingent loss can be determined and is likely, management recognizes a contingent liability in the amount of its best estimate. Changes in the estimate could impact the Company's results in future periods.

CHANGES IN ACCOUNTING POLICY

Effective January 1, 2007, the Company adopted the new standards for Financial Instruments in accordance with various sections of the CICA Handbook, including sections 1530 (Comprehensive Income), 3855 (Financial Instruments – Recognition and Measurement), and 3861 (Financial Instruments – Disclosure and Presentation). These changes in accounting policy have been implemented retrospectively with no restatement of comparative consolidated financial statements, except as noted below.

The primary requirements of the new standards require the classification of financial assets into held-for-trading, held-to-maturity, loans and receivables, or available-for-sale financial assets and classification of financial liabilities as either held-for-trading or other liabilities. The new standards require that financial assets and liabilities be measured in accordance with their respective basis of classification.

The Company has classified its short-term and long-term investments, including those investments presented as cash equivalents as held-for-trading. Accounts receivable, net investment in leases, and acquired lease receivables are classified as loans and receivables. Indebtedness, accounts payable and accrued liabilities, and loan payable are classified as other financial liabilities, all of which are measured at amortized cost. As a result of the adoption of these new standards, effective January 1, 2007, the short-term investments were remeasured at fair value while no long-term investment was held on this date. The one-time cumulative impact of the remeasurement, net of income taxes, was \$115 and was recorded in opening retained earnings.

The new standards also introduce a new measurement of results called comprehensive income, which is composed of the Company's net earnings and other comprehensive income. The Company's other comprehensive income consists solely of foreign currency translation of self-sustaining foreign operations. As a result, the previously recorded cumulative foreign currency translation adjustments account on the Consolidated Balance Sheets' shareholders' equity section has been eliminated and included as "accumulated other comprehensive loss" in shareholders' equity. Furthermore, the gain (loss) from translating the Company's self-sustaining foreign operations is now recorded as comprehensive income (loss). Prior years' consolidated financial statements have been restated to reflect this change. The Consolidated Statements of Shareholders' Equity also include the Consolidated Statements of Comprehensive Income for the years presented.

All derivatives, including embedded derivatives which must be separately accounted for, are measured at fair value with changes in fair value recorded in the statements of earnings unless they are effective cash flow hedging instruments. The changes in fair value of cash flow hedging derivatives are recorded in other comprehensive income, to the extent effective, until the variability of cash flows relating to the hedged asset or liability is recognized in the consolidated statements of earnings. Any hedge ineffectiveness is recognized in the consolidated statements of earnings immediately. There was no impact of remeasuring hedging derivatives on the consolidated financial statements on January 1, 2007.

RECENT ACCOUNTING DEVELOPMENTS

The following is a summary of recent accounting pronouncements that may affect the Company commencing January 1, 2008. The Company is assessing how it will be affected by these pronouncements.

Inventories:

CICA Handbook Section 3031, Inventories, replaces corresponding Section 3030 and establishes new standards for the measurement and disclosure of inventories. This new section requires inventories to be measured at the lower of cost and net realizable value, provides guidance on the determination of cost, and requires the reversal of prior period write-downs when the net realizable value of impaired inventory subsequently recovers.

Financial Instruments:

CICA Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation, enhance existing disclosure requirements and place greater emphasis on disclosures related to recognized and unrecognized financial instruments and how those risks are managed.

Capital Disclosures:

CICA Handbook Section 1535, Capital Disclosures, establishes disclosure requirements about an entity's capital and how it is managed.

Goodwill and Intangible Assets:

CICA Handbook Section 3064, Goodwill and Intangible Assets, establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

Transition to International Financial Reporting Standards:

The Canadian Accounting Standards Board ("AcSB") released a new strategic plan to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transitional period to be completed by 2011. The converged standards apply to fiscal years beginning on or after January 1, 2011.

SUBSEQUENT EVENT

As announced on February 18, 2008, and discussed above in the section entitled "Liquidity and Capital Resources", the Company has entered into an agreement with Telefonaktiebolaget LM Ericsson ("Ericsson") to acquire Ericsson's Enterprise Communication Business for consideration of \$103 million (Swedish krone 650 million). The acquisition is scheduled to close in April 2008 and the Company expects to finance the acquisition through existing excess cash and short-term investments. Aastra believes that the acquisition of the business will provide it with the increased scale to be a leading player in Western Europe while creating an important footprint for Aastra in a number of key markets across Eastern Europe, Asia, Australia, the Middle East, Africa, and South America.

On March 17, the Investors Committee announced that it filed an application in the Ontario Superior Court of Justice under the Companies' Creditors Arrangement Act. This application asks the Court to call a meeting of ABCP noteholders to vote on the restructuring plan presented by the Investors Committee. The announcement of the

restructuring plan and the subsequent vote could result in material differences to the inputs to the valuation technique used by the Company to value the SIT ABCP. Changes to the inputs could result in material differences to the valuation of the SIT ABCP in subsequent periods.

CURRENT OUTLOOK

As indicated in our operating results, 2007 was a year in which the Company's operations were quite stable. As a result of the efforts put in place over the past few years, the integration activities, commenced as a part of our two acquisitions in 2005, are now materially complete. The operations across Europe have been integrated and returned to profitability, while significant efforts were placed on continuing to generate improved efficiencies from our activities in this segment. Across all our markets, we continue to manage the transition from legacy analog and digital technologies to VoIP. We ended 2007 with a clear focus on introducing several new additional IP-enabled products, which will provide our customer base with a compelling product road map as the enterprise communication market continues its evolution to IP.

Looking into 2008, we will be introducing our Aastra 5000, a highly resilient and scalable Linux-based IP call manager for large businesses that can network up to 150,000 users from multiple sites. This product, which is expected to be launched in mid-2008, will provide our significant installed base of large enterprise customers with a cost effective IP solution that will protect their investment in their legacy Aastra PBX system. In addition, we will launch the Aastra 800, a Windows-based call manager for small to medium sized enterprises that will support Aastra's proprietary IP, IP DECT cordless, and SIP-based terminals.

In addition, as a result of our partnership with Microsoft, Aastra will be launching Response Point™, a small business call manager solution that incorporates voice recognition and will incorporate our VoIP terminals. In North America, Aastra will launch AastraLink, an Asterisk-based call manager that will support our SIP terminals for small business environments. Finally, the Company will look to introduce several new terminals, including a new line of TDM terminals for NeXspan solutions, as well as new TDM and IP DECT terminals. These new development efforts are critical as we look to refresh our product lines across Europe and expand these products into new markets.

As a result of the planned acquisition of the Ericsson Enterprise Communication Business, our efforts in 2008 will also be focused on the transition and integration of the Ericsson business into our current operations in Western Europe and North America. While this potential acquisition is larger in size, we will follow an approach similar to the one that led to the successful integration of our past several acquisitions of Europe-based businesses. This potential Ericsson acquisition is also expected to add new customers for Aastra in several markets across the world where we do not currently operate. As a result, we will also focus on establishing the proper structure to support our new operations in Eastern Europe, Asia, the Middle East, Africa, and South America. In these new regions, we will also look for opportunities to expand our product offerings by introducing other Aastra enterprise solutions. These efforts will be important steps in the transformation of Aastra into a leading global supplier of enterprise communications solutions in 2008.

CONSOLIDATED FINANCIAL STATEMENTS OF AASTRA TECHNOLOGIES LIMITED YEARS ENDED DECEMBER 31, 2007 AND 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and all other information included in this annual report have been prepared by and are 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 6, 2008

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Aastra Technologies Limited as at December 31, 2007 and 2006 and the consolidated statements of earnings, shareholders' equity and comprehensive income 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, 2007 and 2006 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, Licensed Public Accountants

Toronto, Canada
March 6, 2008, except as to note 23,
which is as of March 21, 2008.

Consolidated Balance Sheets

(In thousands of Canadian dollars)

Years ended December 31, 2007 and 2006

| | 2007 | 2006 |
|--|-------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents (note 4) | \$ 112,802 | \$ 57,713 |
| Short-term investments (note 5) | 20,365 | 58,030 |
| Accounts receivable | 123,010 | 145,350 |
| Inventories (note 8) | 77,745 | 73,484 |
| Net investment in leases (note 7) | 1,731 | 1,665 |
| Acquired lease receivables (note 9) | 5,931 | 9,998 |
| Prepaid expenses and other assets | 4,201 | 4,401 |
| Future income tax assets (note 16) | 8,935 | 11,671 |
| | 354,720 | 362,312 |
| Long-term investment (note 5) | 6,996 | - |
| Future income tax assets (note 16) | 2,853 | 3,879 |
| Net investment in leases (note 7) | 3,532 | 3,017 |
| Acquired lease receivables (note 9) | 6,992 | 15,053 |
| Property and equipment (note 10) | 35,703 | 37,182 |
| Goodwill (note 11(a)) | 10,802 | 11,547 |
| Intangible assets (note 11(b)) | 24,221 | 31,742 |
| Other assets | 651 | 815 |
| | \$ 446,470 | \$ 465,547 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Indebtedness (note 12) | \$ 286 | \$ 2,586 |
| Accounts payable and accrued liabilities | 98,085 | 118,002 |
| Restructuring accruals (note 6) | 751 | 3,668 |
| Income taxes payable | 24,833 | 20,999 |
| Deferred revenue | 11,900 | 14,546 |
| Current portion of contingent consideration payable (note 22(c)) | 1,744 | 1,911 |
| Current portion of loan payable (note 9) | 5,714 | 9,998 |
| Future income tax liabilities (note 16) | 1,015 | 364 |
| | 144,328 | 172,074 |
| Contingent consideration payable (note 22(c)) | - | 1,911 |
| Pensions (note 19) | 19,784 | 20,195 |
| Loan payable (note 9) | 6,992 | 15,053 |
| Future income tax liabilities (note 16) | 7,633 | 10,380 |
| Other long-term liabilities | 2,686 | 2,672 |
| Restructuring accruals (note 6) | - | 929 |
| | 181,423 | 223,214 |
| Shareholders' equity: | | |
| Share capital (note 14(a)) | 98,442 | 97,513 |
| Contributed surplus | 4,029 | 2,244 |
| Accumulated other comprehensive loss | (15,530) | (1,549) |
| Retained earnings | 178,106 | 144,125 |
| | 265,047 | 242,333 |
| | \$ 446,470 | \$ 465,547 |

Commitments, contingencies and guarantees (notes 3, and 22) and subsequent event (note 23)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

F. Shen

Director

Anthony Shen

Director

Consolidated Statements of Earnings

(In thousands of Canadian dollars, except per share amounts)
 Years ended December 31, 2007 and 2006

| | 2007 | 2006 |
|---|------------|------------|
| Sales | \$ 606,589 | \$ 600,536 |
| Cost of goods sold | 349,051 | 348,906 |
| | 257,538 | 251,630 |
| Expenses (income): | | |
| Selling, general and administrative | 145,229 | 144,334 |
| Research and development (note 17) | 54,629 | 59,631 |
| Depreciation and amortization | 13,422 | 16,834 |
| Foreign exchange loss (gain) | 400 | (2,909) |
| Investment income | (3,535) | (4,361) |
| Other charges (income) (note 15) | (170) | 11,356 |
| Earnings from continuing operations before income taxes | 47,563 | 26,745 |
| Income taxes (note 16) | | |
| Current | 8,837 | 2,173 |
| Future | 2,818 | 995 |
| | 11,655 | 3,168 |
| Net earnings from continuing operations | 35,908 | 23,577 |
| Earnings from discontinued operations, net of income taxes (note 2) | - | 839 |
| Gain (loss) on sale of discontinued operations, net of income taxes and transaction costs (note 2) | (141) | 17,563 |
| Net earnings | \$ 35,767 | \$ 41,979 |
| Earnings per share from continuing operations: | | |
| Basic | \$ 2.24 | \$ 1.37 |
| Diluted | \$ 2.18 | \$ 1.34 |
| Earnings per share (note 14(e)): | | |
| Basic | \$ 2.23 | \$ 2.44 |
| Diluted | \$ 2.17 | \$ 2.38 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

(In thousands of Canadian dollars, except share amounts)

Years ended December 31, 2007 and 2006

| | Common Shares | Share Capital | Contributed Surplus | Accumulated Other Compre- hensive Income (Loss) | Retained Earnings | Total | Compre- hensive Income (Loss) |
|---|------------------|------------------|------------------------|--|----------------------|------------|--|
| Balance, December 31, 2005 | 17,473,784 | \$ 105,370 | \$ 1,110 | \$ (25,512) | \$ 143,309 | \$ 224,277 | \$ - |
| Shares issued on exercise of options | 194,800 | 2,133 | - | - | - | 2,133 | - |
| Stock-based compensation | - | - | 1,212 | - | - | 1,212 | - |
| Shares repurchased for cancellation | (1,659,011) | (10,068) | - | - | (41,163) | (51,231) | - |
| Transfer from contributed surplus to share capital | - | 78 | (78) | - | - | - | - |
| Translation of self-sustaining operations | - | - | - | 23,963 | - | 23,963 | 23,963 |
| Net earnings | - | - | - | - | 41,979 | 41,979 | 41,979 |
| Balance, December 31, 2006 | 16,009,573 | 97,513 | 2,244 | (1,549) | 144,125 | 242,333 | 65,942 |
| Change in accounting policy related to financial instruments, net of income taxes of \$65 (note 1(b)(i)) | - | - | - | - | 115 | 115 | - |
| Adjusted balance, December 31, 2006 | 16,009,573 | 97,513 | 2,244 | (1,549) | 144,240 | 242,448 | - |
| Shares issued on exercise of options | 75,750 | 1,259 | - | - | - | 1,259 | - |
| Stock-based compensation (note 14(c)) | - | - | 1,882 | - | - | 1,882 | - |
| Shares repurchased for cancellation (note 14(d)) | (70,000) | (427) | - | - | (1,901) | (2,328) | - |
| Transfer from contributed surplus to share capital | - | 97 | (97) | - | - | - | - |
| Translation of self-sustaining operations | - | - | - | (13,981) | - | (13,981) | (13,981) |
| Net earnings | - | - | - | - | 35,767 | 35,767 | 35,767 |
| Balance, December 31, 2007 | 16,015,323 | \$ 98,442 | \$ 4,029 | \$ (15,530) | \$ 178,106 | \$ 265,047 | \$ 21,786 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

Years ended December 31, 2007 and 2006

| | 2007 | 2006 |
|---|------------|-----------|
| Cash and cash equivalents provided by (used in): | | |
| Operations: | | |
| Net earnings | \$ 35,767 | \$ 41,979 |
| Net loss (earnings) from discontinued operations (note 2) | 141 | (18,402) |
| Depreciation of property and equipment | 10,803 | 12,839 |
| Amortization of intangible assets | 6,404 | 8,695 |
| Future income taxes | 2,818 | 995 |
| Stock-based compensation expense | 1,882 | 1,212 |
| Loss on short-term investments | 955 | 482 |
| Loss on sale of property and equipment | 554 | 1,107 |
| Other charges (income) (note 15) | (170) | 11,356 |
| Other | - | 693 |
| Change in pension liabilities | 849 | 1,989 |
| Change in non-cash operating working capital (note 18) | (12,342) | (8,379) |
| | 47,661 | 54,566 |
| Discontinued operations (note 2) | (141) | 20,431 |
| Financing: | | |
| Issuance of common shares on exercise of options | 1,259 | 2,133 |
| Repurchase of shares (note 14(d)) | (2,328) | (51,231) |
| Receipt of acquired lease receivables | 10,775 | 21,710 |
| Payment of loan payable | (10,995) | (21,710) |
| Decrease in bank indebtedness | (2,179) | (2,595) |
| Increase (decrease) in long-term credit facilities | 440 | (787) |
| | (3,028) | (52,480) |
| Investments: | | |
| Maturity of short-term investments | 85,105 | 82,773 |
| Purchase of short-term investments | (48,498) | (93,400) |
| Purchase of long-term investment | (8,514) | - |
| Proceeds on disposal of property and equipment | 222 | 378 |
| Purchase of property and equipment | (13,086) | (11,527) |
| Business acquisitions, net of cash acquired (note 3(a)) | (527) | (14) |
| Business disposition (note 3(c)) | - | (466) |
| | 14,702 | (22,256) |
| Foreign exchange on cash held in foreign currency | (4,105) | 3,312 |
| Increase in cash and cash equivalents | 55,089 | 3,573 |
| Cash and cash equivalents, beginning of year | 57,713 | 54,140 |
| Cash and cash equivalents, end of year | \$ 112,802 | \$ 57,713 |
| Supplemental cash flow information: | | |
| Income taxes paid | \$ 3,672 | \$ 1,335 |
| Interest received | 3,805 | 3,232 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, except share and per share amounts and as otherwise noted)
 Years ended December 31, 2007 and 2006

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.

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

(b) Changes in accounting policy:

Effective January 1, 2007, the Company adopted the new standards for Financial Instruments in accordance with various sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook including sections 1530 (Comprehensive Income), 3855 (Financial Instruments – Recognition and Measurement), and 3861 (Financial Instruments – Disclosure and Presentation). These changes in accounting policy have been implemented retrospectively with no restatement of comparative consolidated financial statements, except as noted below.

The primary requirements of the new standards require the classification of financial assets into either held-for-trading, held-to-maturity, loans and receivables, or available-for-sale financial assets and classification of financial liabilities as either held-for-trading or other liabilities. The new standards require that financial assets and liabilities be measured in accordance with their respective basis of classification.

The Company has made the following classifications of financial assets and liabilities:

- (i)** Short-term and long-term investments including those investments presented as cash equivalents are classified as financial assets held-for-trading. Effective January 1, 2007, the short-term investments were remeasured at fair value as required under the adoption of the new standards while no long-term investments were held on this date. The one-time cumulative impact of the remeasurement, net of income taxes, was \$115 and was recorded in opening retained earnings.
- (ii)** Accounts receivable, net investment in leases and acquired lease receivables are classified as loans and receivables. Accounts receivable are measured at cost less allowance for doubtful accounts. Net investment in leases and acquired lease receivables were measured at fair value initially, and are subsequently measured at amortized cost using effective interest rate method.
- (iii)** Indebtedness, accounts payable and accrued liabilities and loan payable are classified as other financial liabilities. They are measured at amortized cost, which approximates fair value, due to their short-term nature.

The new standards also introduce a new measurement of results called comprehensive income, which is composed of the Company's net earnings and other comprehensive income. The Company's other comprehensive income solely consists of foreign currency translation of self-sustaining foreign operations. As a result, the previously recorded cumulative foreign currency translation adjustments account on the Consolidated Balance Sheets' shareholders' equity section has been eliminated and included as "accumulated other comprehensive loss" in shareholders' equity. Furthermore, the gain (loss) from translating the Company's self-sustaining foreign operations is now recorded as comprehensive income (loss). Prior years' consolidated financial statements have been restated to reflect this change. The Consolidated Statements of Shareholders' Equity also include the Consolidated Statements of Comprehensive Income for the years presented.

All derivatives, including embedded derivatives that must be separately accounted for, are measured at fair value with changes in fair value recorded in the statements of earnings unless they are effective cash flow hedging instruments. The changes in fair value of cash flow hedging derivatives are recorded in other comprehensive income, to the extent effective, until the variability of cash flows relating to the hedged asset or liability is recognized in the consolidated statements of earnings. Any hedge ineffectiveness is recognized in the consolidated statements of earnings immediately. There was no impact of remeasuring hedging derivatives on the consolidated financial statements on January 1, 2007.

The Company reviewed significant contracts entered into on or after January 1, 2003 and determined there are no significant non-financial derivatives that require separate fair value recognition on the consolidated balance sheet on the transition date of January 1, 2007 and at December 31, 2007.

(c) 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, if applicable 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 residual method. The fair value of each undelivered element is determined based upon the price charged when the same element is sold separately or upon other objective evidence. 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 of the equipment 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 equipment 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 equipment under operating leases, where substantially all of the benefits and risks incidental to ownership of the equipment 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 records a provision in cost of goods sold at the time the revenue is recognized.

(d) Cash and cash equivalents:

Cash and cash equivalents include highly liquid investments with original maturity dates of less than 90 days. Cash equivalents are stated at fair value determined by published price quotations in an active market.

(e) 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. For the year ended December 31, 2007, short-term investments, all of which are classified as held-for-trading, are recorded at fair value while at December 31, 2006, short-term investments are recorded at the lower of cost and market value. Investments not expected to be settled within one year are classified as long-term investments.

(f) 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.

(g) 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.

(h) Impairment of long-lived assets:

Long-lived assets, including property and equipment 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, 2007 and 2006, 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, 2007 and 2006 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(i).

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 license | 5 years |
| Non-compete agreement | 3 years |
| Order backlog | Revenue producing period |
| Licensed technology | 5 – 10 years |

(j) Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Depreciation 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. Research and development costs are reduced by related investment tax credits.

During 2007 and 2006, the Company has not deferred any development costs.

(l) Foreign currency translation:**(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 period end date. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rates for the period.

The resulting exchange gains or losses on translation are included in the accumulated other comprehensive income (loss) component of shareholders' 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 period 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 the monetary balances denominated in foreign currencies are recognized in earnings in the period incurred. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rates for the period, except for depreciation, 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 in the period incurred.

(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 basis 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) Discontinued operations:

Long-lived assets are classified as held for sale in the period in which management with the appropriate level of authority commits to a plan to sell the assets. The results of operations and cash flows associated with the assets to be disposed of are reported separately as discontinued operations, net of applicable income taxes, if certain criteria are met.

(p) Earnings per share:

Basic earnings per share is computed using the weighted average number of common shares that are outstanding during the year. Diluted earnings per share is 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.

(q) Asset retirement obligations:

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.

(r) Stock option plan:

The Company applies a fair value method of accounting to all stock-based compensation granted to both employees and non-employees. The Company has two stock option plans, as described in note 14(b). The estimated fair value of the stock options granted is determined using the Black-Scholes option pricing model with the assumptions noted in note 14(c), and is amortized to income on a straight-line basis over the period in which the related services are rendered, which is usually the vesting period, or, as applicable, over the period to the date an employee is eligible to retire, whichever is shorter.

(s) Pension plans:

The Company operates pension plans for current and former employees of its subsidiaries in North America and in several European countries. The plans are accounted for as defined benefit plans or defined contribution plans according to their nature. Defined benefit obligations are calculated using actuarial valuation methods. Under defined benefit 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.

(t) Use of estimates:

Management estimates are used when accounting for items and matters such as valuation of assets acquired in business acquisitions, valuation of the long-term investment, allowances for uncollectible accounts receivable, inventory obsolescence, warranty provision, valuation of goodwill and intangible assets, useful lives of long lived assets, valuation of estimated future taxes, pension plans, stock-based compensation, restructuring accruals, 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.

(u) Recent accounting pronouncements:

The following is a summary of recent accounting pronouncements that may affect the Company commencing January 1, 2008. The Company is assessing how it will be affected by these pronouncements.

(i) Inventories:

CICA Handbook Section 3031, Inventories, replaces corresponding Section 3030 and establishes new standards for the measurement and disclosure of inventories. This new section requires inventories to be measured at the lower of cost and net realizable value, provides guidance on the determination of cost and requires the reversal of prior period write-downs when the net realizable value of impaired inventory subsequently recovers.

The standard applies to fiscal years beginning on or after January 1, 2008.

(ii) Financial Instruments:

CICA Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments – Presentation, enhance existing disclosure requirements and place greater emphasis on disclosures related to recognized and unrecognized financial instruments and how those risks are managed. Disclosures required by these standards will be included in the Company's interim and annual consolidated financial statements commencing January 1, 2008.

(iii) Capital Disclosures:

CICA Handbook Section 1535, Capital Disclosures, establishes disclosure requirements about an entity's capital and how it is managed. The standard applies to fiscal years beginning on or after October 1, 2007.

(iv) Goodwill and Intangible Assets:

CICA Handbook Section 3064, Goodwill and Intangible Assets, establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard applies to fiscal years beginning on or after October 1, 2008.

(v) Transition to International Financial Reporting Standards:

The Canadian Accounting Standards Board ("AcSB") released a new strategic plan to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transitional period to be completed by 2011. The converged standards apply to fiscal years beginning on or after January 1, 2011.

2. DISCONTINUED OPERATIONS:

On May 31, 2006, the Company sold its digital video business to Harris Corporation, for cash consideration of \$38,100 (U.S. \$34,600). Accordingly, the results of operations of the digital video business have been segregated and presented separately as discontinued operations in the consolidated financial statements. The purchase price was subject to certain adjustment provisions. During the year ended December 31, 2007, the final settlement was made, resulting in a post closing expense of \$234 (U.S. \$200) recorded net of income taxes of \$93.

The results of the discontinued operations are as follows:

| | 2007 | 2006 |
|---|-----------|-----------|
| Sales | \$ - | \$ 9,157 |
| Earnings from discontinued operations, net of income taxes of \$nil (2006 – \$559) | \$ - | \$ 839 |
| Gain on sale of discontinued operations, net of income taxes of \$nil (2006 – \$10,061) and transaction costs | - | 17,563 |
| Post closing adjustment on sale of discontinued operations, net of income taxes of \$93 (2006 – \$nil) and transaction costs | (141) | - |
| Total (loss) earnings from discontinued operations, net of income taxes | \$ (141) | \$ 18,402 |
| Earnings (loss) per share from discontinued operations: | | |
| Basic | \$ (0.01) | \$ 1.07 |
| Diluted | \$ (0.01) | \$ 1.04 |

The cash flow from discontinued operations is as follows:

| | 2007 | 2006 |
|--|----------|-----------|
| (Loss) earnings from discontinued operations, net of income taxes | \$ (141) | \$ 18,402 |
| Depreciation of property and equipment | - | 259 |
| Future income taxes | - | 1,770 |
| Cash and cash equivalents (used in) provided by discontinued operations | \$ (141) | \$ 20,431 |

3. BUSINESS ACQUISITIONS AND DISPOSITIONS:

(a) Acquisition of Soluções de Comunicação, Limitada:

On February 28, 2005, the Company acquired a 40% interest in Soluções de Comunicação, Limitada ("Elocom") as part of the EADS Telephony Business. On April 1, 2007, the Company entered into four separate purchase agreements to acquire the remaining 60% interest for a total purchase price of \$1,159 (750 Euro). The total purchase price included customer relationships intangible assets of \$2,189 and \$529 allocated to goodwill. Both goodwill and customer relationships are recorded in the European Enterprise Communications segment and the estimated useful life of the customer relationships is seven years. The purchase agreements signed on April 1, 2007 resulted in the Company acquiring control of Elocom and as such the results of operations for the period from April 1, 2007 to December 31, 2007 have been consolidated into the Company's Consolidated Statement of Earnings.

The purchase agreements stipulate the payment of additional consideration upon the achievement of specific levels of revenue by Elocom in the calendar years 2007 and 2008. Contingent consideration of \$406 (263 Euro) was accrued in the Balance Sheet of the Company at April 1, 2007 reflecting Management's expectation of the likely outcome. In the calendar year 2007, Elocom earned the minimum level of revenue specified in the purchase agreements. In the event that the revenue achieved in the calendar year 2008 results in the payment of more or less contingent consideration than accrued, customer relationships intangible assets will be increased or decreased. The maximum amount of contingent consideration under the four purchase agreements is \$338 (218 Euro).

(b) Acquisition of Matracom Networks AG:

On February 28, 2005, the Company acquired a 40% interest in Matracom Networks AG ("Matracom") as part of the EADS Telephony Business. During the fourth quarter of 2006, the Company entered into two separate

purchase agreements to acquire the remaining 60% interest for a total purchase price of \$380 (397 Swiss francs). The purchase price was finalized in 2007 and included \$270 customer relationships intangible assets with an estimated useful life of seven years. The second purchase agreement, which resulted in the Company acquiring control of Matracom, was signed on December 22, 2006, and as such the balance sheet of Matracom has been consolidated into the Company's Consolidated Balance Sheet of the Company as at December 31, 2006.

The acquired business met the targets specified in the purchase agreement for revenue in the first and second quarters of 2007. As a result, the maximum contingent consideration of \$95 (100 Swiss francs) was paid to the Sellers. Contingent consideration was recorded as an adjustment to customer relationships intangible assets.

(c) Disposition of net liabilities:

On June 20, 2006, the Company entered into a sales agreement to dispose of certain of the net liabilities of a wholly-owned subsidiary named, Allgemeine Telefon-Fabrik GmbH (hereafter referred to as "ATF"). The operations and cash flows disposed of could not be clearly distinguished from the rest of the Company and as such are not disclosed as discontinued operations.

The net liabilities disposed of are as follows:

| | Total |
|----------------------------|--------|
| Assets disposed: | |
| Property and equipment | \$ 38 |
| Less liabilities disposed: | |
| Current liabilities | \$ 107 |
| Pension liability | 397 |
| | 504 |
| Net liabilities disposed: | \$ 466 |
| Financed by: | |
| Cash | \$ 466 |

4. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consist of the following:

| | 2007 | 2006 |
|------------------|------------|-----------|
| Cash | \$ 34,374 | \$ 34,982 |
| Cash equivalents | 78,428 | 22,731 |
| | \$ 112,802 | \$ 57,713 |

Investments held, which mature in less than ninety days from the original maturity are classified as cash equivalents on the Consolidated Balance Sheet. Generally, cash equivalents are comprised of bankers acceptances, term deposits and treasury bills. There is no asset-backed commercial paper classified as cash and cash equivalents at December 31, 2007 and 2006. At December 31, 2007 and 2006, none of the Company's cash was restricted.

5. INVESTMENTS:

(a) Short-term investments:

The following table presents a breakdown of the Company's short-term investments, all of which are classified as held-for-trading:

| | 2007 | 2006 |
|------------------|-----------|-----------|
| Bonds | \$ 19,761 | \$ 52,690 |
| Preferred shares | 500 | 5,219 |
| Other | 104 | 121 |
| | \$ 20,365 | \$ 58,030 |

(b) Long-term investment:

In July 2007, the Company invested \$8,514 in asset-backed commercial paper ("ABCP") issued by Structured Investment Trust III ("SIT ABCP") which was rated R1-High by the Dominion Bond Rating Service at the time it was purchased. The SIT ABCP matured on October 10, 2007; however, neither principal nor interest were received nor was any amount received subsequent to year end.

In August 2007, the Dominion Bond Rating Service placed the issuer of the SIT ABCP "Under Review with Developing Implications."

As this investment is classified as held-for-trading and is no longer being actively traded on quoted stock markets, the Company performed a detailed valuation to determine the fair value of the SIT ABCP at December 31, 2007 using information gained from the press releases of the Pan-Canadian Investors Committee formed to

restructure the pool of assets underlying the affected ABCP, of which the SIT ABCP is one, into longer term floating rate notes and the Company's best estimates of reasonably possible outcomes. The investment is classified as long-term because the Company understands from the Investors Committee that the restructured notes will mature in five to eight years.

Refer to note 15(a), titled Other Charges (Income), for a detailed discussion of the inputs to the valuation technique used by the Company. As a result of the calculation, the Company recorded a fair value adjustment loss of \$1,619.

6. RESTRUCTURING ACCRUALS:

As part of acquisitions that took place during 2005, 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. Cash outlays are funded from cash on hand.

| | Employee termination costs | Facility and exit costs | Total |
|--|----------------------------------|-------------------------------|-----------|
| Balance, December 31, 2005 | \$ 15,981 | \$ 3,519 | \$ 19,500 |
| Cash payments | (12,775) | (995) | (13,770) |
| Change in estimates | (1,275) | (631) | (1,906) |
| Adjustment related to foreign exchange | 677 | 96 | 773 |
| Balance, December 31, 2006 | \$ 2,608 | \$ 1,989 | \$ 4,597 |
| Cash payments | (2,197) | (1,178) | (3,375) |
| Change in estimates | (187) | - | (187) |
| Adjustment related to foreign exchange | (118) | (166) | (284) |
| Balance, December 31, 2007 | 106 | 645 | 751 |
| Less: current portion | 106 | 645 | 751 |
| | \$ - | \$ - | \$ - |

7. NET INVESTMENT IN LEASES:

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

| | 2007 | 2006 |
|-----------------------------------|----------|----------|
| Minimum lease payments receivable | \$ 6,087 | \$ 5,939 |
| Unearned finance income | (842) | (1,257) |
| | 5,263 | 4,682 |
| Less: current portion | 1,731 | 1,665 |
| | \$ 3,532 | \$ 3,017 |

During 2007, the Company recorded \$417 of finance income (2006 – \$775) included in sales.

8. INVENTORIES:

| | 2007 | 2006 |
|------------------|-----------|-----------|
| Raw materials | \$ 11,017 | \$ 7,589 |
| Work in progress | 8,141 | 10,719 |
| Finished goods | 58,587 | 55,176 |
| | \$ 77,745 | \$ 73,484 |

9. ACQUIRED LEASE RECEIVABLES AND LOAN PAYABLE:

As part of the acquisition of the DeTeWe Telecom Systems business in 2005, the Company agreed to assume responsibility for the collection of specified pre-existing leasing receivables and remit payment to the Seller upon collection. 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 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. The following table presents the balances of acquired lease receivables and loan payable.

| | 2007 | 2006 |
|----------------------------|-----------|-----------|
| Acquired lease receivables | \$ 12,923 | \$ 25,051 |
| Less: current portion | 5,931 | 9,998 |
| | \$ 6,992 | \$ 15,053 |

| | 2007 | 2006 |
|------------------------------------|-----------|-----------|
| Loan payable, non-interest bearing | \$ 12,706 | \$ 25,051 |
| Less: current portion | 5,714 | 9,998 |
| | \$ 6,992 | \$ 15,053 |

10. PROPERTY AND EQUIPMENT:

| 2007 | Cost | Accumulated Amortization | Net book value |
|------------------------|-----------|-----------------------------|-------------------|
| Tooling | \$ 16,797 | \$ 14,041 | \$ 2,756 |
| Computer hardware | 13,946 | 10,820 | 3,126 |
| Equipment | 27,547 | 14,574 | 12,973 |
| Computer software | 8,053 | 6,729 | 1,324 |
| Furniture | 4,422 | 2,881 | 1,541 |
| Vehicles | 256 | 178 | 78 |
| Buildings | 4,553 | 684 | 3,869 |
| Leasehold improvements | 14,090 | 4,054 | 10,036 |
| | \$ 89,664 | \$ 53,961 | \$ 35,703 |

| 2006 | Cost | Accumulated Amortization | Net book value |
|------------------------|-----------|-----------------------------|-------------------|
| Tooling | \$ 17,649 | \$ 14,114 | \$ 3,535 |
| Computer hardware | 13,734 | 10,778 | 2,956 |
| Equipment | 29,117 | 16,719 | 12,398 |
| Computer software | 8,268 | 6,063 | 2,205 |
| Furniture | 4,755 | 2,872 | 1,883 |
| Vehicles | 258 | 187 | 71 |
| Buildings | 4,926 | 432 | 4,494 |
| Leasehold improvements | 12,484 | 2,844 | 9,640 |
| | \$ 91,191 | \$ 54,009 | \$ 37,182 |

During 2007, depreciation of **\$3,785** was included in cost of goods sold (2006 – \$4,700). Included in equipment is cost of **\$13,724** and accumulated depreciation of **\$4,347** (2006: cost – \$11,997 and accumulated depreciation – \$3,677) of equipment leased to customers as operating leases. Rental income totalled **\$6,544** (2006 – \$5,924).

11. GOODWILL AND INTANGIBLE ASSETS:

(a) Goodwill:

The following table summarizes the changes in goodwill since December 31, 2005:

| | |
|---|-----------|
| Balance, December 31, 2005 | \$ 18,147 |
| Revaluation of future income tax assets (note 16) | (3,805) |
| Adjustment resulting from purchase price finalization | (4,143) |
| Adjustment related to foreign exchange | 1,348 |
| Balance, December 31, 2006 | \$ 11,547 |
| Goodwill recorded during 2007 (note 3(a)) | 529 |
| Revaluation of future income tax assets (note 16) | (815) |
| Adjustment resulting from change in estimates | (120) |
| Adjustment related to foreign exchange | (339) |
| Balance, December 31, 2007 | \$ 10,802 |

(b) Intangible assets:

| 2007 | Cost | Other ¹ | Accumulated amortization | Net book value |
|------------------------|-----------|--------------------|--------------------------|----------------|
| Patents | \$ 40,340 | \$ 4,607 | \$ 23,344 | \$ 12,389 |
| Customer relationships | 17,842 | 2,882 | 6,112 | 8,848 |
| Trade name license | 2,400 | 287 | 1,197 | 916 |
| Non-compete agreement | 1,700 | 292 | 1,324 | 84 |
| Licensed technology | 13,642 | 6,464 | 5,194 | 1,984 |
| | \$ 75,924 | \$ 14,532 | \$ 37,171 | \$ 24,221 |

| 2006 | Cost | Other ¹ | Accumulated amortization | Net book value |
|------------------------|-----------|--------------------|--------------------------|----------------|
| Patents | \$ 40,340 | \$ 1,971 | \$ 20,719 | \$ 17,650 |
| Customer relationships | 15,588 | 1,620 | 4,302 | 9,666 |
| Trade name license | 2,400 | 148 | 826 | 1,426 |
| Non-compete agreement | 1,700 | 160 | 961 | 579 |
| Licensed technology | 13,642 | 6,192 | 5,029 | 2,421 |
| | \$ 73,670 | \$ 10,091 | \$ 31,837 | \$ 31,742 |

(1) Other is the total of a decrease of \$4,476 (2006 – a decrease of \$1,961) related to the fluctuation in foreign exchange rates, a cumulative decrease of \$8,112 (2006 – a decrease of \$6,603) due to a revaluation of future income tax assets (note 16) and a cumulative decrease of \$1,944 (2006 – \$1,527) related to an acquisition adjustment.

12. INDEBTEDNESS:

| | 2007 | 2006 |
|--|--------|----------|
| Bank overdraft facilities (a) | \$ 14 | \$ 2,383 |
| Long-term credit facilities, current portion (b) | 272 | 203 |
| | \$ 286 | \$ 2,586 |

(a) Bank overdraft facilities:

At December 31, 2007, the Company's available bank overdraft facilities totalled \$30,114 (2006 – \$29,087). These bank overdraft facilities are short term in nature and are due on demand or within 90 days. The interest rates on the facilities range from 2% to 6% (2006 – 2% to 6%).

(b) Long-term credit facilities:

The following table presents credit facilities with terms greater than one year in place at December 31:

| | Interest rate | Authorized | Maturity | 2007 | 2006 |
|---|---------------|------------|-------------|----------|--------|
| Aastra Lease SA | 5.55% | 500 Euro | April 2012 | \$ 637 | \$ – |
| Aastra Lease SA | 5.49% | 500 Euro | August 2011 | 548 | 724 |
| Aastra Lease SA | 5.67% | 273 Euro | August 2007 | – | 63 |
| | | | | \$ 1,185 | \$ 787 |
| Long-term portion, included in other long-term liabilities | | | | (913) | (584) |
| Current portion | | | | \$ 272 | \$ 203 |

Substantially all of the assets of Aastra Lease SA have been pledged as security for borrowing under the credit facilities above.

The future annual payments under long-term credit facilities are as follows:

| | |
|------|----------|
| 2008 | \$ 272 |
| 2009 | 288 |
| 2010 | 304 |
| 2011 | 266 |
| 2012 | 55 |
| | \$ 1,185 |

13. 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, accounts receivable, acquired lease receivables, indebtedness, accounts payable and accrued liabilities and restructuring accruals approximate their fair values due to the short-term maturities of these instruments. Short-term investments are classified as held-for-trading and therefore are recorded at fair value based on published price quotations in an active market. 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 long-term investment is determined by using valuation techniques (note 15(a)).

(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, 2007 and 2006, 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 15% of sales in 2007 (2006 – 16%) and approximately 16% of accounts receivable at December 31, 2007 (2006 – 18%).

(iii) Interest rate risk:

The Company is exposed to interest rate risk in that changes in market interest rates will cause fluctuations in the fair value of its cash equivalents and short-term investments.

14. SHARE CAPITAL:

(a) Authorized:

Unlimited preferred shares

Unlimited common shares

Issued:

| | Number of common shares | Amount |
|---|-------------------------------|------------|
| Balance, December 31, 2005 | 17,473,784 | \$ 105,370 |
| Exercise of stock options | 194,800 | 2,133 |
| Shares repurchased for cancellation | (1,659,901) | (10,068) |
| Transfer from contributed surplus | – | 78 |
| Balance, December 31, 2006 | 16,009,573 | \$ 97,513 |
| Exercise of stock options | 75,750 | 1,259 |
| Shares repurchased for cancellation (d (i)) | (70,000) | (427) |
| Transfer from contributed surplus | – | 97 |
| Balance, December 31, 2007 | 16,015,323 | \$ 98,442 |

(b) Stock option plans:

The Company operates two stock option plans, the first of which was initiated during the year 2000 and is hereafter referred to as the "2000 Option Plan." The second plan was approved by shareholders at the Company's Annual General Meeting in May 2006 and is hereafter referred to as the "2006 Option Plan."

Under the 2000 Option Plan, 3,000,000 common shares of the Company were reserved for the issuance of stock options and the Company granted stock options to certain employees, officers and directors. The plan provides that the terms of the stock 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. The commencement of the 2006 Option Plan means that there will be no further grants under the 2000 Option Plan, from the date of its approval.

Under the 2006 Option Plan, the Company is able to grant options up to 10% of its outstanding share capital on the date of grant. Options are priced at the weighted average share price outstanding for the five days preceding the option grant date. The Company has granted stock options to certain employees, officers and directors. 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, 2005 | 1,314,800 | \$ 14.82 |
| Granted | 279,500 | 33.57 |
| Exercised | (194,800) | 10.95 |
| Cancelled | (31,500) | 26.95 |
| Balance, December 31, 2006 | 1,368,000 | \$ 19.10 |
| Granted | 109,500 | 33.82 |
| Exercised | (75,750) | 16.61 |
| Cancelled | (12,000) | 20.43 |
| Balance, December 31, 2007 | 1,389,750 | \$ 20.38 |

At December 31, 2007, 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, 2007 | Weighted average remaining contractual life (years) | Weighted average exercise price | Number exercisable, December 31, 2007 | Weighted average exercise price |
| \$ 9.00 – \$ 9.50 | 367,000 | 2.60 | \$ 9.47 | 367,000 | \$ 9.47 |
| \$ 12.00 – \$ 13.00 | 245,000 | 4.77 | 12.57 | 245,000 | 12.57 |
| \$ 16.00 – \$ 17.75 | 8,000 | 0.48 | 16.88 | 8,000 | 16.88 |
| \$ 20.00 – \$ 27.00 | 381,750 | 2.62 | 22.50 | 131,250 | 22.29 |
| \$ 32.50 – \$ 38.10 | 388,000 | 6.98 | 33.63 | 72,125 | 33.51 |
| | 1,389,750 | | \$ 20.38 | 823,375 | \$ 14.61 |

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

At December 31, 2007, the total fair value of the stock options granted after January 1, 2003 is **\$8,937** (2006 – \$7,775), which is amortized on a straight-line basis over the vesting periods of the options. For the year ended December 31, 2007, the Company recognized stock compensation expense of **\$1,882** (2006 – \$1,212) relating to the fair value of options granted. At December 31, 2007, the unamortized portion is **\$4,586** (2006 – \$5,453).

The weighted average estimated fair value of options granted in 2007 was **\$33.70** (2006 – \$33.57). The fair value of the options granted during 2007 and 2006 is calculated at the date of each grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | 2007 Options granted | 2006 Options granted |
|--|-------------------------|-------------------------|
| Risk-free rate | 3.95% to 4.10% | 3.62% to 4.11% |
| Dividend yield | – | – |
| Volatility factor of the expected market price of the Company's shares | 35% | 35% to 39% |
| Expected option life | 4 to 6 years | 4 to 6 years |

(d) Share repurchase program:
(i) Normal Course Issuer Bid

On August 4, 2006, the Company received approval to commence a Normal Course Issuer Bid (the "2006 Bid") for up to 877,551 of its common shares at prevailing market prices on the Toronto Stock Exchange. The 2006 Bid commenced August 9, 2006 and terminated on August 8, 2007. During the year ended December 31, 2007, 70,000 shares were repurchased at an average per share value of \$33.26, for an aggregate purchase amount of \$2,328. This resulted in \$427 being recorded as a reduction to share capital and \$1,901 as a reduction in retained earnings. During the year ended December 31, 2006, 757,500 shares were repurchased at an average per share value of \$28.36, for an aggregate purchase amount of \$21,481. In total, 827,500 common shares were repurchased under the 2006 Bid prior to its termination.

On August 8, 2007, the Company received approval to commence a Normal Course Issuer Bid (the "2007 Bid") for up to 800,000 of its common shares at prevailing market prices on the Toronto Stock Exchange. The 2007 Bid commenced August 10, 2007 and will terminate on the earlier of August 9, 2008 or the date on which a total of 800,000 common shares have been repurchased pursuant to the terms of the 2007 Bid. From the commencement of the 2007 Bid until December 31, 2007, no common shares were repurchased.

(ii) Substantial Issuer Bid

On November 10, 2006, the Company received approval to repurchase for cancellation up to 2,066,666 of its common shares through a Dutch auction issuer bid, in a range of \$30.00 to \$33.00 per share (the "Offer"). The Offer expired on December 19, 2006 and 901,511 common shares were deposited and not withdrawn prior to the Company's notification and instruction to take up the deposited common shares. Pursuant to the terms of the Offer, the Company determined the purchase price to be \$33.00 per common share to allow it to take up the maximum number of common shares deposited to the Offer for an aggregate purchase amount of \$29,750. This resulted in \$5,473 being recorded as a reduction to share capital and \$24,277 being recorded as a reduction in retained earnings during the year ended December 31, 2006.

(e) 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 is as follows:

| | 2007 | 2006 |
|---|------------|------------|
| Numerator for basic earnings per share: | | |
| Net earnings | \$ 35,767 | \$ 41,979 |
| Denominator for basic earnings per share: | | |
| Weighted average common shares | 16,012,866 | 17,222,380 |
| Basic net earnings per share | \$ 2.23 | \$ 2.44 |

Diluted earnings per share calculation is as follows:

| | 2007 | 2006 |
|---|------------|------------|
| Numerator for basic earnings per share: | | |
| Net earnings | \$ 35,767 | \$ 41,979 |
| Denominator for diluted earnings per share: | | |
| Weighted average common shares | 16,012,866 | 17,222,380 |
| Net common shares that would be issued assuming the proceeds from stock options are used to repurchase common shares at the average share price | 433,126 | 415,375 |
| Diluted weighted average common shares | 16,445,992 | 17,637,755 |
| Diluted net earnings per share | \$ 2.17 | \$ 2.38 |

Options to purchase 39,000 (2006 – 40,000) common shares were outstanding during the year ended December 31, 2007 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.

15. OTHER CHARGES (INCOME):

| | 2007 | 2006 |
|--|----------|-----------|
| Change in fair value of long-term investment (a) | \$ 1,619 | \$ - |
| Contingent consideration (b) | (1,789) | (1,810) |
| Foreign exchange loss (c) | - | \$ 13,166 |
| | (170) | 11,356 |

(a) Fair value of long-term investment:

In July 2007, the Company invested \$8,514 in asset-backed commercial paper ("ABCP") issued by Structured Investment Trust III ("SIT ABCP") which was rated R1-High by the Dominion Bond Rating Service at the time it was purchased. As this investment is classified as held-for-trading and is no longer being actively traded on quoted stock markets, the Company performed a detailed valuation to determine the fair value of the SIT ABCP at December 31, 2007 using information gained from the press releases of the Investors Committee and the Company's best estimates of reasonably possible outcomes.

As the investment is not supported by observable market price or rates at December 31, 2007, the Company's management determined the fair value of the SIT ABCP using a going concern valuation approach to a discounted cash flow model to come up with a range of reasonably possible outcomes. The approach was chosen because management has assumed that the restructuring planned by the Investors Committee would be successful and that the floating rate notes received in place of the SIT ABCP would perform like any other financial instrument.

The following inputs were factored into the valuation technique:

- (i) Type of underlying assets – The Information Session for Third Party ABCP Holders held on December 24, 2007 by the Investors Committee suggested that the pooled assets will be split into Senior Pooled Notes and Subordinated Pooled Notes in the Master Asset Partnership 2 ("MAP2"). The split of senior and junior notes will be based on the split in the SIT ABCP of higher rated assets versus lower rated assets. The Investors Committee did not give specific guidance for the SIT ABCP itself but indicated that the affected ABCPs would result in a range of senior to junior notes between 90% to 10% and 80% to 20%. Interest is expected to be paid on senior notes on a periodic basis over the term, while it is assumed that interest payments on the junior notes will only occur at the end of the term.
- (ii) Term of investment – The SIT ABCP matured on October 10, 2007. On December 24, 2007, the Investors Committee suggested that the term of the pooled notes would be a range of between five and eight years.
- (iii) Coupon rate of interest – The Company understands that the cost of restructuring the pooled assets and the cost of the margin facility on MAP2 will lead to a decrease in the coupon rate of interest paid on the floating rates. The Company used a range of coupon rates from 3.10% to 3.75% in the valuation model, which includes an estimate of restructuring charges.
- (iv) Discount rate – The discounted cash flow valuation technique requires a discount rate to match the risks of this investment now that the term of the investment is much longer than anticipated when it was purchased and also to incorporate the liquidity and credit quality premiums. The yield on Canadian asset-backed AAA paper at December 31, 2007 is quoted as 5.35% to 5.45% depending on the maturity dates (five to seven years). The Company has added a premium for credit and liquidity risk of 100 basis points in the valuation model.

The output from the valuation technique has given the Company a range of reasonably possible fair values from \$6,290 to \$7,703. As the investment is classified as held-for-trading, the Company has recorded a fair value adjustment loss of \$1,619 in the Consolidated Statement of Earnings based on assigned probabilities of the scenarios. Based on existing knowledge, it is reasonably possible that changes in future conditions in the near term could require a material change in the recognized amount. The SIT ABCP is classified as a long-term asset on the Consolidated Balance Sheet at \$6,996.

On October 23, 2007, the Company commenced legal proceedings against its investment advisor, HSBC Securities (Canada) Inc. and one of its individual investment advisors, in the Ontario Superior Court of Justice in connection with investment advice provided by them with respect to the Company's purchase of the SIT ABCP. Since the outcome of the legal proceedings is uncertain, no amount has been recorded.

(b) Contingent consideration:

In connection with the business acquisition in 2003 and as described in note 22(c), 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 was recorded as a liability at the acquisition date. During the year ended December 31, 2007, contingent consideration in the amount of \$1,789 (Swiss franc 2,000) (2006 – \$1,810 (Swiss franc 2,000)) has not been earned or paid and accordingly, has been recorded in earnings.

(c) Foreign exchange loss:

During the year ended December 31, 2006, the Company recognized a foreign exchange loss of \$13,166 which arose when a U.S. subsidiary repurchased certain preferred shares that it had previously issued to its Canadian parent company. The foreign exchange loss had previously been included in the Company's accumulated other comprehensive income on the balance sheet.

16. 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:

| | 2007 | 2006 |
|-------------------------------------|----------|----------|
| Future income tax assets: | | |
| Reserves | \$ 7,242 | \$ 9,876 |
| Share issue costs | - | 160 |
| Property and equipment | 724 | 1,212 |
| Goodwill and intangible assets | 1,405 | 1,121 |
| Losses carried forward | 10,305 | 19,160 |
| Other | 633 | 239 |
| | 20,309 | 31,768 |
| Less valuation allowance | 8,521 | 16,218 |
| Total future income tax assets | 11,788 | 15,550 |
| Future income tax liabilities: | | |
| Goodwill and intangible assets | 7,756 | 10,480 |
| Other | 892 | 264 |
| Total future income tax liabilities | 8,648 | 10,744 |
| Future income tax assets, net | \$ 3,140 | \$ 4,806 |

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 2007, 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 **\$1,822** (2006 – \$6,607). Goodwill established on acquisition was decreased by **\$815** (2006 – \$3,805), intangible assets established on acquisition were decreased by **\$1,509** (2006 – \$nil) and the income tax expense was increased by **\$502** (2006 – reduced by \$2,802).

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%** (2006 – 36.12%) to earnings before income taxes. The reasons for the differences are as follows:

| | 2007 | 2006 |
|---|-----------|----------|
| Computed tax expense | \$ 17,180 | \$ 9,660 |
| Increase (decrease) resulting from: | | |
| Effect of different tax rates on earnings of foreign subsidiaries | (3,445) | (716) |
| Permanent differences | 1,676 | 662 |
| Non-taxable portion of capital loss | 592 | 57 |
| Change in valuation allowance | (4,348) | (6,495) |
| | \$ 11,655 | \$ 3,168 |

As at December 31, 2007, the Company has approximately **\$32,278** (2006 – \$57,365) 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:

| | |
|------------|-----------|
| 2008 | \$ 581 |
| 2009 | 75 |
| 2010 | 384 |
| 2011 | 352 |
| 2012 | - |
| 2013 | 515 |
| 2014 | 62 |
| 2015 | 22 |
| 2016 | 31 |
| 2024 | 5,401 |
| 2027 | 336 |
| Indefinite | 24,519 |
| | \$ 32,278 |

17. INVESTMENT TAX CREDITS:

The Company realized a benefit of \$500 (2006 – \$800) 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, 2007, \$580 (2006 – \$1,037) is recorded as a reduction to income taxes payable.

18. CONSOLIDATED STATEMENTS OF CASH FLOWS:

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

| | 2007 | 2006 |
|--|-------------|------------|
| Accounts receivable | \$ 14,586 | \$ 14,683 |
| Inventories | (10,295) | (8,659) |
| Net investment in leases | (901) | 869 |
| Prepaid expenses and other assets | 1,732 | 115 |
| Accounts payable and accrued liabilities | (20,525) | (25,027) |
| Income taxes payable | 4,060 | 9,850 |
| Deferred revenue | (999) | (210) |
| | \$ (12,342) | \$ (8,379) |

19. PENSIONS:

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

| | 2007 | 2006 |
|--|-----------|-----------|
| Defined contribution pension liabilities | \$ 1,643 | \$ 1,496 |
| Defined benefit pension liabilities | 18,141 | 18,699 |
| | \$ 19,784 | \$ 20,195 |

The Company participates in various pension plans in North America and Europe. In countries where there are legal requirements to fund these pension plans, the Company funds these plans as required. In other countries no such obligation exists.

(a) Funded defined benefit pension plan in North America:

During 2006, the Company commenced an Individual Pension Plan scheme for certain senior North American executives. The plan provides pensions based on years of service, years of contributions and earnings and guarantees the plan members an annual rate of return on plan assets of 7.5%.

Actuarial estimates and maximum retirement benefits are based on projections of employees' compensation levels at the time of retirement, subject to certain adjustments. The required valuation will be as of April 30, 2008.

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:

| | 2007 | 2006 |
|----------------------------------|----------|----------|
| Plan assets, at fair value | \$ 1,190 | \$ 1,049 |
| Defined benefit obligations | (1,348) | (1,118) |
| Funded status | (158) | (69) |
| Unrecognized net experience gain | 158 | 69 |
| Net pension asset recognized | \$ – | \$ – |

The following information is provided on pension fund assets:

| | 2007 | 2006 |
|--------------------------------|----------|----------|
| Plan assets, beginning of year | \$ 1,049 | \$ – |
| Contributions by employees | – | 557 |
| Company contributions | 136 | 419 |
| Actual return on plan assets | 5 | 73 |
| Plan assets, end of year | \$ 1,190 | \$ 1,049 |

Defined benefit obligations are outlined below:

| | 2007 | 2006 |
|---|----------|----------|
| Opening balance | \$ 1,118 | \$ 916 |
| Current service cost | 136 | 125 |
| Interest cost | 94 | 77 |
| Defined benefit obligation, end of year | \$ 1,348 | \$ 1,118 |

Net plan expense is outlined below:

| | 2007 | 2006 |
|----------------------|--------|--------|
| Current service cost | \$ 136 | \$ 125 |
| Interest cost | 94 | 77 |
| Net plan expense | \$ 230 | \$ 202 |

Actuarial assumptions:

| | 2007 | 2006 |
|---|------|------|
| Weighted average discount rate for accrued benefit obligations | 7.5% | 7.5% |
| Weighted average rate of compensation increase | 5.5% | 5.5% |
| Weighted average expected long-term rate of return on plan assets | 7.5% | 7.5% |

Allocation of plan assets:

| Asset category | 2007 | 2006 |
|-------------------|------|------|
| Equity securities | 100% | 100% |

Contributions:

| | Employer | Employee | Total |
|------------------------------------|----------|----------|--------|
| Actual contributions during 2006 | \$ 419 | \$ 557 | \$ 976 |
| Actual contributions during 2007 | 136 | – | 136 |
| Expected contributions during 2008 | 121 | – | 121 |

(b) Funded defined benefit pension plan in Europe:

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, 2007. The next required valuation will be as of December 31, 2009.

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:

| | 2007 | 2006 |
|----------------------------------|-----------|-----------|
| Plan assets, at fair value | \$ 39,217 | \$ 37,022 |
| Defined benefit obligations | (39,036) | (39,041) |
| Funded status | 181 | (2,019) |
| Unrecognized net experience loss | 2,969 | 4,825 |
| Valuation allowance | (3,150) | (2,806) |
| 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:

| | 2007 | 2006 |
|--------------------------------|-----------|-----------|
| Plan assets, beginning of year | \$ 37,022 | \$ 30,906 |
| Actual return on plan assets | 1,049 | 2,092 |
| Contributions by employees | 1,264 | 1,164 |
| Company contributions | 1,264 | 1,164 |
| Benefits paid | 1,850 | (729) |
| Foreign exchange impact | (3,232) | 2,425 |
| Plan assets, end of year | \$ 39,217 | \$ 37,022 |

Defined benefit obligations are outlined below:

| | 2007 | 2006 |
|--|-----------|-----------|
| Defined benefit obligations, beginning of year | \$ 39,041 | \$ 32,706 |
| Service cost | 1,113 | 1,155 |
| Interest cost | 1,097 | 1,047 |
| Benefits paid | 1,850 | (729) |
| Employee contributions | 1,264 | 1,164 |
| Actuarial loss | (1,920) | 1,132 |
| Foreign exchange impact | (3,409) | 2,566 |
| Defined benefit obligations, end of year | \$ 39,036 | \$ 39,041 |

Net plan expense is outlined below:

| | 2007 | 2006 |
|--|----------|----------|
| Service cost | \$ 1,113 | \$ 1,155 |
| Interest cost on accrued benefit obligations | 1,097 | 1,047 |
| Expected return on plan assets | (1,619) | (1,535) |
| Amortization of net loss | 85 | 77 |
| Other | 588 | 420 |
| Net plan expense | \$ 1,264 | \$ 1,164 |

Actuarial assumptions:

| | 2007 | 2006 |
|---|-------|-------|
| Weighted average discount rate for accrued benefit obligations | 3.50% | 3.00% |
| 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 | 2007 | 2006 |
|-------------------|-------------------|------|------|
| Equity securities | 37% | 38% | 39% |
| Debt securities | 24% | 21% | 23% |
| Cash | 3% | 7% | 4% |
| Properties | 36% | 34% | 34% |
| | 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 2006 | \$ 1,164 | \$ 1,164 | \$ 2,328 |
| Actual contributions during 2007 | 1,264 | 1,264 | 2,528 |
| Expected contributions during 2008 | 1,289 | 1,289 | 2,578 |

Employee contributions for 2008 are assumed to be at levels similar to 2007 on the assumption staffing levels in the Company will remain the same on a year over year basis.

(c) Unfunded pension plans:

Defined contribution pension liabilities:

In Italy, the Company participates in state pension plans for which contributions expensed correspond to the contributions payable to the state organizations. The Company's obligation is limited to the amount of contributions that are expensed. During 2007, the Company expensed \$856 (2006 – \$1,018) 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 in 2005.

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, 2007. The next required valuations will be as of December 31, 2008.

Defined benefit obligations are outlined below:

| | 2007 | 2006 |
|--|-----------|-----------|
| Defined benefit obligations, beginning of year | \$ 18,892 | \$ 15,694 |
| Service cost | 511 | 1,440 |
| Interest cost | 765 | 702 |
| Benefits paid | (543) | (204) |
| New entrants/transfers | 55 | 298 |
| Assumption changes | (403) | (516) |
| Past service cost | (4,264) | - |
| Curtailments or settlements | - | (10) |
| Acquisitions or divestitures | - | (464) |
| Actuarial loss (gain) | (127) | 60 |
| Foreign exchange impact | (1,094) | 1,892 |
| Defined benefit obligations, end of year | \$ 13,792 | \$ 18,892 |

Accrued benefit liabilities are outlined below:

| | 2007 | 2006 |
|--|-----------|-----------|
| Accrued benefit liabilities, beginning of year | \$ 18,699 | \$ 15,162 |
| Benefit expense | 1,147 | 2,268 |
| Benefits paid | (543) | (595) |
| Amortization of gains | - | (4) |
| Foreign exchange impact | (1,162) | 1,868 |
| Accrued benefit liabilities, end of year | \$ 18,141 | \$ 18,699 |

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

| | 2007 | 2006 |
|--|-----------|-----------|
| Accrued benefit liabilities, end of year | \$ 18,141 | \$ 18,699 |
| Unrecognized past service cost | (2,794) | - |
| Unrecognized actuarial (gain) loss | (1,555) | 193 |
| Defined benefit obligations, end of year | \$ 13,792 | \$ 18,892 |

Net plan expense is outlined below:

| | 2007 | 2006 |
|--|----------|----------|
| Service cost | \$ 511 | \$ 1,658 |
| Interest cost on accrued benefit obligations | 765 | 692 |
| Amortization of net loss | (129) | (82) |
| Net plan expense | \$ 1,147 | \$ 2,268 |

Actuarial assumptions:

| | % 2007 | 2006 |
|---|----------------|---------------|
| Discount rate for accrued benefit obligations | 5.25% to 5.50% | % 4.50% |
| Rate of compensation increase | 2.25 to 3.50% | 2.25 to 3.50% |

20. RELATED PARTY BALANCE:

As at December 31, 2006, the Company had a loan receivable balance from an officer in the amount of \$240 which was included in accounts receivable. The loan was unsecured and non-interest bearing. The loan was paid during 2007.

21. SEGMENTED AND GEOGRAPHICAL INFORMATION:**Segment disclosures:**

The Company operates in the Enterprise Communication segment which develops and markets a full line of residential and business telephones for the cable and telecommunication markets. The Enterprise Communication segment is managed geographically between Europe and North America. Management evaluates each geographic segment's performance based on revenues less cost of goods sold, selling, general and administrative expenses. The accounting policies of the geographic segments are the same as those described in the summary of significant accounting policies. Research and development and corporate selling, general and administrative expenses that benefit both geographic segments are not allocated to a geographic segment and are included in "Corporate/Unallocated." Inter-segment transactions are not significant and are eliminated upon consolidation.

The following tables present the segmented statements of earnings for the years ended December 31, 2007 and 2006:

| | North American Enterprise Communication | European Enterprise Communication | Corporate | Total Consolidated |
|--|---|---|------------|-----------------------|
| 2007 | | | | |
| Sales | \$ 91,807 | \$ 514,782 | \$ - | \$ 606,589 |
| Cost of goods sold | 55,548 | 292,026 | 1,477 | 349,051 |
| | \$ 36,259 | \$ 222,756 | \$ (1,477) | \$ 257,538 |
| Expenses (income): | | | | |
| Selling, general and administrative | \$ 18,027 | \$ 119,105 | \$ 8,097 | \$ 145,229 |
| Depreciation of property and equipment | 2,990 | 4,028 | - | 7,018 |
| Amortization of intangible assets | 1,355 | 5,049 | - | 6,404 |
| | \$ 13,887 | \$ 94,574 | \$ (9,574) | \$ 98,887 |
| Research and development | | | | 54,629 |
| Foreign exchange loss | | | | 400 |
| Investment income | | | | (3,535) |
| Other income | | | | (170) |
| Earnings from continuing operations before income taxes | | | | \$ 47,563 |

| | North American Enterprise Communication | European Enterprise Communication | Corporate | Total Consolidated |
|--|---|---|------------|-----------------------|
| 2006 | | | | |
| Sales | \$ 102,707 | \$ 497,829 | \$ - | \$ 600,536 |
| Cost of goods sold | 56,592 | 292,314 | - | 348,906 |
| | \$ 46,115 | \$ 205,515 | \$ - | \$ 251,630 |
| Expenses (income): | | | | |
| Selling, general and administrative | \$ 19,387 | \$ 119,521 | \$ 5,426 | \$ 144,334 |
| Depreciation of property and equipment | 4,497 | 3,642 | - | 8,139 |
| Amortization of intangible assets | 3,175 | 5,520 | - | 8,695 |
| | \$ 19,056 | \$ 76,832 | \$ (5,426) | \$ 90,462 |
| Research and development | | | | 59,631 |
| Foreign exchange loss | | | | (2,909) |
| Investment income | | | | (4,361) |
| Other income | | | | 11,356 |
| Earnings from continuing operations before income taxes | | | | \$ 26,745 |

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, 2007 and 2006:

| | 2007 | 2006 |
|---------------|------------|------------|
| Canada | \$ 18,587 | \$ 20,398 |
| United States | 65,806 | 71,918 |
| Europe | 514,782 | 497,829 |
| Other foreign | 7,414 | 10,391 |
| | \$ 606,589 | \$ 600,536 |

Total assets by reportable segment are as follows:

| | 2007 | 2006 |
|---|------------|------------|
| European Enterprise Communication | \$ 241,520 | \$ 278,818 |
| North American Enterprise Communication | 58,587 | 64,773 |
| Corporate/ unallocated | 146,363 | 121,956 |
| | \$ 446,470 | \$ 465,547 |

Capital expenditures by reportable segment are as follows:

| | 2007 | 2006 |
|---|-----------|-----------|
| European Enterprise Communication | \$ 11,425 | \$ 10,055 |
| North American Enterprise Communication | 1,661 | 1,472 |
| | \$ 13,086 | \$ 11,527 |

Goodwill by reportable segment are as follows:

| | 2007 | 2006 |
|---|-----------|-----------|
| European Enterprise Communication | \$ 4,449 | \$ 5,194 |
| North American Enterprise Communication | 6,353 | 6,353 |
| | \$ 10,802 | \$ 11,547 |

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

| | 2007 | 2006 |
|---------------|-----------|-----------|
| Canada | 12,911 | \$ 13,774 |
| United States | 7,427 | 10,935 |
| Europe | 50,325 | 55,672 |
| Other foreign | 63 | 90 |
| | \$ 70,726 | \$ 80,471 |

22. 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:

| | |
|------------|-----------|
| 2008 | \$ 15,167 |
| 2009 | 13,977 |
| 2010 | 12,114 |
| 2011 | 10,284 |
| 2012 | 7,953 |
| Thereafter | 12,821 |
| | \$ 72,316 |

During 2007, rent expense totalled \$11,433 (2006 – \$12,792).

(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 (2006 – \$8,628) and received approximately \$8,236 (2006 – \$8,236) from the program. No benefits were received under the agreement in 2007 and 2006. 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. During 2007, the Company paid \$147 (2006 – \$nil) in royalties.

(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 remaining amount of contingent consideration payable of Swiss franc 2,000 (2006 - Swiss franc 4,000) is recorded as a liability. As at December 31, 2007, the Canadian dollar equivalent of this amount is \$1,744 (2006 – \$3,822). The contingent consideration is in effect until December 31, 2008. 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, 2007 and 2006. As described above in note 15(b), during the year ended December 31, 2007, **\$1,789** (Swiss franc 2,000) (2006 – \$1,810 or Swiss franc 2,000) was not earned or paid and was accordingly recorded in earnings. Any further 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 was required to pay contingent consideration of up to \$60,000. Contingent consideration has not been earned or paid in the years ended December 31, 2007 and 2006. The contingency period ended May 12, 2007.

(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:

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.

(g) Asset retirement obligations:

The Company's asset retirement obligations relate to the restoration of various rental premises to their original state and were calculated using a discount rate of 4%. The total undiscounted amount of cash flows required to settle the obligations is estimated at approximately \$605 and the majority of this is expected to be settled in 5 years. These obligations will be funded from the Company's resources at the time the costs are incurred. The asset retirement obligations in the amount of **\$452** (2006 – \$452) are included in accounts payable.

23. SUBSEQUENT EVENT:

On February 18, 2008, the Company announced that it had entered into an agreement with Telefonaktiebolaget LM Ericsson ("Ericsson") to acquire Ericsson's Enterprise Communications Business. The acquisition is subject to closing conditions and is expected to close in April 2008. The purchase price is \$103,000 (SEK650,000) subject to adjustments for net tangible assets as at closing.

On March 17, the Investors Committee announced that it filed an application in the Ontario Superior Court of Justice under the Companies' Creditors Arrangement Act. This application asks the Court to call a meeting of ABCP noteholders to vote on the restructuring plan presented by the Investors Committee. The announcement of the restructuring plan and the subsequent vote could result in material differences to the inputs to the valuation technique used by the Company to value the SIT ABCP. Changes to the inputs could result in material differences to the valuation of the SIT ABCP in subsequent periods.

24. COMPARATIVE FIGURES:

Certain 2006 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2007.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Francis N. Shen, P.Eng
Chairman and
Co-Chief Executive Officer

Anthony P. Shen, P.Eng
Co-Chief Executive Officer,
President and Chief Operating Officer

Donald Watt
Independent Director

Gerald J. Shortall, C.A.
Independent Director

David M. Williams
Independent Director

Hugues Scholaert, P.Eng
Executive Vice-President

COMMITTEES OF THE BOARD

Audit

Gerald J. Shortall – Chairman
David M. Williams
Donald Watt

Compensation

David M. Williams – Chairman
Gerald J. Shortall
Donald Watt

Nominating and Corporate Governance

Donald Watt – Chairman
Gerald J. Shortall
David M. Williams

LEAD INDEPENDENT DIRECTOR

David M. Williams

CORPORATE OFFICERS

Francis N. Shen, P.Eng
Chairman and
Co-Chief Executive Officer

Anthony P. Shen, P.Eng
Co-Chief Executive Officer,
President and Chief Operating Officer

Allan J. Brett, CA, CBV
Vice-President, Finance
and Chief Financial Officer

Hugues Scholaert, P.Eng
Executive Vice-President

John Tobia, M.A.Sc., LL.B.
Vice-President,
Legal & General Counsel

Yves Laliberté
Executive Vice-President

Paulo Francisco, P.Eng
Vice-President, Engineering
Aastra Telecom Inc.

Rudy Scholaert, M.A.
Vice-President, Global Supply Chain
Aastra Telecom Inc.

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STOCK EXCHANGE

Toronto Stock Exchange
Stock Symbol – AAH
Toronto, Ontario, Canada

AUDITORS

KPMG LLP
Chartered Accountants
Toronto, Ontario, Canada

CORPORATE SOLICITORS

McCarthy Tétrault LLP
Toronto, Ontario, Canada

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.
Toronto, Ontario, Canada

