

2011
Mitec Telecom Inc.
First Quarter Report
For the 3-month period ending July 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 and solutions for the telecommunications and satellite communications industries, as well as a variety of other sectors. The Corporation sells its products worldwide to network providers for incorporation into high-performing wireless networks used in voice and data/internet communications, enabling end-user communications around the world. 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, through the eyes of Mitec's management, on how the Corporation performed during the three-month period ended July 31, 2010 (first quarter fiscal 2011). It includes a review of the financial condition of Mitec and a review of operations for each of Mitec's operating segments for the first quarter fiscal 2011 as compared to the 3-month period ended on July 31, 2009 (first quarter fiscal 2010).

This MD&A supplements the interim unaudited consolidated financial statements for the period ended July 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, 2010. 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 contains information available to September 28, 2010. Additional information relating to the Corporation can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which reflect the Corporation's current expectations regarding certain future events. To the extent that any statements in this document contain information that is not historical, the statements are essentially forward-looking and are often identified by words such as "anticipate", "expect", "estimate", "intend", "project", "plan" and "believe". In the interest of providing shareholders and potential investors with information regarding Mitec, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking and are subject to the risks, uncertainties and other important factors that could cause the Corporation's actual performance to differ materially from that expressed in or implied by such statements. Such factors include, but are not limited to: the going concern uncertainty; the impact of general economic conditions; industry conditions, including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian standard setters. Some of these items are further discussed in the "Risks and Uncertainties" section of this document and in the Risk Factors section of the Corporation's Annual Information Form dated July 23, 2010.

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 interim consolidated financial statements and this MD&A.

OVERVIEW

Mitec Telecom Inc. was incorporated in 1972. Its activities, designing and manufacturing solutions that support various technologies in the ever-changing telecommunications industry, are divided into two core business segments: Wireless Telecommunications ("Telecom") and Satellite and Terrestrial Communications ("Satcom").

The Telecom segment consists of designing, manufacturing and selling state-of-the-art 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. Mitec works closely with its customers, including the largest and fastest growing telecom equipment providers as well as niche telecom operators, to design and manufacture solutions which will enable them to achieve their respective industry objectives. Having the ability to work one on one with these customers at the design level, combined with the Corporation's ability to deliver volume production from its wholly-owned manufacturing facility in Suzhou China, sets Mitec apart from its competitors. Consequently, Mitec has achieved preferred vendor status with several global telecom players.

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 ("VSAT") networks. It also generates revenues from the sale of solid-state power amplifier ("SSPA") technologies which carry 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, with a stable infrastructure and a legacy of solid customer support, Mitec is well positioned to benefit from the growth in the communications industry and invests in research and development ("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 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. This technology has multiple applications and although military qualification can involve several levels of integration and long lead times for qualification, the opportunities relating to the sales cycle for this technology parallel a recurring revenue model over the long term once qualification and selection has occurred.

MAJOR EVENTS

The first quarter of fiscal 2011 confirmed that the long-planned shift in the Corporation's wireless sales strategy, involving the introduction of a new series of product lines developed in prior years – launched in the previous fiscal year during a time when there was a significant economic crisis

underway – was successful. Revenue for the first quarter of fiscal 2011 increased 23 %, compared with telecom revenue in the fourth quarter of fiscal 2010.

This telecom strategy involved developing solutions for enhancing bandwidth and remains appealing to a large base of current and new customers who are facing increased budget constraints but are still under pressure to purchase capital equipment to address these customer demands. Mitec has announced several new orders for these products over the past several months as noted below.

These products include diplexers and tower mounted boosters (“TMB”) and high power amplifier combinations as well as distributed antenna systems (“DAS”) which are expected to contribute to wireless revenues going forward. As well, the Corporation continues to gain traction with the telecom operator market in North America to expand its customer-base and announced several contract wins with one of the world’s fastest growing global telecom companies who has qualified Mitec for several large, long-term build-outs to establish 4G networks worldwide over the next several years. The same customer has also qualified Mitec participate as its main supplier for point to point radios which provide greater speed and capacity transmission solutions to the telecom market, as the demand for increased mobile bandwidth and existing legacy backhaul spectrum becomes more scarce and too expensive to expand.

Mitec’s Satcom segment launched a series of product lines called MTX in the previous fiscal year and has now succeeded in penetrating the VSAT market with these new products, which have been accepted as the standard line of products going forward.

This product line has differentiated the Corporation from its competition and although there was a weakness in sales in the first quarter of fiscal 2011 as several legacy customers did not generate expected orders in an anticipated timeframe, these orders have now been received. As well, the sales team re-focused its sales strategy towards larger opportunities in developing areas around the globe where these solutions have appeal and these new customers have begun to demonstrate a desire for Mitec’s VSAT solutions.

The Corporation announced on September 15, 2010 that it is not in a position to file its first quarter, fiscal 2011 interim consolidated financial statements for the period ending July 31, 2010. As a result, the Corporation applied for an order from the relevant Canadian securities regulatory authorities for a management cease trade order (“MCTO”) as provided for in National Policy 12-203 - Cease Trade Orders for Continuous Disclosure Defaults which prohibits trading in securities of the Corporation by certain insiders of the Corporation. On September 16, 2010, a temporary MCTO effective until October 1, 2010 was granted by the Autorité des marchés financiers, being the principal regulator, prohibiting the directors and officers to trade in securities of the Corporation.

On September 8, 2010, Mitec announced that it had received orders for its TMBs both at 850 MHz and 1800 MHz frequencies. TMB, which are part of Mitec’s Coverage Solution product line and are available in both multi and single carrier format, are used both in new and ongoing network rollouts.

On August 25, 2010 Mitec announced an initial order from the same customer noted above at 850 MHz frequency.

On August 3, 2010, Mitec announced that it had received the first in a series of orders from a large network operator for its new MTX series VSAT block upconverter (“BUC”). Deliveries are expected to take place in Q2, fiscal 2011 and additional orders are expected from this customer throughout the year. The customer is currently involved in a network expansion project in Africa,

where there is significant demand for 2-way satellite communication to support the growth of multimedia, voice and data services in geographically challenging areas.

On July 20, 2010, Mitec announced that it had received initial orders for high performance filters from a leading provider of satellite radio services in North America for a series of trials in their mobile broadcast network. Upon successful completion of these trials, the Corporation expects to receive follow-on orders in early 2011, which will be manufactured at the Corporation's China facility.

On July 15, 2010, Mitec announced that it had received an order worth approximately \$1.5 million to support a European telecom provider's network upgrade. The equipment is being manufactured at the Corporation's China facility and will be delivered in the second quarter of fiscal year 2011.

On July 7, 2010, Mitec announced that it had received an initial order for one of its innovative coverage solution products for delivery by July 31, 2010. The customer, a Canadian telecom company was a new customer to Mitec. This Mitec 3G network solution enables an operator to reduce operational costs while allowing delivery of next generation services at a lower cost than present network architectures.

On June 15, 2010, Mitec announced that it had begun initial shipments for components designed for next generation Long Term Evolution ("LTE") 4G wireless networks to a major global telecom company. This shipment, which is expected to generate approximately \$1.7 million in revenue in the short term and is part of a larger initiative which is expected to continue for the balance of fiscal 2011 and onward. It is anticipated that this product line will represent a significant source of revenue for Mitec over the next several years. The components are being produced at the Corporation's China facility.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's sales and results 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 will continue. Fiscal 2010 proved to be an extraordinarily unpredictable period for the Corporation since it was an extremely volatile period for the global economy and capital and credit were very difficult to access for telecom providers. As well, some of the Corporation's revenues 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. Although management's objective is to ensure long-term profitability, 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 relative to various programs which they are involved. Accordingly, the Corporation may not be able to adjust spending in a timely manner to compensate for any unexpected revenue shortfall and may have to increase spending in advance of a predicted revenue increase. Any significant revenue fluctuation could therefore have a material effect on the Corporation's results of operations.

<i>(in thousands of dollars, except per share data)</i>	2011				2010			2009
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	5,771	6,358	5,161	7,198	6,707	6,927	7,922	10,568
Gross profit	809	955	861	817	1,035	1,083	1,897	2,366
Research & development expenses	714	777	1,031	683	1,068	1,137	1,054	1,151
Selling and administrative expenses	1,351	1,794	1,670	1,772	1,476	2,087	1,626	1,972
Net loss	(1,342)	(5,236)	(2,305)	(1,837)	(2,069)	(3,108)	(360)	(1,195)
Net loss per share:								
- Basic and diluted	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)
Non-recurrent items:								
- Impairment of property, plant and equipment	12	34	—	—	—	80	—	351
- Impairment of goodwill	—	1,991	—	—	—	1,607	—	—
- Impairment of intangible assets	—	724	—	—	—	50	—	—
Total assets	19,199	20,704	23,703	26,585	29,118	30,321	36,244	39,230
Long-term debt	1,268	1,157	1,041	955	1,316	1,215	1,116	1,057
Cash and short-term investments	822	2,067	2,217	2,458	3,344	4,666	4,040	5,255

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

	Telecom		Satcom		Consolidated amounts	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Sales	2,511	2,188	3,260	4,519	5,771	6,707
Cost of sales	2,205	2,050	2,757	3,622	4,962	5,672
Gross profit	306	138	503	897	809	1,035

RESULTS OF OPERATIONS FOR THE FIRST QUARTER

Sales

For the three-month period ended July 31, 2010, consolidated sales were \$5.8 million, a 14% decrease from the first quarter of the previous year. The decrease in the Corporation's sales is attributable to lower sales levels in the Satcom segment as the division experienced a reduction in what had previously been predictable legacy sales. These sales ultimately resumed after the end of the quarter and a backlog is now in place. The Satcom segment was also negatively affected by ongoing delays in the ordering process from the Military sector. Shipments from the Telecom segment, which contributed \$2.5 million of total revenues, increased by \$0.3 million or 15%, during the first quarter as compared with the same period in the previous year. The Corporation benefited from increasing market penetration with its newly developed point-to-point radio diplexer product line during the period. Satcom segment shipments, which contributed 57% of total revenues, were \$3.3 million for the first quarter of fiscal 2011, a decrease of \$1.3 million, or 28%, compared to the first quarter of fiscal 2010.

<i>(in thousands of dollars, except percentages)</i>	2011	2010						2009
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Telecom	2,511	2,048	1,140	2,003	2,188	2,207	3,100	4,073
% of total sales	43.5%	32.2%	22.1%	27.8%	32.6%	31.9%	39.1%	38.5%
Satcom	3,260	4,310	4,021	5,196	4,519	4,720	4,822	6,495
% of total sales	56.5%	67.8%	77.9%	72.2%	67.4%	68.1%	60.9%	61.5%

Geographical Distribution

	North America	Europe	Asia	Other
2011 Q1	36%	25%	18%	21%
2010	49%	21%	15%	15%
2009	37%	17%	33%	13%

Gross Profit

Gross profit for the first quarter of fiscal 2011 was \$0.8 million, a decrease of \$0.2 million from \$1.0 million in the first quarter of fiscal 2010. Although the Corporation continued with its cost containment program during the previous quarters, gross profit was impacted by a variety of internal and external factors which reduced revenues, including previously described timing issues in relating to the Satcom segment, new product introductions and legacy product wind-downs, the delays in spending from government and general difficulty in accessing credit for capital expenditures, which resulted in the delay of many infrastructure projects the Corporation is involved in supporting with its products. These factors resulted in lower overhead absorption. Despite these conditions, the Corporation believed that these factors would reverse themselves and has recently seen an upswing in orders and a backlog is developing. Effective cost containment resulted in gross profit in the Telecom segment of \$0.3 million in the first quarter of fiscal 2011, an increase of \$0.2 million from \$0.1 million for the same period last year. Satcom gross profit was \$0.5 million in the first quarter of fiscal 2011, a decrease of \$0.4 million from \$1.0 million for the same period last year, however a backlog is now in place and gross profit is anticipated to return to its predictable levels going forward.

<i>(in thousands of dollars, except percentages)</i>	2011	2010						2009
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Telecom	306	(143)	(154)	(48)	138	(166)	382	571
% of Telecom sales	12.1%	(7.0%)	(13.4%)	(2.4%)	6.3%	(7.5%)	12.3%	14.0%
Satcom	503	1,098	1,015	865	897	1,247	1,515	1,795
% of Satcom sales	15.4%	25.5%	25.2%	16.6%	19.8%	26.4%	31.4%	27.6%

Research and Development Expenses

R&D expenses net of investment tax credits for the first quarter of fiscal 2011 were \$0.7 million, a decrease of 33% from \$1.1 million in the first quarter of fiscal 2010. Despite challenging economic conditions, the Corporation continues its commitment to its growth strategy and has not reduced drastically R&D investing in various product lines in order to promote the availability of new products servicing either the mobile or the fixed wireless infrastructure as well as the VSAT and the military markets to ensure Mitec remains ahead of its competitors. However, R&D expenses has decreased and this trend is expected to continue as part of the Corporation's overall strategy

to focus R&D on specific market sectors and consider the acquisition of technology when possible.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses for the first quarter in fiscal 2011 were \$1.4 million, a decrease of 5% from approximately the same amount in the first quarter of fiscal 2010. The decrease was primarily due to cost cutting initiatives implemented throughout the previous year.

Net Loss

The net loss for the first quarter of fiscal 2011 was \$1.3 million, or \$0.01 per share, as compared to \$2.1 million, or \$0.01 per share, for the same quarter of fiscal 2010.

Earnings before Interest, Taxes, Depreciation and Amortization

In addition to discussing earnings measures in accordance with Canadian GAAP, this MD&A provides earnings before interest, income taxes, depreciation and amortization ("EBITDA") as a supplementary measure. Depreciation and amortization include write-down of property, plant and equipment, intangibles assets, and investments. Interest is comprised of interest on credit facility and on long-term debt reduced by interest income. EBITDA is provided to assist readers in determining the ability of the Corporation to generate cash from operations. The Corporation also discloses the adjusted EBITDA from continuing operations to describe impacts from restructuring expenses, foreign exchange, stock-based compensation and the recovery of non-refundable tax credits. EBITDA does not have a standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies.

The following table reconciles EBITDA to Canadian GAAP measures disclosed in the unaudited consolidated statements of earnings of actual and most recent quarterly reports. It also reconciles the adjusted EBITDA.

<i>(in thousands of dollars)</i>	2011				2010			2009
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Net loss	(1,342)	(5,236)	(2,305)	(1,837)	(2,069)	(3,108)	(360)	(1,195)
Income taxes	—	242	(39)	(39)	(39)	(523)	(89)	(14)
Amortization and gain and loss on disposal and impairment of property, plant and equipment, intangible assets, goodwill, and investments	277	3,183	420	370	464	2,214	515	972
Interest	49	54	52	109	31	27	(1)	65
EBITDA	(1,016)	(1,757)	(1,872)	(1,397)	(1,583)	(1,390)	65	(172)
Effect of foreign exchange and stock-based compensation	(101)	331	320	42	469	(425)	(673)	(95)
Adjusted EBITDA	(1,117)	(1,426)	(1,552)	(1,355)	(1,114)	(1,815)	(608)	(267)

LIQUIDITY AND CAPITAL RESOURCES

The Corporation had \$0.8 million of cash and short-term investments as of July 31, 2010, compared to \$2.1 million as of April 30, 2010, which might not be sufficient to cover its operating requirements and its capital expenditures. The Corporation had access to an additional \$1.2 million, determined by eligible accounts receivable as if July 31, 2010, from its established

credit facility supported by a strong working capital balance to support any third party financing, should it be required.

Working capital, excluding cash and short-term investments, decreased 15% to \$6.5 million at the end of the first quarter of fiscal 2010 compared to \$7.6 million at the end of the previous fiscal year.

Operating Activity Cash Flows

Cash flow used by operating activities was \$0.3 million in the first quarter of fiscal 2011, a decrease of \$0.4 million from \$0.8 million cash flow utilized in the corresponding quarter of fiscal 2010. Decline in gross margins and in the cost containment program discussed above were the main contributing factors. Cash flow used in operating activities was positively impacted by a \$0.6 million change in the non-cash working capital balances related to the payment of investment tax credit received during the quarter combined with the increase of the accounts payable.

Investing Activity Cash Flows

Cash flow used in investing activities was \$0.3 million for the first quarter of fiscal 2011, a consequence of the acquisition of fixed assets to support volume production opportunities during the current period. During the corresponding quarter of fiscal 2010, cash flow from investing activities was \$0.4 million for the same reason.

Financing Activity Cash Flows

Financing activities resulted in a net cash outflow of \$0.6 million in the first quarter fiscal 2011, following the repayment of the credit facility. There were no financing activities during the same quarter of the previous year.

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. 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. There have been no changes in the Corporation's capital management policy during the quarter. As at July 31, 2010, the composition of the Corporation's capital is as follows:

	2010
	\$
Long-term debt, including current portion	1,268
Shareholders' equity	11,482
	12,750

GOING CONCERN UNCERTAINTY

The accompanying consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in

operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation has a history of losses over the past nine years and currently does not have the necessary financing in place to support continuing losses. The Corporation has accumulated a deficit of \$132,769,000 as at July 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 dependent 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 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.

As of September 28, 2010, the following transactions, aimed at addressing the uncertainties described above, occurred:

- a. The Corporation began initial shipments for components designed for next generation, LTE 4G wireless networks to a major telecom company, which was expected to generate approximately \$1.7 million in revenue over the next several months and expected to continue for the balance of fiscal 2011 onward;
- b. The Corporation received an initial order for one of its innovative coverage solutions products, which combines existing hardware with boosters and amplifiers to enhance bandwidth, for delivery by the first quarter of fiscal 2011;
- c. The Corporation received an order worth approximately \$1.5 million for its low noise amplifiers to support a European telecom provider's network upgrade. The equipment will be delivered in the second quarter of fiscal year 2011;
- d. The Corporation received initial orders for high performance filters from a leading provider of satellite radio services in North America for a series of trials. The Corporation expects to receive a series of higher volume, follow-on orders in early 2011;
- e. The Corporation received the first in a series of orders from a large network operator for its new MTX series VSAT BUC. Deliveries are expected to take place in the second quarter of fiscal 2011 and additional orders are expected from this customer throughout the year;
- f. The Corporation received an order for its TMB which are part of Mitec's Coverage Solution product line and are available in both multi and single carrier format, used as a viable and effective solution for both in new and ongoing network rollouts;
- g. The Corporation received further orders for TMB at 850 MHz and 1800 MHz frequencies.

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

1. Approaching potential lenders and investors to secure additional debt and/or equity financing;
2. Exploring, under the guidance of its Mergers and Acquisitions Committee (comprised of management, directors and advisors of the Corporation), potential opportunities relating to the sale of selected business segments, divestiture of certain assets or the acquisition of complementary and synergetic assets or businesses;
3. Investigating a range of alternatives to streamline its Telecom and Satcom business units and focus its efforts towards selected niche markets with the objective of ensuring the Corporation can generate sustainable, long-term profitability.

Given extreme challenges that face the Corporation internally as a growth technology company and externally as forces, such as the unprecedented worldwide financial crisis have impacted all facets of business around the globe, management and the Board of Directors of Mitec continually evaluate ways to ensure that the Corporation is able to continue to have the financial strength to stay competitive and to achieve long-term profitability. Such explorations include developing niche product lines that generate solutions demanded by its growing customer base through R&D and marketing efforts, mergers and acquisitions activities, divestitures, joint ventures and strategic initiatives with both industry and financial partners.

The Corporation continues to evaluate several opportunities consistent with these objectives and expects that several milestones will be achieved in fiscal 2011 as it executes on one or more of them.

Management believes that should the Corporation be successful at securing additional funding and/or realigning its Telecom and Satcom business units and with the continued support of the Corporation's current shareholders and customers, the Corporation 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 permit the Corporation to continue to operate as a going concern.

SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS

The preparation of financial statements in accordance with generally accepted Canadian accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures in the consolidated financial statements are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Significant items subject to estimates and assumptions include, 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, 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, however, may differ from the estimates used in the consolidated financial statements and such differences could be material. The Corporation's significant accounting policies are discussed in Note 2 of the audited consolidated financial statements; critical estimates inherent in the accounting policies are discussed in the following paragraphs.

Inventory Valuation

The Corporation records a provision to reflect management's best estimate of the net realizable value of the inventory. The provision is calculated considering inventory aging and current and future expectations with respect to product offerings. Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings. The estimate of the Corporation's allowance for inventory obsolescence could materially change from period to period due to changes in product offering and customer acceptance of those products. Management reviews the entire provision to assess whether, based on economic conditions, it is adequate.

Impairment of Long-Lived Assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management reviews the carrying value of the assets and considers whether an impairment charge should be recorded. The review is based on the assessment of technological changes; the Corporation's intended use and on the projected estimated future undiscounted cash flows expected to be generated from the underlying assets. Any impairment results in an

impairment of the assets and a charge to income during the year to the extent that the asset's carrying value exceeds its fair value, generally determined on a discounted cash flow basis or replacement cost basis. Management's estimate of future cash flows is subject to risks and uncertainties therefore it is reasonably possible that changes in circumstances could occur which may affect the recoverability of the Corporation's long-lived assets.

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.

Warranty Provision

The Corporation records a warranty provision on the sale of certain 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 provision at July 31, 2010 was considered adequate.

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.

Stock-Based Compensation

The Corporation estimates the fair value of stock options granted to employees, officers and directors. As at July 31, 2010, a total of 15,295,000 stock options were outstanding, of which 13,605,300 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.

FUTURE CHANGES IN ACCOUNTING POLICIES

Business Combinations

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 International Financial Reporting Standards (“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, International Accounting 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.

Accounting Changes

In June 2009, the CICA issued amendments to CICA Handbook Section 1506 – “Accounting Changes”. Section 1506 was amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity’s primary basis of accounting. The amendments are effected for annual and interim financial statements relating to years beginning on or after July 1, 2009. The adoption of IFRS is not expected to qualify as an accounting change under Section 1506.

EIC 175 - Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity’s fiscal year, it must be applied retroactively from the beginning of the Corporation’s fiscal period of adoption. The Corporation is currently assessing the future impact of these amendments on its financial statements and has not determined the timing and method of its adoption.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, Canada’s Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP, as used by publicly accountable enterprises, would be fully converged into IFRS, as issued by the International Accounting Standards Board (“IASB”). 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. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which may significantly impact the Corporation's processes and financial results. While the Corporation's believe that the adoption of IFRS will not have a material impact on Mitec's reported distributed cash from operations, it could have a material impact on Mitec's consolidated balance sheet and consolidated statement of operations and deficit.

Implementation plan

The implementation project consists of three (3) primary phases, which in certain cases will be process concurrently as IFRS is applied to specific areas from start to finish.

Phase 1: Scoping and Diagnostic phase:

This phase involved performing a detailed diagnostic comparing Canadian GAAP to IFRS and identifying key areas that may be impacted by the transition to IFRS. Phase 1 included:

- Performing a detailed analysis of our actual accounting policies and practices with all relevant IFRS standards and applicable interpretations;
- Identifying the different options available to the Corporation at the date of transition as well as the ongoing IFRS policy choices that could be applied to prepare subsequent IFRS financial statements.

Phase 2: Impact Analysis and Design Phase

In this phase, each area identified from the scoping and diagnostic phase is being addressed. Phase 2 includes:

- Making accounting policy choices, including those under IFRS 1 choices;
- Determining the changes required to existing accounting policies;
- Determining the changes or additions required to information technology and data systems, internal controls over financial reporting and disclosure controls;
- Evaluating and providing the training required for the key finance personnel and operational staff;
- Developing draft IFRS Financial statements.

Phase 3: Implementation and Review Phase

In this last phase, the Corporation will implement changes in accounting policies and practices to the different business processes, information systems and internal controls and ensure that all significant differences have been successfully resolved by the first quarter ending July 31, 2011.

Current status of the Corporation's IFRS changeover plan

The Corporation initiated the process of IFRS conversion during the winter of 2009. The Scoping and Diagnostic phase has been completed and the Corporation is currently in Phase 2 of the process. To assist management in the implementation process, the Corporation has retained the services of outside consultants.

During the quarter, the Corporation has focused primarily on evaluating the accounting policy choices, the changes required to existing accounting policies and on gathering additional information to make the appropriate choices under IFRS 1. It expects to address all the areas described in Phase 2 above and to continue its analysis on more detailed items within various standards during the second and third quarter.

Potential impact of the Conversion

Management has identified that the following areas could have the highest impact on the Corporation's accounting standards but it is still in the process of assessing the impact that they will have on the financial statements. The list and comments should not be construed as a comprehensive list of changes that will result from transition to IFRS but rather highlights those areas of accounting differences the Company currently believes to be important.

Notwithstanding the above, the current IASB and International Financial Reporting Interpretations Committee ("IFRIC") projects are likely to significantly modify some of the actual IFRS requirements which might therefore ultimately impact the following identified preliminary differences.

First-time Adoption of IFRS (IFRS 1)

The adoption of IFRS requires application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS also provides certain optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of certain standards. Management is in the process of assessing the application of these first time adoption options.

Share based Payments

Under IFRS, when stock option awards vest gradually, each tranche is to be considered as a separate award while Canadian GAAP considers the gradually vested tranches as a single award. There are also differences in which forfeitures are accounted for. The compensation expense will have to be recognized over the expected term of each vested tranche and takes into account the impact of the differences in accounting for forfeitures.

Fixed assets and depreciation

Under IFRS, after the initial recognition, fixed assets can be measured using the cost model or the revaluation model while Canadian GAAP does not allow revaluation. The Corporation will continue to use the cost model in order to avoid balance sheet variations in the fair value of fixed assets and the corresponding impact on the income statements.

Under IFRS, fixed assets are amortized based on their components while Canadian GAAP has less stringent rules on component identification.

Impairment of assets

Under IFRS, impairment testing for fixed assets, intangible assets and goodwill is required when there is an indicator of impairment at the cash generating unit ("CGU") level. The application of this new standard should result in discounted cash flow testing being applied to smaller group of assets. This could result in additional expenses for asset depreciation. These expenses could however be reversed subsequently.

Foreign exchange translation

Under IFRS, an entity measures its assets, liabilities, revenues and expenses in its functional currency, which is the primary economic environment in which it operates. For Mitec, there are various indicators to be considered in determining the appropriate functional currency for each one of its subsidiaries as well as for the Canadian operations.

Financial liabilities

Under IFRS the carrying amount of compound instruments such as convertible debentures is allocated between its debt and equity components so that the liability is recognized at its fair value and the equity component as the residual. Canadian GAAP permits this allocation to be made

using the relative fair value method or by assigning the less easily measurable component (which may be, in certain circumstances, the liability component) as the residual.

Provisions, Contingent Liabilities

Under IFRS, provisions and contingent liabilities are recorded based on a “probable” criterion while under Canadian GAAP, they are recorded if they are “more likely than not” to occur. In addition, under IFRS, provisions and contingent liabilities are recorded using the weighted average of probable values in the range, whereas under Canadian GAAP the low end of range is used. For the Corporation, some provisions and contingent liabilities may be recorded earlier, or recorded when they may not have been recorded at all under Canadian GAAP.

Presentation of Financial Statements

IFRS requires significantly more disclosure than existing Canadian GAAP. In addition, classification and presentation may be different for some balance sheet and income statement items. The Corporation is analyzing the overall impact of the classification and presentation changes on its financial statements.

Impact on business activities

While the Corporation is still in its analysis and assessment phase of the process, it does not anticipate that the transition to IFRS will have a significant impact on its covenants, contracts, and other business activities. The Corporation’s incentive compensation is largely based upon attaining and exceeding budget and operational performance targets. There may need to be some re-evaluation commencing in fiscal 2012, when the impacts of changes brought about by the transition to IFRS are fully known.

Impact on financial reporting expertise

While the Corporation does expect that the IFRS transition will require important changes to be made to its information systems and financial reporting expertise, these areas are nonetheless impacted as the Corporation needs to create the ability for information systems to:

- a) Track IFRS adjustments for the 2011 comparative year;
- b) Provide the necessary information to reflect the accounting policy changes;
- c) Create several new or modified reports to assist in preparing the increased note disclosures and different presentation required by IFRS. These report requirements may also require modifications to existing general ledger account structures.

Processes and controls will be put in place to ensure that the Corporation is making the appropriate judgments and is following the IFRS accounting policies selected.

Based upon the work completed to date, and since all potential changes to IFRS that will be effective as at April 30, 2011 are not yet known, the Corporation cannot reasonably determine the full impact that adopting IFRS may have on its financial position and future results. As a result of the transition, changes in accounting policies could have a material impact on the consolidated financial statements.

CONTINGENCIES

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.

The Corporation is from time to time involved in various claims and legal proceedings arising in the ordinary course of business, and has recorded provisions in certain circumstances. It is the opinion of management that a final determination of these proceedings cannot be made at this time, but should not materially affect the Corporation's financial position or results of operations.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following is a summary, as at July 31, 2010, of the Corporation's material contracts obligations due per years:

	Credit facility	Accounts payable	Long-term debt	Operating leases	Total
	\$	\$	\$	\$	\$
1 year	100	4,067	—	465	4,632
2 – 3 years	—	—	1,857	450	2,307
Over 4 years	—	—	—	4	4
	100	4,067	1,857	919	6,943

COMMON SHARES, WARRANTS, AND STOCK OPTIONS

As of July 31, 2010, there were 220,666,756 common shares and 23,602,279 warrants outstanding as well as 15,295,000 stock options. During the current quarter, there have been no transactions impacting these items.

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.

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.

RELATED PARTY TRANSACTIONS

For the period of three-months ended July 31, 2010, consulting fees of \$52,500 (2009-\$28,175) were invoiced by a company controlled by the Executive Chairman to perform his duties; of which \$17,500 remained unpaid as at July 31, 2010. The consulting agreement was measured at the exchange amount, which is the amount agreed upon between the related parties. No Director's fees were paid in addition to the consulting fees.

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 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.

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 April 30, 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 Canadian 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) during the three-month period ended July 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 months ended July 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.

RISKS AND UNCERTAINTIES

Mitec operates in industry segments that have a variety of risk factors and uncertainties. In addition to the going concern uncertainty described above, 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.

Industry Risk

Mitec's success in the commercial wireless market depends in large part on investments by its customers in wireless infrastructure equipment. The Corporation's 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 Mitec's commercial wireless products may be sharply reduced or may fail to develop, which would adversely affect its 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 the Corporation's ability to reduce expenses during downturns.

Dependence on a Few Customers

The Corporation has exposure due to its reliance on certain large contracts and customers. In the quarter ended July 31, 2010, the Corporation had two customers who accounted for 35% of its sales (2009 – one customer accounted for 10% of 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. The Corporation 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, the Corporation's integrated components and subsystems must be custom designed for use in Mitec's customers' products. As a result, the Corporation sell its products to a relatively small group of customers, and its products must be specifically engineered for each customer. While Mitec selects its customers based on our its assessment of their ability to succeed in the marketplace, the Corporation cannot be sure of their success. If Mitec's customers are not successful, the length of time required to re-engineer their product for another customer may delay their sales or prohibit the Corporation from getting its products to the marketplace in a timely manner or at all. If, for any reason, Mitec's customers decide to produce their RF and microwave subsystems and systems internally, increase the percentage of their internal production, require Mitec to participate in joint venture manufacturing or compete directly against the Corporation, Mitec's revenues would decrease which would adversely impact the Corporation's results of operations.

Production Risk

The Corporation's 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; the ability to obtain components and subassemblies from suppliers; and variations in manufacturing efficiencies. Any

one of these factors could substantially affect the Corporation's results of operations for any particular fiscal quarter.

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

Other risks relating to the Corporation's 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 Mitec to seek alternative suppliers, could adversely affect Mitec's ability to deliver products to its customers. While it is unlikely that costs from Mitec's major suppliers will increase as costs are strictly managed through non-binding long-term agreements, if they did, the Corporation may suffer losses if it is unable to recover such cost increases under fixed price production commitments to its 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. Mitec's 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 Subsidiary

The Corporation generates cash from its foreign subsidiary. 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 a credit facility.

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.

Credit risk

The Corporation is exposed to credit risk in its cash, short-term investments, and trade 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 short-term investments 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. Two customers (2009 – one) accounted for 35% of sales for the period ended July 31, 2010 (2009 – 10%) and 41% of trade receivables as at July 31, 2010 (2009 – 8%). One customer (2009 – one) represented 66% of Telecom sales for the period ended July 31, 2010 (2009 – one customer represented 32% of Telecom sales) and one customer (2009 – nil) represented 16% of Satcom sales for the period ended July 31, 2010 (2009 – nil).

The aging of the trade receivable as at July 31, 2010, is as follows:

	2010
	\$
Current	4,463
31 – 60 days	595
Over 61 days	770
Accounts receivable	5,828
Less: allowance for doubtful accounts	(225)
	5,803

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. 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 its expansion in losses in the last years mainly through equity offerings.

As at July 31, 2010, the Corporation had at its disposal working capital of \$5,228,000 (2009 - \$10,841,000). The Corporation has sufficient cash, and working capital available to meet its financial contractual obligations. The credit facility is also used to support the Corporation's working capital requirements. As at July 31, 2010, \$100,000 (2009 - nil) has been drawn from the credit facility.

The following is a summary as at July 31, 2010 of the Corporation's material contractual obligations:

Year of expiry	Credit Facility \$	Accounts Payable \$	Long-term Debt \$	Operating leases \$	Total \$
Within 1 year	100	4,067	—	465	4,632
2-3 years	—	—	1,857	450	2,307
4 – 5 years	—	—	—	4	4
Over 5 years	—	—	—	—	—
	100	4,067	1,857	919	6,943

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. However, a variation of interest rate would not affect results or equity of the Corporation.

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 some hedging contracts to mitigate its exposure to currency fluctuations for which it has not elected to use hedge accounting. As at July 31, 2010, the Corporation held various forward contracts with nominal values ranging from \$100,000 to \$200,000, strike prices ranging from 0.975 to 1.085, and expiry dates ranging from September 3, 2010 to November 12, 2010 for a total value of \$900,000. The unrealized gains relating to these contracts included in the statement of loss and comprehensive loss as at July 31, 2010 was \$18,123.

The Corporation is exposed to currency risk through its cash, accounts receivable and accounts payable and accrued liabilities denominated in U.S. dollars and Chinese Yuan (RMB), for which the Canadian dollar equivalent is, as at July 31, 2010, as follows:

	RMB \$	US\$ \$
Cash	300	214
Accounts receivable	1,968	2,869
Accounts payable and accrued liabilities	1,084	1,982

Based on the above net exposures as at July 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 \$228,000/(\$228,000).

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.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of September 28, 2010. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of September 28, 2010, a total of 220,666,756 common shares and 23,602,279 warrants were issued and outstanding, as well as a total of 15,295,000 stock options.



MITEC TELECOM INC.
Interim Consolidated Financial Statements
For the three month period ended
July 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)

	As at July 31, 2010	As at April 30, 2010
	\$ Unaudited	\$ <i>Audited</i>
ASSETS		
Current		
Cash	641	1,886
Short-term investments	181	181
Trade receivables	5,803	5,732
Other receivables	63	288
Income tax recoverable	132	380
Inventories (note 4)	5,670	5,447
Prepaid expenses and other assets	455	493
Total current assets	12,945	14,407
Property, plant and equipment	4,553	4,510
Intangible assets	1,676	1,762
Investments	25	25
	19,199	20,704
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Credit facility (note 5)	100	733
Accounts payable and accrued liabilities	6,349	6,061
Total current liabilities	6,449	6,794
Long-term debt (note 6)	1,268	1,157
Total liabilities	7,717	7,951
Shareholders' equity		
Common shares (note 7)	132,142	132,142
Warrants (note 7)	1,152	1,152
Equity component of convertible debentures	778	768
Contributed surplus	10,835	10,802
Deficit	(132,769)	(131,427)
Accumulated other comprehensive loss	(656)	(684)
Total shareholders' equity	11,482	12,753
	19,199	20,704

Nature of the business and going concern uncertainty (note 1)

Commitments and contingencies (note 8)

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

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

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

Unaudited

	For the three months ended	
	2010	July 31,
	\$	2009
	\$	\$
Sales	5,771	6,707
Cost of sales	4,962	5,672
Gross profit	809	1,035
Expenses		
Research and development	714	1,068
Selling and administrative	1,351	1,416
Financial expenses (note 11)	188	154
Foreign exchange (gain) loss	(134)	411
Gain on disposal and impairment of property, plan and equipment	(1)	25
Stock-based compensation	33	59
	2,151	3,143
Loss before income taxes	(1,342)	(2,108)
Income tax recovery	—	(39)
Net loss for the period	(1,342)	(2,069)
Net change in the unrealized gain (loss) on translating financial statements of self- sustaining foreign operations	28	(344)
Comprehensive loss for the period	(1,314)	(2,413)
Basic and diluted loss per outstanding common share	(0.01)	(0.01)
Weighted average number of outstanding common shares	220,666,756	220,666,756

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

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	# (000)	\$	# (000)	\$	\$	\$	\$	\$	\$
	7	7	7	7			(A)	(A)	
Balance, April 30, 2009	220,666	132,142	37,829	1,925	14	9,836	(119,980)	(280)	23,657
Issued upon conversion of convertible debentures	—	—	—	—	(7)	—	—	—	(7)
Stock-based compensation	—	—	—	—	—	59	—	—	59
Other comprehensive loss for the period	—	—	—	—	—	—	—	(344)	(344)
Net loss for the period	—	—	—	—	—	—	(2,069)	—	(2,069)
Balance, July 31, 2009	220,666	132,142	37,829	1,925	7	9,895	(122,049)	(624)	21,296
Balance, April 30, 2010	220,666	132,142	23,603	1,152	768	10,802	(131,427)	(684)	12,753
Issued under a convertible debenture financing	—	—	—	—	10	—	—	—	10
Stock-based compensation	—	—	—	—	—	33	—	—	33
Other comprehensive gain for the period	—	—	—	—	—	—	—	28	28
Net loss for the period	—	—	—	—	—	—	(1,342)	—	(1,342)
Balance, July 31, 2010	220,666	132,142	23,603	1,152	778	10,835	(132,769)	(656)	11,482

(A): The total of deficit and accumulated other comprehensive loss is \$133,425 (2009 - \$122,673). Accumulated other comprehensive loss is comprised only of the unrealized gains and losses on translation of the financial statements of self-sustaining foreign operations.

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

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)

Unaudited

For the three months ended

	2010	July 31, 2009
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(1,342)	(2,069)
Items not affecting cash		
Amortization	278	468
Gain on disposal and impairment of property, plant and equipment	(1)	25
Stock-based compensation	33	59
Accretion expense	121	111
Income tax recovery	—	(39)
	(911)	(1,445)
Changes in non-cash working capital balances related to operating activities (note 7)	579	677
Cash flows used in operating activities	(332)	(768)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(304)	(364)
Proceeds on disposal of property, plant and equipment	37	
Additions to intangible assets	(8)	
Purchase of short-term investments	(181)	—
Sale of short-term investments	181	—
Cash flows used in investing activities	(275)	(364)
FINANCING ACTIVITIES		
Repayment of credit facility	(633)	—
Cash flows used by financing activities	(633)	—
Loss on foreign cash held	(5)	(9)
Net decrease in cash for the period	(1,245)	(1,141)
Cash, beginning of the period	1,886	4,485
Cash, end of the period	641	3,344

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



1. NATURE OF THE BUSINESS AND GOING CONCERN UNCERTAINTY

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 telecommunications and satellite communications markets.

The accompanying interim consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Corporation has a history of losses over the past nine years and currently does not have the necessary financing in place to support continuing losses. The Corporation has accumulated a deficit of \$132,769,000 at July 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 dependent upon, amongst other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations and the generation of cash from operations, the ability to secure new financing arrangements and new capital. These matters are dependent on a number of items outside of the Corporation's control and there is significant uncertainty about the Corporation's ability to continue as a going concern.

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

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

1. Approaching potential lenders and investors to secure additional debt and/or equity financing;
2. Exploring, under the guidance of its Mergers and Acquisitions Committee (comprised of management, directors and advisors of the Corporation), potential opportunities relating to the sale of selected business segments, divestiture of certain assets or the acquisition of complementary and synergetic assets or businesses;
3. Investigating a range of alternatives to streamline its Telecom and Satcom business units and focus its efforts towards selected niche markets with the objective of ensuring the Corporation can generate sustainable, long-term profitability.

Management believes that should the Corporation be successful at securing additional funding and/or realigning 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 by management 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, 2010, 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, 2010. For a full description of accounting policies, please refer to those financial statements.

Subsequent events have been evaluated through September 29, 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. NEW ACCOUNTING PRONOUNCEMENTS

Business Combinations

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 April 30, 2012 annual financial statements starting with its July 31, 2011 first quarter interim report.

Accounting Changes

In June 2009, the CICA issued amendments to CICA Handbook Section 1506 – "Accounting Changes". Section 1506 was amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The amendments are effected for annual and interim financial statements relating to years beginning on or after July 1, 2009. The adoption of IFRS is not expected to qualify as an accounting change under Section 1506.

EIC 175 - Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and the consideration allocated; (2) require, in situations where a

vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity’s fiscal year, it must be applied retroactively from the beginning of the Corporation’s fiscal period of adoption. The Corporation is currently assessing the future impact of these amendments on its financial statements and has not determined the timing and method of its adoption.

4. INVENTORIES

	As at July 31, 2010	As at July 31, 2009
		\$
Raw materials and purchased components	3,752	4,723
Work-in-progress	1,493	1,978
Finished goods	426	701
	5,670	7,402

Included in cost of sales is an inventory expense of \$3,488,000 (2009 - \$3,560,000).

5. CREDIT FACILITY

The credit facility permits maximum aggregate borrowings equal to the lesser of:

- i. \$2.5 million; or
- ii. 85% of the eligible accounts receivable.

As at July 31, 2010, the Corporation’s borrowing capacity was \$1,320,000, of which \$100,000 was drawn. The credit facility bears interest at the applicable prime rate of the financial institution plus 2.5%. The effective interest rate for the period ended July 31, 2010 was 6.5%.

The credit facility is guaranteed by a movable hypothec in the amount of \$3.25 million affecting the assets of the Corporation ranking first with respect to trade receivables (with a carrying value of \$3,481,000 as at July 31, 2010) and inventory (with a carrying value of \$3,946,000 as at July 31, 2010) and of inferior ranking as to all other assets. The credit facility has an expiration date of one year with automatic renewable periods of one year each.

6. LONG-TERM DEBT

	As at July 31, 2010	As at July 31, 2009
		\$
a) Convertible debentures, bearing interest at 10%, repaid in October 2009	—	1,316
b) Convertible debentures, bearing interest at 12%, repayable in October 2011	1,268	—
	1,268	1,316
Less: current portion	—	1,316
	1,268	—

As at July 31, 2010, the nominal value of the Convertible debentures was \$1,857,000 (2009 - \$1,400,000).

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	
		July 31, 2010	July 31, 2009
		# (000)	# (000)
\$0.10	October 30, 2010	4,651	4,651
\$0.18	—	—	13,888
\$0.22	October 30, 2010	18,952	19,290
		23,603	37,829

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 equals or exceed \$0.35 for a period of 20 consecutive trading days with additional gross proceed amounting to \$4.2 million.

Earnings per share

Weighted average number of common shares is as follows:

	2010	As at July 31, 2009
Weighted average number of common shares outstanding	220,666,756	220,666,756
Net effect of dilutive stock options and warrants	—	985,669
Weighted average diluted number of common shares outstanding	220,666,756	221,652,425

For the periods ending July 31, 2010 and July 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:

	July 31, 2010	July 31, 2009
Volatility	—%	105%
Risk-free interest rate	—%	2.7%
Dividend yield	—%	0%
Expected life, in years	—	5
Weighted average grand date fair value	\$ —	\$ 0.07

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

		As at July 31, 2010		As at July 31, 2009
		\$		\$
Balance, beginning of the period	15,308,750	0.18	14,818,050	0.19
Granted	—	—	500,000	0.07
Expired	(13,750)	0.79	—	—
Balance, end of the period	15,295,000	0.18	15,318,050	0.19
Options exercisable, end of the period	13,605,300	0.19	11,055,000	0.21

8. COMMITMENTS AND CONTINGENCIES

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

	As at July 31, 2010
	\$
2011	382
2012	312
2013	216
2014	9
	919

b) The Corporation is from time to time involved in various claims and legal proceedings arising in the ordinary course of business, and has recorded provisions in certain circumstances. It is the opinion of management that a final determination of these proceedings cannot be made at this time, but should not materially affect the Corporation's financial position or results of operations.

9. SUPPLEMENTARY CASH FLOW INFORMATION

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

	For the three months ended July 31,	
	2010	2009
	\$	\$
Trade receivables and other receivables	226	(730)
Inventories	(223)	686
Prepaid expenses and other	39	(306)
Income tax recoverable	249	(30)
Accounts payable and accrued liabilities	288	1,057
	579	677
Interest paid	68	4
Amortization of property, plant and equipment is included in:		
Cost of sales	144	214
Research and development expenses	28	5
Selling and administrative expenses	17	29
	189	248
Amortization of intangible assets is including in:		
Cost of sales	2	2
Research and development expenses	3	4
Selling and administrative expenses	84	216
	89	222

10. SEGMENTED INFORMATION

(a) Segmented information used by management

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

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

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

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

	Telecom		Satcom		Consolidated amounts	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Sales	2,511	2,188	3,260	4,519	5,771	6,707
Cost of sales	2,205	2,050	2,757	3,622	4,962	5,672
Gross profit	306	138	503	897	809	1,035
Expenses					2,105	3,143
Income tax recovery					—	(39)
Net loss for the period					(1,342)	(2,069)

The following table presents assets by segments:

	As at July 31, 2010			As at July 31, 2009		
	Telecom	Satcom	Total	Telecom	Satcom	Total
	\$	\$	\$	\$	\$	\$
Current assets	4,580	7,531	12,112	5,953	10,164	16,116
Long-term assets	1,967	4,416	6,383	2,275	8,080	10,355
	6,548	11,947	18,495	8,228	18,244	26,471
Other			705			2,647
Total			19,199			29,118

(b) Enterprise-wide information

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

	For the three months ended	
	2010	July 31, 2009
	\$	\$
Canada	4,010	4,814
United States	255	161
China	1,816	1,926
Inter-country	(310)	(194)
	5,771	6,707

The following table presents sales by destination of product:

	For the three months ended	
	2010	July 31, 2009
	\$	\$
Canada	205	461
United States	1,865	2,910
Europe	1,417	1,232
Asia	1,050	632
Other	1,234	1,472
	5,771	6,707

11. FINANCIAL EXPENSES

	For the three months ended	
	2010	July 31, 2009
	\$	\$
Interest on convertible debentures	56	35
Accretion expense	121	111
Bank charges and other fees	19	12
Interest income	(7)	(4)
	188	154

12. 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. 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. There have been no changes in the Corporation's capital management policy during the period.

	As at July 31,	
	2010	2009
	\$	\$
Long-term debt, including current portion	1,268	1,316
Shareholders' equity	11,482	21,296
	12,750	22,612

13. FINANCIAL INSTRUMENTS

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

	As at July 31,	
	2010	2009
	\$	\$
Held for trading (at fair value)		
Cash	641	3,344
Available for sale (at fair value)		
Short-term investments	181	181
Investments in a private company	N/A	N/A
Loans, Receivables and other financial liabilities (at amortized cost)		
Trade receivables	5,803	5,758
Credit facility	100	—
Accounts payable	4,067	4,232
Long-term debt including convertible debentures	1,268	1,316

14. FINANCIAL RISK MANAGEMENT

The Corporation is exposed to certain financial risks, including credit risk, liquidity risk, foreign currency risk and interest rate risk. There is no change in the exposure to risk, nor its objectives, policies and process for managing the risk from the previous year.

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 exposures through a combination of sound business practices, derivative instruments and a system of internal and disclosure controls.

Credit risk

The Corporation is exposed to credit risk in its cash, short-term investments and trade 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 short-term investments 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. Two customers (2009 – one) accounted for 35% of sales for the period ended July 31, 2010 (2009 – 10%) and 41% of trade receivables as at July 31, 2010 (2009 – 8%). One customer (2009 – one) represented 66% of Telecom sales for the period ended July 31, 2010 (2009 – one customer represented 32% of Telecom sales) and one customer (2009 – nil) represented 16% of Satcom sales for the period ended July 31, 2010 (2009 – nil).

The aging of the trade receivable is as follows:

	As at July 31,	
	2010	2009
	\$	\$
Current	4,463	5,012
31 – 60 days	595	226
Over 61 days	770	745
Accounts receivable	5,828	5,983
Less: allowance for doubtful accounts	(225)	(225)
	5,803	5,758

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. 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 its expansion in losses in the last years mainly through equity offerings.

As at July 31, 2010, the Corporation had at its disposal working capital of \$5,228,000 (2009 - \$10,841,000). The Corporation has sufficient cash, and working capital available to meet its financial contractual obligations. The credit facility, as described in note 5, is also used to support the Corporation's working capital requirements. As of July 31, 2010, \$100,000 (2009 - nil) has been drawn from the credit facility.

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

Year of expiry	Credit Facility	Accounts Payable	Long-term debt	As at July 31, 2010	
				Operating leases	Total
	\$	\$	\$	\$	\$
Within 1 year	100	4,067	—	465	4,632
2 – 3 years	—	—	1,857	450	2,307
4 – 5 years	—	—	—	4	4
Over 5 years	—	—	—	—	—
	100	4,067	1,857	919	6,943

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 some hedging contracts to mitigate its exposure to currency fluctuations for which it has not elected to use hedge accounting. As at July 31, 2010, the Corporation held various forward contracts with nominal values ranging from \$100,000 to \$200,000, strike prices ranging from 0.975 to 1.085, and expiry dates ranging from September 3, 2010 to November 12, 2010 for a total value of \$900,000. The unrealized gains relating to these contracts included in the statement of loss and comprehensive loss as at July 31, 2010 was \$18,123.

The Corporation is exposed to currency risk through its cash, accounts receivable and accounts payable and accrued liabilities denominated in U.S. dollars and Chinese Yuan (RMB), for which the Canadian dollar equivalent is as follows:

	As at July 31, 2010	
	RMB	US\$
	\$	\$
Cash and cash equivalents	300	214
Accounts receivable	1,968	2,869
Accounts payables and accrued liabilities	1,084	1,982

Based on the above net exposures as at April 30, 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 \$228,000/(\$228,000).

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. However, a variation of interest rate would not affect results or equity of the Corporation.