

2007

Mitec Telecom Inc.

Third Quarter Report

For the 3-month and 9-month periods ending January 31, 2007



Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") includes a review of the financial condition of Mitec Telecom Inc. ("Mitec" or the "Corporation") and a review of operations for each of Mitec's operating segments for the 3-month and 9-month periods ended January 31, 2007 (third quarter fiscal 2007).

This MD&A is intended to help the reader understand and assess the significant trends, risks and uncertainties related to the results of operations for each business segment. It should be read in conjunction with the audited consolidated financial statements dated April 30, 2006. Mitec's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts in this MD&A are in Canadian dollars unless otherwise indicated and considers information available until February 28, 2007.

FORWARD-LOOKING STATEMENTS

In the interest of providing shareholders and potential investors with information regarding Mitec, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking and are subject to the risks, uncertainties and other important factors that could cause the Corporation's actual performance to differ materially from that expressed in or implied by such statements.

Such factors include, but are not limited to: the going concern uncertainty; the impact of general economic conditions; industry conditions, including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian standard setters. Some of these items are further discussed in the Risk Factors section of our Annual Information Form dated July 28, 2006.

Although the Corporation believes that the expectations conveyed by the forward-looking statements are based upon information available on the date that such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

APPROVAL OF QUARTERLY FINANCIAL STATEMENTS

Prior to publication, the Board of Directors, on the recommendation of the audit committee, approved Mitec's financial statements.

NOTICE FROM MANAGEMENT

The interim financial statements have not been reviewed by the Corporation's external auditors.

OVERVIEW

Mitec Telecom Inc. was incorporated in 1972. Its activities, which consist of the design and manufacture of telecommunication products, are divided into two core business segments: Telecommunications (“Telecom”) and Satellite Communications (“Satcom”).

The Telecom segment consists of designing, manufacturing and selling state-of-the-art radio-frequency (“RF”) conditioning and amplifier subsystems for cellular base stations. These components are distributed worldwide and are integrated into high performing wireless communication infrastructures that enable voice, data/Internet and ultimately multimedia communications.

The Satcom segment generates revenues from the design, manufacture and sale of RF components and subsystems for Satellite Earth Stations used by direct-to-home TV service providers’ very small aperture terminal networks (VSAT).

Mitec’s headquarters are in Pointe-Claire, Canada and the Corporation has another operation in Suzhou (China). As at January 31, 2007, the Corporation’s global workforce stood at 330 employees.

MAJOR EVENTS

On November 20, 2006, the Corporation announced that the General Manager of operations in China, Mr. Marc Desjardins, was leaving the Corporation to pursue other activities and that Mr. Martin Caron would be replacing Mr. Desjardins as General Manager of operations in China effective immediately.

On December 13, 2006, Mitec announced that it had signed a Letter of Intent to purchase all the shares of Comhat AB. These negotiations were terminated on January 23, 2007, when the Corporation was unable to reach terms that were acceptable to both parties.

On January 31, 2007, the Corporation announced that it was closing its US operations based in Reno, NV to concentrate all North American operations in Montreal. Mitec also announced a strategic alliance with Broadband Wireless LLC to develop Multi-Carrier High-Power Amplifier (MCPA) for the wireless infrastructure.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents selected financial information for the third quarter and the nine-month period of the current and past fiscal years:

Periods ended January 31 (Amounts in thousands except per share data)	Q3 FY2007	Q3 FY2006	YTD FY2007	YTD FY2006
	\$	\$	\$	\$
Sales	8,536	11,350	26,050	34,160
Gross profit	1,887	1,806	3,855	4,101
SG&A expenses	1,852	2,017	5,953	7,171
R&D	1,405	1,849	5,220	5,386
Amortization of intangible assets	249	527	1,144	1,577
Financing Expenses	(528)	254	(228)	1,095
Services paid by the issuance of stock options	57	113	489	785
Restructuring and other expenses	1,176	57	2,518	1,533
Loss from continuing operations	(2,555)	(2,777)	(11,231)	(12,744)
Net loss	(2,555)	(2,799)	(11,239)	(12,796)
Loss per share – basic and diluted:				
- Continuing operations	(0.02)	(0.04)	(0.10)	(0.17)
- Net loss	(0.02)	(0.04)	(0.10)	(0.17)
Total assets			34,770	46,972
Long-term debt			1,083	1,911
Cash and temporary investments			6,364	11,557

RESULTS OF OPERATIONS

Sales

For the three-month period ended January 31, 2007, consolidated sales reached \$ 8.5 million down 25% from the third quarter of the previous year. The decline in the Corporation's sales is attributable to decreased shipments from the Telecom segment, down \$3.4 million or 57% during the third quarter from the previous year. This is mainly due to the declining demand for goods from previous platforms combined with delays to reach the full scale manufacturing level of newly developed technologies. Revenue for the Satcom segment, which contributed 69% of total revenues, increased by \$0.6 million to \$5.9 million, or 12% compared to the third quarter of fiscal 2006, due mostly to a larger penetration into the VSAT market.

(thousands of dollars)	Q3 FY2007	Q2 FY2007	Q1 FY2007	Q4 FY2006	Q3 FY2006
Telecom	2,641	3,206	4,071	5,552	6,084
% of total revenues	30.9%	36.3%	46.9%	53.6%	53.6%
Satcom	5,895	5,632	4,605	4,798	5,266
% of total revenues	69.1%	63.7%	53.1%	46.4%	46.4%

For the nine-month period ended January 31, 2007, consolidated sales stood at \$26.1 million, a decline of 24% from the \$34.2 million in sales from the same period of the previous fiscal year. The reduction stems primarily from the Wireless segment where RF components and Power Amplifiers (PA) remain at the early stages of development and are facing various issues prior to reaching their full potential on the market. These negative results were partially offset by an increase in sales in the Satcom segment following larger penetration into the VSAT market.

Geographical Distribution Revenue

	North America	Europe	Asia	Other
Q3 FY2007	45%	17%	31%	7%
Q3 FY2006	37%	20%	40%	3%
YTD FY2007	43%	29%	22%	6%
YTD FY2006	44%	27%	25%	4%

The increase of Satcom sales in United States impacted the sales per geographic location. The change in the geographic distribution of sales compared to the same period last fiscal year reflects the impact of \$2.3 million revenue attributable to the sale of excess inventories in Europe.

Gross profit

Gross profit for the third quarter of fiscal 2007 increased by \$0.1 million from \$1.8 million in the third quarter of fiscal 2006 to \$1.9 million. This increase was a result of the exit from the sales of some products carrying negative margins.

<i>(thousands of dollars)</i>	Q3 FY2007	Q2 FY2007	Q1 FY2007	Q4 FY2006	Q3 FY2006
Telecom	8	(27)	(930)	69	274
% of Telecom sales	0.0%	0.0%	(22.8)%	1.2%	4.5%
Satcom	1,879	1,807	1,118	1,176	1,532
% of Satcom sales	31.9%	32.1%	24.3%	24.5%	29.1%

Gross profit in the Telecom segment decreased \$0.3 million from \$0.3 million for the same period last year to positive \$8,000 in fiscal 2007. This is a result of lower sales level in PAs and new technologies in the RF conditioning equipment, which were carrying low gross margins. For the nine-month period, the negative 10% gross profit, or negative \$0.9 million, remained comparable to the negative \$0.3 million from the same period last year.

Satcom gross profit increased by \$0.4 million from \$1.5 million in the third quarter of fiscal 2006 to \$1.9 million in the second quarter of fiscal 2007. Gross margin increased from 29.1% to 31.2% due mainly to a better penetration into the VSAT markets. For the nine-month period, gross profit reached \$4.8 million, or 29.2% compared to \$4.4 million or 29.2%, from the previous year. The increase is attributable to higher revenue from the segment, which allows larger overhead absorption.

Research and Development Expenses

Research and development expenses (R&D) net of investment tax credits for the third quarter of fiscal 2007 decreased 24% from \$1.8 million in the third quarter of fiscal 2006 to \$1.4 million. The decrease is attributable to lower investments in the wireless sector since products are entering final stages of approval. For the nine-month period ended January 31, 2007, total R&D expenses reached \$5.2 million representing 20.0% of the sales compared to \$5.3 million or 15.8% of the sales for the same period of the previous year. The Corporation is confident that the reduction in the R&D spending will have low impact on the development of future products.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses for the third quarter in fiscal 2007 decreased 8% from \$2.0 million to \$1.9 million. The decrease was a consequence of the restructuring program. For the nine-month period, those expenses totalled \$6.0 million compared to \$7.1 million from the previous year, down 17% following the restructuring plan and the cost-containment program.

Financial Expenses

Financial expenses were negative \$0.5 million for the third quarter of fiscal 2007 as compared to \$0.3 million in the third quarter of fiscal 2006. This decrease was a result of favourable foreign exchange rate incurred at the end of the current quarter and fewer short-term financial expenses following the reimbursement of a bank loan. These same reasons explain the decrease for the nine-month period where the expenses decreased \$1.1 million to negative \$0.2 million.

Amortization of Intangible Assets

The amortization of intangible assets decreased to \$0.2 million in the third quarter of fiscal 2007 compared to \$0.5 million for the same period last fiscal year, further the write-down of intangible assets in the wireless segment. The same reason explains the decrease for the nine-month period where the expenses decreased \$0.5 million to \$1.1 million for the current year compared to \$1.6 million last fiscal year.

Stock-based compensation

The amount of the expense recorded this quarter remained unchanged to \$0.1 million for both current and past three-month periods. For the nine-month period, the expense decreased from \$0.8 million last fiscal year to \$0.5 million for the current year. The decrease is attributable to the vesting of significant options in 2006 due to the departure of certain executives.

Restructuring and other Expenses

The Corporation has recorded \$1.2 million as restructuring costs in the current quarter as compared to \$0.1 million for the same period last year. The costs are associated with the closure of US operations and related write-down of inventories and the departures of some employees located in the United Kingdom that consider severances and related benefits. For the nine-month period ended on January 31, 2007, the restructuring expenses of \$2.5 million increased \$1.0 million compared with the \$1.5 million recognized for the same period the previous year. This increase is attributed to lease termination costs regarding the New Jersey real

estate, the closing of United States and United Kingdom operations as well as termination payments related to certain executives.

Loss from continuing operations

The loss from continuing operations for the third quarter of fiscal 2007 was \$2.6 million, or \$0.02 per share, an improvement of \$0.2 million compared to \$2.8 million, or \$0.14 per share, for the same quarter of fiscal 2006. The decrease in the loss from continuing operations is attributable to the same elements noted above. The increase of the weighted-average outstanding common shares impacted the loss per share for the current fiscal year. For the nine-month period of current fiscal year, the loss from continuing operations reached \$11.2 million, an improvement of \$1.6 million or 12% compared to the same period last year.

Discontinued Operations

Discontinued operations resulted in a loss of \$8,000 resulting from the liquidation of the Swedish entities. The Corporation is not carrying any more operations in Sweden further to the sale of its subsidiaries.

Net Loss

The net loss for the third quarter of fiscal 2007 was \$2.6 million, or \$0.02 per share, as compared to \$2.9 million, or \$0.04 per share, for the third quarter of fiscal 2006. The decrease in the net loss is a result of better gross profits generated from the operations combined with initial impacts from the restructuring program. The decrease in the loss for the nine-month period ended January 31, 2007 from \$12.8 million for the same period last fiscal year to \$11.2 million is attributable to the same elements noted above.

Earnings before Interest, Taxes, Depreciation and Amortization

In addition to discussing earnings measures in accordance with Canadian GAAP, this MD&A provides earnings before interest, income taxes, depreciation and amortization ("EBITDA") as a supplementary measure. Depreciation and amortization include write-down of fixed assets. EBITDA is provided to assist readers in determining the ability of the Corporation to generate cash from operations.

The following table reconciles EBITDA to GAAP measures disclosed in the unaudited interim consolidated statements of earnings of actual and most recent quarterly reports:

(Amounts in thousands of dollars)	Q3 FY2007	Q2 FY2007	Q1 FY2007	Q4 FY2006	Q3 FY2006
Loss from continuing operations	(2,555)	(4,255)	(4,421)	(4,298)	(2,777)
Income taxes	—	(67)	(114)	(149)	(147)
Amortization and loss on write-down of property, plant and equipment, intangible assets and deferred charges	1,103	1,017	1,114	1,682	1,276
Interest	34	35	64	44	36
EBITDA from continuing operations	(1,418)	(3,270)	(3,357)	(2,721)	(1,612)
Effect of restructuring expenses	1,176	1,342	—	231	57
EBITDA from continuing operations adjusted for restructuring expenses	(242)	(1,928)	(3,357)	(2,490)	(1,555)

The above measures do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies.

GOING CONCERN UNCERTAINTY

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 five years and currently does not have the necessary financing in place to support continuing losses. Historically, the Corporation has 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 and the generation of cash from operations, 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 significant 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. Continue negotiations with potential lenders to obtain additional financing;
2. Approach potential investors to secure additional financing;
3. Investigate a range of alternatives for its Telecom and Satcom Business Units which could include asset or business dispositions, and;
4. Rationalize operations to reduce expenses.

During the third quarter ended January 31, 2007, the following transactions, aimed at addressing the uncertainties described above, occurred:

- a. On January 31, 2007, the Corporation closed its US operations based in Reno, Nevada and entered into a strategic alliance to develop MCPA for the wireless sector;
- b. The Corporation also closed its presence in the United Kingdom; sales and marketing functions will now be handled from the head office.

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

LIQUIDITY AND CAPITAL RESOURCES

Operating Activity Cash Flows

<i>(Amounts in thousands except as otherwise indicated)</i>	Q3 FY2007	Q3 FY2006	YTD FY2007	YTD FY2006
	\$	\$	\$	\$
Cash flow from operations before working capital changes	(1,388)	(1,387)	(7,501)	(7,969)
Net change in non-cash working capital balances related to continuing operations	104	807	1,810	4,420
Cash flow used in operating activities	(1,284)	(580)	(5,691)	(3,549)
Working capital ratio			2.2	1.7

As of July 6, 2006, the Corporation decided to reimburse its bank indebtedness. Since then, the Corporation has decided not to enter into discussions with different banks.

Even though Revenue were considerably lower, cash flow used in operating activities before working capital changes remained unchanged at \$1.4 million for the current quarter compared to the third quarter of the previous fiscal year, owing to further improvements in gross margins and cost structure. Cash used for operating activities before working capital totalled \$7.5 million since the beginning of the year compared to \$8.0 million for the previous year, most of the difference being related to the reduction in the operating expenses combined with various write-downs on non-cash items.

The net change in non-cash working capital shows a decrease of \$2.6 million from a cash inflow of \$4.4 million for the first nine months of fiscal 2006 to a cash inflow of \$1.8 million for the same period of fiscal 2007. This is mainly attributable to a significant reduction in the accounts payable balance and the increase in inventories. Net changes from the non-cash working capital balance for the three-month period ended January 31, 2007 showed a positive impact of \$0.1 million compared to a positive impact of \$0.8 million for the same period in the previous fiscal year.

Investing Activity Cash Flows

Cash flow provided in investing activities was negative \$0.1 million in the third quarter of fiscal 2007 compared to \$0.6 million in the third quarter of fiscal 2006, which relates mostly to the sale of short-term investments. For the nine-month period ended January 31, 2007, investing activities provided for \$9.9 million compared to \$6.5 million further to the sale of short-term investments.

Financing Activity Cash Flows

Financing activities resulted in a net cash outflow of \$0.4 million, reflecting repayment of long-term debt, compared to an inflow of \$0.3 million for the same period in the past fiscal year. Impact for the nine-month period of the current fiscal year has been an inflow of \$0.6 million compared to an outflow of \$0.2 million for the same period of the past fiscal year mainly driven by the reimbursement of bank indebtedness by the Corporation and the issuance of common shares and warrants.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Corporation's contractual obligations are essentially the same as those disclosed in the fiscal 2006 Management's Discussion and Analysis.

FINANCIAL INSTRUMENTS

The Corporation's financial instruments strategy is the same as the one disclosed in the fiscal 2006 Management's Discussion and Analysis.

OFF-BALANCE SHEET ITEMS

The Corporation's off-balance sheet items are fundamentally the same as those disclosed in the fiscal 2006 Management's Discussion and Analysis.

CHANGE IN ACCOUNTING POLICIES

Other than those disclosed in its fiscal 2006 Management Discussion and Analysis, the Corporation has not implemented additional changes in accounting policies.

FUTURE CHANGES IN ACCOUNTING POLICIES

There are no changes to accounting policies that the Corporation is currently considering that would have a material impact on the Corporation.

SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS

The preparation of financial statements in accordance with generally accepted Canadian accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures in the consolidated financial statements are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the consolidated financial and such differences could be material. Details of our significant accounting estimates and provisions were reported in the fiscal 2006 Management's Discussion and Analysis. They continued to apply for the quarter ended January 31, 2007.

RELATED PARTY TRANSACTIONS

The Corporation's related party transactions are essentially the same as those described in the fiscal 2006 Management's Discussion and Analysis.

PROPOSED TRANSACTIONS

Mitec continually reviews opportunities for mergers, acquisitions and divestitures that could increase shareholder value. At the present time, the Corporation has not entered into any signed definitive agreements involving the acquisition or disposition by the Corporation of assets or businesses.

OUTLOOK

Management will remain focused on executing its restructuring plan and focusing its business on the existing and new opportunities emanating from Telecom and Satcom markets.

DISCLOSURE CONTROLS AND PROCEDURES

Management has established and maintained disclosure controls and procedures for the Corporation in order to provide reasonable assurance that material information relating to the Corporation is made known to it in a timely manner, particularly in which the annual filings were being prepared. As of the date of this report, management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, and believes them to be effective in providing such reasonable assurance.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of February 28, 2007. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of January 31 2007, a total of 155,087,444 common shares and 8,750,000 warrants were issued and outstanding, as well as a total of 6,516,450 stock options.

MITEC TELECOM INC.
INTERIM CONSOLIDATED BALANCE SHEETS (note 1)

(In thousands of Canadian dollars)
 Unaudited

	As at January 31, 2007	As at April 30, 2006
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	6,364	1,468
Short-term investments	—	10,089
Trade receivables	6,500	10,849
Other receivables	680	632
Income tax recoverable	980	1,075
Inventories	8,079	7,546
Prepaid expenses and other	528	491
Current assets related to discontinued operations (note 3)	—	278
Total current assets	23,131	32,428
Property, plant and equipment	7,560	8,564
Intangible assets	2,598	3,851
Deferred charges	1,481	2,129
	34,770	46,972
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	—	6,016
Accounts payable and accrued liabilities	9,896	11,912
Current portion of long-term debt	500	953
Current liabilities related to discontinued operations (note 3)	—	63
Total current liabilities	10,396	18,944
Long-term debt	583	958
	10,979	19,902
Shareholders' equity		
Common shares (note 5)	123,826	116,357
Contributed surplus (note 5)	8,615	8,126
Deficit	(106,919)	(95,680)
Cumulative translation adjustment	(1,731)	(1,733)
Total shareholders' equity	23,791	27,070
	34,770	46,972

See accompanying notes

MITEC TELECOM INC.**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT** (note 1)

(In thousands of Canadian dollars, except per share data and number of shares)

Unaudited

	For the three months ended		For the nine months ended	
	January 31,		January 31,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Sales (note 4)	8,536	11,350	26,050	34,160
Cost of sales	6,649	9,544	22,195	30,059
Gross profit	1,887	1,806	3,855	4,101
Expenses				
Selling and administrative	1,852	2,017	5,953	7,171
Research and development	1,405	1,849	5,220	5,386
Amortization of intangible assets	249	527	1,144	1,577
Financial expenses (note 9)	(528)	254	(228)	1,095
Interest income	(10)	(87)	(70)	(257)
Stock-based compensation (note 5)	57	113	489	785
Write-down of property, plant and equipment	85	—	85	—
Write-down of intangibles assets	156	—	156	—
Restructuring and other expenses (note 6)	1,176	57	2,518	1,533
	4,442	4,730	15,267	17,290
Loss from continuing operations before income taxes	(2,555)	(2,924)	(11,412)	(13,189)
Income tax recovery	—	(147)	(181)	(445)
Loss from continuing operations	(2,555)	(2,777)	(11,231)	(12,744)
Loss from discontinued operations (note 3)	—	(22)	(8)	(52)
Net loss for the period	(2,555)	(2,799)	(11,239)	(12,796)
Deficit, beginning of the period	(104,364)	(88,514)	(95,680)	(78,517)
Deficit, end of the period	(106,919)	(91,313)	(106,919)	(91,313)
Basic and diluted loss per common share from continuing operations	(0.02)	(0.04)	(0.10)	(0.17)
Basic and diluted loss per common share from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Basic and diluted loss per common share	(0.02)	(0.04)	(0.10)	(0.17)
Weighted average number of outstanding common shares	125,344,636	76,405,263	109,031,512	76,405,263

See accompanying notes

MITEC TELECOM INC.**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS** (note 1)

(In thousands of Canadian dollars)

Unaudited

	For the three months ended		For the nine months ended	
	2007	January 31, 2006	2007	January 31, 2006
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss from continuing operations	(2,555)	(2,777)	(11,231)	(12,744)
Add items not affecting cash				
Amortization of property, plant and equipment, intangible assets and deferred charges	862	1,276	2,991	3,964
Loss on disposal of property, plant and equipment	7	1	9	26
Write-down of intangible assets	156	—	156	—
Write-off of fixed assets	85	—	85	—
Stock-based compensation	57	113	489	785
	(1,388)	(1,387)	(7,501)	(7,969)
Changes in non-cash working capital balances related to continuing operations (note 6)	104	807	1,810	4,420
Cash flows used in operating activities	(1,284)	(580)	(5,691)	(3,549)
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	(35)	(131)	(241)	(334)
Proceeds on disposal of property, plant and equipment	23	46	27	54
Purchases of short-term investments	—	(6,921)	(597)	(13,098)
Sales of short-term investments	—	7,587	10,686	19,881
Cash flows provided (used) in investing activities	(12)	581	9,875	6,503
FINANCING ACTIVITIES				
Increase in bank indebtedness	—	977	349	2,847
Repayment of bank indebtedness	—	(478)	(6,365)	(2,493)
Repayment of long-term debt	(472)	(179)	(828)	(533)
Repayment of obligations under capital lease	—	(2)	—	(32)
Issuance of common shares and warrants (note 5)	18	—	7,469	—
Cash flows provided (used) by financing activities	(454)	318	625	(211)
Effect of exchange rate fluctuations changes on cash and cash equivalents	(137)	(357)	123	(189)
Net increase (decrease) in cash and cash equivalents from continuing operations	(1,887)	(38)	4,932	2,554
Cash flows used in discontinued activities	—	103	(36)	(481)
Cash and cash equivalents, beginning of the period	8,251	7,577	1,468	5,569
Cash and cash equivalents, end of the period	6,364	7,642	6,364	7,642

See accompanying notes

MITEC TELECOM INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2007

(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)

Unaudited

1. NATURE OF THE BUSINESS AND GOING CONCERN ASSUMPTION

Mitec Telecom Inc. ("Mitec" or the "Corporation") is incorporated under the Canada Business Corporation Act and is a knowledge-based communication equipment provider to the global wireless and satellite telecommunications markets.

The accompanying interim 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 five 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 and the generation of cash from operations, 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 significant uncertainty about the Corporation's ability to continue as a going concern.

The interim 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 interim 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. Continuing negotiations with potential lenders to obtain additional financing;
2. Approaching potential investors to secure additional financing;
3. Investigating a range of alternatives for its Telecom and Satcom business units, which could include asset or business acquisitions and dispositions; and
4. Rationalizing operations to reduce expenses.

During the third quarter ended January 31, 2007, the following transactions, aimed at addressing the uncertainties described above, occurred:

- On January 31, 2007, the Corporation announced the closure of its United States operations, in order to reduce operating expenses, and the signature of a strategic alliance with Broadband Wireless LLC for the development of different Wireless products.
- The Corporation also closed its presence in United Kingdom; sales and marketing functions will now be handled from the head office.

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. There can, however, be no assurance that such plans will be sufficient to continue to operate as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements on a consistent basis with the Corporation's annual consolidated financial statements for the year ended April 30, 2006. For a full description of accounting policies, please refer to those financial statements. These financial statements do not include all of the disclosures, which are required by generally accepted accounting principles applicable to annual financial statements.

3. DISCONTINUED ACTIVITIES

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On May 8, 2003, the Board of Directors approved a plan to divest its Swedish subsidiary, Beve Electronics AB ("Beve"). On August 29, 2003, the Corporation closed the sale of the business of Beve, which comprised most of the Corporation's microwave segment, to Note AB, a Swedish company. The sale did not include the real estate assets, but the Corporation did sign long-term leases with Note AB. As a result of the decision, the revenues and the results of Beve have been reported as discontinued activities in the consolidated statements of operations. On July 1, 2005, the Corporation concluded the sale of its buildings and reached an agreement to sell the remaining portions of the land and, as such, the Corporation reclassified its land, building and the related long-term debt related to discontinued operations to current assets and liabilities at April 30, 2005. The net proceeds received during the fiscal year ended April 30, 2006, after expenses, were approximately \$3.9 million, which were used to reimburse the outstanding loan associated with these assets. In addition, Mitec has reached an agreement to sell the remaining portions of the land in Sweden for approximately \$0.4 million, the proceeds of which were received during the quarter. Mitec no longer retains any on-going operational commitments in Sweden. During the first quarter, the Corporation sold its Swedish entities for net proceeds of \$7,000.

	For the three months ended		For the nine months ended	
	January 31,		October 31,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Loss of discontinued activities	—	(22)	(8)	(52)

4. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK

The Corporation is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it does not expect any counter parties to fail to meet their obligations given their high credit ratings.

The Corporation sells products to customers primarily in Canada, the United States, Europe and Asia. The Corporation performs ongoing 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 from the Telecom segment accounted for 24% of sales for the period ended January 31, 2007 (2006 – 39%) and 26% of trade receivables as at January 31, 2007 (April 30, 2006 – 43%).

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5. SHARE CAPITAL

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 January 31, 2007		As at April 30, 2006	
	Number	\$Number		\$
Balance, beginning of the period	76,405,263	116,357	76,405,263	116,357
Change during the period:				
Issued for cash (net of issue costs of \$358)	78,682,181	7,159	—	—
Balance, end of the period	155,087,444	123,516	76,405,263	116,357

Warrants

	As at January 31, 2007		As at April 30, 2006	
	Number	\$Number		\$
Balance, beginning of the period	—	—	3,077,132	1,129
Changes during the period:				
Issued for cash (net of issue costs of \$40)	8,750,000	310	—	—
Expired	—	—	(3,077,132)	(1,129)
Balance, end of the period	8,750,000	310	—	—

On October 18, 2006, the Corporation issued 35,000,000 common shares and 8,750,000 warrants under a private placement. Each warrant entitles the holder to acquire one additional common share of the Corporation at a price of \$0.10 on or prior of October 17, 2008. The aggregate gross proceeds raised from the private placement were \$3.5 million and were reduced by the issue costs of \$199,000. The 8,750,000 warrants have been valued at \$310,000 net of issue costs of \$40,000 using the Black-Scholes options pricing model, which assumes an expected life of two years, volatility of 81%, risk-free interest rate of 4.5% and no dividend yield, adjusted to account for the warrants limited liquidity. The balance has been allocated to common shares.

On October 3, 2006, the Corporation issued 43,682,181 common shares under a rights offering at a price of \$0.10 per share. The aggregate gross proceeds raised from the offering were \$4.4 million and were reduced by the issue costs of \$199,000.

On October 9, 2005, the warrants issued under a previous private placement expired and the value associated with these warrants was transferred to contributed surplus.

For the periods ending January 31, 2007 and 2006, the effect of stock options and warrants potentially exercisable on the loss per common share was anti-dilutive, therefore basic and diluted loss per share are the same.

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5. SHARE CAPITAL (continued)

Stock options plan

The following table shows a continuity of the options outstanding and the weighted average exercise price:

	As at January 31, 2007	
	Number	\$
Balance, beginning of the period	2,403,500	1.76
Granted	4,625,000	0.13
Forfeited	(392,600)	1.23
Expired	(119,450)	6.50
Balance, end of the period	6,516,450	0.55
Options exercisable, end of the period	3,242,800	0.92

Additional information concerning stock options outstanding as of January 31, 2007 is as follows:

Exercise price	Options outstanding		Options exercisable		
	Number	Weighted average exercise price \$	Weighted average year to expiry	Number	Weighted average exercise price \$
\$0.11 to \$0.18	3,425,000	0.11	4.7	1,293,750	0.11
\$0.19 to \$0.30	1,200,000	0.19	4.5	300,000	0.19
\$0.31 to \$0.46	826,000	0.33	6.5	664,001	0.32
\$0.47 to \$0.82	135,000	0.81	4.2	132,000	0.81
\$1.25 to \$1.87	616,000	1.76	5.2	538,599	1.76
\$1.88 to \$2.10	40,750	2.10	3.5	40,750	2.10
\$3.17 to \$3.90	61,500	3.59	3.2	61,500	3.59
\$3.91 to \$4.90	81,200	4.59	3.6	81,200	4.59
\$4.91 to \$6.00	10,000	5.00	1.6	10,000	5.00
\$6.01 to \$9.50	121,000	6.51	2.2	121,000	6.51
	6,516,450	0.55	4.8	3,242,800	0.92

Contributed surplus

	As at January 31, 2007	As at April 30, 2006
	\$	\$
Balance, beginning of the period	8,126	6,154
Changes during the period:		
Stock-based compensation expense	489	843
Warrants which expired during the period	—	1,129
Balance, end of the period	8,615	8,126

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6. RESTRUCTURING EXPENSES AND OTHER EXPENSES

During the quarter ended January 31, 2007, the Corporation restructured its Telecom segment and decided to close its Reno (United States) facility and its presence in Dunstable (United Kingdom). The consolidation into the Montreal facility resulted in restructuring charges of \$1,176,000 in addition to the write-down of property, plant and equipment of \$85,000 and the write-off of intangibles of \$156,000. The charges consist and of write-down of inventories and severance payments. For the nine months ended January 31, 2007, restructuring plan and other expenses totaled \$2,518,000.

7. SUPPLEMENTARY CASH FLOW INFORMATION

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

	For the three months ended		For the nine months ended	
	2007	January 31, 2006	2007	January 31, 2006
			\$	\$
Trade receivable and other receivables	563	(1,481)	4,301	4,266
Inventories	484	1,816	(533)	4,276
Prepaid expenses and other	76	520	(37)	189
Income tax recoverable	(12)	(190)	95	(199)
Accounts payable and accrued liabilities	(1,007)	142	(2,016)	(4,112)
	104	807	1,810	4,420

	For the three months ended		For the nine months ended	
	2007	January 31, 2006	2007	January 31, 2006
	\$	\$	\$	\$
Interest paid	40	123	199	355

Amortization of property, plant and equipment is included in:

Cost of sales	278	327	847	979
Selling and administrative expenses	119	149	353	490
	397	476	1,200	1,469

Amortization of intangible assets is including in:

Cost of sales	—	—	—	97
Selling and administrative expenses	249	527	1,144	1,577
	249	527	1,144	1,674

Amortization of deferred charges is included in:

Cost of sales	123	122	368	367
Selling and administrative expenses	62	63	187	188
Research and development expenses	31	88	92	266
	216	273	647	821

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8. SEGMENTED INFORMATION

(a) Segmented information used by management

Mitec operates its business into two principal operating segments for making management decisions and assessing performance. The operating segments are Telecommunications ("Telecom"), and Satellite and Terrestrial Communications ("Satcom"). The Corporation currently operates in Canada and China.

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 and VSAT earth stations.

Management calculates 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 three-month periods ended January 31 is as follows:

	Telecom		Satcom		Consolidated amounts	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Sales	2,641	6,084	5,895	5,266	8,536	11,350
Cost of sales	2,633	5,810	4,016	3,734	6,649	9,544
Gross profit (loss)	8	274	1,879	1,532	1,887	1,806
Expenses					4,442	4,730
Income tax recovery					—	(147)
Loss from continuing operations					(2,555)	(2,777)
Discontinued operations					—	(22)
Net loss for the period					(2,555)	(2,799)

Information pertaining to each segment for the nine-month periods ended January 31

	Telecom		Satcom		Consolidated amounts	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Sales	9,918	18,990	16,132	15,170	26,050	34,160
Cost of sales	10,867	19,326	11,328	10,733	22,195	30,059
Gross profit (loss)	(949)	(336)	4,804	4,437	3,855	4,101
Expenses					15,267	17,290
Income tax recovery					(181)	(445)
Loss from continuing operations					(11,231)	(12,744)
Discontinued operations					(8)	(52)
Net loss for the period					(11,239)	(12,796)

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8. SEGMENTED INFORMATION (continued)**(b) Enterprise-wide information**

The following table presents sales based on geographic location of production.

	For the three months ended		For the nine months ended	
	2007	January 31, 2006	2007	January 31, 2006
	\$	\$	\$	\$
Sales				
Canada	6,269	7,346	18,075	28,149
United States	43	145	356	864
China	2,276	4,932	8,086	10,908
Inter-country	(52)	(1,073)	(467)	(5,761)
	8,536	11,350	26,050	34,160

The following table presents sales by destination of product

	For the three months ended		For the nine months ended	
	2007	January 31, 2006	2007	January 31, 2006
	\$	\$	\$	\$
Canada	141	883	554	3,283
United States	3,636	4,166	11,362	11,559
Europe	1,172	1,963	4,711	9,769
Asia	2,951	3,544	7,492	7,517
Other	636	794	1,931	2,032
	8,536	11,350	26,050	34,160
Amortization of property, plant and equipment				
Telecom	273	337	828	1,077
Satcom	124	139	372	392
	397	476	1,200	1,469
Amortization of intangible assets				
Telecom	140	411	817	1,326
Satcom	109	116	327	348
	249	527	1,144	1,674

9. FINANCIAL EXPENSES

	For the three months ended		For the nine months ended	
	2007	January 31, 2006	2007	January 31, 2006
	\$	\$	\$	\$
Interest on bank indebtedness	6	76	89	218
Interest on long-term debt	35	47	111	137
Foreign exchange	(575)	117	(465)	659
Bank charges and other fees	6	14	37	81
	(528)	254	(228)	1,095