

**2010**  
**Mitec Telecom Inc.**  
**Third Quarter Report**  
**For the 9-month period ending January 31, 2010**



## **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. Headquartered in Montreal, Canada, the Corporation also operates facilities in the United States and in 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, from the perspective of Mitec's management, on corporate performance for the three-month and nine-month periods ended January 31, 2010 (third quarter fiscal 2010). It includes a review of the financial condition of Mitec and a review of operations for each of Mitec's operating segments for the third quarter fiscal 2010 as compared to the third quarter ended January 31, 2009 (third quarter fiscal 2009) and for the nine-month period ended January 31, 2010 compared to the nine-month period ended January 31, 2009.

This MD&A supplements the unaudited interim consolidated financial statements for the period ended January 31, 2010 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, 2009. 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. This MD&A considers information available until March 2, 2010. Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://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 28, 2009.

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 CONSOLIDATED FINANCIAL STATEMENTS**

Prior to publication, the Board of Directors, on the recommendation of the audit committee, approved Mitec Telecom's unaudited 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 generates revenues from the design, manufacture and sale of 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 some of the core broadband capabilities in today's fast growing multimedia communications area.

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 ("SSPA") technologies, which carries a variety of intellectual property rights and are patent protected, mainly to government and large military system integrators for military radar and communication systems.

As an established and recognized supplier in the satellite and wireless fields, Mitec is well positioned to benefit from future growth in the communications industry and invests in R&D initiatives for new product lines in areas in which it predicts strong growth opportunities. Mitec uses its scalability and engineering expertise in order to address the demand for bandwidth, speed, capacity and reliability as telecom companies worldwide continue to require solutions for the rapid adoption of wireless telecommunications.

Mitec clearly holds a competitive advantage in the military industry with its patented Keragis SSPA technology as it grows this business unit to address a billion dollar market for military applications requiring microwave or radar communications that demand power efficiency and large bandwidth in addition to physical and electrical integration.

Mitec's headquarters are in Montreal, Canada and the Corporation has other operations in Suzhou (China) and Poway (U.S.A.). As at January 31, 2010, the Corporation's global workforce stood at 254 employees.

## **MAJOR EVENTS**

On February 11, 2010, Mitec Telecom Inc. announced that it has received a new order for its VSAT MTX Block Upconverter product line. The equipment will be used as part of a GSM cellular backhaul system in South America, which is part of a government mandate to expand rural cellular coverage in this region. This order represents a new territory win for Mitec's recently released MTX equipment.

On January 21, 2010, Mitec announced that it had been selected as the lead supplier for its flexible waveguide solution for one of the world's largest telecom equipment providers. The specific application in this supply agreement involved point-to-point radios and was expected to generate \$2 million in orders over the next twelve months.

On January 19, 2010, Mitec announced that it had been selected as the lead supplier for diplexers for one of the world's largest telecom equipment providers. The forecasted value of the supply agreement was estimated to be \$3 million over the next twelve months.

## SELECTED FINANCIAL INFORMATION

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

| <i>(in thousands of dollars except per share data)</i>   | 2010    |         |         |         |        |         | 2009   | 2008    |
|--|---------|---------|---------|---------|--------|---------|--------|---------|
|  | Q3      | Q2      | Q1      | Q4      | Q3     | Q2      | Q1     | Q4      |
|  | \$      | \$      | \$      | \$      | \$     | \$      | \$     | \$      |
| Sales  | 5,161   | 7,198   | 6,707   | 6,927   | 7,922  | 10,568  | 14,931 | 10,766  |
| Gross profit   | 862     | 817     | 1,035   | 1,083   | 1,897  | 2,366   | 3,166  | 2,399   |
| Research & development expenses                          | 1,027   | 678     | 1,064   | 1,122   | 1,039  | 1,136   | 1,013  | 1,300   |
| Selling and administrative expenses                      | 1,499   | 1,647   | 1,260   | 1,891   | 1,430  | 1,714   | 1,534  | 1,577   |
| Net profit (loss)  | (2,305) | (1,837) | (2,069) | (3,108) | (360)  | (1,195) | 55     | (1,751) |
| Net profit (loss) per share –<br>basic and diluted       | (0.01)  | (0.01)  | (0.01)  | (0.01)  | (0.00) | (0.01)  | 0.00   | (0.01)  |
| Total assets   | 23,703  | 26,585  | 29,118  | 30,321  | 36,244 | 39,230  | 44,027 | 40,043  |
| Long-term debt   | 1,041   | 955     | 1,316   | 1,215   | 1,116  | 1,057   | 1,067  | 1,124   |
| Cash and cash equivalents and short-<br>term investments | 2,217   | 2,458   | 3,344   | 4,666   | 4,040  | 5,255   | 3,324  | 4,861   |

The information pertaining to each segment for the three-month periods ended January 31 is as follows:

|                     | Telecom |       | Satcom |       | Consolidated amounts |       |
|---------------------|---------|-------|--------|-------|----------------------|-------|
|                     | 2010    | 2009  | 2010   | 2009  | 2010                 | 2009  |
| Sales               | 1,140   | 3,101 | 4,021  | 4,821 | 5,161                | 7,922 |
| Cost of sales       | 1,293   | 2,719 | 3,006  | 3,306 | 4,299                | 6,025 |
| Gross profit (loss) | (153)   | 382   | 1,015  | 1,515 | 862                  | 1,897 |

The information pertaining to each segment for the nine-month periods ended January 31 is as follows:

|                     | Telecom |        | Satcom |        | Consolidated amounts |        |
|---------------------|---------|--------|--------|--------|----------------------|--------|
|                     | 2010    | 2009   | 2010   | 2009   | 2010                 | 2009   |
| Sales               | 5,330   | 17,567 | 13,736 | 15,854 | 19,066               | 33,421 |
| Cost of sales       | 5,394   | 14,530 | 10,959 | 11,462 | 16,353               | 25,992 |
| Gross profit (loss) | (64)    | 3,037  | 2,777  | 4,392  | 2,713                | 7,429  |

## RESULTS OF OPERATIONS FOR THE THIRD QUARTER AND FOR THE NINE-MONTH PERIOD ENDED JANUARY 31, 2010

### Sales

For the third quarter ended January 31, 2010, consolidated sales were \$5.2 million, a 34.8% decrease from the third quarter of the previous year. Mitec's quarterly revenues have fluctuated historically as a result of the status of various opportunities in its pipeline at each quarter end and timing of new product introductions. This quarter's decrease in Mitec's sales is attributable to a variety of factors, including delays in booking anticipated revenues for the quarter as a result of the postponement of infrastructure spending in the wireless industry as well as an anticipated shift from one series of products into a recently launched new product line.

Shipments from the Telecom segment, which contributed \$1.1 million of total revenues, decreased by \$2.0 million as compared with the same period in the previous year. During the third quarter as well as in the prior quarter, Mitec invested R&D and marketing into a new series of fixed wireless and coverage solutions product lines, currently in demand in fast growing regions in developing areas in Asia, South America and Africa and supported by both U.S. and Canadian federal government initiatives.

Satcom segment shipments, which contributed \$4.0 million of total revenues, decreased by \$0.8 million as compared with the same period in the previous year. Over the last two years, Mitec has invested in a newly designed series of VSAT MTX Block Upconverters, which has now been introduced and has gained significant traction in the market.

Mitec is experiencing a general improvement in order flow now that these new products have been launched. Management believes these initiatives should to continue assist the Corporation in achieving its financial objectives.

| <i>(in thousands of dollars except percentage)</i> | <b>2010</b>  |           |           |           |           |           | 2009      | 2008      |
|--|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | <b>Q3</b>    | <b>Q2</b> | <b>Q1</b> | <b>Q4</b> | <b>Q3</b> | <b>Q2</b> | <b>Q1</b> | <b>Q4</b> |
|  | <b>\$</b>    | <b>\$</b> | <b>\$</b> | <b>\$</b> | <b>\$</b> | <b>\$</b> | <b>\$</b> | <b>\$</b> |
| Telecom  | <b>1,140</b> | 2,003     | 2,188     | 2,206     | 3,101     | 4,073     | 10,394    | 5,360     |
| <i>% of total sales</i>                            | <b>22.1%</b> | 27.8%     | 32.6%     | 31.8%     | 39.1%     | 38.5%     | 69.6%     | 49.8%     |
| Satcom   | <b>4,021</b> | 5,196     | 4,519     | 4,721     | 4,821     | 6,495     | 4,537     | 5,406     |
| <i>% of total sales</i>                            | <b>77.9%</b> | 72.2%     | 67.4%     | 68.2%     | 60.9%     | 61.5%     | 30.4%     | 50.2%     |

For the nine-month period ended January 31, 2010, consolidated sales were \$19.1 million, a 43.0% decrease with the same period in the previous year. The decrease in the Corporation's sales is attributable to the predicted sharp decline in the demand from Original Equipment Manufacturer ("OEM") Wireless customers as a result of worldwide economic conditions. The Corporation has begun to demonstrate that its new products, which target specific niche opportunities in large and sustainable markets, will resolve many of the current issues its customers are facing in their respective markets.

### **Gross Profit**

Gross profit for the third quarter of fiscal 2010 was \$0.9 million, a decrease of \$1.0 million from \$1.9 million in the third quarter of fiscal 2009.

Gross Profit in the Telecom segment was negative \$0.2 million in the third quarter of fiscal 2010, a decrease of \$0.5 million as compared with the same period in the previous year. The Corporation continues to evaluate its costs to offset lower revenues, however gross profit was also impacted by lower overhead absorption resulting from the continued reduction in orders. As general market conditions improve, Mitec has plans to continue to monitor its overhead costs.

Satcom Gross Profit was \$1.0 million in the third quarter of fiscal 2010, a decrease of \$0.5 million with the same period in the previous year.

| <i>(in thousands of dollars except percentage)</i> | 2010           |        |       |        |       |       | 2009  | 2008  |
|--|----------------|--------|-------|--------|-------|-------|-------|-------|
|  | Q3             | Q2     | Q1    | Q4     | Q3    | Q2    | Q1    | Q4    |
|  | \$             | \$     | \$    | \$     | \$    | \$    | \$    | \$    |
| Telecom  | (153)          | (48)   | 138   | (116)  | 382   | 571   | 2,087 | 903   |
| <i>% of Telecom sales</i>                          | <b>(13.4%)</b> | (2.4%) | 6.3%  | (7.5%) | 12.3% | 14.0% | 20.1% | 16.8% |
| Satcom   | 1,015          | 865    | 897   | 1,247  | 1,515 | 1,795 | 1,081 | 1,496 |
| <i>% of Satcom sales</i>                           | <b>25.2%</b>   | 16.6%  | 19.8% | 26.4%  | 31.4% | 27.6% | 23.8% | 27.7% |

For the nine-month period ended January 31, 2010, Gross Profit was \$2.7 million or 14.2% of sales compared to \$7.4 million or 22.2% recorded in same period in the previous year. The Corporation's Gross Profit in the Telecom segment was negative \$0.1 million, or negative 0.1% of sales, as compared with \$3.0 million, or 17.3% recorded in same period in the previous year. For the nine-month period, gross profit in the Satcom sector decreased to \$2.8 million, or 20.2% of sales, compared to \$4.4 million, or 28% of the Satcom sales, recorded in same period in the previous year.

### Research and Development Expenses

Research and development expenses ("R&D") net of investment tax credits for the third quarter of fiscal 2010 remained unchanged at \$1.0 million, as compared with the third quarter of fiscal 2009. During the quarter, several new product lines were introduced and are now entering into commercial sales phases, however, since some opportunities require custom commercialization additional R&D may be required. The Corporation continues its commitment to R&D to ensure Mitec remains ahead of its competitors and has maintained its R&D spending by investing in various product lines in order to promote the availability of new products servicing the Telecom Operators, Mobile and Fixed Wireless infrastructure markets as well as the VSAT and military markets. For the nine-month period ended January 31, 2010, total R&D expenses reached \$2.8 million, representing 14.5% of total sales, as compared with \$3.2 million, or 9.5% of total sales, for the same period in the previous year.

### Selling and Administrative Expenses

The Corporation's selling and administrative expenses ("SG&A") for the third quarter in fiscal 2010 were \$1.5 million as compared with \$1.4 million in the third quarter of fiscal 2009. The increase is the result of one time administrative expenses and professional fees as Mitec continues to assess various opportunities with the objective of increasing its presence in the wireless market and achieving long-term profitability. For the nine-month period, selling and administrative expenses were \$4.3 million, a reduction of 7.9% as compared with \$4.7 million for the same period in the previous year.

### Net Loss

The net loss for the third quarter of fiscal 2010 was \$2.3 million, or \$0.01 per share, as compared with a loss of \$0.4 million, or \$0.00 per share, for the same quarter of fiscal 2009. Management is confident that its new product lines, cost containment programs in place and the general improvement in business conditions, combined with the Corporation's mandate to identify and assess various opportunities in the wireless market provide the basis for improved results.

### 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 loss on disposal and impairment of property, plant and equipment, intangibles assets, deferred charges and investments. Interest is comprised of interest on bank indebtedness and 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 to describe impacts from foreign exchange and stock-based

compensation. 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.

| <i>(in thousands of dollars)</i>   | 2010    |         |         |         |       |         | 2009 | 2008    |
|--|---------|---------|---------|---------|-------|---------|------|---------|
|  | Q3      | Q2      | Q1      | Q4      | Q3    | Q2      | Q1   | Q4      |
|  | \$      | \$      | \$      | \$      | \$    | \$      | \$   | \$      |
| Net Profit (Loss)  | (2,305) | (1,837) | (2,069) | (3,108) | (360) | (1,195) | 55   | (1,751) |
| Income taxes   | (39)    | (39)    | (39)    | (523)   | (89)  | (14)    | (14) | (97)    |
| Amortization and loss on disposal and impairment of property, plant and equipment, intangible assets, deferred charges and investments | 420     | 370     | 464     | 2,214   | 515   | 972     | 753  | 1,305   |
| Interest   | 52      | 109     | 31      | 27      | (1)   | 65      | 37   | 36      |
| EBITDA   | (1,872) | (1,397) | (1,583) | (1,390) | 65    | (172)   | 831  | (507)   |
| Effect of foreign exchange and stock-based compensation  | 320     | 42      | 469     | (425)   | (673) | (95)    | 94   | 472     |
| Adjusted EBITDA  | (1,552) | (1,355) | (1,114) | (1,815) | (608) | (267)   | 925  | (35)    |

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activity Cash Flows

Cash flow used in operating activities decreased by \$0.9 million from \$1.1 million in the third of fiscal 2009 to \$0.2 million for the current fiscal quarter. Cash flow used in operating activities was positively impacted by a change in the non-cash working capital balances related to operating activities because of the larger volume of sales at the end of the current quarter. For the nine-month period, cash flows used from operations increased to \$2.4 million, a change of \$2.3 million, compared to cash flows used from operations of \$0.1 million recorded in the previous year.

### Investing Activity Cash Flows

Cash flow used in investing activities was \$0.1 million for the period ended on January 31, 2010, a consequence of the acquisition of fixed assets to support expanded operations made during the current period. In the third quarter of fiscal 2010, cash flow from investing activities was negative \$0.1 million further to the purchase of short-term investments. For the nine-month period, cash flows used in investing activities were \$0.3 million compared to \$0.4 million recorded in the previous year.

### Financing Activity Cash Flows

Cash flow used in financing activities was \$0.1 million in the third quarter of fiscal 2010 to consider adjustments made in the calculation of recently issued convertible debentures, the cash flow used in the third quarter of fiscal 2009 was \$0.1 million as repayment of long-term debt.

The Corporation closed a private placement of convertible debentures which resulted in a net cash inflow of \$1.7 million. The proceeds relating to these debentures were primarily used for repayment of \$1.4 million of existing debt. The Corporation, for the nine month period ended January 31, 2010, repaid \$0.4 million on existing loans.

### **Convertible Debentures**

In October 2009, the Corporation issued \$1.9 million of convertible unsecured debentures (“convertible debentures”). Financing charges of \$179,000 were incurred which are presented as a reduction of the long-term debt and equity components. The convertible debentures bear interest at 12% per annum, payable quarterly, mature in October 2011 and the indebtedness ranks equally with all other indebtedness of the Corporation. The convertible debentures holders have the option to convert the principle amount of the convertible debentures into common shares at the price of \$0.06 per common share, at any time in the two-year term of the convertible debentures. Interest paid on the convertible debentures, over the two-year term will total \$445,000 if the convertible debentures are held to maturity. Subject to regulatory approval, the accrued interest could be paid, upon the convertible debentures holders’ request, in shares based on the equivalent value based on the same terms as the conversion price. As of January 31, 2010, the nominal value of the convertible debentures was \$1,857,000.

In accordance with Canadian GAAP, the convertible debentures were accounted for on the basis of their substance and were presented in their component parts of debt and equity. The debt component was measured, prior to adjustment, at the issue date at the present value of the cash payment of interest and principal under the term of the convertible debentures using the Black-Scholes model using the following assumptions: expected life of two years, fair value of common shares on date of the grant at \$0.05, dividend yield of nil, volatility factor of 111%, and risk-free interest rate of 1.26%. The fair value of the conversion option associated with the convertible debentures on the date of issuance was estimated at \$827,000, resulting in an effective interest rate at issuance of 31.1% using a discount rate of 15%. These components, individually valued as described above, were adjusted on a prorated basis, to arrive to each earnings over its term using the effective interest rate method. Issue costs have been allocated between the debt and the equity components of the convertible debentures and are being deferred and amortized over the life of the convertible debentures based on the effective interest method.

### **Capital Management**

The Corporation’s capital is composed of its long-term debt and shareholders’ equity. 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. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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’s capital is composed of long-term debt and shareholders’ equity which includes capital stock and has no external restrictions.

### **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 unaudited 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 eight years and currently does not have the necessary financing in place to support continuing losses. The Corporation has accumulated a deficit of \$126,191,000 as at January 31, 2010. 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, among other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations and the generation of cash from operations as well as 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 unaudited 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 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 operate with the objective of ensuring the Corporation can generate sustainable, long-term profitability;
3. Exploring, under the guidance of its Mergers and Acquisitions Committee (comprised of management, directors and advisors to the Corporation), potential opportunities relating its expansion and growth.

During the third quarter of fiscal 2010, the following transactions, aimed at addressing the uncertainties described above, occurred:

- a. The Corporation has been selected as the lead supplier for diplexers for one of the world's largest telecom equipment providers.
- b. The Corporation has been selected as the lead supplier for its flexible waveguide solution for one of the world's largest telecom equipment providers.
- c. The Corporation agreed on terms and conditions of a receivables financing facility in the amount of \$2.5 million – which can be increased up to \$5 million at Mitec's option and under certain terms and conditions – from a Canadian financial institution specializing in servicing the needs of small and medium sized businesses entering growth phases. The facility, which remains subject to standard conditions, including final approval from the lender's credit committee, due diligence and completion of final documentation, will be used to support Mitec's working capital requirements and growth opportunities.

Management believes that should the Corporation be successful at securing operational funding or expanding its Telecom and Satcom business units and with the continued support of the Corporation's current shareholders and customers, they will be able to continue operating as a going concern in the foreseeable future. There can, however, be no assurance that such plans will be sufficient to continue to operate as a going concern.

**Industry Risk**

Our success in the commercial wireless market depends in large part on investments by our customers in wireless infrastructure equipment. 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.

**Fluctuation in Operating Results**

The Corporation's revenues and earnings fluctuate from quarter to quarter, or year to year, based on customers' requirements and the timing of orders. The Corporation has experienced fluctuations in its quarterly operating results and anticipates that such fluctuations may continue. Some of the Corporation's revenues are derived from long-term fixed priced contracts, some of which are subject to significant technology risk. As a result, the Corporation's financial reporting relies upon management's estimates of earned revenues and the costs required completing the orders. There can be no assurance that levels of profitability will not vary significantly among quarterly or annual periods.

The Corporation's expense levels are based in significant part on its expectations regarding future revenues. Accordingly, the Corporation may not be able to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Any significant revenue shortfall could therefore have a material effect on the Corporation's results of operations.

**Dependence on a Few Customers**

The Corporation has exposure due to its reliance on certain large contracts and customers. In third quarter of fiscal 2010, the Corporation's largest customer accounted for 12% 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.

### **New Products and Technological Changes**

The markets for the Corporation's products are characterized by rapidly changing technologies involving frequent new products introduction. The Corporation's success will depend upon market acceptance of its existing products and its ability to enhance its existing products and to introduce new products to meet changing customers' requirements. Our R&D investment will remain an important element of our business, and will continue to be complemented by externally sourced technology. There can be no assurance that the Corporation will be successful in identifying, developing, manufacturing and marketing new products. In addition, there can be no assurance that products or technologies developed by others will not render Mitec's products or technologies non-competitive or obsolete.

### **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 any one 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 Subsidiaries**

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

### **General Economic Conditions**

The recent turmoil in the global economic situation represents a risk to the Corporation in that it may impact the ability of the Corporation's customers to finance capital equipment expenditures resulting in delays and possibly increased quarterly fluctuations. It may also 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. The Corporation has products and technologies that reduce operating costs by reducing bandwidth costs which results in a compelling reason for certain customers who are facing increased budget constraints to still purchase capital equipment.

The Corporation has a geographically diverse customer base that is not exclusively dependent on any one region; this may allow the Corporation to take advantage of economic recovery in any region. There is economic uncertainty related to tightening of credit markets worldwide. The credit situation is fluid and it is difficult to predict future outcomes. The Corporation currently has no credit facility and there is a risk to the Corporation should such credit facility be required.

The Corporation's future operating results will substantially depend on the ability of its officers and key employees to manage changing business conditions, to implement its strategic plan and improve its operational, financial control and reporting systems.

### **Interest Rate**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is not exposed to such variation since its long-term debt considers a fixed interest rate. However, a variation of interest rate would not affect results or equity of the Corporation.

### **Credit Risk**

The Corporation is exposed to credit risk in its cash and cash equivalents, short-term investments, trade receivables and other receivables. 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 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. One customer (2009 – one customer) accounted for 12% of sales for the three-month period ended January 31, 2010 (2009 – 27%) and 15% of trade receivables as at January 31, 2010 (2009 – 29%). For the nine-month period ended January 31, 2010, no customer accounted for more than 10% of sales (2009 – two customers represented 47% of sales). Two customers represented 68% of Telecom sales for the three-month period ended January 31, 2010 (2009 – one customer represented 68% of Telecom sales); three customers represented 68% of Telecom sales for the nine-month period ended January 31, 2010 (2009 – two customers represented 53% of Telecom sales for the same nine-month period). The Corporation expects to be able to continue to access receivables insurance through EDC. However, there is no assurance that EDC will provide this insurance to the Corporation. Any credit loss caused by the failure of the Corporation to secure receivables insurance through EDC could have a material impact on the Corporation's business and its financial condition.

As at January 31, 2010, the aging of the trade receivables is as follows:

|                                       |       |
|---------------------------------------|-------|
| <i>(in thousands of dollars)</i>      | \$    |
| Current                               | 3,037 |
| 31 – 60 days                          | 1,675 |
| Over 61 days                          | 349   |
| Trade receivables                     | 5,061 |
| Less: allowance for doubtful accounts | 212   |
| Total                                 | 4,849 |

### **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 Corporation's approach in managing liquidity is to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damages to the actual and budgeted cash flows. Also, the Board of Directors reviews and approves the Corporation's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on mergers and acquisitions or other major investments or divestitures. The Corporation has financed \$9.3 million in losses in the last 12 months mainly through equity offerings.

As at January 31, 2010, the Corporation had at its disposal working capital of \$9,328,000 (2009 - \$14,735,000). The Corporation has sufficient cash and cash equivalents, and working capital available to meet its financial contractual obligations. Accounts payable and accrued liabilities are all due within the current operating period. On March 2, 2010, Mitec approved terms and conditions of a receivables financing facility in the amount of \$2.5 million – which can be increased up to \$5 million at Mitec's option and under certain terms and conditions – from a Canadian financial institution specializing in servicing the needs of small and medium sized businesses entering growth phases. The facility, which remains subject to standard conditions, including final approval from the lender's credit committee, due diligence and completion of final documentation, will be used to support Mitec's working capital requirements and growth opportunities.

### **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 revenues 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 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 during the first fiscal quarter of fiscal 2010, but has it has started to protect itself from the risk of losses should the value of the Canadian dollar decline compared to the foreign currency by using forward contracts to fix the exchange rate of a portion of its expected U.S. dollar inflows. As at January 31, 2010, the Corporation is exposed to currency risk through its cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities denominated in U.S. dollars and Chinese Yuan (RMB) as follows:

|  | <b>As at January 31, 2010</b> |                  |
|--|-------------------------------|------------------|
|  | <b>RMB</b>                    | <b>US\$</b>      |
| Cash and cash equivalents                | <b>1,425,772</b>              | <b>1,500,181</b> |
| Accounts receivable                      | <b>7,552,991</b>              | <b>3,148,165</b> |
| Accounts payable and accrued liabilities | <b>3,931,528</b>              | <b>1,470,124</b> |

Based on the above net exposures as at January 31, 2010 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 an increase/(decrease) in net profit and comprehensive profit of \$396,000/(\$396,000).

### **Product Performance**

In 2009, the Corporation experienced technical difficulties on one product deployment in a very specific geographical location which were subsequently resolved to the satisfaction of that customer, avoiding any long-term damage to the relationship with that customer.

### **Competition**

Some of Mitec's competitors are larger, better capitalized and have greater resources than the Corporation. The Corporation believes that its ability to compete in part on a number of competitive factors, some of which are outside its control, such as innovative products or cost-saving production techniques developed by the Corporation's competitors. There can be no assurance that the Corporation will be able to compete successfully with its existing competitors or with potential new entrants into the marketplace where the Corporation competes.

### **Risks associated with Intellectual Property**

The Corporation's success of some of its divisions is dependant upon proprietary technology. The Corporation relies upon patent protection to protect its proprietary technology. In addition, the Corporation attempt to protect its trade secrets and other proprietary information through agreements with customers, suppliers, employees, and consultants. There can be no assurance that the steps taken by the Corporation in this regard will be adequate to prevent misappropriation or independent third-party development of its technology. Furthermore, the laws of certain countries in which the Corporation sells its products do not protect the Corporation's intellectual property rights to the same extend as do the laws in Canada or in the United States.

Although the Corporation believes that its products and technology do not infringe patents or any other proprietary rights of others, there can be no assurance that third parties will not claim that the Corporation current or future products infringe the patents or others proprietary rights of others.

### **Tax Assessments**

During fiscal 2008, the Corporation was subject to audits by Canada Revenue Agency ("CRA") with respect to 2001 and 2002 research and development services provided by a US subsidiary to the Corporation. The Corporation was also being audited by CRA with respect to the 1999 to 2004 taxation years relating to imputed interest on loans made to foreign subsidiaries. As a result, the Corporation received notices of reassessment and proposed reassessments from CRA. The notices of reassessment and proposed reassessments could increase significantly the taxable income of the Corporation for those years.

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

### **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 due per years:

| <i>(in thousands of dollars)</i> | <b>Long-term debt</b> | <b>Operating leases</b> |
|----------------------------------|-----------------------|-------------------------|
|                                  | \$                    | \$                      |
| 1 year                           | —                     | 425                     |
| 2 – 3 years                      | —                     | 572                     |
| 4 – 5 years                      | 1,857                 | —                       |
| Over 5 years                     | —                     | —                       |
| Total                            | 1,857                 | 997                     |

### **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 does not expect to enter into any other such arrangements outside of the ordinary course of our business in the near future.

### **COMMON SHARES, WARRANTS, AND STOCK OPTIONS**

As of March 2, 2010, there were 220,666,756 common shares and 23,603,279 warrants outstanding as well as 15,308,750 stock options.

In fiscal 2009, the Corporation announced its intention to proceed with a normal course issuer bid to purchase up to 18,471,135 common shares of the Corporation representing 5% of the issued shares of such class at November 27, 2008. The bid commenced in December 2008 and ended in December 2009. As at December 2009, the Corporation had not purchased any common shares.

## **CHANGES IN ACCOUNTING POLICIES**

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

### **Goodwill and Intangible Assets and Research and Development Costs**

The Corporation adopted the new CICA Handbook Section 3064, Goodwill and Intangible Assets which replaced 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. The adoption of the standard did not have an effect on the Corporation's interim consolidated financial statements.

### **Credit Risk and Fair Value of Financial Assets and Liabilities**

In January 2009, the CICA's Emerging Issue Committee ("EIC") issued Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Liabilities, which requires entities to take both counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The adoption of the new recommendations had no impact on the Corporation's interim consolidated financial statements.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

### **Business Combination**

Section 1582, Business Combinations, replaces Section 1581, Business Combinations. The section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Corporation is currently evaluating the impact of the adoption of this new section on the Corporation's consolidated financial statements.

### **Consolidated Financial Statements**

Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), Consolidated and Separate Financial Statements. The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Corporation is currently evaluating the impact of the adoption of these new sections on the consolidated financial statements.

### **International Financial Reporting Standards**

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, would be fully converged into IFRS, as issued by the International Accounting Standards Board. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Therefore, the Corporation will be required to report under IFRS for its 2012 annual financial statements starting with its July 31, 2011 first quarter interim report. The Corporation initiated the process of IFRS conversion during the third quarter of 2009. The Corporation is in its detailed assessment phase, analyzing the impact that the adoption of IFRS will have on its consolidated financial statements.

## **SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to estimates and assumptions include, but are not limited to, the estimated useful life of assets, inventory obsolescence, impairment of long-lived assets, goodwill and intangibles with an indefinite life, future income taxes, investment tax credits, revenue recognition, fair value of assets and liabilities acquired in a business combination, the measurement and determination of stock-based compensation and warrants, discount rate on convertible debentures, legal liabilities, warranty provision, bad debt expense, and allowance for doubtful accounts. Actual results could differ from those estimates. Significant changes in the assumptions with respect to future business plans and cash flows could result in impairment of goodwill, intangible assets and property and equipment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies 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 and more frequently if events or circumstances indicate that the asset might be impaired, the Corporation subjects goodwill to an impairment test based upon a comparison of the carrying amount to the fair value of the reporting unit. Any impairment in the carrying amount of goodwill is charged to operations in the period such impairment is identified.

### **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 January 31, 2010 and April 30, 2009 were considered adequate.

### **Stock-Based Compensation**

The Corporation estimates the fair value of stock options granted to employees, officers and Directors. As at January 31, 2010, a total of 15,308,750 stock options were outstanding, of which 13,144,550 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. It is working with its Mergers and Acquisitions Committee comprised of management, directors and advisors to the Corporation, to assess various opportunities with the objective of increasing its presence in the wireless market and achieving long-term profitability.

## **OUTLOOK**

As an established and recognized presence in the satellite and wireless fields, Mitec is well positioned to benefit from future growth in the communications industry, still in its infancy. Mitec uses its scalability and engineering expertise in order to address the demand for bandwidth, speed, capacity and reliability as telecom companies worldwide continue to require solutions for the rapid adoption of wireless telecommunications.

With the introduction of its coverage solutions, fixed wireless and VSAT product lines, Mitec has chosen to invest on niche opportunities in very significant sized markets that its customers – among the largest and fastest growing wireless and satcom players worldwide – have indicated will generate significant opportunities to the Corporation.

Mitec clearly holds a competitive advantage in the military industry with its patented Keragis solid state power amplifier technology as it grows this business unit to address a billion dollar market for military applications requiring microwave or radar communications that demand power efficiency and large bandwidth in addition to physical and electrical integration.

The Corporation's management, board of directors, advisors and consultants continue to work together to ensure that Mitec succeeds in becoming a dominant player in those markets in which it has identified will deliver sustained profitability to the Corporation.

## **DISCLOSURE CONTROLS AND PROCEDURES**

### **Disclosure Controls**

The Corporation maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its various reports are recorded, processed, summarized and reported accurately.

The President and Chief Executive Officer and the Chief Financial Officer of the Corporation have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings) as at January 31, 2010, and have concluded that such disclosure controls and procedures were designed and operating effectively.

### **Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate 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 has evaluated the design and effectiveness of its internal controls and procedures over financial reporting (as defined in National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) for the three month period and nine-month periods ended January 31, 2010. The evaluation was based on the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation was performed by the President and Chief Executive Officer and the Chief Financial Officer of the Corporation with the assistance of other Management and staff members to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively.

The Corporation did not make any material changes to the design of internal controls over financial reporting during the three-month period and nine-month period ended January 31, 2010 that have had a material effect on the Corporation's internal controls over financial reporting. In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure of internal controls and procedures occur and/or mistakes happen of a material nature, the Corporation intends to take the steps necessary to minimize the consequences thereof.

## **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

This MD&A was prepared as of March 2, 2010. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at [www.sedar.com](http://www.sedar.com).

As of March 2, 2010, there were 220,666,756 common shares and 23,603,279 warrants outstanding as well as 15,308,750



**MITEC TELECOM INC.**  
**Interim Consolidated Financial Statements**  
For the three month and nine month periods ended  
January 31, 2010  
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)

Unaudited

|   | As at<br>January 31, 2010 | As at<br>April 30, 2009 |
|---|---------------------------|-------------------------|
|   | \$                        | \$                      |
|   | Unaudited                 | Audited                 |
| <b>ASSETS</b>                                       |                           |                         |
| <b>Current</b>                                      |                           |                         |
| Cash and cash equivalents                           | 2,036                     | 4,485                   |
| Short-term investments                              | 181                       | 181                     |
| Trade receivables                                   | 4,849                     | 5,592                   |
| Other receivables                                   | 259                       | 126                     |
| Income tax recoverable                              | 494                       | 323                     |
| Inventories (note 5)                                | 5,542                     | 8,088                   |
| Prepaid expenses and other                          | 656                       | 629                     |
| <b>Total current assets</b>                         | <b>14,017</b>             | <b>19,424</b>           |
| Property, plant and equipment                       | 4,759                     | 5,493                   |
| Intangible assets                                   | 2,670                     | 3,263                   |
| Goodwill  | 1,991                     | 1,991                   |
| Investments   | 25                        | 25                      |
| Future income tax                                   | 241                       | 125                     |
|   | <b>23,703</b>             | <b>30,321</b>           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>         |                           |                         |
| <b>Current</b>                                      |                           |                         |
| Accounts payable and accrued liabilities            | 4,689                     | 5,449                   |
| Current portion of long-term debt (note 6)          | —                         | 1,215                   |
| <b>Total current liabilities</b>                    | <b>4,689</b>              | <b>6,664</b>            |
| Long-term debt (note 6)                             | 1,041                     | —                       |
|   | <b>5,730</b>              | <b>6,664</b>            |
| <b>Shareholders' equity</b>                         |                           |                         |
| Common shares (note 7)                              | 132,142                   | 132,142                 |
| Warrants (note 7)                                   | 1,151                     | 1,925                   |
| Equity component of convertible debentures (note 6) | 747                       | 14                      |
| Contributed surplus                                 | 10,787                    | 9,836                   |
| Deficit   | (126,191)                 | (119,980)               |
| Accumulated other comprehensive loss                | (663)                     | (280)                   |
| <b>Total shareholders' equity</b>                   | <b>17,973</b>             | <b>23,657</b>           |
|   | <b>23,703</b>             | <b>30,321</b>           |

**Nature of the Business and Going Concern Uncertainty** (note 1)  
See accompanying notes

**MITEC TELECOM INC.****INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE INCOME**

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

Unaudited

|  | For the three months ended |             | For the nine months ended |             |
|--|----------------------------|-------------|---------------------------|-------------|
|  | January 31,                |             | January 31,               |             |
|  | 2010                       | 2009        | 2010                      | 2009        |
|  | \$                         | \$          | \$                        | \$          |
| <b>Sales</b>   | <b>5,161</b>               | 7,922       | <b>19,066</b>             | 33,421      |
| Cost of sales  | <b>4,299</b>               | 6,025       | <b>16,353</b>             | 25,992      |
| <b>Gross profit</b>  | <b>862</b>                 | 1,897       | <b>2,713</b>              | 7,429       |
| <b>Expenses</b>  |                            |             |                           |             |
| Research and development   | <b>1,027</b>               | 1,039       | <b>2,769</b>              | 3,188       |
| Selling and administrative   | <b>1,499</b>               | 1,430       | <b>4,336</b>              | 4,678       |
| Amortization of intangible assets  | <b>199</b>                 | 211         | <b>595</b>                | 789         |
| Financial expenses (note 10)   | <b>161</b>                 | 301         | <b>535</b>                | 675         |
| Foreign exchange   | <b>279</b>                 | (786)       | <b>682</b>                | (1,236)     |
| (Gain) loss on disposal of property, plant and equipment   | —                          | 39          | <b>(25)</b>               | 39          |
| Impairment of property, plant and equipment  | —                          | —           | —                         | 351         |
| Stock-based compensation (note 7)  | <b>41</b>                  | 113         | <b>149</b>                | 562         |
|  | <b>3,206</b>               | 2,347       | <b>9,041</b>              | 9,046       |
| Loss before income taxes   | <b>(2,344)</b>             | (450)       | <b>(6,328)</b>            | (1,617)     |
| Income tax recovery  | <b>(39)</b>                | (89)        | <b>(117)</b>              | (117)       |
| <b>Net loss for the period</b>   | <b>(2,305)</b>             | (361)       | <b>(6,211)</b>            | (1,500)     |
| Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations | <b>(32)</b>                | 1,167       | <b>(383)</b>              | 1,189       |
| <b>Comprehensive gain (loss) for the period</b>  | <b>(2,337)</b>             | 806         | <b>(6,594)</b>            | (311)       |
| <b>Basic and diluted loss per common share</b>   | <b>(0.01)</b>              | (0.00)      | <b>(0.03)</b>             | (0.01)      |
| <b>Weighted average number of outstanding common shares</b>                                      | <b>220,666,756</b>         | 220,666,756 | <b>220,666,756</b>        | 220,656,485 |

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 |
|---|----------------|----------------|---------------|--------------|--|---------------------|------------------|--------------------------------------|----------------------|
| Note  | 7              | 7              | 7             | 7            | 6  |                     |                  |                                      |                      |
|   | # (000)        | \$             | # (000)       | \$           | \$   | \$                  | \$               | \$                                   | \$                   |
| Balance, April 30, 2008                               | 220,312        | 132,097        | 38,016        | 1,931        | 46   | 9,223               | (115,372)        | (894)                                | 27,031               |
| Issued upon conversion of convertible debentures      | 354            | 25             | —             | —            | —  | —                   | —                | —                                    | 25                   |
| Impact of deferred expenses on convertible debentures | —              | —              | —             | —            | (23)                                       | —                   | —                | —                                    | (23)                 |
| Expired warrants                                      | —              | —              | (187)         | (6)          | —  | 6                   | —                | —                                    | —                    |
| Stock-based compensation                              | —              | —              | —             | —            | —  | 562                 | —                | —                                    | 562                  |
| Other comprehensive gain the period                   | —              | —              | —             | —            | —  | —                   | —                | 1,189                                | 1,189                |
| Net loss for the period                               | —              | —              | —             | —            | —  | —                   | (1,500)          | —                                    | (1,500)              |
| Balance, January 31, 2009                             | 220,666        | 132,122        | 37,829        | 1,925        | 23   | 9,791               | (116,872)        | 295                                  | 27,284               |
| <b>Balance, April 30, 2009</b>                        | <b>220,666</b> | <b>132,142</b> | <b>37,829</b> | <b>1,925</b> | <b>14</b>                                  | <b>9,836</b>        | <b>(119,980)</b> | <b>(280)</b>                         | <b>23,657</b>        |
| Issued upon conversion of convertible debentures      | —              | —              | —             | —            | (14)                                       | 28                  | —                | —                                    | 14                   |
| Issued under a convertible debentures financing       | —              | —              | —             | —            | 747  | —                   | —                | —                                    | 747                  |
| Expired warrants                                      | —              | —              | (14,226)      | (774)        | —  | 774                 | —                | —                                    | —                    |
| Stock-based compensation                              | —              | —              | —             | —            | —  | 149                 | —                | —                                    | 149                  |
| Other comprehensive loss the period                   | —              | —              | —             | —            | —  | —                   | —                | (383)                                | (383)                |
| Net loss for the period                               | —              | —              | —             | —            | —  | —                   | (6,211)          | —                                    | (6,211)              |
| <b>Balance, January 31, 2010</b>                      | <b>220,666</b> | <b>132,142</b> | <b>23,603</b> | <b>1,151</b> | <b>747</b>                                 | <b>10,787</b>       | <b>(126,191)</b> | <b>(663)</b>                         | <b>17,973</b>        |

See accompanying notes

**MITEC TELECOM INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of Canadian dollars)

Unaudited

|  | For the three months ended |                | For the nine months ended |              |
|--|----------------------------|----------------|---------------------------|--------------|
|  | 2010                       | 2009           | 2010                      | 2009         |
|  | \$                         | \$             | \$                        | \$           |
| <b>OPERATING ACTIVITIES</b>  |                            |                |                           |              |
| Net loss for the period  | (2,305)                    | (361)          | (6,211)                   | (1,500)      |
| Add items not affecting cash   |                            |                |                           |              |
| Amortization of property, plant and equipment,<br>intangible assets and deferred charges | 420                        | 476            | 1,309                     | 1,849        |
| (Gain) loss on disposal of property, plant and equipment                                 | —                          | 39             | (25)                      | 39           |
| Impairment of property, plant and equipment  | —                          | —              | —                         | 351          |
| Stock-based compensation   | 41                         | 113            | 149                       | 562          |
| Accretion expense  | 93                         | 287            | 308                       | 532          |
| Income tax recovery  | (39)                       | (89)           | (117)                     | (117)        |
|  | (1,790)                    | 465            | (4,587)                   | 1,716        |
| Changes in non-cash working capital balances related<br>to operating activities (note 8) | 1,606                      | (1,520)        | 2,198                     | (1,811)      |
| <b>Cash flows used in operating activities</b>   | <b>(184)</b>               | <b>(1,055)</b> | <b>(2,389)</b>            | <b>(95)</b>  |
| <b>INVESTING ACTIVITIES</b>  |                            |                |                           |              |
| Additions to property, plant and equipment   | (35)                       | (48)           | (361)                     | (349)        |
| Additions to intangible assets   | (10)                       | —              | (12)                      | —            |
| Proceeds on disposal of property, plant and<br>equipment                                 | 10                         | 13             | 45                        | 13           |
| Purchase of short-term investments   | —                          | (100)          | (181)                     | (179)        |
| Sale of short-term investments   | —                          | —              | 181                       | 77           |
| <b>Cash flows used in investing activities</b>   | <b>(35)</b>                | <b>(135)</b>   | <b>(328)</b>              | <b>(438)</b> |
| <b>FINANCING ACTIVITIES</b>  |                            |                |                           |              |
| Convertible debentures issued  | (24)                       | —              | 1,679                     | —            |
| Repayment of long-term debt  | —                          | (125)          | (1,400)                   | (390)        |
| <b>Cash flows provided (used) by financing activities</b>                                | <b>(24)</b>                | <b>(125)</b>   | <b>279</b>                | <b>(390)</b> |
| Gain (loss) on foreign cash and cash equivalents held                                    | 2                          | —              | (11)                      | —            |
| <b>Net increase (decrease) in cash and cash<br/>equivalents for the period</b>           | <b>(241)</b>               | <b>(1,315)</b> | <b>(2,449)</b>            | <b>(923)</b> |
| Cash and cash equivalents, beginning of the period                                       | 2,277                      | 5,176          | 4,485                     | 4,784        |
| <b>Cash and cash equivalents, end of the period</b>                                      | <b>2,036</b>               | <b>3,861</b>   | <b>2,036</b>              | <b>3,861</b> |

See accompanying notes

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

January 31, 2010

(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 Corporations 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 its 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 eight years and currently does not have the necessary financing in place to support continuing losses. The Corporation has accumulated a deficit of \$126,191,000 at January 31, 2010. 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 dependant 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 operate with the objective of ensuring the Corporation can generate sustainable, long-term profitability;
3. Exploring, under the guidance of its Mergers and Acquisitions Committee (comprised of management, directors and advisors to the Corporation), potential opportunities relating its expansion and growth.

Management believes that should the Corporation be successful at securing operational funding or expanding its Telecom and Satcom business units and with the continued support of the Corporation's current shareholders and customers, they will be able to continue operating as a going concern in the foreseeable future. There can, however, be no assurance that such plans will be sufficient to continue to operate as a going concern.

**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, 2009, except as described in Note 3 hereafter, including that certain of the comparative amounts have been reclassified to conform with the presentation adopted currently. The notes presented in these interim consolidated financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in the Corporation's annual audited financial statements. As a result, these interim consolidated financial statements should be read in conjunction with the Corporation audited consolidated financial statements for the year ended April 30, 2009. For a full description of accounting policies, please refer to those financial statements.

## **MITEC TELECOM INC.**

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

January 31, 2010

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

Unaudited

#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Subsequent events have been evaluated through March 4, 2010, the date which these interim consolidated financial statements were issued by electronically filing them with the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR").

#### **3. CHANGES IN ACCOUNTING POLICIES**

Effective May 1, 2009, the Corporation adopted the following recently introduced Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

##### **Goodwill and intangible assets and Research and development costs**

The Corporation adopted the new CICA Handbook Section 3064, Goodwill and Intangible Assets which replaced 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. The adoption of the standard did not have an effect on the Corporation's interim consolidated financial statements.

##### **Credit risk and Fair value of Financial Assets and Liabilities**

In January 2009, the CICA's Emerging Issue Committee ("EIC") issued Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Liabilities, which requires entities to take both counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The adoption of the new recommendations had no impact on the Corporation's interim consolidated financial statements.

#### **4. NEW ACCOUNTING PRONOUNCEMENTS**

##### **Business Combination**

Section 1582, Business Combinations, replaces Section 1581, Business Combinations. The section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Corporation is currently evaluating the impact of the adoption of this new section on the Corporation's consolidated financial statements.

##### **Consolidated Financial Statements**

Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), Consolidated and Separate Financial Statements. The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Corporation is currently evaluating the impact of the adoption of these new sections on the consolidated financial statements.

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

January 31, 2010

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

Unaudited

**4. NEW ACCOUNTING PRONOUNCEMENTS (continued)****International Financial Reporting Standards**

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, would be fully converged into IFRS, as issued by the International Accounting Standards Board. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Therefore, the Corporation will be required to report under IFRS for its 2012 annual financial statements starting with its July 31, 2011 first quarter interim report. The Corporation initiated the process of IFRS conversion during the third quarter of 2009. The Corporation is in its detailed assessment phase, analyzing the impact that the adoption of IFRS will have on its consolidated financial statements.

**5. INVENTORIES**

|  | As at<br>January 31, 2010 | As at<br>January 31, 2009 |
|--|---------------------------|---------------------------|
|  | \$                        | \$                        |
| Raw materials and purchased components | 3,492                     | 6,280                     |
| Work-in-progress                       | 1,461                     | 2,211                     |
| Finished goods                         | 589                       | 631                       |
|  | <b>5,542</b>              | <b>9,122</b>              |

Included in cost of sales for the three-month period is an inventory expense of \$2,483,000 (2009 - \$2,412,000) and \$9,758,000 (2009 - \$20,751,000) for the nine-month period.

**6. LONG-TERM DEBT**

|  | As at<br>January 31, 2010 | As at<br>January 31, 2009 |
|--|---------------------------|---------------------------|
|  | \$                        | \$                        |
| a) Investissement Québec term loan, bearing interest at prime plus 3.5%, repayable in 60 monthly payments of capital and interest of \$62,500, repaid in February 2009 | —                         | 68                        |
| b) Convertible debentures, bearing interests at 10%, repaid in October 2009  | —                         | 1,048                     |
| c) Convertible debentures, bearing interests at 12%, repayable in October 2011   | 1,041                     | —                         |
|  | <b>1,041</b>              | <b>1,116</b>              |
| Less: current portion  | —                         | 1,116                     |
|  | <b>1,041</b>              | <b>—</b>                  |

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

January 31, 2010

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

Unaudited

**6. LONG-TERM DEBT (continued)**

**Convertible Debentures**

In October 2009, the Corporation issued \$1.9 million of convertible unsecured debentures (“convertible debentures”). Financing charges of \$179,000 were incurred which are presented as a reduction of the long-term debt and equity components. The convertible debentures bear interest at 12% per annum, payable quarterly, mature in October 2011 and the indebtedness ranks equally with all other indebtedness of the Corporation. The convertible debentures holders have the option to convert the principle amount of the convertible debentures into common shares at the price of \$0.06 per common share, at any time in the two-year term of the convertible debentures. Interest paid on the convertible debentures, over the two-year term will total \$445,000 if the convertible debentures are held to maturity. Subject to regulatory approval, the accrued interest could be paid, upon the convertible debentures holders’ request, in shares based on the equivalent value based on the same terms as the conversion price. As of January 31, 2010, the nominal value of the convertible debentures was \$1,857,000.

In accordance with Canadian GAAP, the convertible debentures were accounted for on the basis of their substance and were presented in their component parts of debt and equity. The debt component was measured, prior to adjustment, at the issue date at the present value of the cash payment of interest and principal under the term of the convertible debentures using the Black-Scholes model using the following assumptions: expected life of two years, fair value of common shares on date of the grant at \$0.05, dividend yield of nil, volatility factor of 111%, and risk-free interest rate of 1.26%. The fair value of the conversion option associated with the convertible debentures on the date of issuance was estimated at \$827,000, resulting in an effective interest rate at issuance of 31.1% using a discount rate of 15%. These components, individually valued as described above, were adjusted on a prorated basis, to arrive to each earnings over its term using the effective interest rate method. Issue costs have been allocated between the debt and the equity components of the convertible debentures and are being deferred and amortized over the life of the convertible debentures based on the effective interest method.

**7. SHARE CAPITAL**

**Authorized**

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

Unlimited number of common shares.

**Issued and outstanding common shares**

The issued and outstanding common shares are disclosed in the Interim Consolidated Statement of Shareholders’ Equity.

**Warrants**

Warrants outstanding are as follows:

| Exercise price | Expiry date      | As at             |                             |
|----------------|------------------|-------------------|-----------------------------|
|                |                  | January 31, 2010  | January 31, 2009            |
|                |                  | #                 | #                           |
| \$0.10         | October 30, 2010 | 4,651,000         | April 3, 2009 4,651,000     |
| \$0.18         | —                | —                 | October 17, 2009 13,888,889 |
| \$0.22         | October 30, 2010 | 18,952,279        | March 30, 2009 19,289,779   |
|                |                  | <b>23,603,279</b> | <b>37,829,668</b>           |

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

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Unaudited

**7. SHARE CAPITAL (continued)**

The Corporation may oblige the exercise of the 18,952,279 warrants expiring on October 30, 2010 if the closing price of the Corporation's common shares is equal to or exceeds \$0.35 for a period of 20 consecutive trading days. Additional gross proceeds would amount to \$4.2 million.

**Earnings per share**

Weighted average number of common shares is as follows:

|  | <b>2010</b>        | <b>As at<br/>January 31,<br/>2009</b> |
|--|--------------------|---------------------------------------|
|  | <b>#</b>           | <b>#</b>                              |
| Weighted average number of common shares outstanding | <b>220,666,756</b> | 220,656,485                           |
| Net effect of dilutive stock options and warrants    | —                  | 525,649                               |
|  | <b>220,666,756</b> | 221,182,134                           |

For the periods ending January 31, 2010 and January 31, 2009, 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.

**Stock-based compensation**

The Corporation accounts for the stock-based compensation using the fair value method of accounting. The following weighed average assumptions were utilized in the Black-Scholes model to estimate the fair value of the options granted in each of the periods ended:

|  | <b>January 31,<br/>2010</b> | January 31,<br>2009 |
|--|-----------------------------|---------------------|
| Volatility                             | <b>104.6%</b>               | 97.55%              |
| Risk-free interest rate                | <b>2.66%</b>                | 2.59%               |
| Dividend yield                         | <b>0%</b>                   | 0%                  |
| Expected life, in years                | <b>5</b>                    | 5                   |
| Weighted average grand date fair value | <b>\$ 0.07</b>              | \$ 0.07             |

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

|   | <b>As at<br/>January 31, 2010</b> |             | <b>As at<br/>January 31, 2009</b> |           |
|---|-----------------------------------|-------------|-----------------------------------|-----------|
|   | <b>#</b>                          | <b>\$</b>   | <b>#</b>                          | <b>\$</b> |
| <b>Balance, beginning of the period</b>       | <b>14,818,050</b>                 | <b>0.19</b> | 14,533,956                        | 0.25      |
| Granted                                       | <b>500,000</b>                    | <b>0.07</b> | 880,000                           | 0.07      |
| Forfeited                                     | —                                 | —           | (487,900)                         | 0.33      |
| Expired                                       | <b>(9,300)</b>                    | <b>4.51</b> | (568,000)                         | 1.36      |
| <b>Balance, end of the period</b>             | <b>15,308,750</b>                 | <b>0.19</b> | 14,358,056                        | 0.36      |
| <b>Options exercisable, end of the period</b> | <b>12,765,850</b>                 | <b>0.20</b> | 10,343,500                        | 0.21      |

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

January 31, 2010

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

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**7. SHARE CAPITAL (continued)****Normal Course Issuer Bid**

In 2009, the Corporation announced its intention to proceed with a normal course issuer bid to purchase up to 11,033,337 common shares of the Corporation representing 5% of the issued shares of such class at November 27, 2008. The bid commenced in December 2008 and ended in December 2009. As at December 2009, the Corporation had not purchased any common shares.

**8. SUPPLEMENTARY CASH FLOW INFORMATION**

Changes in non-cash working capital balances related to operating activities are:

|  | For the three months ended |                | For the nine months ended |                |
|--|----------------------------|----------------|---------------------------|----------------|
|  | January 31,                |                | January 31,               |                |
|  | 2010                       | 2009           | 2010                      | 2009           |
|  | \$                         | \$             | \$                        | \$             |
| Trade receivables and other receivables                          | 1,531                      | 2,712          | 610                       | 1,978          |
| Inventories  | 578                        | (958)          | 2,546                     | (363)          |
| Prepaid expenses and other                                       | 13                         | (35)           | (27)                      | (88)           |
| Income tax recoverable   | 144                        | 23             | (171)                     | 223            |
| Accounts payable and accrued liabilities                         | (660)                      | (3,262)        | (760)                     | (3,561)        |
|  | <b>1,606</b>               | <b>(1,520)</b> | <b>2,198</b>              | <b>(1,811)</b> |
| Interest paid  | 3                          | 151            | 152                       | 165            |
| Amortization of property, plant and equipment is included in:    |                            |                |                           |                |
| Cost of sales  | 209                        | 203            | 613                       | 551            |
| Research and development   | 2                          | 33             | 10                        | 99             |
| Selling and administrative                                       | 29                         | 29             | 84                        | 89             |
|  | <b>241</b>                 | <b>265</b>     | <b>706</b>                | <b>739</b>     |
| Amortization of intangible assets is included in:                |                            |                |                           |                |
| Cost of sales  | 2                          | —              | 7                         | —              |
| Selling and administrative expenses and research and development | 177                        | 211            | 596                       | 789            |
|  | <b>179</b>                 | <b>211</b>     | <b>603</b>                | <b>789</b>     |
| Amortization of deferred charges is included in:                 |                            |                |                           |                |
| Cost of sales  | —                          | —              | —                         | 195            |
| Selling and administrative                                       | —                          | —              | —                         | 61             |
| Research and development   | —                          | —              | —                         | 65             |
|  | —                          | —              | —                         | <b>321</b>     |

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

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

Unaudited

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

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

|                         | Telecom |       | Satcom |       | Consolidated amounts |       |
|-------------------------|---------|-------|--------|-------|----------------------|-------|
|                         | 2010    | 2009  | 2010   | 2009  | 2010                 | 2009  |
|                         | \$      | \$    | \$     | \$    | \$                   | \$    |
| Sales                   | 1,140   | 3,101 | 4,021  | 4,821 | 5,161                | 7,922 |
| Cost of sales           | 1,293   | 2,719 | 3,006  | 3,306 | 4,299                | 6,025 |
| Gross profit            | (153)   | 382   | 1,015  | 1,515 | 862                  | 1,897 |
| Expenses                |         |       |        |       | 3,206                | 1,871 |
| Income tax recovery     |         |       |        |       | (39)                 | (89)  |
| Net loss for the period |         |       |        |       | (2,305)              | (361) |

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

|                         | Telecom |        | Satcom |        | Consolidated amounts |         |
|-------------------------|---------|--------|--------|--------|----------------------|---------|
|                         | 2010    | 2009   | 2010   | 2009   | 2010                 | 2009    |
|                         | \$      | \$     | \$     | \$     | \$                   | \$      |
| Sales                   | 5,330   | 17,567 | 13,736 | 15,854 | 19,066               | 33,421  |
| Cost of sales           | 5,394   | 14,530 | 10,959 | 11,462 | 16,353               | 25,992  |
| Gross profit            | (64)    | 3,037  | 2,777  | 4,392  | 2,713                | 7,429   |
| Expenses                |         |        |        |        | 9,041                | 9,046   |
| Income tax recovery     |         |        |        |        | (117)                | (117)   |
| Net loss for the period |         |        |        |        | (6,211)              | (1,500) |

The following table presents assets by segments:

|                  | As at January 31, 2010 |        | Total  |
|------------------|------------------------|--------|--------|
|                  | Telecom                | Satcom |        |
|                  | \$                     | \$     | \$     |
| Current assets   | 3,476                  | 8,151  | 11,627 |
| Long-term assets | 1,858                  | 7,493  | 9,351  |
| Other            | 5,334                  | 15,644 | 20,978 |
|                  |                        |        | 2,725  |
|                  |                        |        | 23,703 |

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

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

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

|               | For the three months ended<br>January 31, |       | For the nine months ended<br>January 31, |         |
|---------------|---|-------|--|---------|
|               | 2010                                      | 2009  | 2010                                     | 2009    |
|               | \$  | \$    | \$                                       | \$      |
| Canada        | 4,157                                     | 4,753 | 14,516                                   | 16,527  |
| United States | 409                                       | 342   | 1,120                                    | 1,186   |
| Asia          | 913                                       | 2,917 | 4,305                                    | 17,012  |
| Inter-country | (318)                                     | (90)  | (875)                                    | (1,304) |
|               | 5,161                                     | 7,922 | 19,066                                   | 33,421  |

The following table presents sales by destination of product:

|               | For the three months ended<br>January 31, |       | For the nine months ended<br>January 31, |        |
|---------------|---|-------|--|--------|
|               | 2010                                      | 2009  | 2010                                     | 2009   |
|               | \$  | \$    | \$                                       | \$     |
| Canada        | 144                                       | 403   | 1,447                                    | 939    |
| United States | 2,522                                     | 3,553 | 7,831                                    | 10,215 |
| Europe        | 1,043                                     | 2,168 | 4,233                                    | 4,534  |
| Asia          | 924                                       | 1,130 | 2,375                                    | 13,121 |
| Other         | 529                                       | 668   | 3,179                                    | 4,612  |
|               | 5,161                                     | 7,922 | 19,066                                   | 33,421 |

**10. FINANCIAL EXPENSES**

|                                    | For the three months ended<br>January 31, |      | For the nine months ended<br>January 31, |      |
|------------------------------------|---|------|--|------|
|                                    | 2010                                      | 2009 | 2010                                     | 2009 |
|                                    | \$  | \$   | \$                                       | \$   |
| Interest on long-term debt         | —   | 3    | —  | 18   |
| Interest on convertible debentures | 55  | 5    | 203                                      | 105  |
| Accretion expense                  | 93  | 287  | 308                                      | 532  |
| Interest income                    | (3)                                       | (9)  | (10)                                     | (22) |
| Bank charges and other fees        | 16  | 15   | 34                                       | 42   |
|                                    | 161                                       | 301  | 535                                      | 675  |

**11. 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.

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**11. CAPITAL MANAGEMENT (continued)**

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.

|   | <b>As at January 31,</b> |             |
|---|--------------------------|-------------|
|   | <b>2010</b>              | <b>2009</b> |
|   | \$                       | \$          |
| Long-term debt, including current portion | <b>1,041</b>             | 1,116       |
| Shareholders' equity                      | <b>17,973</b>            | 27,284      |
|   | <b>19,014</b>            | 28,400      |

**12. FINANCIAL INSTRUMENTS**

The classification of financial instruments as of January 31, 2010 and January 31, 2009 and their respective carrying values and fair values were as follows:

|  | <b>Held-for-<br/>trading</b> | <b>Available-<br/>for-Sale</b> | <b>Loans and<br/>receivables</b> | <b>Other<br/>financial<br/>liabilities</b> | <b>Carrying<br/>Value</b> | <b>Fair value</b> |
|--|------------------------------|--------------------------------|----------------------------------|--|---------------------------|-------------------|
|  | \$                           | \$                             | \$                               | \$   | \$                        | \$                |
| <b>As at January 31, 2010</b>              |                              |                                |                                  |  |                           |                   |
| Cash and cash equivalents                  | 2,036                        | —                              | —                                | —  | 2,036                     | 2,036             |
| Short-term investments                     | —                            | 181                            | —                                | —  | 181                       | 181               |
| Trade receivables                          | —                            | —                              | 4,849                            | —  | 4,849                     | 4,849             |
| Other receivables                          | —                            | —                              | 259                              | —  | 259                       | 259               |
| Investments                                | —                            | 25                             | —                                | —  | 25                        | N/A               |
| Account payable and<br>accrued liabilities | —                            | —                              | —                                | 4,689                                      | 4,689                     | 4,689             |
| Long-term debt                             | —                            | —                              | —                                | 1,041                                      | 1,041                     | 1,041             |
| <b>As at January 31, 2009</b>              |                              |                                |                                  |  |                           |                   |
| Cash and cash equivalents                  | 3,861                        | —                              | —                                | —  | 3,861                     | 3,861             |
| Short-term investments                     | —                            | 179                            | —                                | —  | 179                       | 179               |
| Trade receivables                          | —                            | —                              | 7,678                            | —  | 7,678                     | 7,678             |
| Other receivables                          | —                            | —                              | 1,203                            | —  | 1,203                     | 1,203             |
| Investments                                | —                            | 25                             | —                                | —  | 25                        | N/A               |
| Account payable and<br>accrued liabilities | —                            | —                              | —                                | 7,446                                      | 7,446                     | 7,446             |
| Long-term debt                             | —                            | —                              | —                                | 1,116                                      | 1,116                     | 1,116             |

**13. FINANCIAL RISK MANAGEMENT**

The Corporation is exposed to certain financial risks, including credit risk, liquidity risk, foreign currency risk and interest risk.

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**13. FINANCIAL RISK MANAGEMENT (continued)****Risk factors**

The Corporation's risk management program seeks to minimize potential adverse effects on the Corporation's financial performance and ultimately shareholder value. The Corporation manages its risks and risk exposure through a combination of sound business practices, derivative instruments and a systems of internal and disclosure controls.

**Credit risk**

The Corporation is exposed to credit risk in its cash and cash equivalents, short-term investments, trade receivables and other receivables. 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 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. One customer (2009 – one customer) accounted for 12% of sales for the three-month period ended January 31, 2010 (2009 – 27%) and 15% of trade receivables as at January 31, 2010 (2009 – 29%). For the nine-month period ended January 31, 2010, no customer accounted for more than 10% of sales (2009 – two customers represented 47% of sales). Two customers represented 68% of Telecom sales for the three-month period ended January 31, 2010 (2009 – one customer represented 68% of Telecom sales); three customers represented 68% of Telecom sales for the nine-month period ended January 31, 2010 (2009 – two customers represented 53% of Telecom sales for the same nine-month period).

The aging of the trade receivable is as follows:

|                                       | <b>As at January 31,<br/>2010</b> |
|---------------------------------------|-----------------------------------|
|                                       | \$                                |
| Current                               | <b>3,037</b>                      |
| 31 – 60 days                          | <b>1,675</b>                      |
| Over 61 days                          | <b>349</b>                        |
| Accounts receivable                   | <b>5,061</b>                      |
| Less: allowance for doubtful accounts | <b>(212)</b>                      |
|                                       | <b>4,849</b>                      |

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**13. FINANCIAL RISK MANAGEMENT (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 Corporation's approach in managing liquidity is to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damages to the actual and budgeted cash flows. Also, the Board of Directors reviews and approves the Corporation's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on mergers and acquisitions or other major investments or divestitures. The Corporation has financed \$9,300,000 in losses in the last 12 months mainly through equity offerings.

As at January 31, 2010, the Corporation had at its disposal working capital of \$9,328,000 (2009 - \$14,735,000). The Corporation has sufficient cash and cash equivalents, and working capital available to meet its financial contractual obligations. Accounts payable and accrued liabilities are all due within the current operating period. On March 2, 2010, Mitec approved terms and conditions of a receivables financing facility in the amount of \$2.5 million – which can be increased up to \$5 million at Mitec's option and under certain terms and conditions – from a Canadian financial institution specializing in servicing the needs of small and medium sized businesses entering growth phases. The facility, which remains subject to standard conditions, including final approval from the lender's credit committee, due diligence and completion of final documentation, will be used to support Mitec's working capital requirements and growth opportunities.

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

|                | <b>As at January 31, 2010</b> |                         |
|----------------|-------------------------------|-------------------------|
|                | <b>Long-term debt</b>         | <b>Operating leases</b> |
|                | \$                            | \$                      |
| Year of expiry |                               |                         |
| Within 1 year  | —                             | 425                     |
| 2 – 3 years    | 1,857                         | 572                     |
| 4 – 5 years    | —                             | —                       |
| Over 5 years   | —                             | —                       |
|                | <b>1,857</b>                  | <b>997</b>              |

**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 January 31, 2010, the Corporation is exposed to currency risk through its cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities denominated in U.S. dollars and Chinese Yuan (RMB) as follows:

|  | <b>As at January 31, 2010</b> |              |
|--|-------------------------------|--------------|
|  | <b>RMB</b>                    | <b>US \$</b> |
| Cash and cash equivalents                | 1,425,772                     | 1,500,181    |
| Accounts receivable                      | 7,552,991                     | 3,148,165    |
| Accounts payable and accrued liabilities | 3,931,528                     | 1,470,124    |

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**13. FINANCIAL RISK MANAGEMENT (continued)**

Based on the above net exposures as at January 31, 2010 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 an increase/(decrease) in net profit and comprehensive profit of \$396/(\$396).

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is not exposed to such variation since its long-term debt considers a fixed interest rate. However, a variation of interest rate would not affect results or equity of the Corporation.