

**Mitec Telecom Inc.**  
**Consolidated Financial Statements**  
For the year ended April 30, 2008

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## Auditors' Report

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### To the Shareholders of Mitec Telecom Inc.

We have audited the consolidated balance sheet of Mitec Telecom Inc. as at April 30, 2008 and the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 Corporation as at April 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at April 30, 2007 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated June 29, 2007 (except for note 2 to those financial statements which was as of July 11, 2007).

*BDO Dunwoody LLP*

Chartered Accountants

Montréal, Quebec  
July 24, 2008

## Mitec Telecom Inc. Consolidated Balance Sheets

*(thousands of Canadian dollars)*

As at April 30

2008

2007

### Assets

#### Current

Cash and cash equivalents	\$	4,784	\$	6,286
Short-term investments		77		75
Trade receivables		10,036		5,064
Other receivables (Note 6)		630		889
Income taxes recoverable		839		1,112
Inventories (Note 7)		8,759		7,672
Prepaid expenses and other		580		757
		25,705		21,855
<b>Property, plant and equipment</b> (Note 8)		6,110		7,106
<b>Intangible assets</b> (Note 9)		4,284		2,365
<b>Goodwill</b> (Note 5)		3,598		—
<b>Investments</b> (Note 10)		25		750
<b>Deferred charges</b> (Note 11)		321		1,087
		\$ 40,043	\$	33,163


### Liabilities and Shareholders' Equity

#### Current

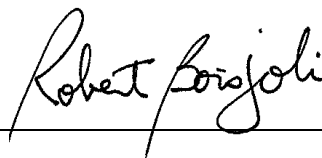
Accounts payable and accrued liabilities	\$	11,373	\$	6,647
Current portion of long-term debt (Note 12)		382		415
		11,755		7,062
<b>Long-term debt</b> (Note 12)		742		382
<b>Future income tax liabilities</b> (Note 14)		515		—
		13,012		7,444
<b>Shareholders' equity</b>				
Common shares (Note 13)		132,097		125,631
Warrants (Note 13)		1,931		1,311
Equity component of convertible debentures (Note 12)		46		—
Contributed surplus		9,223		8,645
Deficit		(115,372)		(108,951)
Accumulated other comprehensive loss		(894)		(917)
		27,031		25,719
		\$ 40,043	\$	33,163

### Commitments and contingencies (Note 15)

On behalf of the Board



Director



Director

The accompanying notes are an integral part of these consolidated financial statements.

## Mitec Telecom Inc. Consolidated Statements of Loss and Comprehensive Loss

*(thousands of Canadian dollars, except share data and per share amounts)*

For the years ended April 30	2008	2007
<b>Sales</b>	<b>\$ 36,176</b>	<b>\$ 33,807</b>
<b>Cost of sales (Note 16)</b>	<b>28,058</b>	<b>28,357</b>
	<b>8,118</b>	<b>5,450</b>
<b>Expenses</b>		
Research and development (Note 19)	4,477	5,455
Selling and administrative	6,229	7,339
Amortization of intangible assets	1,145	1,394
Financial expenses (Note 21)	557	419
Foreign exchange	787	160
Interest income	(39)	(74)
Write-down of property, plant and equipment (Note 8)	104	85
Write-down of intangible assets (Note 9)	40	156
Write-down of investments (Note 10)	725	—
Restructuring and other expenses (Note 16)	—	1,728
Stock-based compensation (Notes 13 and 16)	611	519
	<b>14,636</b>	<b>17,181</b>
<b>Loss before income taxes</b>	<b>(6,518)</b>	<b>(11,731)</b>
<b>Income tax (recovery) expenses (Note 14)</b>	<b>(97)</b>	<b>633</b>
<b>Loss from continuing operations</b>	<b>(6,421)</b>	<b>(12,364)</b>
<b>Loss from discontinued operations (Note 17)</b>	<b>—</b>	<b>(8)</b>
<b>Net loss for the year</b>	<b>\$ (6,421)</b>	<b>\$ (12,372)</b>
<b>Net change in the unrealized losses on translating financial statements of self sustaining operations</b>	<b>\$ 23</b>	<b>\$ 84</b>
<b>Comprehensive loss for the year</b>	<b>\$ (6,398)</b>	<b>\$ (12,288)</b>
<b>Basic and diluted loss per common share from continuing operations</b>	<b>\$ (0.03)</b>	<b>\$ (0.10)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.03)</b>	<b>\$ (0.10)</b>
<b>Weighted average number of outstanding common shares</b>	<b>197,634,243</b>	<b>121,903,323</b>

## Mitec Telecom Inc. Consolidated Statements of Shareholders' Equity

*(thousands of Canadian dollars, except for number of shares)*

**For the years ended April 30**

	Common shares		Warrants	Equity component of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive loss	Shareholders' equity
	# (000s)	\$	\$	\$	\$	\$	\$	\$
Note	13	13	13	12				
Balance, April 30, 2006	76,405	116,357	—	—	8,126	(95,680)	(1,001)	27,802
Issued for cash	97,972	9,258	1,315	—	—	—	—	10,573
Warrants exercised	125	16	(4)	—	—	—	—	12
Stock-based compensation	—	—	—	—	519	—	—	519
Foreign exchange losses	—	—	—	—	—	(899)	—	(899)
Other comprehensive profit for the year	—	—	—	—	—	—	84	84
Net loss for the year	—	—	—	—	—	(12,372)	—	(12,372)
Balance, April 30, 2007	174,502	125,631	1,311	—	8,645	(108,951)	(917)	25,719
Issued for business acquisition	<b>32,841</b>	<b>4,883</b>	—	—	—	—	—	<b>4,883</b>
Issued under a convertible debenture financing	—	—	<b>753</b>	<b>70</b>	—	—	—	<b>823</b>
Issued upon conversion of convertible debentures	<b>8,832</b>	<b>999</b>	—	<b>(24)</b>	—	—	—	<b>975</b>
Stock options exercised	<b>350</b>	<b>72</b>	—	—	<b>(33)</b>	—	—	<b>39</b>
Warrants exercised	<b>3,787</b>	<b>512</b>	<b>(133)</b>	—	—	—	—	<b>379</b>
Stock-based compensation	—	—	—	—	<b>611</b>	—	—	<b>611</b>
Other comprehensive profit for the year	—	—	—	—	—	—	<b>23</b>	<b>23</b>
Net loss for the year	—	—	—	—	—	<b>(6,421)</b>	—	<b>(6,421)</b>
<b>Balance, April 30, 2008</b>	<b>220,312</b>	<b>132,097</b>	<b>1,931</b>	<b>46</b>	<b>9,223</b>	<b>(115,372)</b>	<b>(894)</b>	<b>27,031</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Mitec Telecom Inc. Consolidated Statements of Cash Flows

*(thousands of Canadian dollars)*

**For the years ended April 30**

	2008	2007
<b>Cash flows from operating activities</b>		
Loss from continuing operations	\$ (6,421)	\$ (12,364)
Items not affecting cash		
Amortization	3,276	3,779
Loss on disposal and write-down of property, plant and equipment (Note 8)	211	97
Write-down of intangible assets (Note 9)	40	156
Write-down of investments (Note 10)	725	—
Income tax (recovery) expense (Note 16)	(97)	633
Recovery of non-refundable tax credits	—	(814)
Recovery of previously recognized future tax liabilities recorded in research and development	—	181
Stock-based compensation	611	519
Accretion expense	325	114
	(1,330)	(7,699)
Changes in non-cash working capital balances related to continuing operations (Note 19)	(571)	(185)
	(1,901)	(7,884)
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(619)	(288)
Additions to intangible assets	(64)	(32)
Proceeds on disposal of property, plant and equipment	48	76
Business acquisition, net of cash acquired of \$14	(1,231)	—
Purchases of short-term investments	(229)	(3,117)
Sale of short-term investments	227	13,131
Purchase of investments	—	(750)
	(1,868)	9,020
<b>Cash flows from financing activities</b>		
Common shares and warrants issued, net of issue costs (Note 13)	—	10,398
Common shares issued upon exercise of warrants (Note 13)	379	—
Common shares issued upon exercise of stock options (Note 13)	40	—
Convertible debentures issued (Note 12)	2,294	—
Repayment of long-term debt	(500)	(953)
Increase in bank indebtedness	—	349
Repayment of bank indebtedness	—	(6,365)
	2,213	3,429
<b>Exchange rate fluctuations on cash and cash equivalents</b>	54	46
<b>Net (decrease) increase in cash and cash equivalents from continuing operations</b>	(1,502)	4,611
<b>Cash provided from discontinued operations (Note 17)</b>	—	207
<b>Cash and cash equivalents, beginning of year</b>	6,286	1,468
<b>Cash and cash equivalents, end of year</b>	\$ 4,784	\$ 6,286

The accompanying notes are an integral part of these consolidated financial statements.

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# Mitec Telecom Inc.

## Notes to Consolidated Financial Statements

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

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### 1. Nature of the Business and Going Concern Uncertainty

The Corporation is incorporated under the *Canada Business Corporations Act* and is a knowledge-based communication equipment provider to the global wireless telecommunications and satellite communications markets.

The accompanying consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation has a history of losses over the past seven years and currently does not have the necessary financing in place to support continuing losses. Historically, the Corporation financed its operating and capital requirements mainly through issuances of debt and equity. The Corporation's continuation as a going concern is dependant upon, amongst other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations, the generation of cash from operations, and the ability to secure new financing arrangements and new capital. These matters are dependent on a number of items outside of the Corporation's control and there is uncertainty about the Corporation's ability to continue as a going concern.

The consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these consolidated statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses, and the balance sheet classifications used.

Management's plans with respect to the uncertainties described are as follows:

1. Approaching potential lenders to secure operational financing;
2. Investigating a range of alternatives to expand its Telecom and Satcom business units.

Management believes that with the above plans and the continued support of the Corporation's current shareholders and customers, they will be able to continue operating as a going concern in the foreseeable future. There can, however, be no assurance that such plans will be sufficient to continue to operate as a going concern.

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# Mitec Telecom Inc.

## Notes to Consolidated Financial Statements

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

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### **2. Significant Accounting Policies**

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), the more significant of which are outlined below:

#### **Principles of Consolidation**

These consolidated financial statements include the accounts of the Corporation and its wholly-owned self-sustaining subsidiaries, Mitec Communications Ltd., Mitec Telecom (Suzhou) Co., Ltd. and Keragis Corporation, using the purchase method. All significant inter-company accounts and transactions have been eliminated on consolidation. The Corporation has no interest in variable interest entities.

#### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to estimates and assumptions include the estimated useful life of assets, inventory obsolescence, impairment of long-lived assets, future income taxes, stock-based compensation, discount rate on convertible debentures, legal liabilities, bad debt expense, and allowance for doubtful accounts. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

#### **Cash and Cash Equivalents**

Included in cash and cash equivalents are cash and short-term investments with maturity dates of 90 days or less at the date of acquisition. Cash equivalents are carried at fair value.

#### **Investment Tax Credits**

The Corporation incurs research and development expenditures, which are eligible for investment tax credits. The investment tax credits recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities.

Investment tax credits for scientific research and experimental development are reflected as a reduction of the expenses to which they relate when there is a reasonable assurance of their realization.

#### **Inventories**

Raw materials and purchased components are stated at the lower of cost on a first-in, first-out basis and replacement cost. Work-in-process and finished goods are stated at the lower of cost, including overhead, on a first-in, first-out basis and net realizable value.

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## Mitec Telecom Inc.

### Notes to Consolidated Financial Statements

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

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#### **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less applicable investment tax credits. Property, plant and equipment are amortized over their estimated useful lives using the following methods and rates:

Buildings	20 years straight line
Machinery and equipment	10 % to 20% declining balance
Leasehold improvements	Term of the lease, straight line
Furniture and fixtures	20% declining balance
Tools and dies	5 years straight-line
Computer equipment	30% declining balance
Automobiles	30% declining balance

#### **Intangible Assets**

Intangible assets are recorded at cost. Intangible assets are amortized over their useful lives using the following methods and rates:

Software	30% declining balance
Patented or patented-pending technology and trademarks	10 to 17 years straight line
Non-patented technology	5 to 10 years straight line
Customer relationships	5 years straight line

#### **Impairment of Long-lived Assets**

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management reviews the carrying value of the assets and considers whether an impairment charge should be recorded. The review is based on the assessment of technological changes; the Corporation's intended use and on the projected estimated undiscounted cash flows expected to be generated from the underlying assets. Any impairment results in a write-down of the asset and a charge to income during the year to the extent that the asset's carrying value exceeds its fair value, generally determined on a discounted cash flow basis.

#### **Goodwill**

Goodwill represents the excess at the date of acquisition of the cost of the acquired business over the fair values attributed to the underlying net tangible assets and the identifiable intangible assets. Goodwill is not amortized.

On at least an annual basis and more frequently if events or circumstances indicate that the asset might be impaired, the Corporation subjects goodwill to an impairment test based upon a comparison of the carrying amount to the fair value of the reporting unit. Any impairment in the carrying amount of goodwill is charged to operations in the period such impairment is identified. There was no impairment identified during the year.

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## **Mitec Telecom Inc.**

### **Notes to Consolidated Financial Statements**

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

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#### **Deferred Charges**

Deferred charges consist of the deferred loss and the rent-free period related to a sale-leaseback transaction. The deferred loss and rent-free period are amortized over the term of the related lease.

#### **Revenue Recognition**

The Corporation recognizes revenue from the sale of products when persuasive evidence of an arrangement exists, when products are shipped to customers, when the risks and rewards related to the ownership of the product are assumed by the customer, when collection is considered reasonably assured and when the sales price is fixed or determinable.

Revenue under bill-and-hold arrangements is recognized when risks of ownership have been passed on to the customer, there is a signed contract with the customer, the customer has a substantial business purpose for ordering the goods on a bill-and-hold basis, a fixed delivery schedule has been established with the customer, and the Company does not retain any specific performance obligations such that the earnings process is not complete. Goods held under such arrangements are segregated, ready for shipment and not subject to being used to fill other orders. The customers are charged additional fees for storage and other associated costs until shipment occurs.

#### **Research and Development**

Research costs, net of related investment tax credits, are expensed as incurred. Development costs are charged to operations as incurred unless such costs meet all criteria under GAAP for deferral and amortization. No development costs have been deferred to date.

#### **Leases**

Leases entered into by the Corporation in which substantially all of the benefits and risks of ownership are transferred to the Corporation are recorded as capital leases and classified as property, plant and equipment and obligations under capital lease. All other leases are classified as operating leases under which leasing costs are expensed in the period in which they are incurred.

#### **Income Taxes**

The Corporation uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

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**Mitec Telecom Inc.**  
**Notes to Consolidated Financial Statements**

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*  
**April 30, 2008 and 2007**

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**Foreign Currency Translation**

(a) Canadian operations

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are converted at the historical rate. Revenues and expenses are translated into Canadian dollars at rates of exchange in effect. Exchange gains and losses arising from the translation of foreign currency items are included in the determination of net income/loss.

(b) Foreign operations

The financial statements of the Corporation's self-sustaining foreign subsidiaries, Mitec Communications Ltd., Mitec Telecom (Suzhou) Company, Ltd. and Keragis Corporation, are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the exchange rates prevailing at the end of the period and revenue and expenses are translated at the average exchange rates during the period. The adjustment arising from the translation of these accounts has been recorded in the accumulated other comprehensive profit (loss) in shareholders' equity. When there is a reduction in the net investment of a self-sustaining foreign subsidiary, a proportionate amount of deferred translation gains and losses is recognized in net income/loss.

**Stock-based Compensation and Other Stock-based Payments**

The Corporation has a stock-based compensation plan, which is described in Note 13. The Corporation uses the fair value method to account for stock options granted to employees, directors and consultants. Options issued to employees, officers and directors are recognized as an expense over the vesting period. The fair value is determined using the Black-Scholes option pricing model. Any consideration paid by employees, officers and directors on exercise of stock options or purchase of stock is credited to share capital.

**Earnings per Share**

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method, giving effect to the exercise of all dilutive factors. The treasury stock method assumes that any proceeds that could be obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

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## Mitec Telecom Inc.

### Notes to Consolidated Financial Statements

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

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### 3. Changes in Accounting Policies

Effective May 1, 2007, the Corporation adopted the following recently introduced Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

#### **Financial Instruments – Recognition and Measurement**

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount; sometimes using fair value and other times using cost-based measures depending on financial instrument's classification. Additionally, changes in subsequent measurements, if any, are recognized in net income or comprehensive income depending on its classification.

Under the new Section, all financial assets are classified as held-for-trading, held-to-maturity investments, loans and receivables or available-for-sale. Also, all financial liabilities must be classified as held-for-trading or other financial liabilities. All financial instruments are recorded initially on the consolidated balance sheet at fair value. After initial recognition, the financial instruments should be measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which should be measured at amortized cost using the effective interest method of amortization. The effective interest related to the financial assets and liabilities and the gain or loss arising from a change in the fair value of a financial asset or financial liability classified as held-for-trading is included in net income for the period in which it arises. If a financial asset is classified as available-for-sale, the gain or loss should be recognized in other comprehensive income until the financial asset is derecognized and all cumulative gain or loss is then recognized in net income, or if there has been a loss in value of such investment that is other than a temporary decline, the investment should be written down and the impairment loss should be recognized in net income. This new section also requires that transaction costs incurred in connection with the issuance of financial instruments either be capitalized and presented as an adjustment to the carrying value of the related financial instrument or expensed as incurred. If capitalized, transaction costs must be amortized to income using the effective interest method. This section does not permit the restatement of financial statements of prior periods.

The Corporation has implemented the following classifications:

- Cash and cash equivalents are classified as held-for-trading and are measured at fair value.
- Short-term investments and investments are classified as available-for-sale and are measured at fair value. Investments in private companies are recorded at cost as reliable fair value is not available for such investments.
- Trade receivables and other receivables are classified as loans and receivables. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to original cost unless specified otherwise.
- Accounts payable, long-term debt and convertible debentures are classified as other financial liabilities. After their fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to original cost unless specified otherwise.

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## **Mitec Telecom Inc.**

### **Notes to Consolidated Financial Statements**

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

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The adoption of this new section did not result in any significant adjustments to the carrying value of the Corporation's previously recognized financial assets and liabilities as of April 30, 2007. However, since the Corporation elected to capitalize transaction costs relating to other financial liabilities, unamortized financing charges in the amount of \$184,000 as at April 30, 2008 (2007 – \$161,000) are now presented as a reduction of the long-term debt.

#### **Financial Instruments – Disclosure and Presentation**

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

#### **Comprehensive Income and Equity**

Section 1530 establishes standards for reporting comprehensive income (loss) and as a result of this new Section the cumulative amount, i.e. accumulated other comprehensive income (loss), is presented separately under shareholders' equity (deficiency) in the consolidated balance sheets and a reconciliation of the accumulated other comprehensive income (loss) as well as the comprehensive income (loss) for the period is presented as part of the consolidated financial statements. Section 3251 establishes standards for the presentation of Equity and changes in Equity as a result of the new requirements in section 1530. The Corporation has applied these new accounting standards prospectively, except for the cumulative translation adjustment that has been applied retrospectively.

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#### **4. New Accounting Pronouncements**

##### **Inventories**

In June 2007, the CICA issued the new Section 3031, "Inventories" which will replace Section 3030 "Inventories". The new Section prescribes measurement of inventories at the lower cost and net realizable value. It provides guidance on the determination of costs and their subsequent recognition as an expense and provides guidance on the cost formulas used to assign costs to inventories. This new section is effective for the Corporation for interim and annual financial statements beginning May 1, 2008.

##### **Capital Disclosures**

The CICA issued a new accounting standard, Section 1535, "Capital Disclosures", which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. This new section is effective for the Corporation for interim and annual financial statements beginning May 1, 2008.

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## **Mitec Telecom Inc.**

### **Notes to Consolidated Financial Statements**

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

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#### **Financial Instruments**

The CICA issued two new accounting standards, Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation". These new standards revise and enhance the disclosure requirements, and carry forward, substantially unchanged, the presentation requirements. These new standards emphasize the significance of financial instruments to the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how these risks are managed. This new section is effective for the Corporation for interim and annual financial statements beginning May 1, 2008.

#### **General Standards on Financial Statements Presentation**

The CICA issued a new amendment on Section 1400, General Standards on Financial Statements Presentation, to include requirements to assess and disclose an entity's ability to continue as a going concern. This new section is effective for the Corporation for interim and annual financial statements beginning May 1, 2008.

#### **Goodwill and Intangible Assets**

The CICA issued the following new accounting standards: Section 3064, "Goodwill and Intangible Assets", will replace Section 3062, "Goodwill and Other Intangible Assets", and Section 3450 "Research and Development Costs". Section 1000, "Financial Statement Concepts" was amended according to Section 3064. This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. This new section is effective for the Corporation for interim and annual financial statements beginning May 1, 2009.

The Corporation is presently assessing the impact of all these new accounting standards on its consolidated financial statements.

#### **International Financial Reporting Standard**

In January 2006, the CICA adopted a strategic plan to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period ending in 2011. The Corporation is assessing the impact of the transition to IFRS on its financial statements and has not yet determined the impact.

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**Mitec Telecom Inc.**  
**Notes to Consolidated Financial Statements**

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

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**5. Business Acquisition**

Effective September 17, 2007, the Corporation completed the acquisition of the shares of Keragis Corporation for a total consideration of \$6,128,000. Keragis Corporation designs and manufactures innovative amplifier technologies for military radar and communications systems. The acquisition was accounted for under the purchase method and its operating results have been included in these consolidated financial statements since the date of acquisition. The allocation of the purchase price was initially based on the Corporation's best estimates, subject to the completion of a third party valuation. The cash component of the transaction was financed by the issuance of the Convertible debentures.

During the fourth quarter of 2008, the Corporation finalized the purchase price allocation for the acquisition. The purchase price of the acquisition was adjusted due to the completion of the third party valuation.

The following is a summary of the net assets acquired at fair value:

Cash	\$	14
Accounts receivable		18
Inventory		85
Property, plant and equipment		60
Intangible assets – Patent-pending technology		2,266
Intangible assets – Customer relationship		777
Goodwill		3,598
		6,818
Accounts payable and accrued liabilities		(78)
Future income tax liabilities		(612)
		6,128
<b>Net assets acquired</b>	<b>\$</b>	<b>6,128</b>
<b>Consideration represented by:</b>		
Cash (including transaction costs of \$194)	\$	1,245
Common shares issued		4,883
		6,128
	<b>\$</b>	<b>6,128</b>

The Patent-pending technology is amortized over 10 years, its expected useful life, by using the straight-line method. The Customer relationships are amortized over 5 years by using the straight-line method. The deemed value of the 32,840,625 common shares issued was determined using the weighted average closing price of such shares for a five-day trading period beginning two trading days prior to the announcement of the acquisition and ending two days after the date of the announcement of the acquisition.

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**Mitec Telecom Inc.**  
**Notes to Consolidated Financial Statements**

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*  
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**6. Other Receivables**

	<u>2008</u>		<u>2007</u>
Commodity taxes receivable	\$ 110	\$	455
Note receivable, bearing interest at 10%, due in May 2008	264		—
Other taxes recoverable	115		212
Other	141		222
	<u>\$ 630</u>	<u>\$</u>	<u>889</u>

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**7. Inventories**

	<u>2008</u>		<u>2007</u>
Raw materials and purchased components	\$ 6,076	\$	5,155
Work-in-progress	1,909		1,333
Finished goods	774		1,184
	<u>\$ 8,759</u>	<u>\$</u>	<u>7,672</u>

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**Mitec Telecom Inc.**  
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**8. Property, Plant and Equipment**

	As at April 30, 2008		
	Cost	Accumulated Amortization	Net Carrying Value
Machinery and equipment	\$ 17,417	\$ 12,855	\$ 4,562
Land and buildings	966	358	608
Leasehold improvements	273	27	246
Furniture and fixtures	2,016	1,732	284
Tools and dies	397	241	156
Computer equipment	1,344	1,098	246
Automobiles	38	30	8
	<b>\$ 22,451</b>	<b>\$ 16,341</b>	<b>\$ 6,110</b>

	As at April 30, 2007		
	Cost	Accumulated Amortization	Net Carrying Value
Machinery and equipment	\$ 17,925	\$ 12,307	\$ 5,618
Land and buildings	815	314	501
Leasehold improvements	653	622	31
Furniture and fixtures	2,134	1,749	385
Tools and dies	988	784	204
Computer equipment	1,627	1,275	352
Automobiles	79	64	15
	<b>\$ 24,221</b>	<b>\$ 17,115</b>	<b>\$ 7,106</b>

Management periodically reviews the property, plant and equipment carrying value in light of the Corporation's strategic plan and general business environment. During the year, the Corporation determined that the carrying value of certain assets consisting mostly of machinery and equipment and furniture and fixtures were no longer recoverable. Consequently, fixed assets with a carrying value of \$104,000 (2007 – \$85,000) were written-off.

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**Mitec Telecom Inc.**  
**Notes to Consolidated Financial Statements**

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

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**9. Intangible Assets**

	As at April 30, 2008		
	Cost	Accumulated Amortization	Net Carrying Value
Software	\$ 3,929	\$ 3,420	\$ 509
Patented technology, patent-pending technology and trademarks	2,388	168	2,220
Non-patented technology	1,891	1,173	718
Customer relationships	7,314	6,477	837
	<u>\$ 15,522</u>	<u>\$ 11,238</u>	<u>\$ 4,284</u>

	As at April 30, 2007		
	Cost	Accumulated Amortization	Net Carrying Value
Software	\$ 4,418	\$ 3,672	\$ 746
Patented technology and trademarks	93	27	66
Non-patented technology	1,891	873	1,018
Customer relationships	6,537	6,002	535
	<u>\$ 12,939</u>	<u>\$ 10,574</u>	<u>\$ 2,365</u>

Management periodically reviews the carrying value of the intangible asset portfolio whenever there is an indication of impairment. During the year, the Corporation determined that the carrying value of certain intangible assets, consisting of software, were no longer recoverable. Consequently, intangible assets with a carrying value of \$40,000 (2007 – \$156,000) were written-off.

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**10. Investments**

	2008	2007
Common shares of a private company	<u>\$ 25</u>	<u>\$ 750</u>

During the year, the Corporation determined that based on the best information available at the time, a part of the investment was no longer recoverable. Consequently, the Corporation recorded a write-down of \$725,000. The cost of the investment was \$750,000 (2007 – \$750,000).

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**Mitec Telecom Inc.**  
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**11. Deferred Charges**

	As at April 30, 2008		
	Cost	Accumulated Amortization	Net Carrying Value
Deferred loss on sale and leaseback	\$ 995	\$ 911	\$ 84
Deferred rent on sale and leaseback	2,840	2,603	237
	<b>\$ 3,835</b>	<b>\$ 3,514</b>	<b>\$ 321</b>

	As at April 30, 2007		
	Cost	Accumulated Amortization	Net Carrying Value
Deferred loss on sale and leaseback	\$ 995	\$ 713	\$ 282
Deferred rent on sale and leaseback	2,840	2,035	805
	<b>\$ 3,835</b>	<b>\$ 2,748</b>	<b>\$ 1,087</b>

**12. Long-term Debt**

	2008	2007
a) Investissement Québec term loan, bearing interest at prime plus 3.5%, repayable in 60 monthly payments of capital and interest of \$62,500, due in February 2009	\$ 382	\$ 797
b) Convertible debentures, bearing interest at 10%, repayable in October 2009	742	—
	<b>1,124</b>	797
Less: current portion	<b>382</b>	415
	<b>\$ 742</b>	<b>\$ 382</b>

The required annual principal payments for each of the next two years are as follows:

2009	\$ 382
2010	\$ 742

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## Mitec Telecom Inc.

### Notes to Consolidated Financial Statements

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#### **Investissement Québec Term Loan**

The Investissement Québec term loan is secured by a second rank mortgage in the amount of \$4,500,000 on the universality of the assets of the Canadian operations including intellectual property. The Corporation is required to comply with certain financial covenants with respect to its term loan with Investissement Québec.

#### **Convertible Debentures**

In October 2007, the Corporation issued \$2.5 million of Convertible unsecured debentures (the "Convertible debentures"). Financing charges of \$206,000 were incurred which are presented as a reduction of the long-term debt and equity components. The Convertible debentures bear interest at 10% per annum, payable annually, mature in October 2009 and are subordinated of all indebtedness of the Corporation except indebtedness that by its terms ranks equally with the Convertible debentures. The debenture holders have the option to convert the principle amount of the debentures into common shares at the deemed price defined as the lower of \$0.18 or market price which is defined as the five day weighted average market price calculated prior to the conversion subject to a minimum of \$0.12, per common share, at any time in the two-year term of the debenture. Interest paid on the debentures, over the two-year term will total \$500,000 if the debentures are held to maturity. Subject to regulatory approval, the accrued interest could be paid in shares based on the equivalent value based on the same terms as the conversion price. During the year, Convertible debentures in the amount of \$1,055,000 were converted into 8,791,666 common shares and 40,411 common shares were issued as payment for accrued interest. As of April 30, 2008, the nominal value of the Convertible debenture was \$1,445,000.

The Convertible debentures were issued with 13,888,889 warrants, each warrant entitling the holder to purchase an additional common share at a price of \$0.18 per share, for a period of two years from the issuance of the warrant. The 13,888,889 warrants have been evaluated at \$753,000 using the Black-Scholes option pricing model which assumes an expected life of two years: volatility of 93%, risk-free interest rate of 4.0% and no dividend yield.

In accordance with Canadian GAAP, the Convertible debentures were accounted for on the basis of their substance and were presented in their component parts of debt and equity. The debt component was measured, prior to adjustment, at the issue date at the present value of the cash payment of interest and principal under the term of the Convertible debentures using a discount rate of 15%. These components, individually valued as described above, were adjusted on a prorated basis, to arrive to each component. The difference between the debt component, the warrants and the face value of the convertible debentures is classified as equity. The debt component is accreted to its face value through a charge to earnings over its term. Issue costs have been allocated between the debt and the equity components of the Convertible debentures.

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## Mitec Telecom Inc.

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*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

#### 13. Share Capital

##### Authorized

Unlimited number of preferred shares issuable in series and subject to such conditions as may be determined by the Board of Directors.

Unlimited number of common shares.

##### Issued and outstanding common shares

	As at April 30, 2008		As at April 30, 2007	
<b>Balance, beginning of year</b>	<b>174,502,223</b>	<b>\$ 125,631</b>	76,405,263	\$ 116,357
Changes during the year:				
Issued for cash (net of issue costs of \$616)	—	—	97,971,960	9,258
Issued for business acquisition (Note 5)	<b>32,840,625</b>	<b>4,883</b>	—	—
Issued under stock option plan	<b>350,000</b>	<b>72</b>	—	—
Issued upon conversion of convertible debentures (Note 12)	<b>8,832,077</b>	<b>999</b>	—	—
Issued on exercise of warrants	<b>3,787,500</b>	<b>512</b>	125,000	16
<b>Balance, end of year</b>	<b>220,312,425</b>	<b>\$ 132,097</b>	174,502,223	\$ 125,631

During the year, the Corporation issued 8,832,077 common shares upon conversion of convertible debentures, including specific requests for accrued interests.

##### Warrants

	As at April 30, 2008		As at April 30, 2007	
<b>Balance, beginning of year</b>	<b>27,914,779</b>	<b>\$ 1,311</b>	—	\$ —
Issued for cash (net of issue costs of \$151)	—	—	28,039,779	1,315
Issued under issuance of convertible debentures (Note 12)	<b>13,888,889</b>	<b>753</b>	—	—
Exercised	<b>(3,787,500)</b>	<b>(133)</b>	(125,000)	(4)
<b>Balance, end of year</b>	<b>38,016,168</b>	<b>\$ 1,931</b>	27,914,779	\$ 1,311

## Mitec Telecom Inc.

### Notes to Consolidated Financial Statements

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Warrants outstanding are as follows:

Exercise price	As at April 30, 2008	
	Expiry date	#
0.10	<b>October 3, 2008</b>	<b>4,837,500</b>
0.18	<b>October 17, 2009</b>	<b>13,888,889</b>
0.22	<b>March 30, 2009</b>	<b>19,289,779</b>
		<b>38,016,168</b>

The Corporation may oblige the exercise of the warrants expiring on March 30, 2009 if the closing price of the Corporation's common shares is equal to or exceeds \$0.35 for a period of 20 consecutive trading days. Additional gross proceeds would amount to \$4.2 million. The Corporation may also oblige the conversion of the warrants expiring on October 17, 2009 if the closing price of the Corporation's common shares equal or exceed \$0.36 for a period of 20 consecutive trading days. The additional proceeds would amount to \$2.5 million.

#### Earnings per Share

Weighted average number of common shares is as follows:

	As at April 30, 2008 #	As at April 30, 2007 #
Weighted average number of common shares outstanding	<b>197,634,243</b>	121,903,323
Net effect of dilutive stock options and warrants	<b>52,159,999</b>	26,016,421
<b>Weighted average diluted number of common shares outstanding</b>	<b>249,794,242</b>	147,919,744

For the periods ending April 30, 2008 and 2007, the effect of stock options and warrants potentially exercisable on loss per common share was anti-dilutive, therefore basic and diluted loss per share are the same.

#### Stock Option Plan

The Corporation has in place a Stock Option Plan (the "Plan") for the benefit of key employees, directors and officers of the Corporation. On October 19, 2007, the shareholders approved an amendment to the stock option plan, increasing the total number of options which may be issued under the plan by 10,000,000 common shares for a total of 20,000,000 common shares. The number of common shares granted to a beneficiary and the vesting period is determined at the discretion of the Board of Directors, which is normally no longer than 5 years.

The exercise price of any option granted under the Plan is fixed by the Board of Directors at the time of the grant based on the closing price per common share. The term of an option cannot exceed ten years from the date of the grant. Options are not transferable and can only be exercised while the beneficiary remains an employee, director or officer of the Corporation, except in certain circumstances approved by the Board.

## Mitec Telecom Inc.

### Notes to Consolidated Financial Statements

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#### April 30, 2008 and 2007

As at April 30, 2008, there were 5,466,050 (2007 – 3,793,550) options available for issue under the plan.

The changes to the number of stock options granted by the Corporation, and their weighted average exercise price are as follows:

	As at April 30, 2008		As at April 30, 2007	
<b>Balance, beginning of year</b>	<b>6,206,450</b>	<b>\$ 0.41</b>	2,403,500	\$ 1.76
Granted	9,145,000	0.16	4,735,000	0.13
Exercised	(350,000)	0.11	—	—
Forfeited	(447,500)	0.43	(812,600)	1.92
Expired	(20,000)	8.50	(119,450)	6.50
<b>Balance, end of year</b>	<b>14,533,950</b>	<b>\$ 0.25</b>	6,206,450	\$ 0.41
<b>Options exercisable at end of year</b>	<b>6,520,517</b>	<b>\$ 0.35</b>	3,338,384	\$ 0.60

The weighted average grant date fair value of options granted in 2008 was \$0.16 (2007 – \$0.13).

The fair value of options granted was determined using the Black-Scholes option pricing model with a volatility of 95% (2007 – 98%), a risk-free interest rate of 3.6% (2007 – 4.5%), a dividend yield of nil and an expected life of the option of five years.

Additional information concerning stock options outstanding as at April 30, 2008 is as follows:

Exercise price	Options Outstanding			Options Exercisable	
	Number	Weighted average exercise price	Weighted average years to expiry	Number	Weighted Average exercise price
\$0.11 to \$0.16	6,923,000	\$ 0.14	9.1	3,384,600	\$ 0.13
\$0.17 to \$0.25	6,275,000	0.17	8.6	1,869,500	0.18
\$0.26 to \$0.39	636,000	0.33	4.7	582,667	0.33
\$0.80 to \$1.20	110,000	0.80	2.6	109,000	0.80
\$1.21 to \$1.80	225,000	1.65	3.4	215,000	1.65
\$1.81 to \$2.71	271,250	1.88	2.8	266,050	1.89
\$2.72 to \$4.06	61,500	3.59	2.0	61,500	3.59
\$4.07 to \$6.70	32,200	5.41	0.7	32,200	5.41
	<b>14,533,950</b>	<b>\$ 0.25</b>	<b>8.4</b>	<b>6,520,517</b>	<b>\$ 0.35</b>

The total expenses relating to stock-based compensation amortized to consolidated statements of loss were \$611 (2007 – \$519) for the year.

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**14. Income Taxes and Government Assistance**

a) Significant components of the income tax (recovery) expense consist of the following:

	<u>2008</u>	<u>2007</u>
Current income tax expense before the following:	\$ 85	\$ 220
Benefit of previously unrecognized losses and temporary differences	(5)	(220)
Benefit of tax holidays in foreign country	(80)	—
Current income tax expense	—	—
Future income tax recovery is made of:		
Recovery of previously recognized future tax liabilities	—	(181)
Benefits of investment tax credits not previously recognized	—	814
Temporary differences from acquisition-related intangibles	(97)	—
Income tax (recovery) expense	<u>\$ (97)</u>	<u>\$ 633</u>

b) The income tax (recovery) expense reported differs from the amount computed by applying Canadian income tax rates to income before income taxes. The reasons for the difference and the related tax effects are as follows:

	<u>2008</u>	<u>2007</u>
<b>Loss from continuing operations before income taxes</b>	<b>(6,518)</b>	<b>(11,731)</b>
Canadian statutory income tax rate	<b>30.90%</b>	<b>32.00%</b>
Expected income tax (recovery) expense	<b>\$ (2,014)</b>	<b>\$ (3,754)</b>
<b>Adjustments</b>		
Tax effect of non-deductible stock option compensation	<b>189</b>	<b>166</b>
Recovery of previously recognized future tax liabilities	<b>—</b>	<b>(181)</b>
Tax effect of non-deductible intangible asset amortization	<b>52</b>	<b>86</b>
Effect of foreign tax rate differentials	<b>(75)</b>	<b>9</b>
Tax credits and other amounts not taxable in Quebec	<b>(18)</b>	<b>(36)</b>
Benefit of previously unrecognized losses and temporary differences	<b>(5)</b>	<b>(220)</b>
Unrecognized benefit of losses and temporary differences	<b>1,667</b>	<b>3,520</b>
Benefit of tax holidays in foreign country	<b>(80)</b>	<b>—</b>
Benefits of investment tax credits not previously recognized	<b>—</b>	<b>814</b>
Other	<b>187</b>	<b>229</b>
Income tax (recovery) expense	<u>\$ (97)</u>	<u>\$ 633</u>

## Mitec Telecom Inc. Notes to Consolidated Financial Statements

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

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- c) The tax effects of temporary differences and net operating losses that give rise to future income tax assets and liabilities are as follows:

	2008	2007
<b>Future income tax liabilities</b>		
Carrying values of capital assets in excess of tax basis \$	60 \$	16
Deferred charges and other	29	133
Temporary differences of acquisition-related intangible assets	515	—
<b>Total future income tax liabilities</b>	<b>604</b>	<b>149</b>
<b>Future income tax assets</b>		
Net operating losses carried forward	12,166	13,280
Research and development expenditures carried forward	4,943	5,917
Tax basis of capital assets in excess of carrying value	3,189	2,935
Provisions, share issue costs and other	1,557	700
Total future income tax assets	21,855	22,832
Valuation allowance	(21,766)	(22,683)
<b>Total future income tax assets</b>	<b>89</b>	<b>149</b>
<b>Net future income tax liabilities</b>	<b>\$ 515 \$</b>	<b>—</b>

The Corporation also has available unrecognized federal and provincial research and development expenditures of approximately \$17,000,000, and \$17,700,000 respectively. These expenditures are available to reduce taxable income and have an unlimited carry-forward period. The Corporation has unrecognized losses carried forward of \$45,123,000 in Canada and \$43,446,000 for provincial purposes, which expire in the years 2010 to 2028, and approximately \$1,457,000 in the United States which expire in the years 2026 to 2028 as indicated below.

Year of expiry	Canada	Quebec	United States
2010	\$ 4,465 \$	4,433 \$	—
2014	3,531	3,152	—
2015	15,060	15,060	—
2026	6,343	6,343	7
2027	9,469	8,203	1,013
2028	6,255	6,255	437
	\$ 45,123 \$	43,446 \$	1,457

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## Mitec Telecom Inc.

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In addition, the Corporation has allowable capital losses in Canada of approximately \$20,500,000 which have not been recognized in the future income tax assets described above. The Corporation also has available unrecognized investment tax credits of approximately \$3,177,000, which expire in the years 2011 through 2028 as indicated below.

#### **Year of expiry**

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2011	\$	253
2012		459
2013		472
2014		485
2015		419
2026		578
2027		401
2028		110
	<b>\$</b>	<b>3,177</b>

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The Corporation has been audited by the Canada Revenue Agency (“CRA”) with respect to 2001 and 2002 research and development services provided by a US subsidiary to the Corporation. The Corporation is also being audited by CRA with respect to the 1999 to 2004 taxation years in respect of imputed interest on loans made to foreign subsidiaries. In 2007, the Corporation received notices of reassessment and proposed reassessments from the CRA. The notices of reassessment and proposed reassessments would increase significantly the taxable income of the Corporation for those years.

These matters are under discussion with the CRA, and the Corporation believes it has taken adequate reserves to address certain of these issues through the use of investment tax credits and a reduction of future tax assets relating to net operating losses and research and development expenditures carried forward. However, the Corporation believes that certain of the proposed changes are unfounded and it has filed an opposition with the CRA. The ultimate resolution could result in material adjustments to the amounts provided in the accounts.

#### **Government Assistance**

The Corporation incurred research and development expenditures some of which are eligible for refundable investment tax credits. The investment tax credits recorded are based on management’s estimates of amounts expected to be recovered and are subject to audit by the taxation authorities and, accordingly, these amounts may vary. The investment tax credits, recorded as a reduction of research and development expenditures, were \$160,000 (2007 – \$364,000).

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## Mitec Telecom Inc.

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#### 15. Commitments and Contingencies

- a) The Corporation and its subsidiaries are committed under operating leases for rental of properties and equipment. Future minimum annual rentals are as follows:

2009	\$	118
2010		106
2011		79
2012		2
	<u>\$</u>	<u>305</u>

- b) In January 1997, the Corporation received notice from attorneys for the residents of a house in Williston, Vermont, of a potential claim alleging property damage and personal injury arising from the presence of certain contaminants in the groundwater beneath their property. The notice alleged that the contaminants came from sources located on a lot leased in the past by Mitec Systems Inc. In 1999, they filed a lawsuit in Vermont against the Corporation and two related companies claiming unspecified personal injuries and diminution in value for their residential property. The Corporation settled this legal action for approximately \$240,000 (US \$175,000) and recorded the settlement and associated legal fees in 2004. The Corporation is seeking restitution from its insurance company and the insurance company has claimed recoupment of certain fees from the Corporation. On February 1, 2007, the Superior Court entered judgment in favour of the insurance company in the amount of \$189,073 plus interest from February 1, 2007. The Corporation believes it has several strong arguments and appealed to the Vermont Supreme Court. The outcome is presently not determinable and therefore no provision has been made in the accounts.

In February 1999, the Corporation entered into an agreement with the State of Vermont whereby the Corporation has agreed to perform a site investigation and the State has agreed to use its resources to identify all individuals and entities potentially responsible for the site contamination. The State of Vermont also requested that the United States Environmental Protection Agency cases its investigation of the site. The site investigation undertaken by the Corporation has been concluded and the data and information collected indicates that there are a number of other possible sources of groundwater contamination. The State of Vermont has stated that it has no funding to undertake the next steps with respect to the groundwater contamination and has asked the United States Environmental Protection Agency to revive its investigation of the contamination. The United States Environmental Protection Agency ("USEPA") has agreed to do so. In May 2007, USEPA notified Mitec that it considered Mitec to be a potentially responsible party with respect to the Alling Industrial Park contamination and asked if Mitec was willing to enter into negotiations. Mitec commenced confidential settlement negotiations and with the USEPA to resolve the agency's cost reimbursement claim. Subsequently, USEPA issued a special notice letter triggering a statutory negotiation period in which a formal demand for reimbursement was made. In response to the negotiations and, in July 2008, a settlement agreement was proposed by the USEPA which is currently being reviewed by Mitec. However, there remains uncertainty as to the finalization of the actual amount to be paid and certain other terms of the settlement agreement.

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- c) The Corporation's former landlord in the New Jersey facility has instituted legal action against the Corporation and certain of its sub-tenants for damages to the leased premises. The outcome is presently not determinable and therefore no provision has been made in the accounts.
  - d) The Corporation is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. It is the opinion of management that a final determination of these proceedings cannot be made at this time but should not materially affect the Corporation's financial position or results of operations.
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**16. Restructuring and Other Expenses**

In 2007, the Corporation decided to streamline its operations and to review the North American telecom markets to be addressed. As a result of the review, management of the Corporation decided to further streamline its fixed costs through the termination of employees in Montreal (Canada), the closing of its United States Research and Development facility and its selling department located in United Kingdom. The Corporation incurred severance costs related to executive and non-executive employees of \$1,728,000 of which the related unpaid balance of \$94,000 was included in accounts payable and accrued liabilities at April 30, 2007. At April 30, 2008 the balance was nil. Further, in 2007, the immediate vesting of options for these employees increased the stock-based compensation expense in the 2007 by approximately \$125,000. The Corporation also decided to close its Reno (United States) facility, which resulted in a restructuring charge of \$132,000 related to a write-down of the inventory in addition to the write-off of property, plant and equipment. The restructuring initiatives also lead the Corporation to write-down \$853,000 of Telecom inventory located in Montreal (Canada). The costs related to inventory write-downs were included in cost of sales in 2007. The Corporation will continue to benefit from its non-patented technology related to the Telecom segment. There was no impact in 2008.

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**17. Discontinued Operations**

On May 8, 2003, the Board of Directors approved a plan to divest its Swedish subsidiary, Beve Electronics AB ("Beve"), which comprised of most of its Microwave sector. On August 29, 2003, the Corporation closed the sale of the business of Beve to Note AB, a Swedish Company. During 2007, the Corporation received the proceeds from the sale of the land and sold its Swedish corporate entities.

	2008	2007
<b>Loss from discontinued operations</b>	<b>\$ —</b>	<b>\$ (8)</b>
Cash flows from discontinued operations consist of cash provided from (used in):		
Operating activities	—	(8)
Investing activities	—	215
<b>Increase in cash and cash equivalents from discontinued operations</b>	<b>\$ —</b>	<b>\$ 207</b>

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## Mitec Telecom Inc.

### Notes to Consolidated Financial Statements

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

#### 18. Related Party Transactions

In addition to related party transactions disclosed elsewhere in the notes to consolidated financial statement in 2008, consulting fees in the amount of nil (2007 – \$288,000) were paid to a company controlled by a Director.

#### 19. Supplementary Information

a) Consolidated statements of cash flows

Changes in non-cash working capital balances related to operations:

	2008	2007
Trade and other receivables	\$ (4,404)\$	5,678
Accounts payable and accrued liabilities	4,743	(5,471)
Inventories	(1,087)	(126)
Prepaid expenses and other	177	(266)
	\$ (571)\$	(185)
Interest paid	\$ 113 \$	219

b) Consolidated statements of earnings

**Research and development**

Research and development	\$ 4,637 \$	6,633
Refundable investment tax credits (Note 14)	(160)	(364)
Net current research and development	4,477	6,269
Government assistance – recovery of non-refundable tax credits (Note 14)	—	(814)
	\$ 4,477 \$	5,455

**Amortization of property, plant and equipment is included in:**

Cost of sales	\$ 978 \$	1,154
Selling and administrative and research and development	387	464
	\$ 1,365 \$	1,618

**Amortization of deferred charges has been included in:**

Cost of sales	\$ 473 \$	491
Research and development	146	123
Selling and administrative	147	153
	\$ 766 \$	767

## Mitec Telecom Inc. Notes to Consolidated Financial Statements

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*  
**April 30, 2008 and 2007**

### 20. Segmented Information

- a) Segmented information used by management

Management organizes the Corporation into two principal operating segments for making operating decisions and assessing performance. The operating segments are Wireless Telecommunications ("Telecom"), and Satellite and Terrestrial Communications ("Satcom"). The Corporation currently operates in Canada, China and the United States.

Telecom is involved in research, design, development, manufacturing and sale of components, subsystems and multifunction subsystems for the wireless and cellular markets.

Satcom is involved in research, design, development, manufacturing and sale of components, subsystems and multifunction subsystems for satellite earth stations.

Management evaluates segment performance based on gross profit as other expenses cannot be allocated to individual segments. In addition, the segments share certain inventory and some capital assets.

Information pertaining to each segment for the years ended April 30:

	<b>Telecom</b>		<b>Satcom</b>		<b>Consolidated Amounts</b>	
	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007
Sales	<b>\$ 14,884</b>	\$ 11,933	<b>\$ 21,292</b>	\$ 21,874	<b>\$ 36,176</b>	\$ 33,807
Cost of sales	<b>12,032</b>	13,325	<b>16,026</b>	15,032	<b>28,058</b>	28,357
Gross profit	<b>2,852</b>	(1,392)	<b>5,266</b>	6,842	<b>8,118</b>	5,450
Expenses					<b>14,636</b>	17,181
Income tax (recovery) expense					<b>(97)</b>	633
Loss from continuing activities					<b>(6,421)</b>	(12,364)
Discontinued activities					—	(8)
<b>Net loss for the year</b>					<b>\$ (6,421)</b>	<b>\$ (12,372)</b>

## Mitec Telecom Inc. Notes to Consolidated Financial Statements

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*  
**April 30, 2008 and 2007**

The following table presents assets by segment:

	As at April 30, 2008		
	Telecom	Satcom	Total
Current assets	\$ 9,952	\$ 10,550	\$ 20,502
Long-term assets	4,700	9,291	13,991
	<b>14,652</b>	<b>19,841</b>	<b>34,493</b>
Other			5,550
<b>Total</b>			<b>\$ 40,043</b>

	As at April 30, 2007		
	Telecom	Satcom	Total
Current assets	\$ 4,832	\$ 9,055	\$ 13,887
Long-term assets	7,118	3,790	10,908
	11,950	12,845	24,795
Other			8,368
<b>Total</b>			<b>\$ 33,163</b>

Details of property, plant and equipment by segment are as follows:

	As at April 30, 2008		
	Telecom	Satcom	Total
Beginning balance	\$ 4,271	\$ 2,835	\$ 7,106
Additions	299	320	619
Depreciation	(898)	(467)	(1,365)
Gain on disposal	—	—	—
Write-down of fixed assets	(104)	—	(104)
Loss on disposal	(72)	(35)	(107)
Proceed on disposal	(37)	(11)	(48)
Foreign exchange impact	9	—	9
	<b>\$ 3,468</b>	<b>\$ 2,642</b>	<b>\$ 6,110</b>

	As at April 30, 2007		
	Telecom	Satcom	Total
Beginning balance	\$ 5,373	\$ 3,191	\$ 8,564
Additions	135	153	288
Depreciation	(1,122)	(496)	(1,618)
Gain on disposal	—	—	—
Write-down of fixed assets	(85)	—	(85)
Loss on disposal	(9)	(1)	(10)
Proceed on disposal	(76)	—	(76)
Foreign exchange impact	55	(12)	43
	<b>\$ 4,271</b>	<b>\$ 2,835</b>	<b>\$ 7,106</b>

## Mitec Telecom Inc. Notes to Consolidated Financial Statements

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*

**April 30, 2008 and 2007**

Details of intangible assets and goodwill by segment are as follows:

	As at April 30, 2008		
	Telecom	Satcom	Total
Beginning balance	\$ 1,662	\$ 703	\$ 2,365
Additions	60	6,642	6,702
Amortization	(487)	(658)	(1,145)
Write-down of intangible assets	—	(40)	(40)
	\$ 1,235	\$ 6,647	\$ 7,882

	As at April 30, 2007		
	Telecom	Satcom	Total
Beginning balance	\$ 2,594	\$ 1,257	\$ 3,851
Additions	26	6	32
Amortization	(958)	(436)	(1,394)
Write-down of intangible assets	—	(156)	(156)
Foreign exchange impact	—	32	32
	\$ 1,662	\$ 703	\$ 2,365

b) Enterprise-wide information

The following table presents sales by destination of the product:

	2008	2007
Canada	\$ 1,026	\$ 730
United States	10,887	14,103
Europe	8,730	7,330
Asia	11,472	8,685
Other	4,061	2,959
	\$ 36,176	\$ 33,807

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**Mitec Telecom Inc.**  
**Notes to Consolidated Financial Statements**

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**April 30, 2008 and 2007**

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The following tables present sales, assets and property, plant and equipment, intangible assets and goodwill based on geographic location of production:

	2008	2007
<b>Sales</b>		
Canada	\$ 22,264	\$ 23,947
United States	689	356
China	13,892	10,011
Inter-country	(669)	(507)
	\$ 36,176	\$ 33,807
<b>Assets</b>		
Canada	\$ 22,595	\$ 27,645
United States	7,010	37
China	10,418	5,415
United Kingdom	20	66
	\$ 40,043	\$ 33,163
<b>Property, plant and equipment, goodwill and intangible assets</b>		
Canada	\$ 6,333	\$ 8,417
United States	6,488	—
China	1,171	1,054
	\$ 13,992	\$ 9,471

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**21. Financial Expenses**

Financial expenses consist of:

	2008	2007
Interest on bank indebtedness	\$ —	\$ 56
Interest on long-term debt	70	136
Interest on convertible debentures	84	—
Accretion expense	325	114
Bank charges and other	78	113
	\$ 557	\$ 419

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**Mitec Telecom Inc.**  
**Notes to Consolidated Financial Statements**

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**April 30, 2008 and 2007**

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**22. Financial Instruments**

*Short-term Financial Assets and Liabilities*

The carrying amounts of these assets and liabilities are a reasonable estimate of the fair values due to the short-term nature of these assets and liabilities.

Short-term financial assets consist of short-term investments, trade receivables, and other receivables. Short-term financial liabilities consist of accounts payable.

*Trade Receivables, Economic Dependence and Concentration of Credit Risk*

The Corporation sells products to customers primarily in Canada, the United States, Europe and Asia. The Corporation performs on-going credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses. It is reasonably possible that the actual amount of loss, if any, incurred on trade receivables will differ from management's estimate.

The foreign trade receivables of the Canadian operation are guaranteed by the Export Development Corporation Canada ("EDC") and the Corporation's customer base comprises of many geographically dispersed customers.

One customer accounted for 31% of sales for the year ended April 30, 2008 and 39% of trade receivables as at April 30, 2008 (in 2007 – two customers accounted for 43% of sales and 36% of trade receivables as at April 30, 2007). For the year ended April 30, 2008, the same customer represented 74% (2007 – 84%) of Telecom sales.

*Investments*

In 2008, the carrying value of the investments was reduced to the fair value based on best estimates available at the time.

*Long-term Debt*

The carrying amounts of the Corporation's long-term debt approximate their fair value because they are floating rate debt.

*Interest Rate Risk*

The Corporation's principal exposure to interest rate fluctuations is with respect to its long-term debt, which bear interest at floating rates.

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**Mitec Telecom Inc.**  
**Notes to Consolidated Financial Statements**

*(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)*  
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*Foreign Exchange Risk*

The Corporation maintains cash and cash equivalents, other current assets, and accounts payable and accrued liability in Chinese yuan (RMB) and in U.S. dollars (US\$) and is therefore exposed to currency risks on these balances as follows:

	<b>As at April 30, 2008</b>		As at April 30, 2007	
	<b>RMB</b>	<b>US\$</b>	RMB	US\$
<b>Assets</b>				
Cash and cash equivalents	11,288	1,786	4,144	3,446
Accounts receivable	34,185	4,924	7,963	3,623
	<b>45,473</b>	<b>6,710</b>	12,107	7,069
<b>Liabilities</b>				
Accounts payables and accrued liabilities	43,343	2,082	17,482	1,324
	<b>2,130</b>	<b>4,628</b>	(5,375)	5,745

*Net exchange control restrictions*

The Corporation's Chinese subsidiary is subject to government approvals should it wish to repatriate funds to the parent company in excess of authorized advances from the Corporation and its subsidiaries. At April 30, 2008, the Chinese subsidiary's cash on hand in the amount of \$1.6 million was higher than the amount of the authorized advances of \$1.5 million. Amounts in excess of this threshold may be subject to holdback.

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**23. Comparative Figures**

Certain comparative figures for 2007 have been reclassified to conform to the presentation adopted in 2008.

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