

2009
Mitec Telecom Inc.
First Quarter Report
For the 3-month period ending July 31, 2008



Management's Discussion and Analysis

Mitec Telecom Inc. ("Mitec" or the "Corporation") is a leading designer and provider of radio frequency (RF) products for the telecommunications and satellite communications industries, as well as a variety of other sectors. The Corporation sells its products worldwide to network providers for incorporation into high-performing wireless networks used in voice and data/internet communications. Headquartered in Pointe-Claire, Canada, the Corporation also operates facilities in California and China. Mitec is listed on the Toronto Stock Exchange under the symbol MTM.

The following management's discussion and analysis ("MD&A") is a narrative explanation, through the eyes of Mitec's Management, on how the Corporation performed for the 3-month period ended July 31, 2008 (first quarter fiscal 2009). It includes a review of the financial condition of Mitec and a review of operations for each of Mitec's operating segments for the first quarter fiscal 2009 as compared to the 3-month period ended on July 31, 2007 (first quarter fiscal 2008).

This MD&A supplements the interim unaudited consolidated financial statements for the period ended July 31, 2008 but does not form part of them. It 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 and it should be read in conjunction with the audited consolidated financial statements as at April 30, 2008. 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 September 2, 2008. Additional information relating to the Corporation can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which reflect the Corporation's current expectations regarding certain future events. To the extent that any statements in this document contain information that is not historical, the statements are essentially forward-looking and are often identified by words such as "anticipate", "expect", "estimate", "intend", "project", "plan" and "believe". 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 "Risks and Uncertainties" section of this document and in the Risk Factors section of the Corporation's Annual Information Form dated July 24, 2008.

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. The reader is cautioned not to rely on these forward-looking statements. The Corporation disclaims any obligation to update these forward-looking statements unless required to do so by applicable Securities laws. 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 THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Prior to publication, the Board of Directors, on the recommendation of the audit committee, approved Mitec Telecom's consolidated interim financial statements and this MD&A.

OVERVIEW

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

The Telecom segment consists of designing, manufacturing and selling state-of-the-art radio-frequency (“RF”) conditioning and amplifier subsystems for wireless and 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). It also generates revenues from the sale of solid-state power amplifier technology for military radar and communication systems.

Mitec’s headquarters are in Pointe-Claire, Canada and the Corporation has other operations in Suzhou (China) and Poway (U.S.A.). As at July 31, 2008, the Corporation’s global workforce stood at 369 employees.

MAJOR EVENTS

On May 20, 2008, the Corporation announced that it had received a \$3 million order for its wireless solution products from a major telecom provider. Deliveries are to take place over the next three to six months.

On May 23, 2008, the Corporation announced the nomination of Jeffrey Mandel to the position of Chairman of the Board of Directors.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table is derived from the Corporation’s unaudited interim financial statements and presents selected financial information for each of the last eight quarters.

<i>(thousands of dollars except per share data)</i>	2009	2008			2007			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	14,931	10,766	9,829	7,978	7,603	7,757	8,536	8,838
Gross profit	3,166	2,399	1,959	1,697	2,063	2,581	901	1,780
Research & development expenses	1,013	1,300	1,041	1,129	1,007	235	1,405	1,793
Selling and administrative expenses	1,534	1,577	1,563	1,603	1,486	1,442	1,824	2,050
Restructuring and other expenses	—	—	—	—	—	196	190	1,342
Net profit (loss)	55	(1,751)	(1,352)	(2,341)	(977)	(1,133)	(2,555)	(4,255)
Net profit (loss) per share – basic and diluted	0.00	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.04)
Total assets	44,027	40,043	40,602	38,864	31,261	33,163	34,770	38,769
Long-term debt	1,067	1,124	1,464	2,112	693	797	1,083	1,555
Cash and cash equivalents and short- term investments	3,324	4,861	5,164	4,252	4,418	6,361	6,364	8,251

RESULTS OF OPERATIONS FOR THE FIRST QUARTER

Sales

For the three-month period ended July 31, 2008, consolidated sales reached \$14.9 million, up 96% from the first quarter of the previous year. The increase in the Corporation's sales is attributable to significant increase in demand for its wireless products in order to support the coverage of the 2008 Summer Olympic games. Shipments from the Telecom segment increased \$7.4 million, or 250%, during the first quarter as compared with the same period from the previous year. This is mainly due to the larger sales in Asia and in developing countries further to the deployment of wireless networks. The Satcom segment, which contributed 30% of total revenues, decreased by \$0.1 million to \$4.5 million, or 2%, compared to the first quarter of fiscal 2008. Satcom sales were impacted by lower capital expenditures and some delays on networks deployment around the globe.

<i>(thousands of dollars)</i>	2009				2008			2007
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Telecom	10,394	5,360	4,362	2,189	2,973	2,015	2,641	3,206
<i>% of total revenues</i>	69.6%	49.8%	44.4%	27.4%	39.1%	26.0%	30.9%	36.3%
Satcom	4,537	5,406	5,467	5,789	4,630	5,742	5,895	5,632
<i>% of total revenues</i>	30.4%	50.2%	55.6%	72.6%	60.9%	74.0%	69.1%	63.7%

Gross profit

Gross profit for the first quarter of fiscal 2009 increased by \$1.1 million from \$2.1 million in the first quarter of fiscal 2008 to \$3.2 million. Gross profit in the Telecom segment increased \$1.4 million from \$0.7 million for the same period last year to \$2.1 million in fiscal 2009. This is a result of higher sales level in new technologies of RF conditioning equipment to Asia-based customers deploying major wireless networks in Eastern Europe and mainland China. Satcom gross profit decreased by \$0.2 million from \$1.3 million in the first quarter of fiscal 2008 to \$1.1 million in the first quarter of fiscal 2009. Gross margin decreased from 29% to 24% due mainly to large fixed overhead costs related to its Montreal facility.

<i>(thousands of dollars)</i>	2009				2008			2007
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Telecom	2,087	903	867	345	737	543	(978)	(27)
<i>% of Telecom sales</i>	20.1%	16.8%	19.9%	15.8%	24.8%	26.9%	(37.0%)	(0.8%)
Satcom	1,081	1,496	1,091	1,352	1,327	2,038	1,879	1,807
<i>% of Satcom sales</i>	23.8%	27.7%	20.0%	23.4%	28.7%	35.5%	31.9%	32.1%

Research and Development Expenses

Research and development ("R&D") expenses net of investment tax credits for the first quarter of fiscal 2009 remained unchanged at \$1.0 million as compared to the first quarter of fiscal 2008. The Corporation invested heavily in its broadcast HPA program and the Keragis division. This investment was focused toward key programs for the DVBH market and key US military programs that will ensure Mitec remains ahead of its competitors.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses for the first quarter in fiscal 2009 increased 3% from \$1.5 million to \$1.5 million. The increase was a consequence of the larger volume of sales and its related variable compensation to sales personnel.

Net profit

Net profit for the first quarter of fiscal 2009 was \$55,000, or \$0.00 per share, as compared to a loss of \$1.0 million, or \$0.01 per share, for the same quarter of fiscal 2008. The increase in the net profit is largely attributable to higher sales level realized in the developing countries. The increase of the weighted-average outstanding common shares impacted the profit (loss) per share for the current fiscal period.

Earnings before Interest, Income 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, deferred charges and investments. 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. The Corporation also discloses the adjusted EBITDA from continuing operations to consider impacts from the restructuring expenses, the foreign exchange, the stock-based compensation and the recovery of non-refundable tax credits. 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. It also reconciles the adjusted EBITDA.

	2009				2008			
<i>(thousands of dollars)</i>	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Profit (loss) from continuing operations	55	(1,751)	(1,352)	(2,341)	(977)	(1,133)	(2,555)	(4,255)
Income taxes	(14)	(97)	—	—	—	814	—	(67)
Amortization and loss on write-down of property, plant and equipment, intangible assets, deferred charges and investments	753	1,305	1,248	823	769	873	1,075	988
Interest	37	36	302	78	24	17	59	64
EBITDA from continuing operations	831	(507)	198	(1,440)	(184)	571	(1,421)	(3,270)
Effect of restructuring expenses, foreign exchange and stock-based compensation	94	472	(297)	930	293	850	658	1,787
Effect of the recovery of non-refundable tax credits	—	—	—	—	—	(814)	—	—
Adjusted EBITDA from continuing operations	925	(35)	(99)	(510)	109	606	(763)	(1,483)

LIQUIDITY AND CAPITAL RESOURCES

Operating Activity Cash Flows

Cash flow used in operating activities improved by 26% from negative \$1.8 million in the first quarter of fiscal 2008 to negative \$1.3 million for the current fiscal quarter. Improvements in gross margins and in the cost containment program discussed above were the main contributing factors partially offset by the required increase at the working capital level.

Investing Activity Cash Flows

Cash flow used in investing activities was \$0.1 million for the period ended on July 31, 2008 a consequence of the acquisition of fixed assets to support expanded operations made during the current period. In the first quarter of fiscal 2008, cash flow from investing activities was a negative \$0.1 million for the same reason.

Financing Activity Cash Flows

Financing activities resulted in a net cash outflow of \$0.2 million for the current fiscal quarter, further to the reimbursement of long-term debt as compared to the same amount for the first quarter of fiscal 2008.

RISKS AND UNCERTAINTIES

Mitec operates in industry segments that have a variety of risk factors and uncertainties. The Corporation's business could be materially and adversely affected by any of the risks and uncertainties described below. Additional risks and uncertainties not presently known to Mitec or presently or currently immaterial may also adversely affect its business in the future.

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 seven 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 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. Approach potential lenders to secure operational financing;
2. Investigate a range of alternatives to expand its Telecom and Satcom business units.

During the first quarter of fiscal 2009, the following transactions, aimed at addressing the uncertainties described above, occurred:

- a. The Corporation announced that it had received a \$3 million order for mobile wireless filters from a major Telecom provider.
- b. The Corporation unveiled its next-generation amplifier solutions, developed by recently acquired Keragis.

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.

Industry Risk

Our success in the commercial wireless market depends in large part on investments by our customers in wireless infrastructure equipment. Because the commercial wireless market has only recently begun to recover, it is difficult to predict the rate at which this market will grow, if at all. Our customers may reduce their capital expenditures in response to current or anticipated reductions in consumer demand for their products and services. If the current economic uncertainty continues, demand for our commercial wireless products may be sharply reduced or may fail to develop, which would adversely affect our revenues. In addition, the need to invest in the engineering, research and development and marketing required to penetrate markets and maintain service support capabilities limits our ability to reduce expenses during downturns.

Dependence on a Few Customers

The Corporation has exposure due to its reliance on certain large contracts and customers. In the first quarter of fiscal 2009, the Corporation's two largest customer accounted for 67% of its sales. Although the Corporation invests considerable effort in maintaining its relationships with its customers, there can be no assurance that Mitec will be able to sell to such customers on an advantageous basis in the future, or that such customers will continue to buy from Mitec. Any changes in their business strategies, changes in timing, or marketing issues, could have a material financial impact on Mitec. Mitec is putting increasing emphasis on growing its customer base, and diversifying its sales channels into each business sector, to mitigate this risk. Additionally, Mitec will pursue a strategy of balanced growth, mainly to exploit the counter-cyclical nature of the Telecom and Satcom businesses.

Customers' Business

In general, our integrated components and subsystems must be custom designed for use in our customers' products. As a result, we sell our products to a relatively small group of customers, and our products must be specifically engineered for each customer. While we select our customers based on our assessment of their ability to succeed in the marketplace, we cannot be sure of their success. If our customers are not successful, the length of time required to re-engineer our product for another customer may delay our sales or prohibit us from getting our products to the marketplace in a timely manner or at all. If, for any reason, our customers decide to produce their RF and microwave subsystems and systems internally, increase the percentage of their internal production, require us to participate in joint venture manufacturing or compete directly against us, our revenues would decrease which would adversely impact our results of operations.

Production Risk

Our quarterly results have varied significantly in the past and are likely to continue to vary significantly. These fluctuations are due to a number of factors, including the following: timing, cancellation or rescheduling of customer estimates for product; customer orders and shipments; pricing and mix of products sold; introduction of new products; our ability to obtain components and subassemblies from suppliers; and variations in manufacturing efficiencies. Any one of these factors could substantially affect our results of operations for any particular fiscal quarter.

Also, in some cases, we rely on sole suppliers or limited groups of suppliers to provide us with services and materials necessary for the manufacture of our products. If we are not able to obtain sufficient allocations of these components, our production and shipment of product will be delayed, we may lose customers and our profitability may be affected.

Other risks relating to our reliance on sole suppliers include reduced control over production costs, delivery schedules, reliability and quality of materials. Any inability to obtain timely deliveries of acceptable quality materials, or any other circumstances that would require us to seek alternative suppliers, could adversely affect our ability to deliver products to our customers. While it is unlikely that costs from our major suppliers will increase as costs are strictly managed through non-binding long-term agreements, if they did, we may suffer losses if we are unable to recover such cost increases under fixed price production commitments to our customers.

Operational Risk

The activities conducted by the Corporation are subject to operational risks, including competition from other businesses, performance of key suppliers, product performance warranty, regulatory risks, successful integration of new acquisitions, dependence on key personnel and reliance on information systems, all of which could affect the Corporation's ability to meet its obligations.

Technological Changes

Mitec recognizes the need to stay on the leading edge of technology to satisfy the emerging needs of its customers, and to secure revenue streams from existing customers while expanding into new markets. Our R&D investment will remain an important element of our business, and will continue to be complemented by externally sourced technology.

Senior Management and other key employees

The Corporation's success is, to a significant extent, attributable to the leadership and experience of its senior management and other key employees. The unexpected loss of the Corporation's current senior management or other key employees, or its ability to attract hire and retain such persons in the future could have an adverse effect on the business and prospects of the Corporation. In order to manage this risk, the Corporation monitors and adjusts its compensation to the marketplace and, has in place a long-term incentive plan for key personnel.

Cash Repatriation from Foreign Subsidiary

The Corporation generates cash from its foreign subsidiary. The process to repatriate this cash back to Canada is subject to government laws and could be restricted.

General Economic Conditions

Unfavourable economic conditions may adversely affect the business of the Corporation. For example, the curtailment of production activities due to unfavourable economic conditions could result in significant costs associated with temporary layoffs or termination of employees.

Interest Rate

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

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.

Foreign Exchange Rates

A significant portion of Mitec's sales is denominated in foreign currencies, primarily US dollars and may be adversely affected by any severe currency fluctuations. In fiscal 2009 the Corporation did not enter into foreign exchange contracts. In addition, the Corporation maintains cash and cash equivalents, other current assets, and accounts payable and accrued liability in Chinese yuan (RMB) and in US dollars and is therefore exposed to currency risks on these balances as follows:

	As at July 31, 2008	
	RMB	US\$
Cash and cash equivalents	9,534	2,381
Accounts receivable	82,067	5,404
Accounts payable and accrued liabilities	53,928	1,772

Environmental Matters

The Corporation's activities are subject to environmental laws and regulations associated with risks to human health and the environment. Changes to these laws and regulations could have a significant

adverse effect on the Corporation's operations and financial situation. The Corporation monitors these risks through environmental management systems and policies.

Stock Price Fluctuation

The market price of our common shares, like the shares prices of many companies in the telecommunications industry, is subject to wide fluctuation in response to a variety of factors, including: actual or anticipated operating results; announcements of technological innovations; announcements of new products or new contracts by us, our competitors or customers; government regulatory action; developments with respect to wireless telecommunications; and general market conditions and other factors. In addition, the stock market has from time to time experienced significant price and volume fluctuations. These fluctuations have particularly affected the market prices for the shares of technology companies and have often been unrelated to the operating performance of particular companies. The market price of our common shares has been highly volatile and may continue to be highly volatile.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following is a summary of the Corporation's material contracts obligations:

Payments due per periods <i>(Amounts in thousands of dollars)</i>	Total	1 year	2-3 years	4-5 years	Over 5 years
	\$	\$	\$	\$	\$
Long-term debt	1,067	276	791	—	—
Operating leases	274	118	156	—	—
Total contractual obligations	1,341	394	947	—	—

All data as at July 31, 2008

OFF-BALANCE SHEET ITEMS

The Corporation's off-balance sheet items relate to operating leases exclusively which are described in the table above. Other than these commitments, which are considered to be in the ordinary course of business, the Corporation does not have any other off-balance sheet arrangements and do not expect to enter into any other such arrangements outside of the ordinary course of our business in the near future.

CHANGES IN ACCOUNTING POLICIES

Effective May 1, 2008, the Corporation adopted the following recently introduced Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

Inventories

Handbook Section 3031, "Inventories", replaces Section 3030, "Inventories". The new section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and cost of sales, including accounting policies, carrying values and the amount of any inventory write-downs. The adoption of this new standard did not have any material impact on financial results.

Capital Disclosures

The Corporation adopted the new CICA Handbook Section 1535, Capital Disclosures. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies and processes for managing capital. Interim Financial Statements further discusses the Corporation's policies.

Financial Instruments

The Corporation adopted the two new CICA Handbook standards, Handbook Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentation, which replaces Handbook Section 3861, Financial Instruments Disclosure and Presentation. The new presentation standards carry forward the former presentation requirements and increase the emphasis on the disclosure of risks associated with both recognition and unrecognized financial instruments and how those risks are managed. Interim Financial Statements provides required information.

General Standards on Financial Statements Presentation

The Corporation adopted the amendment to CICA Handbook Section 1400, General Standards of Financial Statement Presentation. These amendments include requirements for management to assess the Corporation's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the Corporation's ability to continue as a going concern. Management performed this assessment at the period end and determined that disclosure was required in its interim financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

These are changes to accounting policies that the Corporation is currently considering that could have a material impact on the Corporation.

Goodwill and intangible assets and Research and development costs

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets which will replace Handbook Section 3062 Goodwill and Other Intangible Assets and Handbook Section 3450, Research and Development Costs, effective for interim and annual financial statements beginning on or after October 1, 2008. This revision aligns Canadian GAAP with International Financial Reporting Standards ("IFRS") and establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Management is currently determining the impact of this standard on the Corporation's consolidated financial statements.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public entities will need to adopt IFRS effective for years beginning on or after January 1, 2011. The Corporation has not yet developed an IFRS changeover plan nor has it evaluated the impact this new framework will have on its financial statements.

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. 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, and allowance for doubtful accounts. Actual results, however, may differ from the estimates used in the consolidated financial statements and such differences could be material. The Corporation's significant accounting policies are discussed in Note 2 of the audited consolidated financial statements; critical estimates inherent in the accounting policies are discussed in the following paragraphs.

Inventory Valuation

The Corporation records a provision to reflect management's best estimate of the net realizable value of the inventory. The provision is calculated considering inventory aging and current and future expectations with respect to product offerings. Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings. The estimate of the Corporation's allowance for inventory obsolescence could materially change from period to period due to changes in product offering and

customer acceptance of those products. Management reviews the entire provision to assess whether, based on economic conditions, it is adequate.

Impairment of Long-Lived Assets

The Corporation assesses the recoverability of long-lived assets when there are indications of potential impairment. In performing this analysis, the Corporation considers such factors as current economic conditions: trends and future prospects, current market value and other economic factors, in preparing its estimated undiscounted future cash flows. These estimates could materially change the resulting cash flows and estimated fair values usually based on discounted cash to determine impairment.

Goodwill

On at least an annual basis, the Corporation subjects goodwill to an impairment test based upon a comparison of the carrying amount to the fair value of the goodwill. Any impairment in the carrying amount of goodwill is charged to operations in the period such impairment is identified. There was no impairment in value for the period then ended.

Allowance for Doubtful Accounts

The Corporation records an allowance for doubtful accounts to reflect Management's best estimate of losses inherent to its portfolio of receivables as of the balance sheet date although the majority of its receivables are insured. The calculation takes into consideration payment records, collection attempts, bankruptcy filings and economic events. Management believes that the allowance of doubtful accounts is adequate to cover anticipated losses under current conditions. However, significant deterioration in any of the above factors, or in the health of the economy, could significantly change these expectations.

Future Income Taxes Assets

The Corporation accounts for future income tax assets mainly from losses carried-forward and deductible temporary differences. Management assesses and reviews the realization of these future income tax assets to determine whether a valuation allowance or provision is required. Based on that assessment, it is determined whether it is more likely than not that all or a portion of the future income tax assets will be realized. Factors taken into account include future income based on internal forecasts, losses in recent years and their expiry dates, history of losses carried-forward as well as reasonable tax planning strategies.

Warranty Provision

The Corporation records a warranty provision on the sale of certain VSAT products, which contain active components. This estimate is based on historical repair frequency and related costs. Management reviews the provision on an on-going basis and the provisions at July 31, 2008 was considered adequate.

Stock-Based Compensation

The Corporation estimates the fair value of stock options granted to employees, officers and Directors. As at July 31, 2008, a total of 14,522,950 stock options were outstanding, of which 7,666,217 were exercisable. 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.

Contingencies and commitments

The Corporation is subject to various claims and contingencies related to lawsuits, taxes and contractual and other commercial obligations. The contractual and other commercial obligations primarily relate to operating lease agreements. The Corporation recognizes liabilities for contingencies and commitments when a loss is probable and can be estimated. Significant changes as to the likelihood and estimates and estimates of a loss could result in the recognition of an additional liability.

PROPOSED TRANSACTIONS

Mitec continually reviews opportunities for mergers, acquisitions and divestitures that could increase shareholder value. The Corporation is not party to any such undertakings at this time.

OUTLOOK

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

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators' Multilateral Instrument 52-109, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting. The Corporation did not make any material changes to the design of internal controls over financial reporting during the three months ended July 31, 2008 that have had a material effect on the Corporation's internal controls over financial reporting.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of September 2, 2008. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of September 2, 2008, a total of 220,666,756 common shares and 38,016,168 warrants were issued and outstanding, as well as a total of 13,965,950 stock options.



MITEC TELECOM INC.
Interim Consolidated Financial Statements
For the three month period ended
July 31, 2008
(unaudited)

The Interim Consolidated Financial Statements included in this report have not been subject to a review by the Corporation's external auditors.

MITEC TELECOM INC.
INTERIM CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

	As at July 31, 2008	As at April 30, 2008
	\$	\$
	<i>Unaudited</i>	<i>Audited</i>
ASSETS		
Current		
Cash and cash equivalents	3,245	4,784
Short-term investments	79	77
Trade receivables	16,797	10,036
Other receivables	325	630
Income tax recoverable	644	839
Inventories	8,754	8,759
Prepaid expenses and other	473	580
Total current assets	30,317	25,705
Property, plant and equipment	5,980	6,110
Intangible assets	3,979	4,284
Goodwill	3,598	3,598
Investments	25	25
Deferred charges	128	321
	44,027	40,043
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	15,106	11,373
Current portion of long-term debt	276	382
Total current liabilities	15,382	11,755
Long-term debt	791	742
Future income tax liabilities	501	515
	16,674	13,012
Shareholders' equity		
Common shares [note 4]	132,140	132,097
Warrants [note 4]	1,931	1,931
Equity component of convertible debentures	46	46
Contributed surplus	9,425	9,223
Deficit	(115,317)	(115,372)
Accumulated other comprehensive loss	(872)	(894)
Total shareholders' equity	27,353	27,031
	44,027	40,043

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	
	2008	July 31, 2007
	\$	\$
Sales	14,931	7,603
Cost of sales	11,765	5,540
Gross profit	3,166	2,063
Expenses		
Research and development	1,013	1,007
Selling and administrative	1,534	1,486
Amortization of intangible assets	305	227
Financial expenses <i>[note 7]</i>	186	30
Foreign exchange	(108)	245
Interest income	(7)	(3)
Stock-based compensation	202	48
	3,125	3,040
Profit (loss) before income taxes	41	(977)
Income tax recovery	(14)	—
Net profit (loss) for the period	55	(977)
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	22	(67)
Comprehensive profit (loss) for the period	77	(1,044)
Basic and diluted profit (loss) per common share	0.00	(0.01)
Weighted average number of outstanding common shares	220,343,256	174,502,223

See accompanying notes

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

Unaudited

	Common shares	Warrants	Equity component of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive loss	Shareholders' equity
	# (000s)	\$	\$	\$	\$	\$	\$
Note	4	4	4				
Balance, April 30, 2007	174,502	125,631	1,311	—	8,645	(108,951)	25,719
Stock-based compensation	—	—	—	—	48	—	48
Other comprehensive loss for the period	—	—	—	—	—	(67)	(67)
Net loss for the period	—	—	—	—	—	(977)	(977)
Balance, July 31, 2007	174,502	125,631	1,311	—	8,693	(109,928)	24,723
Balance, April 30, 2008	220,312	132,097	1,931	46	9,223	(115,372)	27,031
Issued upon conversion of convertible debentures	354	43	—	—	—	—	43
Stock-based compensation	—	—	—	—	202	—	202
Other comprehensive gain for the period	—	—	—	—	—	22	22
Net profit for the period	—	—	—	—	—	55	55
Balance, July 31, 2008	220,666	132,140	1,931	46	9,425	(115,317)	27,353

See accompanying notes

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)

Unaudited

For the three months ended
July 31,

	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Net profit (loss)	55	(977)
Add items not affecting cash		
Amortization of property, plant and equipment, intangible assets and deferred charges	753	770
Loss on disposal of property, plant and equipment	—	33
Stock-based compensation	202	48
Accretion expense	128	—
Income tax recovery	(14)	—
	1,124	(126)
Changes in non-cash working capital balances related to continuing operations [note 5]	(2,416)	(1,631)
Cash flows used in operating activities	(1,292)	(1,757)
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	(149)	(32)
Proceeds on disposal of property, plant and equipment	—	14
Purchase of short-term investments	(79)	(75)
Sale of short-term investments	77	75
Cash flows used in investing activities	(151)	(18)
FINANCING ACTIVITIES		
Repayment of long-term debt	(94)	(127)
Cash flows used by financing activities	(94)	(127)
Effect of exchange rate fluctuations changes on cash and cash equivalents	—	(41)
Net increase (decrease) in cash and cash equivalents	(1,537)	(1,943)
Cash and cash equivalents, beginning of the period	4,861	6,286
Cash and cash equivalents, end of the period	3,324	4,343

See accompanying notes

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2008

(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 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 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 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. 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. 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, 2008, 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.

3. CHANGES IN ACCOUNTING POLICIES

Effective May 1, 2008, the Corporation adopted the following recently introduced Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

Inventories

Handbook Section 3031, "Inventories", replaces Section 3030, "Inventories". The new section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal off previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and cost of sales, including accounting policies, carrying values and the amount of any inventory write-downs. The adoption of this new standard did not have any material impact on financial results.

MITEC TELECOM INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2008

(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)
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3. CHANGES IN ACCOUNTING POLICIES (continued)

Capital Disclosures

The Corporation adopted the new CICA Handbook Section 1535, Capital Disclosures. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies and processes for managing capital. Note 8 further discusses the Corporation's policies.

Financial Instruments

The Corporation adopted the two new CICA Handbook standards, Handbook Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentation, which replaces Handbook Section 3861, Financial Instruments Disclosure and Presentation. The new presentation standards carry forward the former presentation requirements and increase the emphasis on the disclosure of risks associated with both recognition and unrecognized financial instruments and how those risks are managed. Note 9 provides required information.

General Standards on Financial Statements Presentation

The Corporation adopted the amendment to CICA Handbook Section 1400, General Standards of Financial Statement Presentation. These amendments include requirements for management to assess the Corporation's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the Corporation's ability to continue as a going concern. Management performed this assessment at the period end and determined that disclosure was required in Note 1 of its financial statements.

Impact of Accounting Pronouncements not yet Implemented

Goodwill and intangible assets and Research and development costs

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets which will replace Handbook Section 3062 Goodwill and Other Intangible Assets and Handbook Section 3450, Research and Development Costs, effective for interim and annual financial statements beginning on or after October 1, 2008. This revision aligns Canadian GAAP with International Financial Reporting Standards ("IFRS") and establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Management is currently determining the impact of this standard on the Corporation's consolidated financial statements.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public entities will need to adopt IFRS effective for years beginning on or after January 1, 2011. The Corporation has not yet developed an IFRS changeover plan nor has it evaluated the impact this new framework will have on its financial statements.

4. 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, 2008 \$
Balance, beginning of the period	220,312,425	132,097
Change during the period:		
Issuance of shares upon conversion of convertible debentures	354,331	43
Balance, end of the period	220,666,756	132,140

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2008

(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)
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4. SHARE CAPITAL (continued)

Warrants	#	As at July 31, 2008 \$
Balance, beginning of the period	38,016,168	1,931
Change during the period:	—	—
Balance, end of the period	38,016,168	1,931

Warrants outstanding are as follows:

Exercise price	Expiry date	#	As at July 31, 2008 \$
0.10	October 3, 2008	4,837,500	
0.18	October 17, 2009	13,888,889	
0.22	March 30, 2009	19,289,779	
		38,016,168	

For the periods ending July 31, 2008 and July 31, 2007, 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:

	2008 #	As at July 31, 2007 #
Weighted average number of common shares outstanding	220,343,256	174,502,223
Net effect of dilutive stock options and warrants	7,237,500	12,175,000
Weighted average diluted number of common shares outstanding	227,579,756	186,677,223

Stock options plan

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

	#	As at July 31, 2008 \$
Balance, beginning of the period	14,533,950	0.41
Expired	(11,000)	6.70
Balance, end of the period	14,522,950	0.25
Options exercisable, end of the period	7,666,217	0.32

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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5. SUPPLEMENTARY CASH FLOW INFORMATION

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

	For the three months ended	
	2008	July 31,
	\$	2007
	\$	\$
Trade receivables and other receivables	(6,456)	(1,576)
Inventories	5	344
Prepaid expenses and other	107	(41)
Income tax recoverable	195	444
Accounts payable and accrued liabilities	3,733	(802)
	(2,416)	(1,631)
Interest paid	23	31
Amortization of property, plant and equipment is included in:		
Cost of sales	192	242
Selling and administrative expenses and research and development	64	88
	256	330
Amortization of intangible assets is including in:		
Selling and administrative expenses and research and development	305	227
Amortization of deferred charges is included in:		
Cost of sales	117	123
Selling and administrative expenses	35	59
Research and development expenses	40	31
	192	213

6. 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, China and 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 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, 2008

(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)
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6. SEGMENTED INFORMATION (continued)

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

	Telecom		Satcom		Consolidated amounts	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Sales	10,394	2,973	4,537	4,630	14,931	7,603
Cost of sales	8,309	2,236	3,456	3,303	11,765	5,539
Gross profit	2,087	737	1,081	1,327	3,166	2,064
Amortization of property, plant and equipment	147	225	109	105	256	330
Amortization of intangible assets	109	122	196	105	305	227
Expenses					2,564	3,041
Income tax recovery					(14)	—
Net profit (loss) for the period					55	(977)

The following table presents assets by segments:

	As at July 31, 2008		
	Telecom	Satcom	Total
	\$	\$	\$
Current Assets	15,757	10,758	26,515
Long-term assets	4,536	8,952	13,488
	20,293	19,710	40,003
Other			4,024
			44,027

(b) Segmented assets enterprise-wide information

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

	For the three months ended	
	July 31, 2008	July 31, 2007
	\$	\$
Canada	5,382	5,036
United States	135	—
China	10,259	2,764
Inter-country	(845)	(197)
	14,931	7,603

The following table presents sales by destination of product

	For the three months ended	
	July 31, 2008	July 31, 2007
	\$	\$
Canada	141	181
United States	2,088	2,635
Europe	992	2,275
Asia	10,665	1,883
Other	1,085	629
	14,931	7,603

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2008

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7. FINANCIAL EXPENSES

	For the three months ended	
	2008	July 31, 2007
	\$	\$
Interest on long-term debt	9	22
Interest on convertible debentures	35	—
Accretion expense	128	—
Bank charges and other fees	14	8
	186	30

8. CAPITAL MANAGEMENT

The Corporation's capital is composed of its shareholders' equity and its long-term debt. The Corporation manages its capital to safeguard the Corporation's ability to continue as a going-concern and to provide financial flexibility to fund organic growth and selective acquisitions, as well as allow the Corporation to respond to changes in economic and/or marketplace conditions. In order to maintain or adjust its capital structure, the Corporation could issue new shares, raise debt or enter into new capital leases.

The Corporation has not historically paid dividends to its shareholders. The Corporation is required to comply with certain covenants with respect to its long-term loan.

9. FINANCIAL INSTRUMENTS

The classification of financial instruments as of July 31, 2008 and April 30, 2008 and their respective carrying values and fair values were as follows:

	Held-for- trading \$	Available- for-Sale \$	Loans and receivable s \$	Other financial liabilities \$	Carrying Value \$	Fair value \$
As at July 31, 2008						
Cash and cash equivalents	3,245				3,245	3,245
Short-term investments		79			79	79
Trade receivables			16,797		16,797	16,797
Other receivables			325		325	325
Investments		25			25	25
Account payable and accrued liabilities				15,106	15,106	15,106
Long-term debt and convertible debentures				1,067	1,067	1,067
As at April 30, 2008						
Cash and cash equivalents	4,784				4,784	4,784
Short-term investments		77			77	77
Trade receivables			10,036		10,036	10,036
Other receivables			630		630	630
Investments		25			25	25
Account payable and accrued liabilities				11,373	11,373	11,373
Long-term debt and convertible debentures				1,124	1,124	1,124

MITEC TELECOM INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2008

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

Unaudited

9. FINANCIAL INSTRUMENTS (continued)

Fair value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Corporation uses the following methods and assumptions to establish the fair value for each class of financial instruments for which their carrying amounts are included in the unaudited interim balance sheet as follows:

- **Held-for-trading**
Cash and cash equivalents – the carrying amount is recorded at the fair market value.
- **Available-for-sale**
Short-term investments and investments – the carrying amount is recorded at the fair market value determined using quote market prices when available; investments in private companies are recorded at cost as reliable fair market value is not available for such investments.
- **Loans and receivables**
Trade receivables and other receivables – the carrying amount is a reasonable approximation of fair value due to the short-term nature of these financial instruments.
- **Other financial liabilities**
Accounts payable and accrued liabilities, long-term debt and convertible debentures – the carrying amounts included on the balance sheet are measured at amortized cost which approximates fair value due to the short-term nature of accounts payable and accrued liabilities. The carrying value of the debt component of the convertible debentures approximates its fair value as interest rates have not changed significantly since they were issued and the carrying value is being accreted to its face value over the term of the debentures such that they will be recorded at their full value when they become due and payable.

Risk arising from financial instruments

The Corporation does not use financial derivatives.

Credit risk

The Corporation is exposed to credit risk in its cash and cash equivalents, accounts receivables and to the credit risk of its derivative financial instrument counterparties if they do not meet their obligations. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the value of the financial instrument. The Corporation minimizes credit risk on cash and cash equivalents and derivative instruments by depositing or engaging in derivative instruments with only reputable financial institutions.

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.

Two (2007 – one) customers accounted for 67% of sales for the period ended July 31, 2008 (2007 – 38%) and 72% of trade receivables as at July 31, 2008 (July 31, 2007 – 21%). The same two customers represented 96% of Telecom sales for the period ended July 31, 2008 (2007 – 97%).

Interest rate risk

As at July 31, 2008, the Corporation is exposed to interest rate fluctuations since its long-term debt bears interest at floating rates.

MITEC TELECOM INC.**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2008

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

Unaudited

9. FINANCIAL INSTRUMENTS (continued)**Liquidity risk**

Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they come due. The Corporation currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so is dependent on the Corporation collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs.

Foreign currency risk

The Corporation operates internationally and a substantial portion of the expenses is incurred in U.S. dollars. A significant change in the currency exchange rate between the Canadian dollar relative to the U.S. dollar could have a material effect on our results of operations, financial position or cash flows. The corporation has not hedged its exposure to currency fluctuations. As at July 31, 2008, the Corporation is exposed to currency risk through its cash, accounts receivable and accounts payable and accrued liabilities denominated in U.S. dollars and Chinese yuan (RMB) as follows:

	As at July 31,	
		2008
	RMB	US\$
Cash and cash equivalents	9,534	2,381
Accounts receivable	82,067	5,404
Accounts payables and accrued liabilities	53,928	1,772

Based on the above net exposures as at July 31, 2008 and assuming that all other variables remain constant, a 10% depreciation of the Canadian dollar or a 10% appreciation of the Canadian dollar against the U.S. dollar and the Chinese yuan would result in increases/(decreases) in net profit and comprehensive profit of \$1,163/(\$1,163).