

2008

Mitec Telecom Inc.

First Quarter Report

For the 3-month period ending July 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 period ended July 31, 2007 (first quarter fiscal 2008).

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, 2007. 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 August 31, 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 25, 2007.

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 July 31, 2007, the Corporation’s global workforce stood at 284 employees.

MAJOR EVENTS

On August 15, 2007, the Corporation announced its intention to acquire a U. S. based Corporation involved in the commercial and military communications and radar system markets.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents selected financial information for the first quarter of the current and past fiscal years:

Periods ended July 31 <i>(Amounts in thousands except per share data)</i>	Q1 FY2008	Q1 FY2007
	\$	\$
Sales	7,603	8,678
Gross profit	2,063	188
SG&A expenses	1,486	2,023
R&D expenses	1,007	2,022
Loss from continuing operations	(977)	(4,535)
Net loss	(977)	(4,429)
Loss per share – basic and diluted:		
- Continuing operations	(0.01)	(0.06)
- Net loss	(0.01)	(0.06)
Total assets	31,261	36,086
Long-term debt	693	1,734
Cash and temporary investments	4,418	3,985

RESULTS OF OPERATIONS

Sales

For the three-month period ended July 31, 2007, consolidated sales reached \$7.6 million down 12% from the first quarter of the previous year. The decline in the Corporation's sales is attributable to decreased shipments from the Telecom segment, down \$1.1 million or 27% during the first quarter from the previous year. This is directly attributable to the restructuring decision of closing the US operations involved in the selling of multi-carrier power amplifiers. Revenue for the Satcom segment, which contributed 61% of total revenues, remained unchanged at \$4.6 million compared to the first quarter of fiscal 2007.

<i>(thousands of dollars)</i>	Q1 FY2008	Q4 FY2007	Q3 FY2007	Q2 FY2007	Q1 FY2007
Telecom	2,973	2,015	2,641	3,206	4,071
% of total revenues	39.0%	26%	30.9%	36.3%	46.9%
Satcom	4,630	5,742	5,895	5,632	4,605
% of total revenues	61.0%	74%	69.1%	63.7%	53.1%

Geographical Distribution Revenue

	N. America	Europe	Asia	Other
Q1 FY2008	37%	30%	25%	8%
Q1 FY2007	38%	27%	28%	7%

Gross profit

Gross profit for the first quarter of fiscal 2008 increased by \$1.9 million from \$0.2 million in the first quarter of fiscal 2007 to \$2.1 million. This increase was a result of the restructuring plan previously announced and the exit from the sales of some products carrying negative margins.

(thousands of dollars)	Q1 FY2008	Q4 FY2007	Q3 FY2007	Q2 FY2007	Q1 FY2007
Telecom	737	543	(978)	(27)	(930)
% of Telecom sales	24.7%	26.9%	(37.0%)	0.0%	(22.8)%
Satcom	1,327	2,038	1,879	1,807	1,118
% of Satcom sales	28.7%	36.5%	31.9%	32.1%	24.3%

Gross profit in the Telecom segment increased \$1.7 million from negative \$0.9 million for the same period last year to positive \$0.7 million in fiscal 2008. This is a result of lower sales level in PAs and new technologies in the RF conditioning equipment, which were carrying low gross margins.

Satcom gross profit increased by \$0.2 million from \$1.1 million in the first quarter of fiscal 2008 to \$1.3 million in the first quarter of fiscal 2007. Gross margin increased from 24.3% to 28.7% due mainly to the reduction of the indirect manufacturing costs.

Research and Development Expenses

Research and development expenses (R&D) net of investment tax credits for the first quarter of fiscal 2008 decreased 50% from \$2.0 million in the first quarter of fiscal 2007 to \$1.0 million. The decrease is attributable to the reduction of R&D facility centers.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses for the first quarter in fiscal 2008 decreased 27% from \$2.0 million to \$1.5 million. The decrease was a consequence of the restructuring program.

Financial Expenses

Financial expenses were \$0.3 million for the first quarter of fiscal 2008 as compared to \$0.1 million in the first quarter of fiscal 2007. Most of the increase was a result of the appreciation of the Canadian dollar against other currencies.

Amortization of Intangible Assets

The amortization of intangible assets decreased to \$0.2 million in the first quarter of fiscal 2007 compared to \$0.5 million for the same period last fiscal year, further to the write-down of intangible assets in the wireless segment in the third quarter of the previous year.

Stock-based compensation

The amount of the expense recorded this quarter remained almost unchanged from \$64,000 for the same quarter from the previous fiscal year to \$48,000 in the current quarter.

Net Loss

The net loss for the first quarter of fiscal 2008 was \$1.0 million, or \$0.01 per share, as compared to \$4.5 million, or \$0.06 per share, for the first quarter of fiscal 2007. The decrease in the net loss is a result of better gross profits generated from the operations combined with positive impacts from the restructuring program.

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 property, plant and equipment, intangibles assets or deferred charges. Interest considers interest on bank indebtedness and interest on long-term debt reduced by interest income. EBITDA is provided to assist readers in determining the ability of the Corporation to generate cash from operations. EBITDA does not have a standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies.

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)	Q1 FY2008	Q4 FY2007	Q3 FY2007	Q2 FY2007	Q1 FY2007
Loss from continuing operations	(977)	(1,133)	(2,555)	(4,255)	(4,421)
Income taxes	—	814	—	(67)	(114)
Amortization and loss on write-down of property, plant and equipment, intangible assets and deferred charges	769	902	1,103	1,017	1,112
Interest	24	(12)	31	35	64
EBITDA from continuing operations	(184)	571	(1,421)	(3,270)	(3,359)
Effect of restructuring expenses	—	196	1,176	1,342	—
Effect of the recovery of non-refundable tax credits	—	(814)	—	—	—
EBITDA from continuing operations adjusted for restructuring expenses and recovery of non-refundable tax credits	(184)	(47)	(245)	(1,928)	(3,359)

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 six 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.

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

	Q1 FY2008	Q1 FY2007
<i>(Amounts in thousands except as otherwise indicated)</i>	\$	\$
Cash flow from operations before working capital changes	(126)	(3,243)
Net change in non-cash working capital balances related to continuing operations	(1,631)	1,781
Cash flow used in operating activities	(1,757)	(1,462)
Working capital ratio	3,3:1	3,1:1

Cash flow used in operating activities before working capital changes improved from negative \$3.2 million from the first quarter of the previous fiscal year to negative \$0.1 million for the current quarter owing to further improvements in gross margins and a reduction in cost structure. Cash used in operating activities before working capital totalled \$1.7 million since the beginning of the year compared to \$1.5 million for the previous year, with most of the difference being related to the reduction in the operating expenses offset by larger variations in the working capital items.

Investing Activity Cash Flows

Cash flow provided in investing activities was negative \$0.1 million in the first quarter of fiscal 2008 compared to positive \$ 9.4 million in the first quarter of fiscal 2007, which relates mostly to the sale of short-term investments in fiscal 07.

Financing Activity Cash Flows

Financing activities resulted in a net cash outflow of \$0.1 million compared to an outflow of \$6.2 million, reflecting repayment of long-term debt, for the same period in the past fiscal year.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Corporation's contractual obligations are essentially the same as those disclosed in the fiscal 2007 Management's Discussion and Analysis.

FINANCIAL INSTRUMENTS

The Corporation's financial instruments strategy is the same as the one disclosed in the fiscal 2007 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 2007 Management's Discussion and Analysis.

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 non-trading 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 a reduction of 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 classified cash and cash equivalents as held for trading, short-term investments as available-for-sale, the accounts receivable as loans and receivables, and investments have been classified as available-for-sale. Deferred financing costs have been deducted from the carrying value of the long-term debt. The accounts payable and the long-term debt have been classified as other financial liabilities. 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, deferred financing charges in the amount of \$ 140,000 as at July 31, 2007 are now presented as a reduction of the long-term debt.

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 interim financial statements. The Corporation has applied these new accounting standards prospectively, except for the cumulative translation adjustment that has been applied retrospectively.

Hedges

In April 2005, the CICA released new Handbook Section 3865, of the CICA handbook entitled “Hedges”, effective for years beginning on or after October 1, 2006. This Section establishes standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity’s exposure to one or more risks. Hedge accounting modifies the normal basis for recognizing the gains, losses, revenues and expenses associated with a hedge item or a hedging item in an entity’s income statement. It ensures that counterbalancing gains, losses, revenues, and expenses are recognized in the same period. The Corporation did not enter into any hedging transactions and therefore, the adoption of this standard on the results of operations had no impact on the interim consolidated results of operations.

Accounting changes

In July 2006, the CICA issued changes to the CICA Handbook section 1506 entitled “Accounting Changes”. The changes to this section particularly affect the following items: an entity would be permitted to change an accounting policy only when it is required by a primary source of GAAP, or when the change results in a more reliable and relevant presentation in the financial statements; changes in accounting policy should be applied retroactively, except in cases where specific transitional provisions in a primary source of GAAP permit otherwise or where application to comparative information is impractical (the standard provides specific guidance as to what is considered impractical); expanded disclosures about the effects of changes in accounting policy, estimates and errors on the financial statements and; disclosures of new primary source of GAAP that have been issued but have not yet come into effect and have not yet been adopted by the entity. The adoption of this standard did not have a significant impact on the interim consolidated results of operations or financial position.

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 2007 Management's Discussion and Analysis. They continued to apply for the quarter ended July 31, 2007.

RELATED PARTY TRANSACTIONS

The Corporation's related party transactions are essentially the same as those described in the fiscal 2007 Management's Discussion and Analysis.

PROPOSED TRANSACTIONS

Mitec continually reviews opportunities for mergers, acquisitions and divestitures that could increase shareholder value. On August 15, 2007, the Corporation announced its intention to acquire a U.S. based corporation involved in the commercial and military communications and radar system markets.

OUTLOOK

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

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer, together with other members of management have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the design effectiveness of such controls as of July 31, 2007.

Based on the review, the Corporation has identified some weaknesses in its existing internal controls over financial reporting and as a consequence, a number of process level controls were assessed to be deficient. In reaching this conclusion, the Corporation recognized the following factors.

- (i) An insufficient complement of personnel and personnel with an appropriate level of accounting knowledge; experience and training in the application of generally accepted accounting principles, commensurate with the Company's financial reporting requirements, complexity, and operating activities.

As a result of these weaknesses, there is a risk a misstatement may not be detected. During the quarter, the Corporation improved the level of internal controls and expanded its closing process to include additional analysis and other post-closing procedures. The Corporation ensures proper actions will be taken to improve full efficiency of its controls and processes in the 2008 fiscal year.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of August 31, 2007. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of July 31 2007, a total of 174,502,223 common shares and 27,914,779 warrants were issued and outstanding, as well as a total of 6,387,950 stock options.

MITEC TELECOM INC.
INTERIM CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) [note 1]

Unaudited

	As at July 31, 2007 \$	As at April 30, 2007 \$
ASSETS		
Current		
Cash and cash equivalents	4,343	6,286
Short-term investments	75	75
Trade receivables [note 4]	6,870	5,064
Other receivables	659	889
Income tax recoverable	668	1,112
Inventories	7,328	7,672
Prepaid expenses and other	798	757
Total current assets	20,741	21,855
Property, plant and equipment	6,737	7,106
Intangible assets	2,138	2,365
Investments	750	750
Deferred charges [note 3]	895	1,248
	31,261	33,324
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	5,845	6,647
Current portion of long-term debt [note 3]	416	500
Total current liabilities	6,261	7,147
Long-term debt [note 3]	277	458
	6,538	7,605
Shareholders' equity		
Common shares [note 5]	125,631	125,631
Warrants [note 5]	1,311	1,311
Contributed surplus [note 5]	8,693	8,645
Deficit	(109,928)	(108,951)
Accumulated other comprehensive income [note 3 and 6]	(984)	(917)
Total shareholders' equity	24,723	25,719
	31,261	33,324

See accompanying notes

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

Unaudited

	For the three months ended	
	2007	July 31, 2006
	\$	\$
Sales [note 4]	7,603	8,676
Cost of sales	5,540	8,488
Gross profit	2,063	188
Expenses		
Selling and administrative	1,486	2,023
Research and development	1,007	2,022
Amortization of intangible assets	227	497
Financial expenses [note 9]	30	135
Foreign exchange	245	33
Interest income	(3)	(51)
Stock-based compensation [note 5]	48	64
	3,040	4,723
Loss from continuing operations before income taxes	(977)	(4,535)
Income tax recovery	—	(114)
Loss from continuing operations	(977)	(4,421)
Loss from discontinued operations	—	(8)
Net loss for the period	(977)	(4,429)
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	(67)	60
Comprehensive loss for the period	(1,044)	(4,369)
Basic and diluted loss per common share from continuing operations	(0.01)	(0.06)
Basic and diluted loss per common share from discontinued operations	(0.00)	(0.00)
Basic and diluted loss per common share	(0.01)	(0.06)
Weighted average number of outstanding common shares	174,502,223	76,405,263

See accompanying notes

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT

(In thousands of Canadian dollars)

Unaudited

For the three months ended

	2007	July 31,
	\$	2006
		\$
Deficit, beginning of the period	(108,951)	(96,579)
Net loss for the period	(977)	(4,429)
Deficit, end of the period	(109,928)	(101,008)

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	
	2007	July 31, 2006
	\$	\$
OPERATING ACTIVITIES		
Loss from continuing operations	(977)	(4,421)
Add items not affecting cash		
Amortization of property, plant and equipment, intangible assets and deferred charges	770	1,112
Loss on disposal of property, plant and equipment	33	2
Stock-based compensation	48	64
	(126)	(3,243)
Changes in non-cash working capital balances related to continuing operations [note 7]	(1,631)	1,781
Cash flows used in operating activities	(1,757)	(1,462)
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	(32)	(107)
Proceeds on disposal of property, plant and equipment	14	—
Purchase of short-term investment	(75)	—
Sale of short-term investments	75	9,492
Cash flows provided (used) in investing activities	(18)	9,385
FINANCING ACTIVITIES		
Increase in bank indebtedness	—	349
Repayment of bank indebtedness	—	(6,365)
Repayment of long-term debt	(127)	(177)
Cash flows used by financing activities	(127)	(6,193)
Effect of exchange rate fluctuations changes on cash and cash equivalents	(41)	226
Net increase (decrease) in cash and cash equivalents from continuing operations	(1,943)	1,956
Cash used by discontinued activities	—	(36)
Net cash (decrease) in cash and cash equivalents	(1,943)	1,920
Cash and cash equivalents, beginning of the period	6,286	1,468
Cash and cash equivalents, end of the period	4,343	3,388

See accompanying notes

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 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 six 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.

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 ("GAAP") for interim financial statements on a consistent basis with the Corporation's annual consolidated financial statements for the year ended April 30, 2007, except as described in note 3 hereafter. 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.

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2007

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

Unaudited

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 non-trading 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 a reduction of 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 classified cash and cash equivalents as held for trading, short-term investments as available-for-sale, the accounts receivable as loans and receivables, and investments have been classified as available-for-sale. Deferred financing costs have been deducted from the carrying value of the long-term debt. The accounts payable and the long-term debt have been classified as other financial liabilities. 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, deferred financing charges in the amount of \$ 140,000 as at July 31, 2007 are now presented as a reduction of the long-term debt.

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 interim financial statements. The Corporation has applied these new accounting standards prospectively, except for the cumulative translation adjustment that has been applied retrospectively.

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2007

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

Unaudited

3. CHANGES IN ACCOUNTING POLICIES (continued)

Hedges

In April 2005, the CICA released new Handbook Section 3865, of the CICA handbook entitled "Hedges", effective for years beginning on or after October 1, 2006. This Section establishes standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity's exposure to one or more risks. Hedge accounting modifies the normal basis for recognizing the gains, losses, revenues and expenses associated with a hedge item or a hedging item in an entity's income statements. It ensures that counterbalancing gains, losses, revenues, and expenses are recognized in the same period. The Corporation did not enter into any hedging transactions and therefore, the adoption of this standard on the results of operations had no impact on the interim consolidated results of operations.

Accounting changes

In July 2006, the CICA issued changes to the CICA Handbook section 1506 entitled "Accounting Changes". The changes to this section particularly affect the following items: an entity would be permitted to change an accounting policy only when it is required by a primary source of GAAP, or when the change results in a more reliable and relevant presentation in the financial statements; changes in accounting policy should be applied retroactively, except in cases where specific transitional provisions in a primary source of GAAP permit otherwise or where application to comparative information is impractical (the standard provides specific guidance as to what is considered impractical); expanded disclosures about the effects of changes in accounting policy, estimates and errors on the financial statements and; disclosures of new primary source of GAAP that have been issued but have not yet come into effect and have not yet been adopted by the entity. The adoption of this standard did not have a significant impact on the interim consolidated results of operations or financial position.

4. 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 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 accounted for 38% of sales for the period ended July 31, 2007 (2006 – 39%) and 21% of trade receivables as at July 31, 2007 (July 31, 2006 – 44%).

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2007

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

Unaudited

5. SHARE CAPITAL

Unlimited number of common shares.

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

Issued and outstanding common shares

	As at July 31, 2007	
	#	\$
Balance, beginning of the period	174,502,223	125,631
Change during the period:	—	—
Balance, end of the period	174,502,223	125,631

	As at July 31, 2007	
	#	\$
Warrants		
Balance, beginning of the period	27,914,779	1,311
Change during the period:	—	—
Balance, end of the period	27,914,779	1,311

Warrants outstanding are as follows:

	As at July 31, 2007	
Exercise price	Expiry date	#
0.10	October 3, 2008	8,625,000
0.22	March 30, 2009	19,289,779
		27,914,779

For the periods ending July 31, 2007 and July 31, 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.

Earnings per share

Weighted average number of common shares is as follows:

	As at July 31, 2007 #	As at July 31, 2006 #
Weighted average number of common shares outstanding	174,502,223	76,405,263
Net effect of dilutive stock options and warrants	12,175,000	—
Weighted average diluted number of common shares outstanding	186,677,223	76,405,263

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2007

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

Unaudited

5. SHARE CAPITAL (continued)

Stock options plan

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

	Number	As at July 31, 2007 \$
Balance, beginning of the period	6,206,450	0.41
Granted	227,000	0.22
Forfeited	(35,500)	1.85
Expired	(10,000)	9.00
Balance, end of the period	6,387,950	0.38
Options exercisable, end of the period	3,855,734	0.51

Additional information concerning stock options outstanding as of July 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 \$0.16	3,425,000	0.11	9.2	2,206,250	0.11
\$0.17 to \$0.25	1,537,000	0.19	5.3	367,400	0.19
\$0.26 to \$0.39	676,000	0.33	5.7	569,334	0.33
\$0.80 to \$1.20	110,000	0.80	3.3	108,000	0.80
\$1.21 to \$1.80	225,000	1.65	4.1	195,000	1.66
\$1.81 to \$2.71	311,250	1.88	4.0	306,050	1.88
\$2.72 to \$4.06	61,500	3.59	2.7	61,500	3.59
\$4.07 to \$8.00	42,200	6.02	1.1	42,200	6.02
	6,387,950	0.38	7.2	3,855,734	0.51

Contributed surplus

	As at July 31, 2007 \$
Balance, beginning of the period	8,645
Changes during the period:	
Stock-based compensation expense	48
Balance, end of the period	8,693

6. ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at July 31, 2007 \$	As at July 31 2006 \$
Balance, beginning of the period	(917)	(1,001)
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	(67)	60
Balance, end of the period	(984)	(941)

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2007

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

Unaudited

7. SUPPLEMENTARY CASH FLOW INFORMATION

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

	For the three months ended	
	2007	July 31,
	\$	2006
		\$
Trade receivable and other receivables	(1,576)	2,847
Inventories	344	(363)
Prepaid expenses and other	(41)	(263)
Income tax recoverable	444	(169)
Accounts payable and accrued liabilities	(802)	(271)
	(1,631)	1,781
Interest paid	31	115
Amortization of property, plant and equipment is included in:		
Cost of sales	242	271
Selling and administrative expenses and research and development	88	128
	330	399
Amortization of intangible assets is including in:		
Selling and administrative expenses and research and development	227	497
Amortization of deferred charges is included in:		
Cost of sales	123	123
Selling and administrative expenses	59	62
Research and development expenses	31	31
	213	216

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.

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2007

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

Unaudited

8. SEGMENTED INFORMATION (continued)

Information pertaining to each segment for the three-month periods ended July 31 is as follows:

	Telecom		Satcom		Consolidated amounts	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Sales	2,973	4,071	4,630	4,605	7,603	8,676
Cost of sales	2,236	5,001	3,303	3,487	5,539	8,488
Gross profit (loss)	737	(930)	1,327	1,118	2,064	188
Expenses					3,041	4,723
Income tax recovery					—	(114)
Loss from continuing operations					(977)	(4,421)
Discontinued operations					—	(8)
Net loss for the period					(977)	(4,429)

(b) Enterprise-wide information

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

	For the three months ended	
	July 31, 2007	July 31, 2006
	\$	\$
Sales		
Canada	5,036	5,418
United States	—	151
China	2,764	3,264
Inter-country	(197)	(157)
	7,603	8,676

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2007

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

Unaudited

8. SEGMENTED INFORMATION (continued)

The following table presents sales by destination of product

	For the three months ended	
	2007	July 31,
	\$	2006
		\$
Canada	181	204
United States	2,635	3,061
Europe	2,275	2,324
Asia	1,883	2,456
Other	629	631
	7,603	8,676
Amortization of property, plant and equipment		
Telecom	225	284
Satcom	105	115
	330	399
Amortization of intangible assets		
Telecom	122	388
Satcom	105	109
	227	497

9. FINANCIAL EXPENSES

	For the three months ended	
	2007	July 31,
	\$	2006
		\$
Interest on bank indebtedness	—	77
Interest on long-term debt	22	38
Bank charges and other fees	8	20
	30	135

10. SUBSEQUENT EVENT

On August 15, 2007, the Corporation announced its intention to acquire a U.S. based company involved in the commercial and military communications and radar system markets.

11. COMPARATIVE FIGURES

Certain comparative figures in the previous fiscal year have been reclassified to conform to the presentation adopted in the current fiscal year.